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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

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REVIEW OF THE EXPERIENCE OF COUNTRIES WITHOUT OIL OR OTHER MINERAL RESOURCES

Dahomey, Gambia, Somalia,
Honduras, Lebanon, Paraguay 1/

prepared by

the Secretariat of UNIDO

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The experience of economies without mineral resources

At an early stage of industrialization: Dahomey, Gambia, Somalia
At a more advanced stage of industrialization: Honduras, Lebanon, Paraguay

The experience of Dahomey, Gambia and Somalia

When the United Nations selected 25 "least developed" countries in 1971, Dahomey and Somalia were included.1/ Their experience is therefore of particular interest to UNIDO.

At the time of achieving political Independence (Dahomey and Somalia in 1960 and Gambia in 1965), very few industries existed in these three African countries. The principal source of income was the commercial development of livestock in Somalia, groundnuts in Gambia and both livestock and groundnuts in Dahomey. The development strategy in the 1960s emphasised the further development of agriculture and most of the major industrial projects developed in the 1960s have been agro-based industries.

A common theme of each author's analysis is that the low level of incomes (and hence purchasing power) has been the major constraint on industrial development; only a very small part of the population benefited from the development of the modern sector in the 1960s. Although the transport network improved in the 1960s, difficulties remained in exploiting raw materials and in moving manufactured goods to the rural sector both in Gambia and Somalia.

The other major constraints were difficulties in raising finance for new industrial ventures and inadequate development of labour and management skills; according to the authors, these constraints were of greater importance in Gambia and Somalia than in Dahomey. Industrial sites, power and water were generally available in the larger towns and only acted as a constraint in establishing industry in other parts of the country.

1/ The principal criteria were: (a) that less than 20 per cent of the population over the age of 15 years were literate; (b) that GDP per capita was less than $100; and (c) that the share of the manufacturing sector's output in GDP was less than 10 per cent.

Economic development appears to have been most rapid in Dahomey where GNP increased by 4.5 per cent per year between 1959 and 1967 and by 7.7 per cent per year between 1967 and 1970. In this second period, agricultural output grew by 7 per cent a year and manufacturing output doubled, reflecting a rapid expansion in the cultivation and processing of cotton and the establishment of a broader range of consumer and building materials industries. Nevertheless, output of the manufacturing sector fell short of the overall target of the 1966-70 Development Plan by about 25 per cent. During this period, nearly all of the major projects were established with external assistance or foreign investment; the domestic private sector was less important; and the Government had no funds to spare for public investment in the manufacturing sector.

The author concludes that the main preconditions now exist for industrialization in Dahomey; the strategy of concentrating on industries based on agriculture, mineral resources and oil (fertilisers and some chemicals) is the appropriate one; but the package of policies and measures used to promote industrialization is insufficient. What is required is (1) the organization of institutions to mobilise domestic and foreign capital and channel it to the industrial sector; (2) the definition of areas of action of the private and public sectors; and (3) the creation of a centre for the elaboration of industrial projects.

In The Gambia economic growth averaged 3.1 per cent per year in the 1960s. The basic structure of the economy changed very little and agriculture still contributed 56 per cent of GDP in 1970; manufacturing's contribution was then less than 3 per cent. The very small market (population 500,000) has acted as the most serious constraint; several industries which were established in the 1960s ran into difficulties for this and other reasons. Lack of transport, lack of resources and a shortage of trained manpower have also acted as constraints but are gradually being overcome. Few Gambians had sufficient savings of their own to finance industries in the 1960s and borrowing from commercial banks was difficult. Foreign investment is welcomed, but so far it has been attracted only to tourist and fishing projects. A 50-acre industrial estate has been established, but it remains largely unutilised.

The author believes that a successful start to industrial development based on the domestic market must await rapid development of agriculture and rural areas and further substantial improvements in the Gambia's infrastructure. It will also require intensified efforts to foster entrepreneurial and managerial skills and the conducting of feasibility studies of a wide range of new industrial projects. The newly-created Commercial and Development Bank was badly needed, and it can be expected to play a major role in Gambia's industrialization from now on. Other institutional changes are likely. The other elements of the new industrial development strategy now actively being considered are (1) an organization to manage the industrial estate and assist small-scale industries and (2) the establishment of a manufacturing free zone to promote export-oriented industries.

When the Somali Democratic Republic was formed in 1960 out of ex-British Somaliland and the Italian Trusteeship Territory of Somalia, livestock was the principal source of income for the nomadic population; there was little basic infrastructure and education had been confined to a small elite. The country inherited a chronic budget and trade deficit and until the Revolution in 1969, there was not much commitment to serious development; according to one rough estimate economic growth during the 1960s averaged 1.3 per cent per year. Value added in manufacturing in 1971 was about three times the 1967 level; a very rough estimate suggests it contributed 9 per cent of GDP in 1971. In recent years, the State has become actively involved through a nationalization programme and new projects in the manufacturing and other sectors of the economy. Most of the large industries are public enterprises resource-based and export-oriented; the private sector, particularly in recent years, has not responded to the generous concessions provided.

Many of the preconditions for industrialization are still absent - qualified manpower and managerial talent, a nation-wide transport system, industrial estates and adequate power and water supplies. But above all, says the author, a vigorous and sustained Government committment to industrialization is lacking; the relative roles of private and public must be clarified unequivocally so that the private sector makes maximum use of existing establishments and is prepared to establish new industries. Existing small-scale industries need to be grouped into co-operatives. Training institutions must be expanded and the content of training changed.

Much more attention must be given to decentralization and the establishment of growth poles. Modified or new institutions are required (a) to strengthen domestic and foreign marketing and distribution, (b) to identify and evaluate new industrial projects and (c) to provide advisory services on product design, choice of technology and quality control.

The experience of these three so called "least-developed" countries raises a new set of issues. Discussion by the meeting might include consideration of the following strategic questions:

(1) What possible steps have been considered by each country to overcome the constraint imposed by the low level of purchasing power of the domestic market?

(2) Has each country devoted a sufficiently high proportion of the nation's investment and other resources to industrial development? If not, was the short-fall due to (a) lack of preconditions for industrial development, (b) the over-all development strategy concentrating on the development of other sectors, or to (c) a failure to find policies strong enough to attract investment in the manufacturing sector?

(3) Has each country taken sufficient steps to anticipate the trained manpower and skill requirements of industry over the next 10 years?

(4) Has the pattern of ownership desired by each Government been defined with sufficient clarity? Has public ownership proved an effective means to initiate new industrial projects?

(5) Has each country made optimal use of external sources of technology, public and private investment? In which industries was foreign collaboration actively promoted and why?

The experience of Honduras, Lebanon and Paraguay

Among the second group of countries, industrial development gathered momentum in the 1960s in Honduras and Lebanon but stagnated in Paraguay until the final years of the Decade. The annual economic growth in the 1960s was 5.1 per cent in Honduras, 3.0 per cent in Lebanon and 4.4 per cent in Paraguay; the annual growth of manufacturing output was 12 per cent in Honduras, 10 per cent in Lebanon and 5.5 per cent in Paraguay. Industrial progress was slower in Paraguay in the 1960s because opportunities for import-substitution industries had mostly been exploited in the 1940s and 1950s; in Honduras and Lebanon these opportunities remained to be, and were, exploited in the 1960s. Honduras joined the Central American Common Market (CENCOM) in 1960; exports of manufactured goods increased rapidly in the 1960s. Lebanon also successfully increased manufactured exports in the 1960s to Arab countries and other markets. By 1970, each country exported very approximately 20 per cent of its manufacturing output.

In Honduras, manufacturing output grew by 12 per cent a year between 1960 and 1972 compared with 8 per cent in the 1950s. The main thrust came from domestic private investors; the Government sponsored a few large projects; foreign investors promoted only a few industries despite liberal concessions, which had to conform with limits imposed by an agreement among CENCOM countries. Private and foreign investment was below the Government's expectations, says the author, because of the low level of incomes, the insufficiently integrated domestic market, a lack of entrepreneurial spirit and a shortage of skilled labour.

Industrial growth has depended mainly on an expansion of domestic purchasing power and increased penetration of import-substitution industries. Export expanded to other CENCOM countries but attempts to promote export-oriented industries (including labour-intensive ones) had disappointing results, in part because of the low quality of local supplies and raw materials. Nevertheless about 20 per cent of manufacturing output was exported in 1970.

In Lebanon, in the 1950s the entrepot trade, the rapid expansion of banking and other services, construction and tourism were the fastest growing sectors of the economy. A free trade policy was followed and manufacturing industry had to recover from the break-up of the customs union with Syria. Gradually Lebanese manufacturers developed products able to compete with imports in the rich, largely unprotected, domestic market; they also became increasingly successful in the 1960s supplying the booming markets of neighbouring Arab countries. Processed food, clothing and shoes were among the products exported further afield; and by 1970 about 20 per cent of manufacturing output was exported.

A laissez-faire development strategy was followed which relied almost completely on private initiative. There was no shortage of entrepreneurial talent and the number of enterprises grew from 1,400 in 1950 to 6,250 in 1970. By 1970, 95,000 workers or 18 per cent of the active population were employed in manufacturing. This growth took place with only modest assistance from Government policy and supporting institutions. Tariff protection (if granted at all) was usually less than 30 per cent and tax incentives were no longer than 5 or 6 years. The liberal economic system has attracted some foreign investment but it is Lebanese initiative that has provided the main thrust of industrial development. The Government has supported an industrial technology institute and vocational and technical training. The current Development Plan emphasises further improvements in infrastructure, education and social services. For industry, the establishment of manufacturing free zones are being considered.

In Paraguay, the growth of population (1.3 million in 1950 and 2.3 million in 1970) and rising income levels have brought the domestic market to a size where it can support a wider range of industries. In 1970, roughly 20 per cent of manufacturing output was of intermediate products and almost 10 per cent of capital goods. Prior to the mid-1960s development was largely unplanned; the main thrust of industrialization came from the private sector. The major industries were food processing, textiles and building materials; meat, other agricultural products and timber were processed for export. Planned development in the late 1960s placed fresh emphasis on employment creation and decentralization of the location of industries; priority projects were identified and those of strategic importance (e.g. cement) were implemented in the public sector.

Paraguay is a land-locked country bounded by Argentina and Brazil. It has therefore been necessary to protect local industries. When joining the Latin American Free Trade Area in 1960, Paraguay was classified as a relatively less developed country eligible for preferential treatment. In recent years the development strategy has become more outward-looking. Commitments have been made to develop large scale infrastructure projects in the early 1970s; these will take a long time to yield returns; in the meantime massive imports of capital goods will be required. The 1971-75 Development Plan therefore indicates the need for a much faster expansion of exports.

The authors suggest that the slow growth of industry in the 1960s was due to a shortage of foreign exchange to import machinery and raw materials, difficulties in financing some major projects and a lack of machinery for identifying projects. Although education, at the university level has been sufficient, there remain several gaps in vocational and industrial training institutions. The protection and investment incentives, that were introduced one by one over the years, did not represent a clearly define policy and the response of the private sector in the 1960s was disappointing. In 1970 an Investment Council was established under the Ministry of Commerce and Industry to co-ordinate industrial policy. Existing investment incentives were revised in order to promote private investment in necessary and priority industries and the initial results of this new approach have been encouraging.

The experience of these three countries raises some interesting issues. Discussion by the Meeting might include consideration of the following questions:

(1) To what extent are difficulties experienced in developing exports of manufactured goods from existing industries due to the protection policy followed in the early stages of industrialization?

(2) Has the domestic market of these three countries reached a size where it can support industries producing intermediate and capital goods? If so, which industries, and how has the Government promoted their development?

(3) Which industries have been established in these countries to serve markets of neighbouring countries to which they have preferential access as a result of economic co-operation agreements?

(4) Each country now exports about 20 per cent of manufacturing output. In which industries have exports been successfully developed? What factors lie behind the success? What form did Government support for export development take?

(5) What steps were taken by the Government and industrial enterprises themselves to develop skilled labour and managerial skills? What was the relative importance of each source? Which types of skill remained in short supply in the 1960s?

(6) Did each country make optimal use of external sources of technology, public aid and private investment? In which industries was foreign collaboration actively promoted and why?

TABLE 1

ECONOMIES WITHOUT MINERAL RESOURCES

Some comparative statistics

			DAHOMEY	GAMBIA	SOMALIA	HONDURAS	LEBANON	PARAGUAY
1.	Population (thousands)	1970	2700	360	2820	2520	2700	2370
2.	GNP per capita (US $)	1970	90	120	70	280	590	260
3.	GNP (US $ millions)	1970	240	40	190	710	1610	630
4.	Increase in population (per cent, per year)	1960-70	1.4	2.0	2.4	3.3	2.5	3.1
5.	Increase in GNP per capita (per cent, per year)	1960-70	4.7	1.1	-1.1	1.8	0.5	1.3
6.	Growth of GNP (approximate) (per cent, per year)	1960-70	6.1	3.1	1.3	5.1	3.0	4.4
7.	Sector contributions to total GDP	Year Indicated	1970	1970	1971	1969	1970	1970
	- Manufacturing		8.4	2.4	9.3	13.2	13.6	16.7
	- Agriculture		34.1	56.0	40.7	32.6	9.1	26.9
	- Oil		-	-	-	-	-	-
	- Mining		-	0.3	-	2.0	-	0.1
	- Construction		3.8	n/a	n/a	5.0	4.5	2.9

TABLE 1
continued

ECONOMIES WITHOUT MINERAL RESOURCES

Some comparative statistics

No.	Item	Year	DAHOMEY MS 1/	DAHOMEY AS 1/	GAMBIA	SOMALIA	HONDURAS MS 1/	HONDURAS AS 1/	LEBANON	PARAGUAY MS 1/	PARAGUAY AS 1/
8.	Value added in the manufacturing sector (US $ millions)	1960			0.7		20.4	15.8	85.0*	55.0	
		1967	7.0	8.8		6.2					
		1970	15.0	10.2	1.0	21.0	77.4	22.3	220.0	96.4	
9.	Index of growth of manufacturing output	Period Indicated	1967-70		1960-70	1967-70	1960-70		1960-70	1960-70	
			216	115	166	320	418	141	260	171	
10.	Exports of manufactured goods (US $ millions)	1970				1.0*		45* 3/	109.0	45.4	
11.	Proportion of manufactured goods exported	1970				5		23	20-25* 3/	20-25* 3/	
12.	Employment in manufacturing sector (thousands)	Year Indicated	1972		1973	1971	1972		1970	1972	
			5.0*		3.5	6.6	30.9	42.0	95.0	58.0	62.0
13.	Number of manufacturing enterprises employing	Year Indicated			1973	1971	1966		1964	1963	
	- More than 100 workers				14	11		42	141 2/	29	
	- More than 10 workers				98	89		544	1041	481	

* Indicates estimates made by UNIDO Secretariat

1/ MS indicates modern sector AS indicates artisan sector

2/ Enterprises employing more than 50 workers

3/ ssumes value added was 50 per cent of sales price of locally manufactured goods

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