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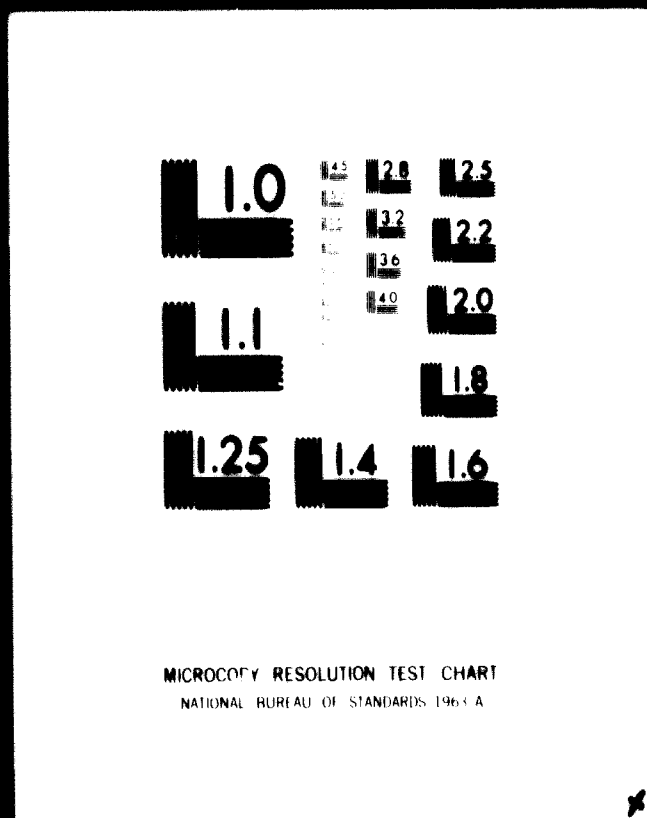
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2ème SYMPOSIUM SUR LA PROMOTION
DU COMMERCE INTRA AFRICAIN

الجزائر من 4 الى 7 اكتوبر 1976

Algiers from 4 th to 7 th of Octobre 1976

Alger du 4 au 7 Octobre 1976

Second All-African Trade Fair
Algiers, Algeria, 1-17 october
1976

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INDUSTRY AND TRADE IN THE NEW INTERNATIONAL
ECONOMIC ORDER : AN AFRICAN PERSPECTIVE .

PAPER PREPARED AND PRESENTED BY UNIDO

1976

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A - INDUSTRY AND TRADE IN THE NEW INTERNATIONAL ECONOMIC ORDER

Introduction : A New Development Philosophy

1. The Declaration on the Establishment of a New International Economic Order and the Plan of Action adopted by the General Assembly at its Sixth Special Session were expressions of recognition by the international community of the basic changes that have occurred in the world economic situation and the need for revising economic relations among nations.^{1/}In the case of industry, these principles were elaborated during UNIDO's Second General Conference in the Lima Declaration and Plan of Action on Industrial Development and Co-operation.^{2/}
2. Quite obviously, the developing countries have made substantial economic progress in the post-war era. The world economy can no longer be described as one in which the developing countries are almost totally dependent on the economic support of the developed countries. Rather, the global picture is one of growing interdependence where economic conditions and policy decisions occurring in one country or group of countries have a considerable impact on a worldwide scale.
3. Global interdependence, however, has not served to eliminate the widening material gap between the developing and the developed countries under the existing international economic order. The benefits of economic progress have not been shared equitably by all members of the international community. The present framework of international economic relations - along with the economic and philosophical justifications for it - was established at a time when many developing countries had not yet emerged as independent nations or were at a very early stage of their economic development. The old framework has not proved conducive to the achievement of equitable and balanced development in the type of interdependent world which exists today.
4. During the 1970's, new types of economic problems have had adverse repercussions on many countries and especially developing countries because of their greater vulnerability to external conditions. These new conditions have sharply underlined the interrelationship among various fields of economic activity and the interdependence of nations. The types of problems referred to include the shortage of

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^{1/}See General Assembly Resolutions 3201 (S-VI) and 3202 (S-VI)

^{2/}See ID/B/155/Add.1

terrestrial space and unpolluted areas. The depletion of non-renewable resources, the world food crisis and the large concentrations of migrant workers in some developed countries are other examples. Rapid world inflation, coupled with wide cyclical fluctuations in the prices of many internationally traded goods, are global problems which have placed heavy burdens on specific regions and countries. The breakdown in the international monetary system and the slow progress in arriving at new agreements on monetary issues, many of which directly affect the developing countries, have further complicated progress toward international solutions.

5. The underlying crux of these problems may not result so much from physical scarcities as existing socio-economic relationships, especially the unequal distribution of world resources and benefits. The new economic structure for industry, as envisaged by the General Assembly, should benefit all countries. In addition to its interest for the developing countries, a more rational distribution of industry would contribute to the solution of many of the international issues cited here. It is in the interest of the developed as well as the developing countries to find solutions to these problems through co-operation at the global, regional and sub-regional levels.

6. Dissatisfaction with (i) the present distributional pattern of world resources and (ii) the failure of the international community to effectively deal with the global problems now confronting it have led to a re-examination of the economic principles and justifications for the existing international economic order. With growing frequency the international market mechanism has been described in public fora and current literature as an insufficient guide for the distribution of world industry. At the national level, all countries, even those that rely on a free market philosophy, have found it necessary to intervene directly in the market when domestic results have been contrary to national interests, social or political.

7. The analogy, in an international context, is worth noting. Many international economic units (for example, the transnational corporations) are quite large, and their economic activities are not always subject to the laws of international demand and supply. The

costs of various inputs (capital goods, technological processes, etc...) vary widely between countries and the prices are not, in reality, set according to an international pricing system. World interdependence bind national economies and specific industrial sectors in such a manner that free market dicta frequently can not operate.

8. Consequently, the usual economic tools for guiding and analysing international trade and development are not sufficient. The concept of comparative advantage is a specific example. Because it assumes an "ideal" set of economic conditions and ignores important political and social considerations, the concept has been described as "mis-specified".^{1/} It is an insufficient guide for an international economic order. Furthermore, the difficulties of interpreting and applying the concept (particularly in its static form) have been frequently noted. ^{2/}

9. The emergence of an outline for a new international economic order has reawakened interest in regional industrial co-operation. The idea of increasing the share of the developing countries in world industrial production has been recently elaborated in terms of quantitative regional targets, which would be more consistent with the approach of the proposed new economic order than targets expressed in terms of growth rates. The Follow-up Committee established by the Second Conference of African Ministers has set a target of 2.0 per cent as the share of Africa in world industrial production by the year 2000 ; at present, the figure for Africa is 0.6 per cent. ^{3/}

10. In the present context, the declarations concerning a new international economic order essentially call upon nations to recognise the shortcomings of the international market mechanism in much the same manner as individual countries have done in a national context. New forms of co-operation are required on issues pertaining to both industry and trade if the present maldistribution of world wealth is to be altered.

^{1/} This implies that resulting estimations are biased and predictions are incorrect. See S.H. Hymer and S.A. Resnick, "International Trade and Uneven Development", in Trade, Balance of Payments and Growth, J. Bhagwati and others, eds (Amsterdam, North-Holland, 1971), pp. 473-494.

Africa's Share in the Present World Industrial Order and Targets for the Future.

11. By 1975, Africa's share of manufacturing value added in world manufacturing activities amounted to 0.6 per cent. Although manufacturing output in Africa has grown at a higher rate than those recorded in other developing regions or in developed market economies, there has been little change in its long-run share of the world total. In 1960, for example, Africa accounted for 0.5 per cent of value added in manufacturing on a worldwide basis.^{1/}

12. The quantitative target for Africa's share of value added by manufacturing is 2 per cent of the world total by the year 2000. Between 1955 and 1974, manufacturing value added in Africa grew at a rate of 7.3 per cent. If this present rate were maintained until the year 2000, Africa's share would be between 0.5 and 1.0 per cent of value added by manufacturing in the world, depending on the growth rate in developed countries.^{2/} Value added by manufacturing in Africa would total approximately 44 billion dollars in the year 2000 if the present growth rate were maintained. In order to meet the quantitative target, however, value added by manufacturing would have to be between \$ 89 and \$ 168 billion. The disparity between these figures underlines the need for immediate action and a new approach to industrial development in Africa and other regions.

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- ^{1/} See, for example, "International Industrial Co-operation, Report of the Expert Group Meeting organised by UNIDO in co-operation with the Maison des Sciences de l'Homme" (ID/132), para. 45.
- ^{2/} The Ministers of Industry of Asia and the Pacific Region have proposed a target for Asia of 10.0 per cent of world industrial production by the year 2000; the share of Asia was 2.6 per cent in 1975. The Ministers of Industry in Latin American countries have set a target of 13.5 per cent which is an increase from 3.8 per cent in 1975.

^{1/} Based on The Growth of World Industry, 1969 and 1970 Edition, Vol. I (UN publication, Sales N° 73.XVII.4); and Monthly Bulletin of Statistics, August 1973.

^{2/} For assumptions, see the Annex.

^{3/} A general discussion of trade's role and policy alternatives is provided in subsequent sections of this paper.

13. When viewed in terms of population, the 2 per cent target is modest indeed. For example, in 1975 Africa accounts for 11.8 per cent of world population. By the year 2000 this figure is projected to reach 15 per cent of the world total. In per capita terms, Africa's share of world industrial activity would still be far below the global average. Such figures reflect the far from equitable distribution of world industrial production under the present international economic order.

14. Trade in manufactures hold the potential for contributing to a more equitable share of African participation in the new international economic order. 3/ Two general factors are of relevance :

- The contribution to increased self-reliance as a result of a greater volume of trade among African countries and with other developing countries ; and
- the contribution from increased production of manufactured goods in African countries for export to developed countries.

15. In terms of Africa's intra-regional trade in manufactures and its trade with other developing regions, historical figures suggest that there are opportunities for expansion. Trade within Africa and with other developing regions are measures of Africa's performance and potential. Intra-regional trade in manufactures has grown substantially among African countries compared with other developing regions. By 1973, however, this trade flow remained low relative to proportions in Latin America and about equal to the proportions achieved in Asia. African manufactured exports to total developing countries followed the same pattern-increasing in recent years yet low (in 1973) relative to the Latin American proportion and about equal to the percentage for Asia.

16. An alternative measure of Africa's performance in the field of intra-regional trade in manufactures is to compare growth rates for trade with the growth of industrial output. As described in a recent ICA document, industrial output increased by 10.2 per cent during the last decade and a half while intra-african trade in manufactures

increased by only 1.2 per cent. "This is a measure of the failure of policy measures to foster greater intra-african economic independence".^{1/}*

17. With regard to Africa's exports of manufactures to developed countries (developed market and centrally planned economies), its performance is below that of other developing regions. During the period 1967-1973, Africa's exports of manufactures to developed countries grew at a rate which was less than one-half the rates achieved in Asia or Latin America. Furthermore, Africa accounted for only 7 per cent of all manufactured exports from developing countries to the developed countries in 1973. In this particular area there is considerable room for improvement during the course of the coming 25 years.

18. A related matter concerns the volume of primary commodities which dominate African exports to the developed countries. Figures for an abbreviated list of commodities which are subjected to industrial processing in developed countries reveal an important feature. In 1970, for example, the exports of only seven such commodities accounted for 12 per cent of all African exports.^{1/}The opportunities for greater industrial processing—rather than exporting the primary commodities - could be a key element in the future expansion of Africa's industry and trade.

Industrial Objectives for Africa in the New Economic Order

19. Despite some failures and shortfalls in the African industrialisation process since 1950, industry is widely regarded as the centre-piece of the development process. Planning for the rapid industrial expansion implied by the 2 per cent African target can not afford, however, to ignore past experience - successes and failures. Given the added emphasis which the new international economic order attaches to regional co-operation in its broadest sense, some re-ordering of

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^{1/} IDA, Specialization, Complementary and Multinational Industrialization in Africa : Progress Report (E/CN.14/638), para. 3.

^{1/} For data, see the Annex.

general priorities is implied. It is useful, therefore, to examine a few industrialization objectives in light of the call for a new international economic order.

20. First, if industrialization is to have a broad impact on living conditions, it has to be closely interwoven with the development of all other branches of the economy, particularly agriculture. It is not enough for the industrial branch to achieve high rates of growth of output. Such high rates can sometimes be attained by fostering industrial enclaves - a phenomenon which has, on occasion, been observed in African industry. To avoid the disadvantages of enclave industries, the incomes generated in the process of industrial growth must be distributed widely to promote perceptible improvements in living standards on a broad basis. A broadly based generation of income will eventually alter the pattern of domestic demand in the region, leading to changes in the composition of industrial output which more closely correspond to the requirements of the masses. Demand increases, generated in this manner, could be an essential step in eventually meeting the quantitative target for African industry.

21. Second, industry's contribution to employment generation in the new international economic order is an important feature. A high rate of investment will be required in connexion with the quantitative target. This step must be coupled with a harmonious allocation of investment among industrial sectors and subsectors. Industry will fulfil its key role in the development process when increased production of manufactures makes possible substantial increases in other branches such as agriculture, construction, housing, services and infrastructure. In this broad sense, industrialization may be regarded as the main instrument for employment generation.

22. Third, industrialization must provide the main means for African developing countries to realize the full potential of their natural resources. Previously, the predominance of natural resource extraction, measured in terms of both domestic production and exports has been a salient characteristic of many African economies. In the experience of the developed countries there is nothing to suggest that the manufactured components of consumption are best supplied exclusively through international trade, i.e. with some countries specializing only in the extraction of natural resources and other primary products while meeting much of their demand for manufactures through imports. Increased industrial processing, coupled with a

reduction in adverse cyclical and secular price trends in the primary and semi-processed exports of developing countries, is a major objective of the new international economic order.

23. Finally, as the Committee for Development Planning observed at its Tenth Session, ^{2/} industrialisation is not an end in itself but a means of achieving other more basic objectives. Where progress falls below expectations, part of the explanation is that these basic objectives are forgotten and that industrial policies and instruments have not matched the objectives. The dangers of a purely technocratic approach are greater for industrialisation than in almost any other sphere.

Towards an African Trade Strategy in the New Industrial Order

24. The quantitative targets were one of the first steps in a fresh attempt to devise a viable development strategy on a regional and inter-regional basis. Much of this strategy remains to be elaborated. However, some general statements about the relationship between manufactured trade and industrialisation can be made.

25. Obviously, achievement of the African industrial target for the New International Economic Order will require an expansion of industrial trade. It is not enough, however, to merely speak of expanded trade. New trade patterns and long-run changes in the composition of trade flows - in particular, increased industrial processing - will have to occur in accommodating the industrialisation process. In this context trade liberalisation can only be regarded as a necessary, but insufficient step to ensure the realisation of African development ambitions. The international community must take action which "goes beyond measures to liberalise trade if the goals of the new international economic order are to be realised".^{1/} This principle applies not only to programmes devised in agreement between developed and developing countries but, equally important, to programmes devised solely by developing countries on a regional basis.

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^{1/} A high priority has been attached to the need for developing countries to increase their domestic industrial processing of raw materials. See, for example, A/RES/3202 (S-VI), page 10, para. III c and the Lima Plan of Action (ID/B/155/Add.1), para. 58f (iii).

^{2/} Official records of the Economic and Social Council, Fifty-seventh Session, Supplement N° 4, para. 41.

26. Beginning from the point that successful trade performance will depend upon a viable industrial sector, the interrelationship between industry and trade would require that a viable industrial development strategy be elaborated as the first priority. Trade policy would not be regarded as a pace setter in the regional development strategy but, rather, as an important and essential derivative. Trade possibilities would be geared to meeting the objectives of the overall industrial development strategy.

27. Essentially, this approach represents a departure from the experience of the development countries a century ago when expanding trade placed economic development and was regarded as the main engine of growth. It does not imply that the major trade alternatives (e.g. export promotion, import substitution, regional and subregional trade co-operation agreements) are no longer relevant. Such thinking would require, however, that trade policies embody industrial objectives which go beyond "trade for trade's sake", incorporating elements of regional and international co-operation at the intergovernmental and firm levels.

28. Adoption of this approach would, of course, mean some change in the character of trade in manufactures in Africa. Inevitably, the new industrial strategy will put a great emphasis on the production of essential commodities such as food, clothing, housing, public services, etc. This emphasis could have an impact on the composition and directions of African trade in manufactures. For example, a larger proportion of consumer goods and industrial inputs for infrastructure might be exchanged between African countries.

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✓ See Industrialisation and Trade in the Process of Development, paper prepared jointly by the Secretariats of UNCTAD and UNIDO for the Second General Conference of UNIDO (ID/CONF.3/19), especially para. 24.

✓ This point has been stressed by the General Assembly Resolution. See A/RES/3202 (S-VI), Chapter I, para. 2 (a-h) and the Lima Declaration and Plan of Action on Industrial Development and Co-operation (ID/E/155/Add.I), para. 58f (iii) and para. 60.

29. Concomitantly, a new institutional framework for promoting intra-African trade will have to be developed simultaneously with efforts to fashion a viable trading bloc. Much of the present institutional framework—shipping, banking, suppliers credits, tariff and non-tariff policies, etc; — is geared to facilitating trade between Africa and the developed countries. The existing framework will have to be supplemented, or in some instances supplanted, by a new trade infrastructure which is more consistent with the objectives of the new international economic order.

Changing Patterns in African Industry and Trade.

30. Adoption of the regional quantitative target of 2 per cent of world industrial production implies a fresh outlook at Africa's role in global development and growth. By expressing national progress relative to the world economy in this manner, new emphasis is given to regional co-operation in its broadest sense and to interdependence at both the regional and international levels.

31. Achievement of the quantitative target for African industry will have to be tied closely with the developing countries' trade performance and strategies in the new international economic order. A considerable expansion in the region's manufactured trade will be required. In the past, African trade was typified by the following characteristics :

- Exports were predominantly primary goods or semi-processed manufactures ;
- Imports were largely finished goods (manufactured consumer goods and capital goods) ;
- Most trade (both imports and exports) took place with developed particularly other African countries.

32. Logically, as African industrialization continues, the pattern and composition of manufactured trade should change. Such changes, however, cannot be expected to occur without conscious action on the part of African governments.

New trends compatible with the 2 per cent target would include :

- (i) - a larger proportion of finished goods, processed and semi-processed goods in the total exports of the region ;
- (ii) - a larger proportion of intra-regional trade between African countries ; and
- (iii) - an increase in the total value of exports to developed countries

33. A co-ordinated African approach to manufactured trade - within the framework of the new internationaleconomic order and the quantitative target - will have to take into account emerging trends in the process of industrial development. These new trends are most apparent at the micro or firm level and are another reflection of the type of global interdependence described earlier. Today, for example, it is seldom the case that an individual entrepreneur or entrepreneurial group will conceive and implement a large-scale industrial project solely on their own evaluation of domestic and/ or export market potential, availability of technological processes, finance and labour inputs, etc... More likely, industrial projects will combine international talents and resources through interenterprise agreements. Market sharing, production sharing, technology and finance may all be provided through international agreements at the enterprise level/

34. Interenterprise industrial co-operation in Africa, primarily involving firms in developed countries, is still at the incipient stage ; only time and experience will indicate which of the many feasible forms will provide the maximum mutual benefits. It should be noted, however, that unlike co-operation between developed countries, negotiations between enterprises of developed and developing countries involve partners that are unequal in many respects. Thus, the legal framework that has been conceived for negotiation and agreement between developed countries may need be revised to take account of the different situation of developing countries

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Such agreements include licensing, joint ventures, su-assembly agreements, other forms of subcontracting, etc... These are discussed in some detail in a subsequent section.

35. Although real progress in international co-operation is dependent on initiatives at the industrial enterprise level, government action in creating an atmosphere and framework favourable to collaboration is essential. Similarly it is important that governments lay down guidelines to ensure that manufactured trade patterns and trade composition evolve in a form compatible with the objectives of the new international economic order. This will require a considerable element of joint action, developed through consultations at the regional and sub-regional levels.

36. Recent development progress among the developing countries has brought about further opportunities for interenterprise and inter-governmental co-operation along lines similar to those described for developing and developed countries. Elsewhere, this possibility has been described as "a triangular relationship"^{1/}. Such a relationship envisaged capital being provided by one or more developing countries production technology by others and industrial production occurring in yet another developing country.^{2/}

37. These new forms of interenterprise co-operation could play a major role in Africa's participation in the new international economic order for industry. It is important, however, that they be exploited in a manner consistent with both regional and national interests in the new context laid down at the Sixth Special Session and at Lima.

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^{1/} See, for example, the opening statement of the Secretary-General of UNCTAD at the 414th Meeting of the Trade and Development Board, Geneva, 10 march 1975.

^{2/} This concept is elaborated in a subsequent section.

B. MEASURES FOR EXPANDING AFRICA'S SHARE OF INDUSTRIAL PRODUCTION AND TRADE.

38. Increasing the industrial share of African countries and their participation in world trade in manufactures would require:

- (i) effective national policy measures in both African countries and developed countries;
- (ii) joint action among African countries; and
- (iii) increased co-operation between African countries and developed countries.

International measures should be mutually reinforcing and take into full account the African position in the decision-making process.

I. National Policy Implications

39. Industrialisation will play an increasingly important role in the African development process during the coming 25 years. In 1975 the share of manufacturing output in African GDP was 12.3 per cent. By the year 2000 this proportion should rise to about 30 per cent of GDP; a level comparable to that presently attained in many Latin American countries. The stimuli for progress towards the quantitative target will have to come from domestic demand, expanded trade within Africa and with other developing countries and improved access to the domestic markets of developed countries.

40. Industry in many African countries is presently constrained by the small size of their markets. This reduces not only the opportunities for expanding industrial production to meet domestic demand but also limits the amount of intra-regional trade. Over time, achievement of a broader distribution of income should generate additional demand for existing domestic industries and contribute to a long-run change in the pattern of consumption of manufactures. Structural changes in African industry (in response to policy action as well as changes in the pattern of consumption) should give rise to new trade possibilities by fostering greater specialisation. Planning could begin with the identification of:

- (i) an industrial production programme geared to satisfying basic human needs in the fields of nutrition, clothing, housing, etc., and

- (ii) priority industrial sectors with the growth potential to provide for expanded income to be distributed on a broad basis.^{1/}

41. Emphasizing mass-consumption products would place a higher priority on prices and price levels, in contrast with an industrial branch emphasizing quality and geared to meet the demands of the upper-income groups. Such a change in the final product mix is likely to result in an important additional growth stimulus - through a broader range of economic backward linkages - for both intermediate and basic industries.

42. Manufactured trade, influenced by the type of domestic and trade policies compatible with this strategy, will surely undergo some change. Expanded markets for mass-consumption goods should offer greater opportunities for trade among African countries and/or other developing countries. As the distribution of income is eventually broadened, the composition of manufactured imports will also change. The lower income class will have a greater impact on the pattern of industrial imports.

Priority Industrial Sectors^{2/}

43. In view of the limited resources and complexity of such a programme, national policy action may begin by singling out priority industrial sectors which offer the best alternatives to contribute to future economic and social objectives.^{3/} Each African country must initiate this process in the context of its own objectives and priorities but, broadly speaking, the desire for greater self-reliance and for an overall improvement in the living standards of the masses are common objectives.

^{1/} To some extent this implies that present market signals, which are weighted by the current distribution of income, can not be reliable indicators of industrial growth patterns that are in line with the objectives of the new international economic order.

^{2/} The concept of priority industrial sectors plays a key role in elaborating of such sectors in Africa has been the subject of considerable study in UNIDO. See, UNIDO, "Africa two per cent", paper presented to the Conference of African Ministers of Industry in Nairobi, November 1975.

^{3/} The present discussion centres on aspects directly related to national action. Sub-regional, regional and international issues also figure prominently in the choice of priority industry sectors. Subsequent discussion of joint industrial planning, interenterprise co-operation and regional co-operation are relevant here.

44. The basis for international co-operation and joint action (regional or sub-regional) must begin at the national level. The first step would be for each African country to elaborate specific targets for planned development of individual industrial sectors. This would include the major industrial projects needed to achieve these targets and the requirements for external financing, technology etc.

45. The choice of sectors to be stressed is not only a major area for study but will also have spillover effects for decision-making in a variety of fields. Decisions affecting industrial planning, infrastructure, pricing policies, fiscal incentives, labour policies, training, etc., will all have to be considered in light of their implications for development and trade in the priority industrial sectors. A crucial decision is likely to be between specialization and diversification, which will largely be determined by the country's stage of development, market size, development goals and possibilities for co-operation with other countries. This choice must be resolved in a dynamic framework. The necessity of progressively building up a country's industrial structure may require an early start for some industries which are not of immediate profitability. A sector's potential future contribution (in terms of both production and trade) may be a more important determining factor than is its present competitive ability.

46. These steps, at the national level, could constitute the basis for development of a regional programme for the new international economic order for industry. Subsequent regional discussion and consultations of the national targets could then undertake the identification of matters such as :

- (i) future opportunities for greater intra-African trade;
- (ii) opportunities for regional co-operation through inter-entreprise or intergovernmental action to implement certain industrial projects singled out at the national level; ^{1/} and
- (iii) issues calling for an "African position" on industrial issues which could be pressed in discussions with individual developed countries or groups of developed countries.

^{1/} Development of "triangular relationships" can be one aspect of this process. See pages 14 and 28.

II. Sub-regional and Regional Measures

47. Policy harmonization, on a regional or sub-regional basis, can take many forms. Traditionally, policy harmonization has largely consisted of integration schemes to promote trade through the reduction of tariffs and the liberalization of quotas. Experience has indicated the fragile nature of schemes which have limited their major objective to an expansion of trade. In some cases the attainment of free trade has not been accompanied by the expected alterations in industrial structure. In other instances trade liberalization has created certain inflexibilities in production that go against national objectives.^{1/} In general, a growing body of opinion holds that policy harmonization must go beyond integration schemes which are restricted to trade expansion objectives. This point is especially relevant to Africa where the scope for trade expansion on the basis of the existing structure of industry is limited relative to Latin America or Asia.

Trade Policy

48. Traditional trade policies (tariff and quota regimes) still constitute an important policy element for the new international economic order. However, the basis for harmonization must take into account the existing and potential industrial futures of African countries as well as the present opportunities for trade expansion. The current African industrial structure has been described by ECA as a classic result of an import-substitution strategy for industry:

"The industrial structure which has emerged is generally characterized by high-cost, low-scale production and high import content. There is serious underutilization of capacity and since there is proliferation of similar productive units in neighbouring countries the scope for reducing excess capacity through exports is limited."^{2/}

49. Obviously, the protective policies pursued so far may require a critical re-examination in light of the objectives for the new international economic order and particularly the new regional emphasis. Trade policies compatible with the target share of 2 per cent of world industry require not only fundamental changes in the degree and type

^{1/} For a full discussion, see "The economic integration of developing countries and the function of joint industrial planning (E/AC.54//L.64).

^{2/} See ECA, "Specialisation, Complementarity and Multinational Industrialisation in Africa: Progress Report" (E/CN.14/368), para. 4.

of protection but also a new mix of protective measures among various sectors. Taking account of the concept that trade should be a derivative of industrial growth, new policies should reflect the need to promote a national structure and distribution of African industry by means of specialization and complementarity agreements (including interenterprise agreements).

50. In general, tariff barriers in many African countries are probably as high or higher than those in many developed countries. Non-tariff import barriers are also considerable. The potential gains to be derived from replacing mutual trade barriers by other measures (e.g. regional industrial and trade arrangements) can, in the long run, offer greater opportunities than those presented by exports to developed countries. Gains from expanded manufactured trade between developing countries will be greatest for countries at a relatively advanced stage of industrial development. Therefore, a number of African countries cannot expect the immediate benefits to be great. As African industry approaches the 2 per cent target, the advantages of reconciling commercial policy (within Africa and with respect to other developing regions) will increase substantially. At the same time, the adjustment costs associated with a belated move in this direction will be considerably greater. A regional forum for discussion and consultation of such issues is still lacking in Africa.

Foreign Investment

51. A number of vital areas, in addition to trade, should be the subject of African efforts at policy harmonization and will eventually influence trading patterns. Current national policies concerning foreign investment are an example. In this regard the specific economic objectives of African countries are diverse but they normally include the goals of increasing the gains and reducing the costs of hosting foreign investment, acquiring information and technology and developing more skilled labour forces.

52. Despite the difficulties that developing countries have experienced in integrating foreign investment in their own development programmes, the competition to attract such investment continues. An important aspect of this competition is the practice of offering a variety of concessions to the prospective investor (frequently transnationals) in the form of tax holidays, accelerated depreciation, duty-free imports, guarantees of domestic monopoly or even capital grants.

Only in specific situations do these concessions raise the total flow of foreign investment.^{1/} There are many industries involving foreign enterprises, and particularly transnational corporations, where costs are less critical. Examples include import-substitute industries and export industries serving oligopolistic markets.

53. In such cases the total flow of investment funds into African countries is not likely to be affected by the competition to grant exemptions and subsidies. The aspect which is likely to be altered through competitive offers of African countries is the distribution of foreign investment among these countries. A country that failed to offer special benefits to foreign investors that matched the benefits offered by neighbouring countries would risk losing its share of foreign investment.

54. The situation could be alleviated through co-operation on a regional or sub-regional basis. African countries should first determine and define the kinds of industry where their efforts have tended to cancel one another out and to limit the use of subsidies and tax exemptions where that is the case. Agreement might be reached on the maximum length of tax holidays, the extent of corporate income tax incentives, limits to accelerated depreciation, etc. Tariff concessions are also sometimes used as a special incentive and attempts at harmonization in this area should be carried out in parallel with action on fiscal policy. The choice of priority industrial sectors, devised at the national level and elaborated at the regional level, would play an important part in regional discussion on investment policy harmonization.

Transnationals and Multinationals

55. In general, the importance of the transnational corporation has steadily increased. This trend has been paralleled by a growing concentration of the activities of these firms in the manufacturing branch of developing countries. Their objectives may not necessarily be consistent with the strategies and policies adopted by the developing country where they are headquartered.

^{1/} For example, firms that are under pressure to reduce production costs and to process goods for re-export might be attracted by generous investment concessions.

56. With regard to trade patterns, the impact of the transnational corporations can be substantial. For example, the investment objective of securing supplies of raw materials may mean that foreign subsidiaries have little incentive to increase the degree of processing before export. Similarly, where transnationals have been motivated to operate in developing countries as a means of avoiding trade barriers protecting existing markets, they may have little interest in expanding their exports. On the import side, the link between the subsidiary and the home office can sometimes lead to unnecessarily large volumes of imports of parts, intermediate supplies, etc., which might be supplied domestically.^{1/}

57. The preceding discussion of policy harmonisation in the field of foreign investment is especially relevant here. However, co-operation among African countries can go beyond this step in the case of the transnational - particularly with regard to improving the quality and accessibility of information on their operations. Bilateral tax treaties are one avenue that has not been fully exploited by developing countries. Treaties of this type are commonly used to reduce jurisdictional conflicts in the application of national tax laws; but they are generally underutilized as a means of acquiring and exchanging information. For example, when a foreign-owned subsidiary in an African country sells its production mainly to an affiliate (in a developed country, or developing country) an exchange of information between the two countries on transfer pricing, allocation of fixed charges and similar subjects that bear on the tax liability of the foreign enterprise is both feasible and appropriate.

58. Industrial progress, coupled with the recent development of aid and investment programmes emanating from developing countries themselves, promises new methods of industrial co-operation which could supplant transnational operations to some extent. This new alternative has been described as "a triangular relationship". Briefly, it is envisaged that capital might be provided by one developing country, natural resources by a second developing country and technology by a developed country or even a semi-industrialized developing country.

^{1/} The intra-firm trade of transnationals has been found to be a significant portion of world manufacturing trade while the determination of pricing in intra-firm trade depends on quite different considerations than does trade between separate enterprises. See Sanjaya Lall, "Transfer-Pricing by Multinational Manufacturing Firms", Oxford Bulletin of Economics and Statistics, Vol. 35, No. 3, August 1973, pp. 173-195.

59. Mechanisms which could utilize the new opportunities for co-operation are still at the embryonic stage. Multinational (as distinct from transnational) corporations, operated jointly by a number of developing countries for their mutual benefit, are one alternative.^{1/} The approach is regarded as a particularly promising instrument for developing large-scale homogeneous industries, such as iron and steel. Partner states would participate equitably in both the capital structure and the operational policies of the enterprises for the period of the agreement.

60. Such an approach would create an interest in integrated rather than protected markets. It would, therefore, be a tool for boosting intra-African trade. Progress could therefore, be a tool for boosting intra-African trade. Progress could be facilitated if participating countries could agree on a multinational industrialization policy, since the approach presupposes the application of a common tariff although only in a given industrial sector.

Regional Co-operation Schemes and Joint Industrial Planning

61. Regional co-operation schemes have at various times been conceived with the objective of creating fully-fledged economic unions at the Pan-African subregional or multinational levels. Schemes for co-operation which are established and operating in Africa today can be arranged according to three broadly identifiable forms of institutional structure:

- institutional consultation machinery for economic co-operation;
- customs unions ; and
- common markets.^{2/}

Almost all the organizations deal with the subject of industrialisation but it has proved to be "the most difficult area to tackle and progress has been minimal".^{3/}

^{1/} A variation of this approach involving industrialists in the developed countries is discussed in a subsequent section. See page 26.

^{2/} Examples of the first group include the OCAM, CPCM (the Permanent Consultative Committee of Maghreb), Regional Group of West Africa, Conference of East and Central African States (CECAS), OMVS (Organisation pour la mise en valeur du Sénégal), the Council de l'Entente, IDCAS and the Centre for Industrial Studies for the Maghreb (CISM). Examples of customs unions are the UDEAC and the Customs Union between Swaziland, Botswana, Lesotho and South Africa. The common market approach was adopted by the Economic Community for West Africa, the Union of the States of Central Africa and the East African Community and Common Market.

^{3/} BCA, op. cit., para. 13.

62. With regard to economic co-operation and regional schemes, the Committee for Development Planning has observed that joint industrial programming of investments in key industries with substantial economies of scale should be a necessary feature.^{1/} The experience of the Cartagena Agreement of the Andean Group might be a promising example of the type of action which could be undertaken in Africa. The sectoral programming method which was adopted combined technological compatibility with economic viability. The production units which were selected were concerned with the manufacture of categories of related products whose production could develop gradually as the requisite technology is assimilated. In practice, the trends toward specialization appear to reflect prevailing economic conditions in participating countries. In such cases the trends would clearly encourage greater intra-regional and industrial integration.^{2/}

^{1/} See Official Records of the Economic and Social Council, Fifty-seventh Session, Supplement No. 4.

^{2/} For a full discussion, see "The Economic Integration of Developing Countries and the Function of Joint Industrial Planning" (E/AC.54/L.64).

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1/ See Official Records of the Economic and Social Council, Fifty-seventh Session, Supplement No. 4.

2/ For a full discussion, see "The Economic Integration of Developing Countries and the Function of Joint Industrial Planning" (E/AC.54/L.64).

C. INDUSTRIAL CO-OPERATION AND TRADE BETWEEN AFRICA AND
THE DEVELOPED COUNTRIES

63. Africa's increased participation in world industry and trade will require new approaches and forms of co-operation at the international level. The developed countries will continue to play a prominent role in the region's industrial expansion in terms of providing major export markets, investments, capital goods, technology, etc. However, as discussed earlier in this paper, underlying economic relationships may undergo some changes which more clearly reflect the interdependence between Africa and the developed world. Many of these fields of potential co-operation can have a direct impact on African industrial trade patterns (e.g. adjustment assistance measures, General System of Preference, the Lomé Agreement, etc.). Other areas of co-operation will also have an indirect but significant impact on trade (e.g. international subcontracting, joint ventures and increased industrial processing of raw materials).

Interenterprise Co-operation

64. The rapid emergence of interenterprise co-operation as a prominent feature of industry and trade in the developing countries has been noted. In the course of restructuring world industry, it is important to seize upon this micro-economic trend in international co-operation as one means of creating the framework for a new international economic order.

65. Such agreements between firms may involve the transfer of production processes, the production of components for assembly elsewhere, or the production of the entire product in the developing country. Licensing agreements and subcontracting arrangements are common types of interenterprise co-operation. Products where such activities

are already prominent include automobiles^{1/}, electrical appliances, electrical machinery, machine tools and parts, optical equipment, watches, telecommunications equipment, chemicals and synthetic fibres.

66. An idea of how rapidly subcontracting agreements have proliferated and their importance to trade can be gleaned from figures on United States manufactured imports resulting from interenterprise agreements. Between 1966 and 1970 these imports rose from \$61 million to \$539 million, or from 4 per cent to over 14 per cent of United States manufactured imports from developing countries^{2/3/}. African examples of interenterprise co-operation include the precision drilling of jewels for watches shipped from Europe to Mauritius, alumina shipped to Ghana for processing and re-export as aluminium, the production of garments, refrigerators and shoes in Morocco, electricity transmission towers assembled in Egypt, etc.^{4/}.

67. For several reasons this type of manufacturing for export may be expected to continue its rapid growth. First, the opportunities for acquiring foreign exchange by the export of commodities are severely constrained for several well-known reasons. Even if the prospects for commodity markets can be improved through international co-operation, African countries will still aspire to industrial development and the income and employment it will generate. Second, successful export of the "traditional" final product type (e.g. textiles, leather goods, shoes, etc.) will continue to meet resistance in the developed countries in the form of tariff increases, quotas and retaliation. Third,

1/ See UNIDO, Record of the Meeting on Transfer of Technology to Developing Countries through Subcontracting and Licencing Agreements with Special Reference to the Automobile Industry (ID/WG.136/20).

2/ S.K. Helleiner, "Manufactured Imports from Less-Developed Countries and Multinational Firms", Economic Journal, March 1973, p. 30.

3/ Latin America (particularly Mexico) is the main supplier of these goods, however. Africa's share is negligible.

4/ Subcontracting is not necessarily restricted to agreements between a firm in a developing country and one in a developed country. For example, in Morocco electrical equipment is repaired for shipment to Algeria and radiators are produced for special purpose vehicles in Senegal.

the economic incentives for industrial relocation will increase over time. Absolute improvements in education, nutrition and health will narrow the international differentials in quality and efficiency of labour in Africa compared with developed countries. Reductions in the costs of air and sea transport with the development of containerization and the elimination of discriminatory freight rates will have a similar effect. Finally, pollution, the shortage of space, concentrations of migrant labour and the need for structural rationalisation will increasingly force developed countries to consider industrial relocation.

68. At the present stage, however, relatively little international subcontracting occurs in Africa. Typically, agreements are irregular, involve few enterprises and seldom require any specialized competence. For those countries at a very early stage of development indigenous enterprises must be created before opportunities for subcontracting can be exploited. As Africa's industrial branch expands in the course of future industrial redeployment such interenterprise agreements are likely to become quite significant as they have in other developed regions². An important consideration will be the relationship between a country's policies on international subcontracting and the choice of priority industrial sectors devised at the national level and co-ordinated at the regional level. As stressed in the Lima Declaration and Plan of Action, international subcontracting should be encouraged but should not result in the assignment of the least advanced and remunerative industries to the developing countries³.

2/ United Nations, Subcontracting for Modernising Economies (ID/120), p. 7.

3/ Many issues concerning both the negotiation process and the relationship between interenterprise co-operation and national development policy are exceedingly complex. Possible fora for deliberation on these issues are discussed in a later section.

4/ Follow-up of the Decisions and Recommendations of the Second General Conference (ID/B/155/Add.1), para. 61 (n).

Joint International Ventures

69. For developing countries the question of the extent to which they should draw on foreign rather than domestic enterprise, and the extent to which these can be combined, is a fundamental policy issue. Current interest in joint ventures reflects an attempt to resolve some of the typical problems incurred by developing countries with regard to foreign investment.

70. In recent years, joint ventures (either contractual ventures or equity have grown in frequency and importance. Joint equity ventures, in particular, have become an important form of foreign investment in Africa, Asia and Latin America ^{1/}. Insofar as Africa is concerned, equity participation is predominantly that of government-owned corporations ^{2/}.

71. During the 1960's, joint ventures were largely limited to standardised products with a continuous market ^{3/}. More recently, they have been negotiated across a broader range of activities such as the exploitation of natural resources and other raw materials. A parallel trend has been the growth of multipartite and multinational ventures. This has usually been a function of the magnitude of the enterprise in question, and of the consequent need for capital supplied on a scale which exceeds the resources of any one party ^{4/}.

^{1/} W.Friedmann and J.Beguin, Joint International Business Ventures in Developing Countries (Columbia University Press, New York), 1971 p. 18.

^{2/} Prominent examples include the Ghana Industrial Holding Corporation and the Western Nigerian Development Corporation

^{3/} For example, chemicals, drugs, plastics, etc., rather than construction of a steel mill, harbour, or road system.

^{4/} The Volta River Development Consortium in Ghana and the Lamco iron and steel project in Liberia are two examples.

In this case, corporations from several developed countries subscribe the shares and the subscription of each is limited to a certain amount to avoid any one corporation of acquiring a dominant position. The corporations then engage in joint ventures with local partners in several countries at the same time. Where African countries wish to attract foreign investment, they could encourage this form by announcing it as the most welcome means of direct foreign investment^{1/}

72. Proliferation of the joint venture process will certainly have an impact on Africa's pattern of industrialization and trade. As African industry continues to expand, the opportunities for joint ventures will increase. Like other forms of interenterprise co-operation, the negotiation of joint venture agreements can involve many complex issues and their compatibility with national industrial objectives must be carefully considered. Equally important, the regional perspective for African industry as a whole should not be slighted. The efforts devoted to this subject in the Colombo Plan indicate one approach now being formulated in another region^{2/}.

Increased Industrial Processing of Natural Resources

73. The possibility of extending the degree of domestic processing of natural resources has received much attention

as a means of futhering

industrialization and could play a key role in meeting the quantitative targets. This ambition is a natural consequence of the assertion of national sovereignty over resources by the developing countries. Emphasis on this activity is a salient feature of both the

^{1/} In other regions, examples of such corporations are the Atlantic Development Group for Latin America (ADELA) and the Private Investment Corporation for Asia (PICA).

^{2/} See Joint Ventures, Country Papers, the Working Paper and the Special Topic prepared for the 23rd Consultative Committee, The Colombo Plan for Co-operative Economic Development in South and South-East Asia (Wellington, New Zealand,) 1973.

Programme of Action on the Establishment of a New International Economic Order and the Lima Declaration^{1/}. Conceivably, a portion of semi-manufactured and processed goods that would be produced in developing countries could be absorbed domestically but the bulk of these products would have to find their way to markets in developed countries^{2/}. Trade policy, therefore, would be an essential consideration in the process of expanding the domestic degree of industrial processing.

74. In Africa, the proportion of manufactures in total exports has been low but roughly comparable with the région's relatively small industrial base. During the 1970's, for example, manufactured exports have ranged between 7 and 8 per cent of total exports. More informative are figures on exports of specific commodities (essential industrial materials, agricultural raw materials and selected foods and beverages) which are presently subjected to processing in developed countries. Data on only seven such products clearly demonstrates their dominance on the African export pattern^{3/}. In 1970, the value of these unprocessed exports totalled almost \$1.5 billion or 12 per cent of total African exports (SITC 0-9). The value of these exports was 163 per cent of the region's manufactured exports in that year. Figures for later years, although not complete, suggest an increasing scope for increasing the extent of industrial processing of Africa's natural resources.

1/ See A/RES/3202 (S-VI), Section III and Follow-up of the Decisions and Recommendations of the Second General Conference (ID/B/155/Add.1) para. 59 (d).

2/ Based on the assumption that Africa can become a major European supplier of forest industry products, one study has found that this industry sector could make a major contribution towards the 2 per cent target. See UNIDO, Africa 2 per cent, the Forest Industry Sector, presented at the Conference of Ministers of Industry, Nairobi, Novembre 1975.

3/ For data and a list of products, see the Annex.

75. Africa, perhaps to a greater extent than other developing regions, suffers from a variety of economic problems closely related to its dependence upon primary, unprocessed exports as a major source of foreign exchange earnings^{1/}. Cyclical price fluctuations, the possible long-run deterioration in prices of primary exports relative to manufactures, cycles of overproduction and shortage and the substitution of natural products by synthetics are all economic features which inhibit a development process based on primary exports. In the case of some products, global (as well as African) interests might be better served by abandoning the "prevailing triangular system of trade under which a developed country serves as an intermediary in importing an unprocessed commodity from a developing country and re-exporting it in a semi-processed or processed form to another developing country"^{2/}.

76. While the possibility of increased domestic processing of primary commodities is very promising, the difficulties to be overcome - from both the supply and the demand side - are equally great. Investment requirements will be quite large as will capital imports. Many of the observations made with regard to the need for regional policy harmonisation, policies towards multinationals and transnationals and the need for "triangular co-operation" (as compared with the present triangular system of trade) are relevant. The transnational corporations which have lost some control over export markets as national sovereignty has

^{1/} For a discussion of the unequal relationship which has persisted between developing and developed countries in the field of natural resource production and processing, see UNIDO, Natural Resources of the Developing Countries and their Relationship to Problems of Industrialisation (ID/COW/3/6).

^{2/} "Declaration of Dakar and Action Programme" (E/AC.62/6), p. 14.

increased, have responded by offering new ownership schemes - primarily joint equity ventures^{1/}. The normally complex task of negotiating such agreements will be further complicated by the basic role which resource utilization plays in the technical, economic and social aspects of development. Nor can regional aspects be ignored. The possibilities for joint industrial planning, co-ordination of production policies among major producers and, possibly, producer associations are all relevant. Thus, national and regional considerations will play a significant role in devising programmes for international co-operation which would encourage increased industrial processing of raw materials in African countries.

77. With regard to international trade, it is typical for tariffs and non-tariff restrictions to be greater on imports of processed natural resources than on imports of primary resources. Often, the degree of discrimination varies directly with the degree of processing. Broadly speaking, there is a need for new international agreements which would reduce these barriers, perhaps in return for guaranteed minimum supplies of processed or semi-processed commodities.

78. In general, the international community has good reason to search for new agreements or approaches which will lead to a more rational allocation of world capacity for industrial processing. In the past, the weak bargaining position of developing countries has led to a price structure which was unfavourable to raw material suppliers in Africa and elsewhere. This appears to have resulted in a pattern of world production and consumption which may not be sustainable and a waste (relatively cheap at market prices) raw materials. In this sense, the present global pattern of industrial capacity may not be the most beneficial. National resource planning, coupled with co-operative action at the regional and international levels, will be required.

Adjustment Assistance Measures

79. Structural adjustments have been a permanent feature of industrial growth in the developed countries. Although such adjustments have been partly prompted by changing patterns of international trade,

^{1/} In the past, policies of transnationals have often inhibited further local processing of natural resources although situation now appears to be changing. For a discussion, see Multinational Corporations in World Development, (United Nations publication, Sales N°73.II.A.11), Chapter II, pp. 28-29.

policy responses have not been primarily trade-oriented. Nor have they been developed on the basis of positive views about a desirable pattern of industry and trade. Progress towards a new international economic order will necessarily be linked with structural adjustments affecting only the developed countries. To a considerable extent the acceptability in the developed countries of a new international economic order will depend on the effectiveness of deliberate policy responses to the desirable adjustments^{1/}

80. To date, a basic difference in interpretation exists between the developed and the developing countries with regard to the intended purpose of adjustment assistance programmes. Briefly, many developed countries seem to regard adjustment assistance measures as intended to relieve domestic competitors from excessive hardships inflicted through increased imports. Developing countries speak of adjustment assistance as a programme of structural change which guarantees that emergency restrictions, necessitated by increased imports, will only be temporary. With this interpretation adjustment assistance measures would not unduly hamper the contraction of industries exposed to foreign competition, in reality, often occurs.

81. Given the interpretation applied by many developed countries, it is not surprising that adjustment assistance is often designed to bolster the defence against imports rather than facilitate them. A variety of industries in developed countries (e.g. textiles, steel, electronics, aircraft, pulp and paper and film-making) are currently receiving subsidies through adjustment assistance programmes^{2/}. The effect is detrimental to export development in the developing countries, since their competitors enjoy an artificial cost advantage.

1/ Paul-Marc Henry in "Preface", Adjustment for Trade, CD/TI(75)3 (OECD, Paris, France), p. 4.

2/ UNIDO, Industrial Development Survey, Special Issue, Chapter III, p. 71.

This practice was recognized in the Lima Declaration which called upon the developed countries to evoke policies that would encourage industries which are not internationally competitive to move progressively into more viable lines of production^{1/}.

82. African industry has a very real interest in seeing the creation of adjustment assistance programmes in developed countries which are intended to minimize emergency restrictions on manufactured imports. Among the "senile" or obsolete industries in developed countries which are now benefitting from government assistance, several are precisely those which could be leading industrial sectors in the African growth process. Many forms of textile and clothing, cotton fabrics, footwear and leather products, certain machine tools, etc., can be cited^{2/}.

83. The encouragement of investment in African countries must be a corollary of new adjustment assistance measures if they are to reap the maximum benefit from increased market access to the developed countries. Investment guarantee schemes, mutual information procedures, the arrangement of contacts between industrial managers and an institutional framework in which trade, investment and co-operation problems can be discussed may lead to the type of "second generation" commercial policy which can give a new meaning to the concept of "adjustment".

84. In the case of future work, the important point to be borne in mind is that the pursuit of a new international economic order is not merely a matter of trade policy and trade-focused adjustment matters. As concluded by Goran Ohlin :

^{1/} Follow-up of the Decisions and Recommendations of the Second General Conference of UNIDO (ID/B/155, Add.1), para.59(c).

^{2/} For an actual case study, see J.Pickett and M. Mc Bain, "Developing Country Export Potential and Developed Country Adjustment Policy : An Illustrative Study of Ethiopian and Ghanaian Footwear Production" in Adjustment for Trade, op. cit., p.193-214.

"Developing countries must direct their attention to the whole complex of structural, regional and employment policies in developed countries. If these policies are to promote rather than thwart the expansion of exports from developing countries, they must not remain politically and administratively isolated from trade policy"^{1/}.

85. Such a broad approach demands joint and co-ordinated action on the part of African and other developing countries and a spirit of constructive compromise in the international community and forums where such programmes might be developed.

The Generalized System of Preferences

86. The Lima Declaration calls for the "application, expansion and improvement of the schemes under the generalised system of preferences" (GSP), without discrimination or reciprocity from the developing countries^{2/}. Little empirical evidence is available to evaluate the importance of the GSP. However, the general impression has been that the benefits to Africa - and to developing countries in general - has shown little promise of meeting early expectations. Explanations for the failure (e.g. failure to implement a scheme, excessive restrictions and safeguards, exclusion of sensitive products, etc.) have been fully documented^{3/} and need not be repeated here. While the GSP has certainly made some positive contribution in terms of stimulating some positive contribution in terms of stimulating some developing countries' exports, its significance has been largely overshadowed by other events. For example, the August 1971 devaluations

^{1/} Goran Ohlin in "Introduction", Adjustment for Trade, CD/TI(75) (OECD Paris, France), p.9.

^{2/} Follow-up of the Decisions and Recommendations of the Second General Conference (ID/B/155/Add.1) para. 61 (a).

^{3/} See, for example, UNIDO, Industrial Development Survey, Special Issues for the Second General Conference of UNIDO (Sales N° E.74/II.B.14), pp. 62-70.

and revaluations by developed countries were found to be a much more important factor in affecting exports from the developing countries than were tariff preference margins^{1/}.

87. In general, many African countries have not reached the stage of industrialization where ^{they} can take full advantage of the GSP. Benefits which have been realized are distributed unequally among the developing countries, primarily the more advanced ones. From the point of view of equity, there may be a very real need for considerable compensatory assistance to African countries to offset the fact that they are not in a position to benefit from the GSP.

88. Experience indicates that the problems of breaking into new markets are far more complex than the rather simple views implicit in the GSP scheme. Concentrating on product and market development and on appropriate incentives to exporters vis-à-vis the domestic market, remain the real issues. In this sense, preferences granted may serve as a guide to possible products or sectors which could be the subject of further study involving markets, financing, policies, product development, etc. Without devoting considerable effort to basic issues, however, the GSP is not likely to be a significant stimulus to Africa's industry and trade.

International Industrial Co-operation : Multinational Efforts

89. Instances of international co-operation at the interenterprise level were reviewed in an earlier section. Such micro-economic co-operation may become the real nucleus for progress, by industrial redeployment, towards a new international economic order for industry. Parallel and co-ordinated programmes between governments are necessary, however, to ensure that a more equitable share of the world's resources are available to the developing countries. Already, the outlines of a few such programmes have been devised while additional alternatives have been proposed. With specific regard to industry, very few such programmes exist as yet although examples may be cited in the co-operative efforts among developed countries.

^{1/} Hollis B. Chenery and Helen Hughes, "Industrialization and Trade Trends" in Prospects for Partnership, Helen Hughes ed. (The John Hopkins University Press, Baltimore), 1973, p.19.

D. UNIDO'S ROLE IN NEW INTERNATIONAL ECONOMIC ORDER FOR INDUSTRY

Industrial Consultations

93. The kind of co-operative restructuring of the world economic order which was described earlier could be assisted by, and might require, some form of continuous dialogue between countries. In certain cases the issues affect the interests of both African countries and developed countries. In other instances, the issues are regional ones pertaining to only the African countries. As pointed out by the Committee for Development Planning, "some processes of international consultation regarding industry clearly are needed and, most logically, they will develop within the framework of the United Nations system".^{1/} As an elaboration of the declaration and programme of action on the Establishment of a New International Economic Order, adopted at the Sixth Special Session of the General Assembly, the Lima Declaration calls upon UNIDO to "include among its activities a system of continuing consultation at global, regional and sectoral levels".^{2/} The consultations would take into account a variety of economic factors such as demand and supply conditions, factor costs, investment, technologies and the redeployment of certain productive capacities now existing in developed countries and the creation of new industrial facilities in developing countries.^{3/} Government officials, economists and industrial decision-makers (managers and workers) would be included in the consultation process.^{4/}

1/ See Official Records of the Economic and Social Council, Fifth-seventh Session: Supplement No. 4, para 121.

2/ Follow-up of the Decisions and Recommendations of the Second General Conference of UNIDO (ID/B/155/Add.1), para. 66.

3/ Ibid. para. 61(d).

4/ For a more complete discussion of the objectives and purposes of the consultation process, see UNIDO, "Preliminary Note for the Preparation of a Plan of Action on Industrialisation" (ID/B/C.3/27).

90. The Lomé Agreement, negotiated between the EEC and various developing countries in Africa, the Caribbean and Pacific (referred to as the ACP States), is an example of the type of programme considered here. Title III of the Agreement deals specifically with industrial co-operation, touching on issues such as the changing distribution of industry, the need to establish new industrial and trade links, the transfer of technology, trade in industrial products, etc. Stress is placed on trade co-operation (Title I) and export earnings from commodities (Title II), fields which do not directly involve industry but have important implications in such areas as industrial processing of raw materials.

91. In the area of trade policy, the Tokyo Round of negotiations may result in providing additional relief to industrial exporters in developing countries. The basic declaration for these discussions singles out "tropical products and raw materials, whether in primary form or at any stage of processing" as special, priority subjects^{1/}. As described earlier, future opportunities for African industry are perhaps heavily dependent on international co-operation in these fields.

92. Many other areas requiring international co-operation (e.g. an international code of conduct for the transfer of technology and an international code of conduct for the transnationals) exist, although progress has sometimes been limited or negligible. In the area of international finance, the creation of various new types of funds (e.g. to stimulate agriculture and food production in the developing countries) and the IBRD step to create a "Third Window"^{2/} could lead to a greater transfer of real resources which would benefit industry as well as other sectors. Proposals for the exploitation of common-property resources of mankind, such as seabed resources and the utilisation of a portion of the developed countries' gold reserves, both for the benefit of developing countries, have been under consideration.

^{1/} GATT, Activities in 1973 (Sales No. GATT 1974/3), p.7.

^{2/} See IMF Survey, 23 June 1975, p. 177.

94. At the sectoral level, a number of issues raised elsewhere in this paper would be appropriate subjects for discussion. The identification of priority industrial sectors and estimates of the contributions which they could make to the two per cent target (along with investment implications, employment generation, appropriate trade and export policies, etc.) would be the first step. By way of illustration, UNIDO has conducted preliminary studies of three industries - iron and steel, fertilizers and leather and leather products - to serve as examples of the subjects in the context of sectoral consultations.^{1/}

95. In the case of iron and steel, the possibility of establishing industries nearby the raw materials, coupled with the ecological issues and the exhaustion of raw material resources in some developed countries, may provide a mutual interest to negotiate agreements which will alter the future world pattern of the industry. For fertilizers, many African countries are large importers, and problems are mainly on the supply side (rising prices and the slow expansion of world production capacity). Opportunities to develop new capacities exist but they require large investments, skilled operations, staff and some assurance from both the marketing and production side that capacity utilization can be attained. International co-operation in long term planning, finance, technology and training will facilitate production expansion which takes advantage of the cost benefits of locating in some African and other developing countries/ In leather goods, Africa has important raw material sources. Problems involve styles, quality and market access for exports. Interenterprise co-operation could yield considerable advantages to parties in both the developed countries and the participating African countries. These, of course, are only examples of the types of broad characteristics which might be adequately treated in the consultation process. They may be applicable to any number of industrial sectors and not necessarily the three referred to here.

.../...

96. At the micro level, other sectoral issues would also be important. Inter-enterprise co-operation would be facilitated through the consultation process. Development of an appropriate framework for licensing, International subcontracting and joint ventures in the industrial sectors under discussion could be one outgrowth of the consultation process. In other instances, such agreements must be dealt with on a case-by-case basis which could also be accommodated through the consultation system. Irregardless the agreements should include stipulations as to training, fellowships, and the development of research facilities.

97. International consultations would be the most logical forum to identify opportunities for developing the type of "triangular relationships" combining technology, finance, raw materials and labour described earlier^{1/} Similarly, investment opportunities for multinational corporations or multinational investment firms engaging in joint ventures could be best singled out in this type of forum.

98. The implications for the expansion of trade from these types of activities have been discussed. The nature of the consultation approach offers certain advantages over alternative means of achieving the same end, however. First, on the basis of government-to-government agreements, African countries could plan the development of selected export-oriented industries with more confidence. Second, mutual co-operation with developed countries will probably not be subjected to new trade restrictions as a result. Export promotion which is undertaken independently by a developing country is often regarded as a relatively risky step without these assurances. The elimination, or reduction, in the risk element can be expected to have a favourable effect on industrial investment (domestic and foreign) in Africa.

^{1/} See UNIDO, "Examples of the Potential for Co-operation in Three Branches of Industry" (ID/B/C.3/35/Rev.1).

99. The advantage of regional consultations has been stressed in a number of forums.^{2/} In the course of progress towards the two per cent target one broad objective is to increase the proportion of intraregional trade in Africa. The variety of policy implications which this objective would entail fall clearly in the realm of regional issues for consultation. Likewise, the selection of priority industrial sectors can not ignore the need to account for regional aspects with regard to pattern of complementarity and specialisation. Industrial policy harmonization involving crucial areas such as trade, investment, relations with transnationals, regional co-operation and the creation of producer associations might be tackled in regional consultations. Such a forum could also lead to the development of an "African position" on broad issues as called for elsewhere in this paper.

100. At the global level, the consultation process would be intended to deal with broad issues pertaining to achievement for the new international economic order for industry. Emphasis would be placed on the need to find a basis for complementary development of industry in the developed and the developing countries. Such a forum should provide the opportunity to press for greater consideration of industry and industrial trade in the fields of adjustment assistance, the GSP, aid and lending patterns and industrial processing of raw materials.

OTHER UNIDO PROGRAMMES RELATED TO THE NEW INDUSTRIAL ORDER

101. With regard to industry and its link with trade, a number of UNIDO programmes is intended to elaborate and to contribute to the implementation of the new order. These activities would supplement the consultation system described in the preceding section. UNIDO's study programme will include a review element, monitoring progress towards the quantitative targets. A detailed study of the implications of the quantitative targets is also underway, identifying the

1. See para. 38.

2. In addition to the Lima Declaration (ID/B/155/Add.1), see BCA, Specialisation, Complementarity and Multinational Industrialization in Africa: Progress Report (E/CN.14/638) and UNIDO, International Industrial Cooperation: Report of the Expert Group Meeting organized by UNIDO in Cooperation with the Nelson das Neves Institute, Luanda, 1974 (ID/198), especially para. 90.

possible contributions of individual industrial sectors and intermediate targets for 1930 and 1990. Key issues such as the degree of industrial processing, priority industrial sectors, the changing composition of manufactured exports, etc., will be subjects for further study and analysis.

102. Among the various issues singled out for attention in this paper, several are the subject of specific assistance and/or study projects in UNIDO. UNIDO has already been active in the establishment of industrial free zones in Africa ^{1/} In line with the Lima Declaration, emphasis is attached to the need for the host country to retain control over the inflow of foreign investment and the direction of manufacturing efforts. Preparatory work is underway which will lead to the creation of an International Free Zone Authorities Association in 1976. Joint action with UNCTAD is anticipated in this field as well as in the areas of product development and export adaptation.^{2/}

103. In the area of joint industrial planning, UNIDO provides assistance at the international and sectoral levels and in the harmonization of industrialization policies. Considerable importance has been attached to these fields in connexion with the new international economic order, and they are intended to complement the creation of an institutional framework for common decisionmaking and consultation.

104. At the regional level African countries have in various ways requested UNIDO's co-operation with the regional commission to assist in servicing the institutions for industrial co-operation which are being established. This activity will entail agreements on specialization, integrated positions toward other regions and the developed countries and industrial policy harmonization.

105. With regard to interenterprise co-operation, UNIDO provides assistance in the fields of joint ventures, international subcontracting and licensing. With regard to subcontracting, special attention will be given to various "instrument industries" (electrical instruments, mechanical and optical instruments) and the electronics industry in general.

^{1/} See UNIDO, "Report of the Training Workshop on Industrial Free Zones" (ID/WG.112/4).

^{2/} See "Industrialization and Trade in the Process of Development", paper prepared jointly by the Secretariats of UNCTAD and UNIDO (ID/CONF/3/10) para.55

106. With regard to the GSP and the earlier observation that the system has made a very limited contribution to African industries, UNIDO intends to offer additional assistance. These activities will be intended to bring together the marketing, financing, policy advice and product development, concentrating on specific products which may be viable as a result of GSP benefits.

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ANNEX

Table I

Value Added in Manufacturing, by Region and Economic Group
(in millions of US\$ and percentages)

	1955	%	1970	%	1974	%	Growth rate, 1955-1974
Developed countries	314,403.8	92.0	450,000	92.5	1,020,348	92.0	6.4
Developing countries	24,643.6	7.3	64,951.5	7.5	88,466	8.0	7.0
Asia	8,182.1	2.4	22,113.8	2.5	29,190.2	2.6	6.9
Latin America	14,416.9	4.3	36,966.7	4.3	51,733.0	4.7	7.0
Africa	2,044.6	0.6	5,712.0	0.7	7,903.0	0.7	7.4
World	339,047.4	100.0	514,952.0	100.0	1,109,196.3	100.0	6.4

Source : UNIDO, based on Monthly Bulletin of Statistics, February 1976, Statistical Yearbook, 1973 and other data supplied by the Statistical Office, New York.

Table II

A comparison of Population Forecasts with the Quantitative Targets for Industry

	1970	1975	2000		
	Populatio	Industrial Product	Populatio	Industrial Product	Indus
Africa	11.8	0.5	11.8	0.6	15
Latin America	10.1	3.6	10.4	3.8	12
Asia	38.6	2.5	40.4	2.6	45
Developing countries	60.5	6.5	62.6	7.0	72
Developed countries	39.5	93.5	37.4	93.0	28
	100.0	100.0	100.0	100.0	100

Source : UNIDO, "A Preliminary Note for the Preparation of a Plan of Action on Industrialization" (ID/EC.3/27), p.28

Table III

Assumed Growth Rates for Industrial Production, Developed Countries.

	I	II	III	IV
Assumed Rates 1975-2000 (per cent, per annum)	6.7	6.0	5.0	4.0
Related index (1975 = 100)	506	429	339	267

Source : UNIDO, "A Preliminary Note for the Preparation of a Plan of Action on Industrialization" (ID/B/C.3/27), p.29

Assuming that Africa maintains its historical growth rate of 7.1 per cent (see Table I) for value added by manufacturing and that Asia and Latin America achieve a combined target of 23 per cent of world manufacturing output in the year 2000, Table IV gives the possible African shares of world industry. This share will vary depending on the growth rate in developed countries.

Table IV

Projected World Share of Value Added (in billion US\$) by Industry in the Year 2000^{1/}

	<u>Case I</u>		<u>Case II</u>		<u>Case III</u>		<u>Case IV</u>	
	Value Added	Share	Value Added	Share	Value Added	Share	Value Added	Share
Developed countries	4703	76.3	3990	76.2	3148	75.9	2478	75.6
Developing countries	1462	23.7	1249	23.8	998	24.1	886	24.4
Asia and Latin America	1418	23.0	1205	23.0	954	23.0	842	23.0
Africa	44	0.7	44	0.8	44	1.1	44	1.4

^{1/} Cases I - IV refer to growth rates for developed countries in Table III.

Source : UNIDO, based on Monthly Bulletin of Statistics, various issues and data supplied by the Statistical Office, New York.

Table V
Projected Value Added by Manufacturing in the Developing
Regions, Year 2000
 (in billions US \$)

Region	Assumed Growth Rate, Developed Countries				Percent of World Total in 2000
	I	II	III	IV	
Africa	168.8	141.4	113.1	88.3	2
Asia	848.8	710.6	568.6	443.8	10
Latin America	1,146.7	960.8	768.7	600.1	13.5
Total	2,163.7	1,812.8	1,450.4	1,132.2	25.5

Source: UNIDO, based on data supplied by the Statistical Office, N.Y

Table VI
African Exports to the World
 (in '000 US \$)

Year	1970	1971	1972	1973	Commodity
074	84394	85611	107974	....	Tea and Maté
242	193413	208005	..	....	Wood, rough
243	1763	1506	3497	8888	Wool and animal hair
263	760119	831847	821510	....	Cotton
281	320643	317132	332687	....	Iron ore, concentrated
283	96070	....	....	....	Non-ferrous based metal ore
264	562	....	....	....	Jute

Source: UNIDO, based on Yearbook of International Trade Statistics, 1974, Vol. II

Table VII

Trade in Manufactures (SITC 5 to 8 less 68) between Developing Regions, as a Percentage of Total Exports to the World, 1967 and 1973

<u>Exports from</u>	<u>Exports to</u>							
	<u>Africa</u>		<u>Latin America</u>		<u>Asia</u>		<u>Totals</u>	
	<u>1967</u>	<u>1973</u>	<u>1967</u>	<u>1973</u>	<u>1967</u>	<u>1973</u>	<u>1967</u>	<u>1973</u>
Developing countries	5.4	3.2	9.9	7.6	19.8	17.1	35.1	27.9
Africa	14.2	13.3	1.0	1.8	7.3	4.3	23.7	19.6
Asia	5.6	3.0	1.3	1.4	26.9	23.2	34.0	26.6
Latin America	0.1	0.9	45.2	33.8	0.7	1.8	46.0	36.5

Source: Monthly Bulletin of Statistics, July 1973 and Yearbook of International Trade Statistics, 1974, Vol. I

Table VIII

Average Annual Rate of Growth in Manufactured Exports (SITC 5 to 8 less 68)

<u>Exports from</u>	<u>Exports to Developed Countries</u>
Developing countries	31.4
Africa	19.6
Asia	30.5
Latin America	32.2

Source: Monthly Bulletin of Statistics, July 1973 and Yearbook of Trade Statistics, 1974, Vol. I

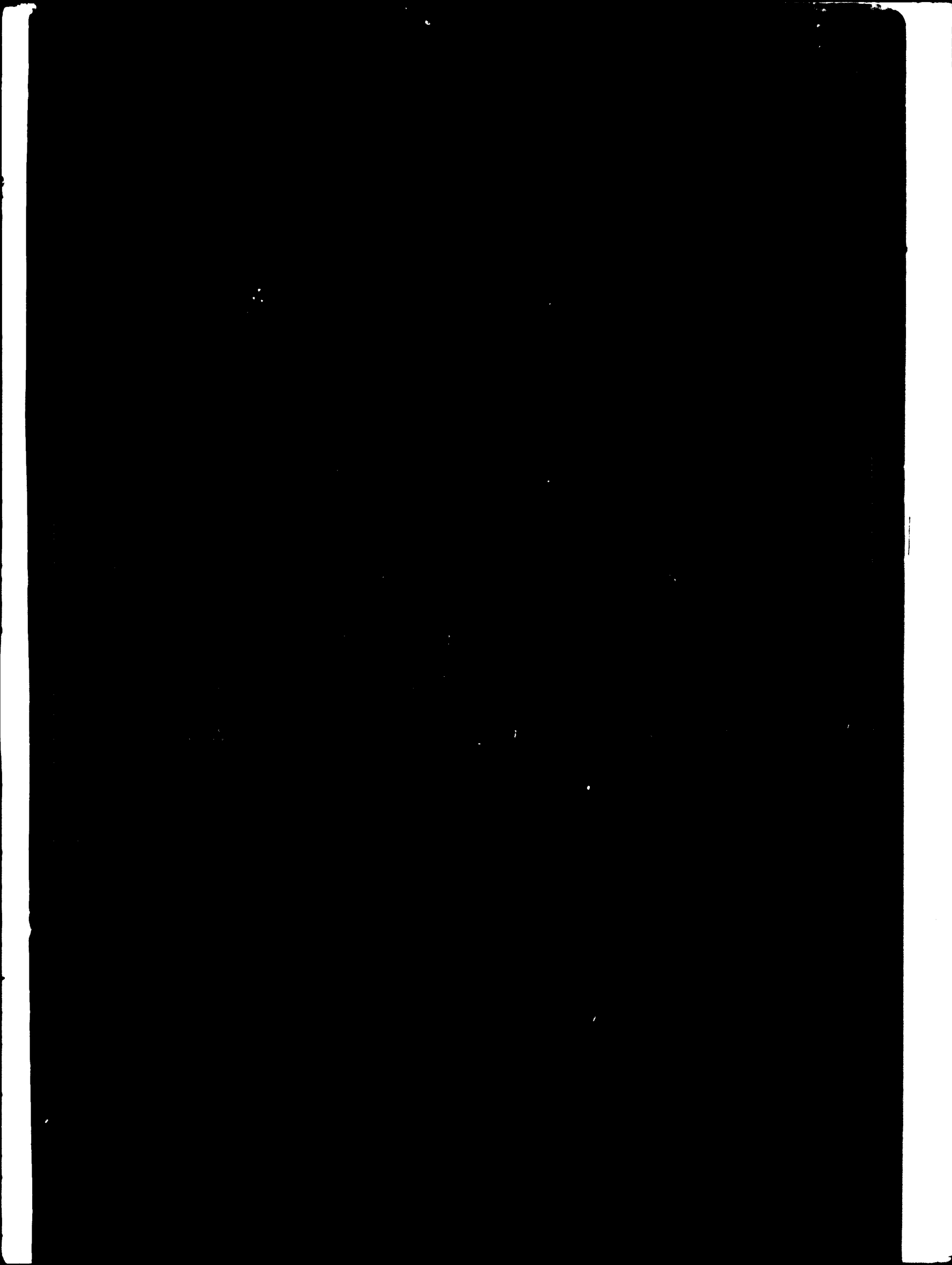
Table IX

**Value of Manufactured Exports (SITC 5 to 8 less 68) from
Developing Countries and Regions to Developed Countries,
1967 and 1973**

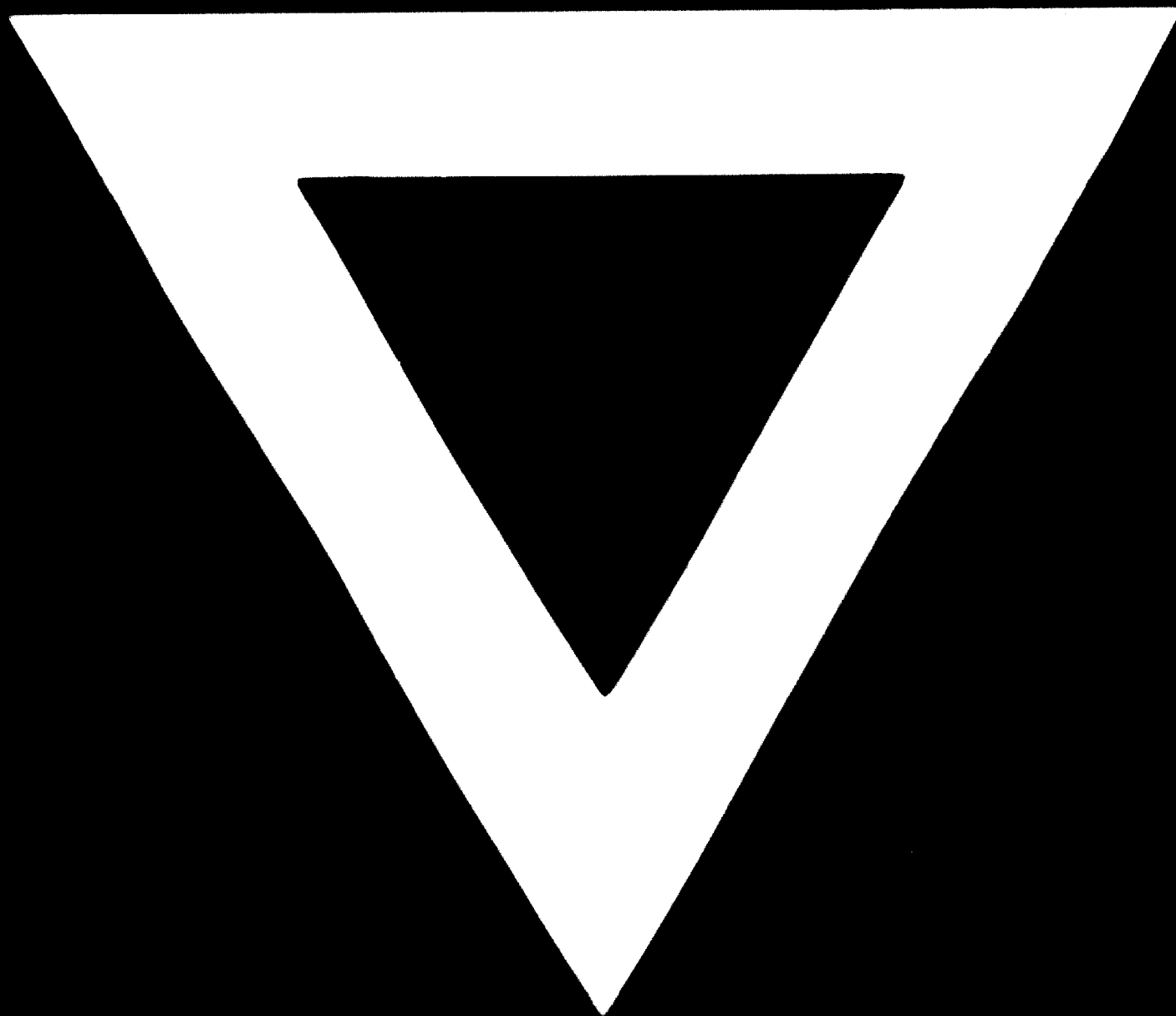
(in million US dollars)

<u>Exports to</u>		<u>Developed Market Economies</u>		<u>Centrally Planned Economies</u>		<u>Developed Coun- tries Total</u>	
<u>Exports 1967</u>	<u>SITC</u>	<u>1967</u>	<u>1973</u>	<u>1967</u>	<u>1973</u>	<u>1967</u>	<u>1973</u>
Developing countries	5	230	740	27	64	277	804
	7	240	2890	10	35	290	2925
	6 + 8	4770	15510	275	730	3045	16240
	5 to 8 less 68	2940	15480	271	748	3217	16398
Africa	5	47	120	16	30	63	150
	7	9	36	1	14	10	50
	6 + 8	1230	2510	91	225	1321	2735
	5 to 8 less 68	306	916	89	241	395	1157
Asia	5	48	214	7	30	55	244
	7	181	1110	9	18	190	1128
	6 + 8	2203	10190	154	393	2357	10583
	5 to 8 less 68	2117	10834	161	420	2278	11254
Latin America	5	155	405	5	4	160	409
	7	46	650	—	4	46	654
	6 + 8	1290	2680	28	115	1318	2795
	5 to 8 less 68	491	2625	30	97	511	2722

**Source: Monthly Bulletin of Statistics, July 1973 and Yearbook of
International Trade Statistics, 1974, Vol. I**



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