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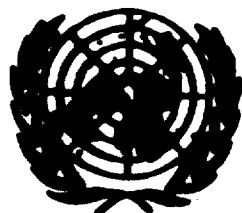
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**United Nations Industrial Development Organization**

**Seminar on Financial Assistance and Extension  
Services for the Promotion of Small-scale  
Industries in the Caribbean Area**

**3 - 8 December 1973, Bridgetown, Barbados**

**INDUSTRIAL DIVERSIFICATION IN THE  
EAST CARIBBEAN COMMON MARKET 1/**

prepared by

the Secretariat of  
the East Caribbean Common Market

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THE EAST CARIBBEAN COMMON MARKET:

The ECOM was established in June 1968. On its inception customs duties and quantitative restrictions on trade between Member States were eliminated in respect of all goods qualifying for market area tariff treatment, i.e. containing a local value added of at least 50 per cent (40 per cent since 1972). There is, however, a Basic Materials List itemising certain materials which, for the purpose of calculating local value added and, therefore, for determining eligibility for area tariff treatment, are regarded as originating within the market area. The value of items in the Basic Materials List is calculated as an element in local value added.

2. Other provisions of the ECOM Agreement include the free movement of factors of production, harmonisation of development, investment and industrial policies; common monetary and fiscal policies; a common transport policy and a common agricultural policy.

THE COUNCIL OF MINISTERS OF THE ECOM:

3. The Council of Ministers is the principal policy making organ of the ECOM and it consists of a representative at Ministerial level of each of the Governments of Member States as members.

ECONOMIC DIVERSIFICATION:

4. For many years now, economic development strategies in ECCM Member States have aimed at economic diversification of the economies, which are historically mono-product economies based on agriculture. Programmes have been formulated for the development of new industries for the assembly, manufacture and processing of goods for local, regional and intra-regional markets. To date, these attempts at diversification have not met with an appreciable measure of success, due mainly to lack of entrepreneurship, industrial and managerial skills and, to some extent, investment capital.

5. An integral part of the industrial development strategy of the ECCM States has been Government investment in infra-structure and the provision of factory sites. As a result, the infra-structure of each State has improved considerably over the past ten years, and further improvements are continually taking place.

6. Government lands are made available for factories; and, partly with loan assistance from the Caribbean Development Bank, these lands are being developed into industrial estates.

7. More recently, the CDB commissioned the Economist Intelligence Unit Ltd. of London to do an Industrial Survey of ECCM States and Belize and this Unit concluded that the process of industrialization in the Survey Area lagged behind that in the more developed countries of the Caribbean Free Trade Association (CARIFTA) and recommended that industrialization in the Survey Area be accepted as being a desirable development and as having high priority in the immediate future for these less developed countries.

8. The EIU identified the following industries for the ECCM Area and Belize:

Industries for export to CARIFTA and extra-Regional Markets:

Costume Jewellery; sports goods; leather goods; canned fruit; plush toys; men's underwear; intimate apparel; outer garments; knitted piece goods; electronics; electrical accessories; bicycles; footwear; builders hardware; hand tools and cutlery; domestic dinnerware.

Existing Industries for expansion: Beer; biscuits; boats; canning;

cigarettes; cloth printing; concrete blocks; tiles and pipes; copra based products; fibreglass buoys; etc. Foundry industry; furniture-wood and metal; garments; industrial gases, mattresses; milk reconstitution or pasteurisation; packaging materials and containers; printing works; ready-mix concrete; soft drinks bottling; spices and condiments; tissue paper products; tyre re-treading and remoulding.

Possible new ECCM Industries: Aluminium products; animal feed-

stuffs; automobile components; banana fibre; brooms; brushes and sops; cement bagging; clay bricks, blocks and tiles; clocks- alarm and kitchen; coir fibre; drinking straws; flour milling; galvanised products; glass and glassware; hats and caps; leather tanning; plastics; sails for yachts and boats; umbrellas; wire products.

FOREIGN INVESTMENT

9. Cognisant of the fact that many of today's developed countries received the assistance of foreign finance to supplement their own savings during the early stages of their development; ECCM States have been using a strategy of "Industrialisation by Invitation". This strategy, it is hoped, will attract not only foreign investment, but foreign technology and markets.

10. Within the context of an industrial development programme for the ECCM which relies heavily on foreign investment, note must of necessity

be taken of the relative importance of public flows from developed countries to developing countries. The impression is given that up to now a great deal of emphasis has been placed in international conferences and in other forums on increasing flow of government to government aid. The figures show that private flows to developing countries, excluding India and Pakistan, exceed by two to one public flows. For ECCM countries as a group the proportion in favour of private flows might even be potentially much greater. It is obvious therefore, that the ECCM should pay increasing attention not only to maintaining the present rate of private flows but to increase such flows. There is no competition between private and public flows and each has its separate important role to play. In the circumstances of ECCM countries, official flows are vital to the provision of the basic infra-structure of these countries. The development of resources such as roads, water supplies, schools, hospitals, public utilities training will continue to need official funds by way of grant and soft loans. However, this development of infra-structure is preparatory to the expansion of self generating industrial and other complexes which are needed to increase gross national product and therefore the standard of living of the people which must always be the basic aim of any development programme. A substantial part of the investment in the private sector has to come from foreign private sources and more often than not, this will mean from sources outside of CARIFTA for the reason that private savings in the Commonwealth Caribbean as a whole let alone in the ECCM, cannot provide the total resources which are required.

11. Stress must be laid on this development in the private sector because it is only when self-generating productive projects are promoted that it will be possible for ECCM countries to make their way in the world

without reliance on aid. In the present circumstances, ECCM countries will benefit from an immediate transfer of resources and given the right arrangements for ownership participation can pay back from the fruits of expansion, the original investments. Private investments will also provide for a transfer of technology which will enable new processes which are pre-requisite to the development of modern industrial complexes. There is also the question of up-grading of skills in the local population and the increasing output contribute to the promotion of intra-regional and international trade which will be to the benefit of not only the regional economy, but to the world economy also.

12. But it must be recognized that there is as yet, no army of foreign investors waiting at the wings to pour their investments into the Caribbean, still less, into ECCM territories. The foreign investor has to be dug out. Often he has to be induced and pampered. This is so because the investor naturally sees greater political and other risks in overseas countries than in his home country. Whilst there may be no basis for this, the fact is that it exists and it inhibits investment. Various attempts at guarantees in the form of an International Treaty to which developed and developing countries would adhere have been made. In this treaty the rights and obligations of the investors in home countries and the developing countries are spelled out. Developing countries undertake not to discriminate against overseas investors, not to apply harsh and arbitrary laws and not to expropriate without compensation. It is obvious that many countries are not ready for such a treaty. What would not be too difficult might be the conclusion of bilateral treaties such as are currently in force between ECCM countries and the United States, containing some of the provisions of an international treaty. One other measure that might help would



be ratification of the Convention for the Settlement of Investment Disputes, given the international legal competence to do so.

13. It must be borne in mind also, that while many developed countries claim to be interested in the promotion of private investment in developing countries there is little practical display of their interest and no steps taken to encourage their nationals to invest abroad. Indeed, there is almost general open discriminations against investment abroad. A number of examples can be given where the developed country's legislation discourages investment abroad by the tax levied on the returns of such investment and other credit restrictions and guidelines. This in many cases is the result of deliberate policy of trying to stem capital outflows and trying to encourage home investments. To give only two examples:

(a) Canada gives credit to the individual taxpayer for tax levied on dividends paid by domestic corporations, but not from foreign corporations, while the practice of exempting from tax all profits made by Canadian Corporations exclusively operating abroad was terminated in 1959.

(b) The United Kingdom taxes the foreign branch income just as severely as the profit of a domestic branch, while the recent restrictions on movements of sterling, even to the former sterling area, has the effect of almost drying up this source of investment funds.

#### THE SMALL INDIGENOUS FIRM:

14. Neither is it considered desirable for the major means of production and capital to be totally foreign owned. Any strategy for industrial development must therefore provide for the encouragement also of indigenous

activity in the ownership, management and control of industrial enterprises. But in an economy such as the LDCM where local finance for capital is scarce, it is usually rationed and in this process of rationing it is often difficult for indigenous entrepreneurs to obtain sufficient capital to meet the needs of a large industrial enterprise. Opportunities available to them are therefore largely restricted to small-scale industries; but the small firm is faced with many difficulties which do not face (at least not as acutely) the larger firms. The main difficulties are -

- (I) Marketing economies.
- (II) Technical economies, and
- (III) Economies of Scale.

15. Marketing economies may result from a reduction in the cost of buying or selling or from relative improvement in the bargaining power of the producer. The larger-scale firm can buy and sell their needs and products respectively at wholesale prices; they can sort and grade their products and institute greater quality controls, and hence obtain more steady markets and a higher average price. Joint action where appropriate by the smaller firms on purchasing of raw material imports and in marketing of their products would, to some extent, improve the situation, however.

16. The Technical Economies are numerous. The larger-scale firm can afford better research, information, technical advisory counsel and equipment. The larger-scale firm can use expensive machinery continuously; this is a decisive advantage. The larger-scale firm also provides for division of labour which can result in economies through acquiring specific skills and reducing labour costs by putting each worker to the task to which he is best suited.

17. Manufacturing in small-scale firms quite often requires a manager with both managerial and technical ability; this calls for a high degree of initiative, skill, and intelligence as well as willingness to take risks. In larger-scale firms, managerial duties can be separated from technical duties, thus permitting full utilisation of one good manager in combination with a number of hired workers.

#### TRAINING

18. All EECM Member States have established technical colleges at which skills in several areas of industrial activity are being upgraded or developed.

19. The area is, however, short of persons trained for managerial positions and it is to be expected that having produced a core of persons with the basic technical knowledge required by industry, the programmes of the colleges will be expanded to provide training in management. This will be of particular value to the smaller-scale industrial firms.

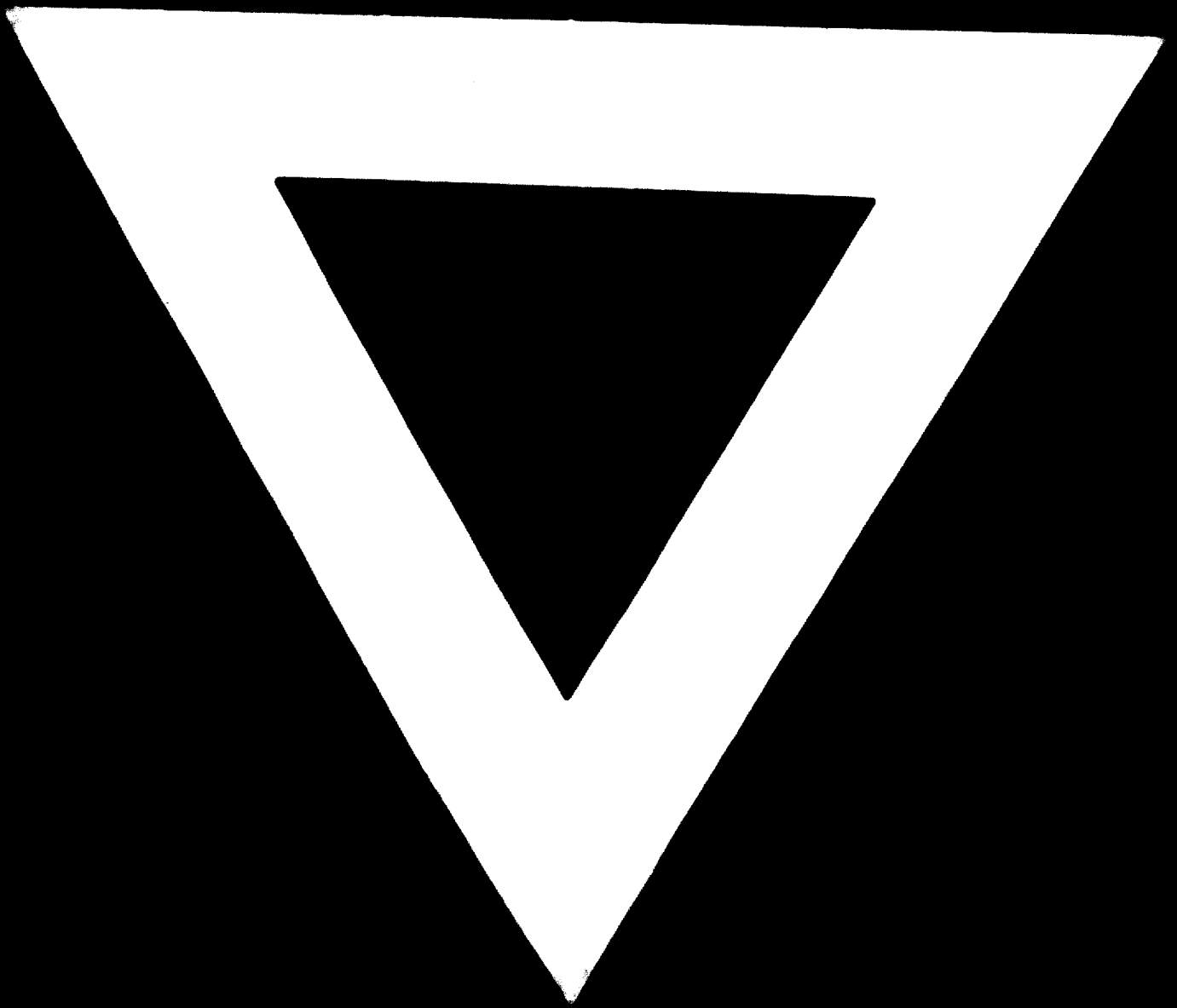
#### THE INDUSTRIAL EVALUATION & PROMOTION UNIT

20. In the EECM Secretariat, an Industrial Evaluation and Promotion Unit has been established. The immediate objectives of this unit include, among other things, the identification of potential local investors and arranging for the provision of Seminars and consulting services. The Unit will be of great value to the small investor. It is intended that it will supplement the work of the Industrial Development Corporations in EECM Member States and that it will provide a diversity of technical services on industrialisation including management advisory services to industry and Member Governments. It is at present modestly staffed and therefore can provide only a modest service, but it will expand in the light of

experience gained and after full consultation with relevant bodies in the region. The long-term objective is to develop the Unit, with the help of the United Nations Industrial Development Organisation, into a full scale Industrial Evaluation and Promotion Project, including a comprehensive Management Advisory Service.



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