OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

FAIR USE POLICY

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

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

17615-E

Distr.
LIMITED

PPD.106
3 January 1989

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

ORIGINAL: ENGLISH

INDUSTRIALIZATION IN ACP COUNTRIES:

ISSUES AND OPTIONS FOR INDUSTRIAL CO-OPERATION

Prepared by the

Regional and Country Studies Branch

55

V.89-50001

This document has been reproduced without formal editing.

The designations employed and the presentation of material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Mention of company names and commercial products does not imply the endorsement of the United Nations Industrial Development Organization (UNIDO).

The views and comments contained in this study do not necessarily reflect those of the governments of the ACP States or the European Community nor do they officially commit UNIDO to any particular course of action.

PREFACE

Within its work programme for monitoring industrial development in developing regions and countries, the Regional and Country Studies Branch of UNIDO is carrying out analyses of constraints to and prospects for inter-regional co-operation in industrial development. One approach is to monitor the emerging trends and issues in the sphere of industrial co-operation between developing and developed countries. The purpose of the present Study is to document the past record of industrial co-operation between the ACP States and the EC, with a view to looking into future prospects of possible options for effective industrial co-operation.

The Study attempts to furnish a synthesis of existing research findings on trade, aid, finance and industrialization in the ACP States. The purpose of such an exercise is to provide background information and preliminary indications of crucial issues and options that could be taken into account in shaping industrial co-operation and industrialization in the ACP States. The Study is primarily intended to initiate a debate on the macro-economic environment, structural adjustment policies and industrial strategies deemed vital for accelerating the process of industrialization in the ACP States within the framework of industrial co-operation initiatives. It is hoped that the Study would provide useful analyses and background information for industrial policy-makers in the ACP States. It should be noted that while the study examines trade issues relevant to industrial development it does not provide in-depth analyses of such issues in view of the established division of work between UNIDO and UNCTAD.

The paper is divided into four Chapters. Chapter 1 outlines the evolution of industrial co-operation between the ACP States and the EC, with a focus on pertinent Titles and Articles of Lomé Conventions which provide the theoretical and institutional framework for fostering the process of industrial co-operation. Chapter 2 presents a regional analytical overview of industrial performance in the ACP States under Lomé Conventions. Major constraints impeding industrial co-operation between the ACP States and the EC are presented in Chapter 3. Owing to paucity of regional data, some inferences are deduced from the experience of selected countries in the Sub-Saharan Africa, Caribbean and Pacific regions. Chapter 4 looks into the future prospects and options for effective industrial co-operation.

The present Study was prepared by the Regional and Country Studies Branch of UNIDO in collaboration with Dr. Anthony Jennings as UNIDO consultant. It is based on personal interviews with staff of UNCTAD, GATT, ACP, CDI and EC Secretariats, and on information sourced from international organizations and publications. The study is based on information available as of mid-1988. An earlier version of the study was widely circulated for comments and information purposes in mid-1988.

CONTENTS

TABLES

TABLES (continued)

EXPLANATORY NOTES

Regional classifications, industrial classifications, trade classifications, and symbols used in the statistical tables of this report, unless otherwise indicated, follow those adopted in the United Nations Statistical Yearbook.

Dates divided by a slash (1987/88) indicate a crop year or a financial year. Dates divided by a hyphen (1987-1988) indicate the full period, including the beginning and end years.

References to dollars ($) are to United States dollars, unless otherwise stated.

Totals may not add precisely due to rounding.

In Tables:

Three dots (...) indicate that data are not available or not separately reported;
Two dashes (--) indicate that the amount is nil or negligible;
A hyphen (-) indicates that the item is not applicable.

The following abbreviations are used in this document:

ABECOR	Association of European Banks Co-operation
ACP	African, Caribbean and Pacific States
ADAB	Australian Development Assistance Bureau
ALCOA	Aluminium Plant
CARICOM	Caribbean Common Market
CBI	Caribbean Basin Initiative
CEAO	West African Economic Community
CEPGL	Economic Community of the Great Lake Countries
CDI	Centre for the Development of Industry
CPS	Caribbean and Pacific States
DAC	Development Assistance Committee
DFC	Development Finance Corporation
EC	European Community
ECA	Economic Commission for Africa
ECU	European currency unit
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EIB	European Investment Bank
EUROSTAT	Statistical Office of the European Communities
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
GSP	Generalized System of Preferences
GUYMINE	Guyana Mining Enterprise Ltd.
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification

../

JVS	Joint venture scheme
LDC	Least developed countries
MARIUN	Manu River Union
MIGA	Multilateral Investment Guarantee Agency
MVA	Manufacturing value added
NICs	Newly industrializing countries
NZ$	New Zealand dollar
OECS	Organization of Eastern Caribbean States
OECD	Organization for Economic Co-operation and Development
ODA	Official Development Assistance
OPEC	Organization of the Petroleum Exporting Countries
PFP	Policy Framework Paper
PIIDS	Pacific Islands Industrial Development Scheme
SAF	Structural Adjustment Facility
SAL	Structural Adjustment Loan
SITC	Standard International Trade Classification
SMEs	Small and medium enterprises
STABEX	Stabilization Programme for Exports
SSA	Sub-Saharan Africa
SYSMIN	System for Minerals
TNC	Transnational corporation
UDEAC	Customs and Economic Union of Central Africa
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
UNSO	Statistical Office of the UN Secretariat
US	United States

SUMMARY

The ACP represents a highly diversified economic grouping in terms of geographic characteristics, level of economic development, per capita income and degree of industrialization. Acknowledging industrialization as a driving force in bringing about structural transformation of the ACP States the aims of industrial co-operation between the ACP States and the European Community are directed towards deriving full benefit from those States' human and material resources through the modernization of their societies. Using the framework provided by the Lomé Conventions the European Community endeavours to help the ACP States carry out programmes and projects by enhancing the infrastructural and institutional framework for industrial development.

The industrial performance of the ACP countries has lagged behind the expectations of the Lomé Agreements. In seven ACP member States of Sub-Saharan Africa (ACP/SSA) the manufacturing sector is still at its incipient stage, accounting for less than 5 per cent of GDP. Industrialization has usually taken the form of import substitution, with a relatively small degree of industrial processing of raw materials for exports. The relative importance of the European Community as a market destination for manufactured goods has declined, despite an array of concessions. By contrast, the US and Japan are emerging as significant trading partners. The Lomé provisions do not seem to have created significant impact on employment creation either in formal or informal manufacturing activities in the ACP member States of Sub-Saharan Africa.

Manufacturing output per worker in Sub-Saharan Africa fell by 18 per cent in 1975-1979 and recorded a further fall of 15 per cent during 1980-1985. There is, thus, an urgent need to arrest de-industrialization and strengthen the manufacturing base in ACP/SSA. A major effort is required to raise capacity utilization rates, reduce import dependence and increase inter-sectoral linkages. The manufacturing sector also needs to be more fully integrated into the structure of the national economy.

The ACP member States of the Caribbean and Pacific regions also exhibit great diversity in size and stage of industrial development. Many of them have demonstrated vulnerability to external trade shocks in recent years. Throughout the Caribbean and the Pacific, the size of the national manufacturing sector is relatively small in both absolute and relative terms and the potential for intra-industry linkages remains largely unexploited. The main trade flows of the Pacific States have been influenced by traditional trading partners. Although the Lomé Convention gives duty free access to the European Community, the major influence on Caribbean trade has been the Caribbean Basin Initiative (CBI) implemented by the United States. Non-traditional exports benefiting from duty-free entry to the United States rose significantly in recent years. In so far as the manufacturing sector has undergone structural deepening in the two regions, this was largely explained by the petroleum-based chemical industries and mineral processing.

A set of complex and interdependent constraints impede industrial co-operation between the member States of ACP and the European Community. The impact of exogenous shocks stemming from factors beyond the control of the ACP States and the European Community has reduced the effectiveness of some co-operation initiatives and the impact of policies aimed at accelerating industrial development.

An assessment of the provisions for industrial co-operation in the Convention indicates that an impressive framework of aims, instruments, and strategies already exists in the "letter" of the Convention. Yet, the practical implementation falls short of the aspirations.

By adapting the Titles and Articles of the Lomé Conventions to the changing economic realities of the ACP States, the issue may be seen as one primarily of a political commitment to the implementation of the spirit of the Convention, both by the ACP, and their EC partners. Apart from marginal amendments and some additions to keep pace with recent economic policy trends, for example the evolution of the dialogue on structural adjustment, and shifts of emphasis towards private enterprise, it is difficult to foresee the need for any major new amendments in the "letter" of the Convention for industrial co-operation.

In the light of the weak performance of industry under Lomé, however it may be desirable and possible to argue for a new Industry Strategy Initiative, similar to previous initiatives on food security, desertification, etc.

The stagnating flow of external resources to manufacturing activities has meant that the direct contribution of the manufacturing sector to the debt crisis is minimal. However, the burden of the debt crisis is transmitted to the import-dependent manufacturing activities through import restrictions on essential inputs which has resulted in capacity underutilization and inefficiency. Industrial development has also been constrained by falling domestic demand, stagnant export earnings leading to acute foreign exchange shortages and the existence of anomalies and contradictory measures within national trade and fiscal policies. There is, thus, a strong case for a substantial increase in resources devoted to the manufacturing sector in ACP/SSA within the framework for future negotiations and for a restructuring of the process for determining assistance eligibility, implementation of agreed programmes and monitoring performance. There is also a need for increasing the flow of resources to the manufacturing sectors of the Caribbean and the Pacific regions. These regions accounted for a relatively small proportion of the total aid programme under Lomé I - III. The external vulnerability of the Caribbean and Pacific region can be significantly reduced by means of a regionally co-ordinated programme of integrated industrial development.

The new round of negotiations for industrial co-operation could focus on the development of an emergency rehabilitation programme aimed at rescuing potentially efficient enterprises currently severely affected by infrastructural breakdown and foreign exchange shortages. Many of these enterprises will be domestic demand oriented. Their rehabilitation may lead to the creation of strong backward and forward linkages with the rural and small town economy. They can provide substantial subcontracting opportunities for small-scale enterprises. The practical implementation of an integrated industrial strategy requires that special emphasis be placed on the rapid development of the agro-based, metalworking, engineering and agricultural input producing industrial branches.

Future negotiations could make a major contribution to upgrading industrial capacities. In a macro-policy environment conducive to rehabilitation and growth, industrial co-operation could give priority to raising national capacities with respect to industrial planning activities,

entrepreneurship, management and technology, project design, contract negotiation and technology acquisition. Such an upgrading of capacities will enlarge the scope for production sharing agreement between the EC and the ACP States in areas where the ACP States enjoy a comparative advantage such as in natural resource-based and labour-intensive production branches. UNIDO and other UN agencies have in the past been deeply involved in programmes related to the upgrading of industrial capacities in the ACP States, and co-ordination of the UN and the Lomé Agreements in these areas seems desirable in order to avoid policy inconsistencies and duplication.

Integrated industrial development requires that industrial policies and programmes be organically subsumed by the macro-economic strategy. A prerequisite for industrial co-operation leading to the development of an integrated industrialization strategy is the greater involvement of the EC States in the macro-economic and structural adjustment process in the ACP States. There is a strong case for EC participation in the Structural Adjustment Facility (SAF) related processes and the preparation of the Policy Framework Papers (PFPs) and country related industrial programmes. There are also arguments for the re-organization and strengthening of existing institutions and for the creation of new institutional foci in the industrial policy making field. Thus, a new institutional function may be necessary to bring together representatives of the business community to advise ACP and the EC governments on the effects of policies and regulations on business and the specific needs of the business community.

A key issue in the renegotiation of Lomé and the availability of investible resources for manufacturing is whether to expand the European Investment Bank (EIB) or create a new institutional function. This issue has been debated at previous negotiations and many of the same pros and cons still apply. Resources to relaunch growth could be incorporated into a special EIB programme to support production sharing projects. The question of ACP participation in the management of EIB resources remains a contentious issue. A specific cell at the EIB for the ACP countries, on whose management the ACP would have representation, could be an appropriate compromise.

A new institutional focus is also required to support the programmes for public sector rationalization and privatization in the SSA, the Caribbean and Pacific regions. Whereas changes in national institutions suggested by Structural Adjustment Programmes (SAP) may represent an important step, a regional institutional focus is also required to co-ordinate national privatization and public sector rationalization strategies and create opportunities for new regionally-oriented industrial units to reap the benefits of expanded economies of scale. It is suggested that EC and ACP institutions could fruitfully collaborate with UN agencies involved in the industrial field for the development of a regional framework for the harmonization of national privatization policies.

There is also a need for strengthening existing institutions, particularly the Centre for the Development of Industry (CDI) and the ACP Secretariat. A case might be made for expanding UN linkage to the ACP Secretariat in the field of evaluation and monitoring of industrial policy initiatives. The work of the joint ACP-UNCTAD Committtee on trade issues may provide a useful starting point for increased UN support for sustaining international co-operation between developed and developing countries within the framework of a new Lomé Agreement.

In addressing the emerging issues the following options may be considered by policy-makers.

(a) The adoption of an integrated, industrialization strategy by the ACP countries: Negotiations could be focussed on the question of enhancing industry's contribution to the national economy and particularly to the rural sector. Emergency rehabilitation programmes could concentrate on industrial units with significant output and subcontracting linkages to the rural economy and the small informal sector. Priority ought to be accorded to agro-based and agricultural input industries, engineering and metalworking industries as well as product adaptation and provision of basic requirements for the rural population.

(b) The adoption of an integrated industrialization strategy is not incompatible with the search for an expansion of markets for manufactured exports. The export strategy must be selective in the sense that products with maximum backward linkages are given particular encouragement. National export strategies should also be regionally co-ordinated to ensure an avoidance of production duplication. A broadening of the product range presently covered by the STABEX and SYSMIN arrangements could contribute significantly towards the adoption of an export strategy which is an integral part of a coherent self-reliant industrialization programme. Given the adverse impact of declining primary commodities prices of most ACP States there exist a strong case for improved market access and opportunities for manufacture through reduced tariff and non-tariff barriers.

(c) Expansion of resources allocated to manufacturing is required if the switch to an integrated industrialization strategy is to be made. It is also required to arrest the de-industrialization trend to which most ACP States have been a victim since the early 1980s. The expanded resources could be devoted to the upgrading of industrial capacity in the ACP States with priority being given to industrial planning, entrepreneurship, management, and technology, project preparation and selection in co-operation with the private sector.

(d) New institutional functions to strengthen the role of existing institutions. The negotiations could consider mechanisms for extending the policy dialogue on industrial issues. This could involve an extension of the EC's role in the formulation and implementation of the SAP related work and an institutional focus may be necessary to ensure that this occurs. New institutional functions may also be required to expand private sector participation in the industrial policy making process and within EIB to increase its contribution to manufacturing investment in the ACP States. Regional institutions for the harmonization of national privatization and public sector rationalization programmes may also play a useful role. Finally, there is a case for strengthening the role of CDI and the ACP Secretariat in the field of industrial policy. UN agencies may usefully participate in supporting some of these institutional initiatives.

(e) Additional efforts and resources to conduct in-depth research on industrialization could enable the ACP States to identify and assess their needs and opportunities, resources and constraints, issues and options as well as policies and strategies in the field of industry. As part of this exercise linkages could be strengthened with concerned international agencies, including UNIDO.

1. BACKGROUND

The origin of negotiations between the European Community (EC) and developing countries setting a "model" of North-South co-operation in economic development dates back to the signing of the Treaty of Rome in 1957. With the independence of many African States in the 1960s new links were established between the European Community and 18 African States in the First Yaoundé Convention (1965-1969), followed by further five years of co-operation under the Second Yaoundé Convention. The Lomé I, which came into operation in April 1976, represented a landmark with a significant step towards economic co-operation, expanding its sphere of activities from 19 African States to 46 African, Caribbean and Pacific States (ACP). The Second Lomé Convention (Lomé II) came into operation in December 1980 and lasted until February 1985. The Third Lomé Convention is a trade and aid agreement running from January 1986 to December 1990, between the EC and 66 African, Caribbean and Pacific States.

The ACP as a group encompasses 45 States in the continent of Africa and the States of the Indian Ocean, 13 Caribbean and 8 Pacific States.[1/] In terms of population some 391 million out of a total ACP population of 401 million inhabit Sub-Saharan Africa. The Group of 66 ACP States is more than one-third of the States represented in the United Nations Organization. It is a highly diverse group both in terms of economic and industrial structure.

The European Community and the ACP States in the Third Lomé Convention[2/] acknowledged that industrialization is a driving force in bringing about a balanced and diversified economic and social development and creating conditions conducive to the attainment of the ACP States collective self-reliance. Acknowledging industrialization as a driving force in bringing about structural transformation of the ACP States, the aim of industrial co-operation between the European Community and the ACP States is directed towards deriving full benefit from those States' human and natural resources through the modernization of their societies; to create jobs; to generate and distribute income; to facilitate the transfer of technology and its adaption to conditions in the ACP States and their specific needs; to foster complementarity of the different branches of industry and between industry and the rural sector in order to make full use of the potential of the latter; and to promote new relations of dynamic complementarity in the industrial field between the Community and the ACP States.

1/ The list of ACP States is presented in Annex A.

2/ Selected Titles and Articles of the Lomé III ACP-EEC Convention pertaining to industrialization and trade are presented in Annex B.

The institutional instruments to achieve the aims of industrial development are also detailed in Title III, and include:

- financial and technical co-operation under the European Development Fund (EDF);
- a Committee on Industrial Co-operation, supervised by the Committee of Ambassadors - Current Chairman is the Ambassador for Zambia;
- the European Investment Bank (EIB);
- the Centre for the Development of Industry (CDI).

The strategies tailored to achieve the aims of industrial development include:

- The establishment and expansion of all types of viable enterprise which have been identified by the ACP States as important in terms of their development objectives.
- Special emphasis on the restoration, upgrading, reorganization or restructuring of existing industrial capacities which are viable but temporarily out of action or performing badly and also on the maintenance of plant equipment and enterprises and, for this purpose, industrial co-operation shall be focussed on assistance for the start-up or rehabilitation of such enterprises and on the relevant forms of training at all levels with particular attention paid to:
  - industries for the domestic processing of ACP raw materials;
  - agro-industries;
  - integral industries capable of creating links between the different sectors of the economy; and
  - industries which have a favourable effect on employment, the trade balance and regional integration.

Community financing shall take the form, as a matter of priority, of loans from the Bank on its own resources and of risk capital, these being the specific financing methods for industrial enterprises (see Article 65).

Special attention to the particular needs and problems of the least developed, landlocked and island States notably in the following areas:

- processing of raw materials;
- development, transfer and adaption of technology;
- development and financing of schemes in favour of small- and medium-sized industrial enterprises;
- development of industrial infrastructure and energy and mining resources; and
- adequate training in the scientific and technical areas.

The Centre for the Development of Industry (CDI) was created to pay special attention to the specific problems that arise as regards promotion of industrialization activities of the least-developed, landlocked and island ACP States. At the request of one or more least-developed ACP States the CDI grants special assistance for identifying on the spot, examining, assessing, preparing, promoting and assisting in the implementation of industrial projects in the ACP State concerned. The European Community endeavours to contribute in a spirit of mutual interest to the development of ACP-EC and intra-ACP co-operation between enterprises by information and industrial promotion activities. Selected Articles of Lomé III deal with crucial areas in the sphere of co-operation between the European Community and the ACP States:

- the Community shall contribute to the establishment and development of small- and medium-sized enterprises in the artisanal, commercial, service and industries sectors ...(Articles 67 and 206).

Assistance in the field of industrial training at all levels:

- the Contracting Parties recognize the importance of private investment for the promotion of their development co-operation and acknowledge in this respect the need to take such steps as would promote such investment ... (Title IV Article 240);

- projects or programmes may be financed by grant, or by special loan, or by risk capital, or by loans from the Bank from its own resources, or jointly by two or more of these means of financing ... (Article 197);

- with a view to aiding the implementation of operations of general interest to the economy of the ACP States, the Community may contribute to the formation of risk capital ... (Article 199);

- the financial resources of the Community may be applied at the request of the ACP States, to co-financing ... (Article 200); and

- regional co-operation including inter-regional production and marketing enterprises ... (Article 113).

An assessment of the provisions for industrial co-operation in the Convention indicates that an impressive framework of aims, instruments, and strategies already exists in the 'letter' of the Convention. Yet the practical implementation falls short of the aspirations.

By adapting the Titles and Articles of the Lomé Conventions to the changing economic realities of the ACP States, the issue may be seen as one primarily of a political commitment to the implementation of the spirit of the Convention, both by the ACP, and their EC partners. Apart from marginal amendments and some additions to keep pace with recent economic policy trends, for example the evolution of the dialogue on structural adjustment, and shifts of emphasis towards private enterprise, it is difficult to foresee the need for any major new amendments in the "letter" of the Convention for industrial co-operation.

In the light of the poor performance of industry under Lomé, however, it may be desirable and possible to argue for a new Industry Strategy Initiative, similar to previous initiatives on food security, desertification, etc.

2. REGIONAL OVERVIEW OF INDUSTRIAL PERFORMANCE IN THE ACP STATES

2.1 ACP member States of Sub-Saharan Africa (ACP/SSA)

2.1.1 Recent economic trends

In recent years the ACP member States of Sub-Saharan Africa (ACP/SSA) represented a continent with the lowest pace of economic growth in the Third World. Growth of GDP in real terms for ACP/SSA was estimated at less than 1 per cent in 1986, following a 1 per cent decline for five consecutive years ending in 1985. According to recent estimates growth of GDP in real terms recorded hardly 1 per cent in 1987. However, the regional average conceals wide variations; oil-exporting countries continued to experience negative real growth in 1986, and grew by a mere 0.3 per cent in 1987, bearing the burden of the oil price-induced recession. Middle-income energy-importing countries and low-income countries recorded 3.3 per cent and 4.7 per cent GDP growth respectively in 1986, keeping pace with population growth. In the case of the poorest African countries the decline in real per capita output which set in the mid-seventies appears to have been temporarily halted in 1986, largely because of the recovery of harvests following the catastrophic drought of 1984-1985. However, within the poorest group the most heavily indebted countries suffered a further decline in per capita output. Economic indicators showing a detailed classification of ACP/SSA by country and region as presented in Table 1 depict significant regional differences. For example the average annual GDP per capita growth is lower for Western as compared with Eastern Africa, and their debt burden higher. However, the overall long-term record is dismal. In the period 1980 to 1985 almost half the countries in the ACP/SSA group suffered negative average annual GDP per capita growth.

Though Sub-Saharan African countries managed to increase their exports in volume terms, the steep decline of commodity prices severely affected export earnings in 1986. The value of total Community imports from the African ACP countries fell from ECU 29 billion in 1985 to ECU 18 billion in 1986, despite a 1.5 per cent increase in volume terms. The deterioration in the terms of trade wiped out the expected benefits of increased production and resulted in a decline in per capita consumption in many countries.

The fall in export earnings had an immediate impact on the debt-servicing and import capacity of Sub-Saharan African economies. Despite debt relief measures initiated by a number of lenders since the United Nations special session in June 1986 and numerous rescheduling operations, external indebtedness has continued to increase in Africa, and for many countries the debt servicing burden has grown much heavier, exposing them to the state of "country risk" in international lending.

The total external debt of Sub-Saharan Africa[1/], estimated at $90 billion at the end of 1985, is now in excess of $100 billion. The aggregate ex ante debt servicing ratio for Sub-Saharan Africa was 42 per cent in 1986, with an average of close to 60 per cent for the 22 countries classified as debt-distressed. The structure of African debt, regarded as comparatively favourable at the beginning of the decade, has been altered by rescheduling, conditionality agreements and adjustment loans and is now increasingly rigid, partly because of the growing preponderance of debt to multilateral financial institutions.

1/ For details see UNIDO, "Industry and External Debt in Africa: A Preliminary Analysis", Industry and Development, No. 17, 1986.

Table 1: Selected economic indicators of the ACP States of SSA, 1975-1985 (selected years and periods)

Subregion/country	Total population 1985 (million)	Average annual population growth 1975-1985 (percentage)	Total land area ('000 sq km)	Total arable land (million ha)	Total net ODA 1984 ($'000)	Cereal imports/ GNP 1985 (percentage)	GNP per capita 1985 ($)	Average annual GDP per capita growth 1980-1985 (percentage)	Total external public debt 1985 ($ billion)	Debt service/ exports 1985 (percentage)
Southern Africa										
Botswana	1.1	3.2	60.0	1.4	97	3.2	840	7.6	0.3	2.9[c/]
Lesotho	1.5	2.2	3.0	0.3	94	2.9	470	-0.9	0.2	6.2
Malawi	7.0	3.0	11.8	2.4	113	0.5	170	-1.2	0.8	28.1[a/]
Swaziland	0.8	-	1.7	0.2	30[a/]	1.0	646	-0.1	0.3[a/]	4.9[c/]
Zambia	6.7	3.4	75.3	5.2	329	1.3	390	-2.5	3.2	10.2
Zimbabwe	8.4	3.1	39.1	2.7	237	0.4	680	-1.1	1.5	32.2
TOTAL	25.5	3.2	190.9	12.2	900	1.6[b/]	533[b/]	0.3[b/]	6.3	4.1[b/]
Coastal										
Benin	4.0	2.9	11.3	1.4	96	1.0	260	-1.2	0.8	30.6
Ghana	12.7	2.6	23.9	1.1	204	0.6	380	-3.0	1.2	12.2
Guinea	6.2	2.4	24.6	1.5	119	1.5	320	0.5	1.3	16.0
Guinea Bissau	0.9	4.1	3.6	0.3	53[a/]	3.7	169	0.5	1.6[a/]	15.3[a/]
Côte d'Ivoire	10.1	4.0	32.2	2.9	125	1.5	660	-4.0	5.7	17.4
Liberia	2.2	3.2	11.1	0.1	91	4.0	470	-5.8	0.9	3.8
Nigeria	99.7	3.9	92.4	28.6	32	0.6	800	-4.5	13.0	30.8
Togo	3.0	2.7	5.7	1.4	114	2.0	230	-5.1	0.8	27.5
Sierra Leone	3.7	2.1	7.2	1.6	66	2.2	350	-2.1	0.4	5.7
TOTAL	142.5	3.6	212.0	38.9	900	1.9[b/]	404[b/]	-2.7[b/]	25.7	17.7[b/]

Table 1 (continued)

Subregion/country	Total population 1985 (million)	Average annual population growth 1975-1985 (percentage)	Total land area ('000 sq km)	Total arable land (million ha)	Total net ODA 1984 ($'000)	Cereal imports/ GNP 1985 (percentage)	GNP per capita 1985 ($)	Average annual GDP per capita growth 1980-1985 (percentage)	Total external public debt 1985 ($ billion)	Debt service/ exports 1985 (percentage)
Central Africa										
Cameroon	10.2	3.0	47.5	5.9	481	0.3	810	3.9	2.0	10.0
Central African Rep.	2.6	2.2	62.3	1.9	105	0.7	260	-1.4	0.3	11.8
Congo	1.9	3.1	34.2	0.7	71	1.1	1,110	5.1	1.8	19.6
Equatorial Guinea	0.3	2.1	2.8	0.2	15[a]	...	...	-1.0	0.1[a]	12.3
Gabon	1.2	1.8	26.8	0.3	73[a]	0.4	3,340	-0.6	1.0[a]	14.2[a]
Sao Tome and Principe	0.1	1.2	0.1	0.1	11[a]	0.6	278	-1.2	...	...
Zaire	30.6	3.2	234.5	6.0	324	1.3	170	-1.7	4.8	8.6
TOTAL	46.9	2.9	403.2	15.1	1,080	0.7[b]	995[b]	0.4[b]	10.0	12.75[b]
Western Africa Sahel										
Burkina Faso	7.9	3.5	27.4	2.6	197	3.5	150	-3.9	0.5	28.6[a]
Cape Verde	0.3	1.4	0.4	0.1	59[a]	6.4	428	1.9	0.2[a]	200.0[a]
Chad	5.0	2.2	128.4	3.1	182	...	...	-7.4	0.1	0.5[a]
Gambia	0.6	2.1	1.1	0.2	54[a]	8.2	23	-0.9	0.3[a]	15.5[a]
Mali	7.5	1.8	124.0	2.1	380	5.2	150	-2.6	1.3	16.6
Mauritania	1.7	2.0	103.1	3.7	205	6.0	420	-1.3	1.4	19.0
Niger	6.4	3.1	126.7	3.7	305	3.8	250	-1.8	0.8	26.7
Senegal	6.6	3.2	19.6	5.2	205	...	370	1.4	2.0	9.0
TOTAL	36.0	2.6	530.6	17.1	1,677	3.5[b]	284[b]	-1.8[b]	6.6	39.5[b]

Table 1 (continued)

Subregion/country	Total population 1985 (million)	Average annual population growth 1975-1985 (percentage)	Total land area ('000 sq km)	Total arable land (million ha)	Total net ODA 1984 ($'000)	Cereal imports/ GNP 1985 (percentage)	GNP per capita 1985 ($)	Average annual GDP per capita growth 1980-1985 (percentage)	Total external public debt 1985 ($ billion)	Debt service/ exports 1985 (percentage)
Eastern Africa										
Burundi	4.7	2.4	2.8	1.1	143	0.7	230	-0.9	0.4	16.6
Comoros	0.4	2.9	0.2	0.1	34[a/]	3.5	278	0.4	0.2[a/]	4.4[a/]
Djibouti	0.4	5.5	2.2	2.2	59[a/]	...	...	-0.4	0.2[a/]	12.6[a/]
Ethiopia	42.3	2.1	122.2	13.2	710	3.4	110	-2.0	1.7	10.9
Kenya	20.4	4.1	58.3	1.9	439	1.0	290	-1.6	2.9	25.5
Madagascar	10.2	3.0	58.7	2.5	182	1.6	240	-3.9	2.3	19.6
Mauritius	1.1	2.0	0.2	0.1	32[a/]	3.3	1,070	2.5	0.5[a/]	20.1[a/]
Rwanda	6.0	3.4	2.6	0.7	181	0.6	280	0.1	0.3	4.3
Seychelles	0.7	3.4	0.03	0.006	15[a/]	...	...	-4.2	0.1[a/]	13.4[a/]
Somalia	5.4	5.0	63.8	1.1	354	5.2	280	4.0	1.3	44.8
Sudan	21.9	3.2	250.6	12.4	1,129	2.6	300	-3.5	5.1	15.6
Tanzania	22.2	3.3	94.5	4.1	487	1.0	270	-3.1	3.0	16.7
Uganda	14.7	2.6	23.6	4.9	184	...	...	0.1	0.7	...
TOTAL	150.4	3.0	679.7	44.3	3,949	2.3[a/]	335[b/]	-1.0	18.7	17.0[b/]

Sources: World Bank, World Development Report, 1987; The World Bank Atlas 1987; FAO, Production Year Book 1986, FAO, Trade Year Book 1986; and UNIDO data base.

a/ 1984.
b/ 1983.
c/ 1982.

As a result of the fall in the purchasing power of exports and the increasing demands made on foreign currency earnings by debt servicing requirements, the import capacity of Sub-Saharan Africa again declined in 1986 from $28.5 billion to under $27 billion. In the most heavily indebted countries, per capita imports fell by almost 7 per cent per year in real terms from 1980 to 1985 and are now lower than they were in 1970.

The shortage of imported goods is felt in industry and other productive sectors, severely affecting capacity utilization rates. It also has an immediate social impact, in that it disrupts essential collective services. It further jeopardizes the maintenance of basic infrastructure. Most Sub-Saharan African countries are caught up in a vicious circle of debt, foreign currency shortage and recession. It is to this challenge that the new ACP/EC convention must respond.

2.1.2 The degree of industrialization in ACP/SSA

The low overall level of industrialization in SSA[1/] is revealed by the share of manufacturing in GDP in 1965 and 1985 relative to other developing countries. Not only is the share of SSA countries well below the norm for the relevant income levels in both years, the middle-income African countries, suffered a decline in the share of manufacturing over the two decades (Table 2).

In at least seven African countries the manufacturing sector is still at its embryonic stage, accounting for less than 5 per cent of monetised gross domestic product. Its contribution to generating income has been negligible. Similarly in twenty countries, with 12 per cent of the regional SSA population, manufacturing activities are of marginal significance.

Table 2: Contribution of manufacturing to GDP, 1965 and 1985
(percentage)

	1965	1985
Low-income economies	21.0	26.0
Low-income SSA countries	9.0	8.6[a/]
Lower-middle income developing countries	16.0	17.0
Lower-middle income SSA countries	9.0	7.0[a/]

Source: World Development Report, 1987.

a/ 1984.

1/ For an overview of industrialization in Africa see UNIDO, "Regenerating African Industry: Pre-Diagnostic Country Surveys", (forthcoming).

In the perio' 1970 to 1985 some 27 African countries suffered negative growth rates of MVA per capita. Table 3 shows that all regions of the ACP/SSA suffered a contraction of their already weak manufacturing base, and hence income-generating capacity. In the case of Western and Southern Africa the decline in MVA per capita continued over the whole period from 1970 to 1985. The least developed countries in Africa suffered a 1.1 per cent and 3.7 per cent decline in MVA and MVA per capita respectively during 1970-1985.

In comparison to other developing countries, several of the SSA countries however have exhibited fairly robust performances. Some of the low-income countries, like Burundi, Rwanda, Senegal and Malawi, and middle-income oil importers like Mauritania and Botswana, have sustained rates of growth comparable to many countries in other regions. The comparison, however, is distorted by the very small bases with which many of the African countries start. Among the dozen more industrialized SSA countries (i.e., with MVA over $300 million in 1983), five show consistently positive growth rate, while two (Ghana and Zambia) show consistently negative rates. Five countries in descending order, Gabon, Zimbabwe, Mauritius, Zambia and Côte d'Ivoire have per capita MVA of over $100. The lead established by Gabon is explained by its petroleum resources (and associated processing), which makes it by far the richest country in SSA, with per capita 1984 income of $3,580. Nigeria's large population drags down its figure to a fairly low level. Ghana, an early starter in the sphere of industrialization, is even lower, a testimony to its long years of decline. Mauritius, with its dynamic export sector, has almost caught up with Zimbabwe, whose large industrial base has been stagnant.

Industrialization has principally taken the form of import substitution of a dozen or so industrial activities, virtually the same in each country, e.g., beer-making, manufacture of soft drinks, cotton textiles, paints and varnishes, confectionery, cigarettes, footwear, flour-milling, canning, cement manufacture, bottle-making, plastic articles, etc. There has also been a certain amount of treatment of raw materials for export. Two-thirds of the activities are light industries producing consumer goods, catering primarily for the needs of a relatively high-income privileged minority. There is a virtual absence of intermediate industries or industries producing capital goods. By and large in all the countries, with the exception of Mauritius, there has been no redeployment of industry to areas where manpower is cheap and efficient.

There has been practically no integration (upstream, downstream or between sectors) to generate growth. There have therefore been no multiplier or induced effects (except, to a certain extent, in cotton and textiles). There are high-cost industries for a whole number of inter-related reasons (inadequate infrastructure, high staffing costs, excessive size from an economic point of view or insufficient from a technical angle, absence of industrial environment, under-utilization of capacity, imposed minimum wages) and also because incentives to reduce costs have been systematically blunted by various types of protectionist policy. Most undertakings are not competitive internationally, some (e.g. assembly industries) consume more foreign exchange than they save and many are unprofitable, at present at least.

The development contribution of this tardy industrialization process with no real base has therefore been very small, with little value added, limited contribution in terms of foreign exchange, few jobs created, meagre (and very unequal) income distribution, exacerbation of the backwardness of the rural economy and of the existing insecure food situation, negative effect on

Table 3: Growth of manufacturing value added in SSA, by area, 1970-1985
(selected periods and years)

Region/area	MVA in current $ million MVA per capita in current $ 1985	Growth rate (at 1980 prices) 1970-1985	 1970-1973	 1973-1975	 1975-1980	 1980-1985	Index (1980=100) 1981	 1982	 1983	 1984	 1985
North Africa											
MVA	18,079	6.5	5.3	6.0	6.8	6.1	106	113	122	128	134
MVA per capita	147	3.7	2.9	3.5	3.9	3.4	103	107	112	115	117
Maghreb											
MVA	7,749	6.8	9.2	5.6	7.0	5.3	106	110	119	124	12
MVA per capita	153	4.0	6.4	2.9	4.2	2.5	103	105	109	112	112
Central Africa											
MVA	2,056	6.0	5.7	-0.6	3.5	12.0	118	141	151	167	172
MVA per capita	29	3.2	3.1	-3.2	0.7	8.9	115	134	139	149	154
CEPGL											
MVA	382	2.0	5.1	4.1	0.8	1.6	102	98	104	105	109
MVA per capita	9	-0.9	2.3	1.2	-2.0	-1.4	99	93	95	93	94
UDEAC											
MVA	1,630	8.3	3.2	5.3	4.7	14.8	124	156	167	188	201
MVA per capita	79	5.8	1.1	3.1	2.3	12.0	121	149	156	171	178
West Africa											
MVA	5,561	5.3	8.8	6.0	7.2	-3.7	106	107	98	86	88
MVA per capita	33	2.1	5.6	2.8	3.9	-6.7	103	100	89	76	76
CEAO											
MVA	1,642	3.0	6.0	4.5	2.9	0.3	103	104	103	103	102
MVA per capita	38	0.2	3.2	1.7	0.0	-2.6	100	98	95	92	88
MARIUN											
MVA	178	1.8	7.8	3.6	2.7	-3.7	106	95	100	93	82
MVA per capita	15	-0.4	5.7	1.5	0.4	-5.9	103	91	93	85	73
Western and Southern Africa											
MVA	4,825	1.1	6.8	-1.2	0.3	1.5	104	104	104	105	110
MVA per capita	30	-2.0	3.8	-4.1	-2.8	-1.6	101	98	95	93	94
Africa LDC											
MVA	2,767	-1.1	0.3	-0.3	-3.1	1.4	97	96	101	103	106
MVA per capita	15	-3.7	-2.2	-2.8	-5.7	-1.4	95	91	93	93	92

Source: UNIDO. Handbook of Industrial Statistics, 1988 (Forthcoming).

Note: Grouped according to UNCTAD, Handbook of International Trade and Development Statistics, 1985 (TD/STA.13).

Maghreb — Algeria, Morocco, Tunisia

CEPGL — Economic Community of the Great Lakes Countries:
Burundi, Rwanda, Zaire.

UDEAC — Customs and Economic Union of Central Africa:
Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon.

CEAO — West African Economic Community:
Benin, Burkin Faso, Côte d'Ivoire, Mali, Mauritania, Niger, Senegal.

MARIUN — Manu River Union:
Guinea, Liberia, Sierra Leone.

overall competitiveness, scarcely any induced effects, foreign debts and strains on the budget, and increased external dependence, leading to the existence of an incomplete, unbalanced and vulnerable industrial structure. The weight of ACP/SSA industry set against world industry is negligible - $15 billion, or less than 0.5 per cent of world manufacturing value added, which is proportionately less than the rest of the developing world, and growth is also lower than in other regions.

2.1.3 An overview of industrial performance in ACP/SSA

The record of industrial performance in ACP/SSA viewed in the context of the objectives set out in the Lomé Conventions presents a dismal picture. Despite success in few manufacturing subsectors in some countries, there is a general concensus that industrialization in the ACP States of SSA continues to be at least embryonic, with incomplete, unbalanced and vulnerable structures.

The key issue is that Africa is endowed with both agricultural and mineral resources, with vast potential for the development of manganese, phosphates, iron ore, bauxite, tin, copper and diamond-based industries; yet exploration and product development in these branches is virtually at a stand-still. The region continues to import an increasing proportion of processed mineral intermediate products, and the ample potential for increased utilization of intra-industry linkages remains unexploited.

The extent of import dependence in manufacturing: far from self-reliance

UNIDO has compiled data for over 40 African countries, for the time periods 1972-1974 and 1979-1981, on the share of domestic production and imports in apparent consumption (defined as domestic production plus imports less exports) for over 100 commodities.[1/] The main features are summarized in Table 4. The Table, however, is incomplete, primarily because it excludes all products in category 38 of the International Standard Industrial Classification of All Economic Activities (ISIC) (category 17 of the Standard International Trade Classification (SITC)), i.e., metal products, machinery and transport equipment. Domestic production in precisely these branches grew significantly during the period 1973-1981 in some countries; however, since an overwhelmingly large proportion of this production is of assembly character, its import content is likely to be high and broadly in line with trends presented in Table 4.

Table 4 presents a truly alarming picture of the extent of Africa's import dependence as far as manufacturing industry is concerned. It is clear that an overwhelmingly large proportion of these imports are obtained from outside Africa. Food manufacturing and textiles are the only branches in which the import to apparent consumption ratio is below 25 per cent for the majority of countries for which data are available. Soap is the only chemical product within this category. Two other chemical products (liquified petroleum gas and distillate fuels) have import to apparent consumption ratios below 50 per cent for the majority of African countries. Motor gasoline in the period 1979-1981 may also be regarded as a borderline case. Eighteen of the 41 countries for which data are available had import to apparent consumption ratios above 50 per cent.

1/ Source: UNIDO, "Industry and External Debt in Africa: A Preliminary Analysis", Industry and Development, No.17, 1986.

Of all the items , 54 per cent exhibited import to apparent consumption ratios approaching 100 per cent for all or almost all African countries. For another 28 items (12 per cent of the total), the majority of African countries had import ratios approaching 100 per cent. These categories included virtually the whole range of intermediate industrial inputs (including most chemicals, all mineral processed products and even wood, pulp and paper) necessary for the development of an integrated industrial structure.

Another feature of African industrialization revealed in Table 4 is the surprisingly small change that took place in import ratios between the periods 1972-1974 and 1979-1981. Out of the 43 commodities included in category 1 (i.e. with import ratios approaching 100 per cent in almost all countries), as many as 38 commodities remained within it in both time periods. Three products (wood pulp sulphate, non-cellulosic staple and lubricating oil) moved down one category and had import ratios approaching 100 per cent in the majority of African countries. Two products (glycerine and unwrought lead) moved up to category 1. By 1981, all African countries had an import ratio of 100 per cent in these commodities.

The picture at the other end of the list is more complex. Five of the 13 commodities included in the lowest category (with import ratios below 25 per cent for the majority of countries) have moved; but only three (cheese, raw sugar and refined sugar) have moved in the "right" direction and achieved a lowering of their import to apparent consumption ratios vis-à-vis the period 1972-1981. Movement in the intermediate categories is also limited. Seven products (malt, motor gasoline, distillate fuel, raw sugar, liquid petroleum gas, cheese and refined sugar) out of a total of 23 moved in the "right" direction. The overall impression, therefore, must be that the pace of import substitution and domestic integration of production somewhat slackened during the 1970s and remained largely confined to the petroleum-based products. No progress whatsoever has been made in terms of the major categories of industrial intermediates or in the production of fertilizers. In all fertilizer categories, the majority of the African countries continued to have import to apparent consumption ratios of approximately 100 per cent during the 1970s.[1/]

There is no evidence of any significant improvement in the ACP/SSA States' drive towards self-reliance as spelled out in Title III of the Lomé Conventions which endeavours to strengthen development efforts in pursuit of achieving self-reliance.

1/ The "Africa" category includes north Africa non-signatory ACP States. This category may be accepted as an indicator of the ACP/SSA/EC experience since over the period analyzed the ACP/SSA States accounted for over 90 per cent of the African States' aggregate figure of the European Community's imports of manufactured goods. The EC has special agreements with a number of North African and West Asian countries and the impact of the current negotiations on the relationship between these states and the EC is likely to be significant. This paper does not address this question since the North African and West Asian countries are not participants in the current round of negotiation.

Table 4: Summary of data on import content of apparent consumption for selected commodities in 40 African countries, 1972-1981

Commodities in which ratio a/ approaches 100 per cent in all or almost all countries	Commodities in which ratio a/ approaches 100 per cent in most countries	Commodities in which ratio a/ is not below 75 per cent in most countries	Commodities in which ratio a/ is not below 50 per cent in most countries	Commodities in which ratio a/ is not below 25 per cent in most countries	Commodities in which ratio a/ is below 25 per cent in most countries
Wood pulp b/ c/	Tinned fish b/ c/	Raw sugar b/	Butter b/ c/	Cheese b/	Cheese c/
Pulp from other fibres b/ c/	Malt b/	Malt c/	Distillate fuel c/	Vegetable oil c/	Margarine b/ c/
Wood pulp sulphate b/	Wood pulp sulphate c/	Cotton yarn c/	Liquefied petroleum gas b/	Flour b/ c/	Vegetable oil b/
Newsprint b/ c/	Other printing paper b/ c/	Motor gasoline c/	Cement b/ c/	Refined sugar b/	Raw sugar c/
Methanol b/ c/	Kraft paper b/ c/	Total: 4 entries d/	Total: 6 entries d/	Footwear c/	Refined sugar c/
Glycerine c/	Machine-made paper b/ c/			Particle board b/ c/	Animal feed b/ c/
Chlorine b/ c/	Glycerine b/			Liquefied petroleum gas c/	Beer b/ c/
Zinc oxide b/ c/	Sulphuric acid b/ c/			Cement b/ c/	Soft drinks b/ c/
Titanium oxides b/ c/	Nitrogenous fertilizers b/ c/			Total: 11 entries d/	Cigarettes b/ c/
Lead oxides b/ c/	Phosphate fertilizers b/ c/				Cotton yarn b/
Ammonia b/ c/	Insecticides etc. b/ c/				Cotton fabric b/ c/
Caustic soda b/ c/	Non-cellulosic staple c/				Footwear b/
Soda ash b/ c/	Motor gasoline b/				Soap b/ c/
Hydrogen peroxide b/ c/	Kerosene b/ c/				Total: 20 entries
Calcium carbide b/ c/	Distillate fuel b/				
Dyestuffs b/ c/	Lubricating oil c/				
Vegetable tanning extracts b/ c/	Pig iron b/				
Activated carbon b/ c/	Wire rods c/				
Potassic fertilizers b/ c/	Unwrought lead b/				
Synthetic rubber b/ c/	Total: 28 entries d/				
Non-cellulosic staple b/					
Regenerated cellulose b/ c/					
Lubricating oil b/					
Angles, shapes etc. b/ c/					
Heavy iron plates b/ c/					
Medium-weight plates b/ c/					
Plates and sheets b/ c/					
Tin plate b/ c/					
Railway track material b/ c/					
Plain wire b/ c/					
Tubes b/ c/					
Welded tubes b/ c/					
Copper bars etc. b/ c/					
Copper tubes b/ c/					
Unwrought aluminium b/ c/					
Aluminium rods b/ c/					
Aluminium plates b/ c/					
Aluminium tubes b/ c/					
Unwrought lead c/					
Unwrought zinc b/ c/					
Zinc plates b/ c/					
Unwrought tin b/ c/					
Tin plates b/ c/					
Total: 61 entries d/					

Source: UNIDO, "Africa in Figures", IS.517, 6 February 1985, Table 7.

a/ Import to apparent consumption ratio.
b/ During the period 1972-1974.
c/ During the period 1979-1981.
d/ Each commodity is counted twice: once for the period 1972-1974 and once for the period 1979-1981.

Exports of manufactures: disappointing experience with the EC

As indicated in Table 5, there is clear evidence that a long-term decline in the market share for the European Community imports of African States' manufactured goods had set in by the mid-1970s, continuing in the mid-eigthies.[1/] By contrast the declining trend in shares to the US and Japanese markets reversed from 1980 to 1984. Almost certainly the economic climate within the European Community, especially between 1980 and 1982, contributed substantially to the disappointing experience of the ACP States as suppliers of manufactured products. The period 1980-1984 saw lower average annual growth rates for imported manufactured products, compared with the average performance for the period 1970-1980. However, this should not be allowed to hide the fact that rates of growth of manufactured imports from the African ACP States for the period 1970-1984 have always been lower than those achieved by any of the other groupings. Almost certainly these data reflect to some degree the supply side problems in the production of manufactured goods.

During the 1970s and the 1980s the value of trade in manufactured goods between the industrialized countries and the developing countries increased substantially. Developing countries accounted for 33.6 per cent of industrialized country imports of manufactures in 1984 compared with a share in this market of less than 20 per cent in 1980. This rising importance of developing countries is reflected in the average annual growth rate of 14.6 per cent for 1980-1984. But the major source of this growth was the US market (Table 5). In contrast to the U.S.A., the European Community declined in relative importance as an importer of manufactured products from developing countries between 1970 and 1984. In 1970 the Community was the largest importer of manufacturing goods from developing countries within the industrialized countries absorbing 43.8 per cent of this trade. By 1980 this share had fallen to just under 40 per cent, and by 1984 it stood at only 24.7 per cent.

While exports and imports between Africa and the European Community have risen in value the expected increase in trade shares has not been achieved. The import value index of manufactured goods (1980 = 100) from Africa to the European Community rose from 31 to 99 in 1981 and 154 in 1984. The export value index of manufactured goods (1980 = 100) from EC to Africa rose from 22 in 1970 to 126 in 1981 and remained at 126 in 1984.

The share of non-EC imports of manufactured goods from Africa fell from 7.7 per cent in 1970 to 5.5 per cent in 1980, and to 5.3 per cent in 1984. Africa's share of EC import trade from all developing countries fell sharply from 45 per cent in 1970 to 28 per cent in 1980 and 27.5 per cent in 1984, due primarily to the emergence of Asia as a major exporter to EC. In 1970 the value of EC imports of manufactured goods from Asia was three-quarters that from Africa, but by 1984 was more than double in value the imports from Africa.

1/ Source: EUROSTAT, EC-Developing Countries, Manufactured Products - Analysis, 1970-1984, Luxembourg, 1987.

Table 5: Share of manufactures in imports of all products from developing countries, 1970, 1980 and 1984
(percentage)

Importer / Exporter	All industrialized countries			USA			EC [a]			Japan		
	1970	1980	1984	1970	1980	1984	1970	1980	1984	1970	1980	1984
Developing countries	24.4	19.5	33.6	34.3	27.2	51.5	20.1	19.8	25.5	13.5	9.3	13.6
Mid-income developing countries	14.9	5.7	8.7	13.3	4.6	11.0	16.6	8.0	9.5	12.0	2.7	4.3
Low-income developing countries	9.8	30.5	29.3	11.1	37.7	45.6	5.1	31.4	26.4	15.4	5.8	5.9
ACP	28.7	11.2	12.9	14.2	5.4	11.2	30.6	14.2	12.2	54.0	28.7	30.3
Middle income ACP	27.2	24.0	30.4	68.2	14.6	34.2	21.8	27.2	28.5	27.7	26.6	31.9
Other ACP	20.4	20.3	36.4	36.0	33.1	56.1	16.3	19.7	28.3	9.3	8.6	13.1
Africa	23.2	13.3	18.0	23.6	6.2	17.9	20.9	17.0	17.3	48.9	27.6	35.5
Low-income Africa	17.3	21.1	28.3	18.4	22.3	34.1	20.1	21.4	18.5	11.1	23.5	24.4
Asia	25.5	21.4	41.6	58.4	43.2	71.0	19.0	21.1	36.8	8.9	7.4	11.8

Source: EUROSTAT.

a/ Ten European Member States.

The share of non-EC exports of manufactured goods to Africa increased from 14.8 per cent in 1970 to 19.1 per cent in 1981 and fell to 14.1 per cent in 1984. Africa's share of EC export trade in manufactured goods to all developing countries fell from 45.7 per cent in 1970 to 44.3 per cent in 1980 and 38.6 per cent in 1984. As in the case of imports, it is Europe's exports to Asia which have been the major factor in pushing down Africa's share.

The USA as a market for Africa's exports of manufactured goods has grown faster than the EC, but this is from a low base, and in total is only a third of the absolute size of the EC market. Similarly US exports of manufactured goods to Africa have increased faster than those of the EC, but again from a low base, and in total are only some 16 per cent of the EC exports.

Japan as a market for Africa's exports of manufactured goods doubled in value over the 1970 to 1984 period, but from a low base and remains less than 10 per cent of the size of the EC market. Japan's exports of manufactured products to Africa grew fast to 1981 but also then fell back, and by 1984 were about 16 per cent of the EC exports.

The European Community is, thus, the most important market and source of manufactured goods for Africa. However, the Africa-EC trade patterns in manufactured products have changed in the opposite direction to what might have been anticipated from the objective of Lomé. The relative importance of the EC as a market for Africa's manufactured exports and source for manufactured imports has declined, despite the fact that trade concessions of industrial goods are particularly liberal under Lomé. This includes granting free access to all ACP industrial products as defined in EC customs regulations, although these preferences have been eroded with the implementation of other schemes such as Generalized System of Preference (GSP). Intra-regional trade in SSA has remained disappointingly low, only accounting for 5 per cent of their exports in 1983. More recent data on EC/ACP trade shows relatively good growth rates for 1983-1985, and it is suggested that the Lomé Convention had a buffer-effect on EC/ACP trade, as compared with the volatility of other developing country trade. In 1986/87, the margin on international trade in goods had diminished so rapidly that there has been a serious decline in manufactured EC/ACP trade. The following two principal instrumentss seem to violate the spirit of Lomé:

a) The impositions of voluntary export restraints (VERs), whereby the ACP State concerned agrees to limit exports through self-restraint on the threat of having formal barriers imposed; and

b) Over-restrictive rules of origin that require ACP States to supply an unrealistically large proportion of the final value of a product before it can benefit from the preferences.

It is argued that the rules of origin are unreasonably tight, and that the EC is slow to grant preferences to new ACP exports that are eligible within the spirit, but not the letter of Lomé, and that VERs have been imposed. It is contended that controls through VERs have been infrequent, and have been applied more sympathetically than to the ACP/SSA principal developing world competitors, with possible exceptions.

There seems to be clear evidence in the case of Mauritius that the Lomé Convention played a part in the development of new exports. A significant movement of capital and expertise to manufacturing occurred from Hong Kong in the mid-1970s which seems to have been attracted by the prospect of preferential access to the European market. This formed a symbiotic relationship with indigenous and other foreign capital and contributed to the initial stimulus to the development of exports. Since then the rate of growth of new exports has slowed and Mauritius has been subject to some non-tariff restrictions, although these restrictions have been imposed more flexibly on Mauritius than on non-ACP suppliers.

In the case of the Côte d'Ivoire, the Lomé Convention appears to have had a much smaller impact. The Côte d'Ivoire already enjoyed similar preferences in few countries of the EC, especially France, which remained its most important market for new exports, so there was little change in the ex-ante and ex-post Lomé situation.

One hopeful and positive impact of Lomé may be its stimulus to the emergence of new products and hence modernization.1/ A notable feature analyses pertaining to this area is that the ACP States involved in new exports include not only the middle-income members of the group but also some low-income countries. The list includes Ethiopia (twelve new products), Mali (seven products), Zaire (seven products), Tanzania (eleven products), Benin (six products), and Central African Republic (four products). Just over half the sixty six ACP countries group has been able to diversify into a least four new manufactured, processed agricultural or temperate agricultural goods. More advanced countries showed even greater gains - Mauritius (thirty-two products), Côte d'Ivoire (twenty-seven products), Kenya (nineteen products), Senegal (seventeen products), and Cameroon (fourteen products).

Employment creation: mixed sub-sectoral trends

The industry share of labour force in SSA increased only slightly from 8 per cent to 9 per cent between 1965 and 1985. UNIDO data shows that the average number employed in manufacturing in ACP/SSA rose by 28 per cent between 1975 and 1980, but stagnated thereafter. Some key sectors did show a consistent expansion of employment opportunities and consumer goods industries, for example food manufacturing, beverages and tobacco appear to be the largest employers. However, other sectors, including non-traditional sectors such as plastics and metal products experienced declines (Table 6).

Unfortunately the statistics on manufacturing employment provide a very partial picture because they are restricted to the formal sector. Yet the informal sector in SSA is very extensive, very labour-intensive, and appears to encompass a wide range of manufacturing activities. The exclusion of the informal sector also limits the utility of output data but, because enterprises tend to be very small, this is not so serious as the distortion to employment figures.

1/ Source: C. Stevens and A. Weston, "Trade Diversification: Has Lomé Helped?", in EEC and the Third World: A survey, 1988, No. 4.

Table 6: Average number of persons employed in ACP/SSA manufacturing, 1975, 1980 and 1985
('000)

Sector	1975	1980	1985
Manufacturing	939	1,210	1,202
Food Manufacturing	182	207	234
Beverages	45	63	70
Tobacco	23	27	34
Textiles	181	215	208
Wearing Apparel	43	47	50
Industrial Chemicals	13	20	19
Rubber Products	22	25	16
Plastic Products	10	40	21
Iron and Steel	18	19	32
Metal Products (excluding machinery)	68	90	79
Transport Equipment	44	64	64
Other	291	393	375

Source: UNIDO.

There is also evidence that some ACP/SSA countries have experienced sharp falls in manufacturing employment growth, for example in Kenya the percentage increase over the previous year of the number employed in manufacturing fell from 4.6 per cent in 1975 to 3.4 per cent in 1980, and to 2.9 per cent in 1985. The Lomé provisions do not seem to have had any significant impact on

employment creation in either the formal or informal manufacturing sectors. In Nigeria the number employed in manufacturing fell from 432,000 persons in 1980 to 339,000 persons in 1986.

Estimates by UNIDO of wages and salaries in 1980 US$ paid to employees in manufacturing in ACP/SSA indicate a fall of 14 per cent between 1975 and 1980, and an even steeper fall of 44 per cent between 1980 and 1985. At a sub-sector level the decline was not uniform. For example real earnings of employees in textiles fell more rapidly during 1975-1980, at 28 per cent than from 1980 to 1985, when the fall was 16 per cent. In iron and steel real earnings rose by 6 per cent in the first period but then fell by 21 per cent between 1980 and 1985.

Contrary to the Lomé objective of generating income, the manufacturing sector has experienced significant declines, Even so there is some evidence to show that wage levels are higher in manufacturing than in some other sectors, although the evidence should be treated with extreme caution. A study of Nigeria shows wages in manufacturing were about 12 per cent higher than in the public sector, and about 17 per cent higher than in construction. There is also evidence that in some SSA countries wage rates may be high when compared internationally.[1/] Nigerian production costs need to approach those of the successful emerging NICs if there is to be any chance of domestic manufacturing becoming viable without heavy protection.

Incidence of technical progress: yet to create an efficient industrial structure[2/]

It is difficult to measure the technical and skill aspects of industrial transformation. An attempt could be made to see these effects through an engineering-intensity indicator, and a skill-intensity indicator. The results of a recent exercise are shown in Table 7. Engineering-intensity was measured by the number of engineers employed per 1,000 employees in each industry group. On the assumption that such engineering intensity reflected universal technical norms (this clearly has to be qualified when the level of processing and local design work differ among countries), it provides an indication of the technological demands of African industry (if not the ability of SSA countries to fulfil those demands). Skill intensity was measured on the basis of relative wages and salaries in different US industries.

The first four groups of industries shown in Table 7 - food, textiles, wood and paper - are both of low engineering and skill intensity by US measures. They are generally also local resource-based and (with the exception of paper) usually of low capital- and scale-intensity; all the various indicators of comparative advantage point to suggest that for countries with great scarcities of technological and other skills, these are the industries to be developed first, both for import substitution and export promotion. Some technical and skill upgrading is implied by this, but these data cannot of course show whether upgrading has been successfully achieved.

1/ Quoted in C. Stevens, Manufacturing Development in Nigeria, O.D.I., 1988.

2/ This section draws on the work of S. Lall, Industry in SSA, Background paper for the World Bank, 1987.

Table 7: Technical and skill measures of industrial transformation, 1979 and 1984
(percentage)

	Low Income Africa		Low Income Asia		Middle Income Africa		Middle Income Asia		World	
	1973	1984	1973	1984	1973	1984	1973	1984	1973	1984
1. Food, beverages & tobacco	37.7	35.0	12.5	12.7	32.6	27.5	20.3	12.3	12.4	11.2
2. Textiles, apparel & leather	22.3	15.9	24.2	14.7	13.2	9.9	22.6	28.0	10.2	8.4
3. Wood and wood products	5.9	3.4	2.2	2.0	3.7	6.1	4.1	1.4	4.1	3.2
4. Paper and paper products	4.9	5.0	4.4	3.5	4.8	6.5	5.0	4.6	6.3	5.1
5. Chemicals, petroleum prods	11.7	28.5	14.5	19.7	16.2	14.2	18.9	14.4	14.0	17.7
6. Non-metallic mineral prods	4.1	2.8	4.7	4.9	4.5	5.3	4.2	2.2	5.3	4.7
7. Basic metals	2.9	1.5	9.5	17.0	11.8	5.2	5.0	4.9	8.7	5.1
8. Metal prod. machinery & equipment	9.8	7.5	24.8	22.8	12.5	21.7	18.3	29.9	37.1	38.9
9. Other manufactures	0.6	0.3	3.2	2.6	0.8	3.5	1.6	2.2	1.8	1.8
Total manufacturing	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Traditional industries (1-3)	65.9	54.3	38.9	29.4	49.5	43.5	47.0	41.7	26.7	22.8
Non-traditional indust. (4-9)	34.1	45.7	61.1	70.6	50.5	56.5	53.0	58.3	73.3	77.2
Consumer good indust (1,2,9)	60.6	51.2	39.9	30.0	46.6	40.9	44.5	42.5	24.4	21.4
Intermediate goods industries (3-7)	29.6	41.3	35.3	47.1	40.9	37.4	37.2	27.6	38.5	39.7
Capital goods industries (8)	9.8	7.5	24.8	22.8	12.5	21.7	18.3	29.9	37.1	38.9
Low engineering intensity (1-4)a/	70.8	59.3	43.3	32.9	54.3	50.0	52.0	46.3	33.0	28.9
Med. engineering intensity (5,6,7) b/	18.7	32.8	28.7	41.6	32.5	24.7	28.1	21.5	28.0	30.5
High engineering intensity (8,9)c/	10.4	7.8	28.0	25.4	13.3	25.2	19.9	32.1	38.9	40.7

Source: US Department of Commerce, Statistical Abstract of the United States, 1982-1983, Washington DC, 1986; National Science Foundation, Scientists, Engineers and Technicians in the Private Industry, 1980.

a/ Engineers per 1,000 employees of below 10: food, beverages and tobacco; textiles and leather products; wood and paper products.

b/ Engineers per 100 employees of 10-30: Chemical and petroleum products; non-metal minerals; basic metals.

c/ Engineers per 100 employees of over 30: Machinery and equipment; other manufactures.

The chemical and petrochemical group turns out to be of medium-engineering intensity but of high-skill intensity. The basic metal industry is similar. This suggests that these sectors require advanced operational/technical skills in the work force rather than intensive engineering supervision. The non-metallic mineral group (cement, clay, glass, etc.) has medium requirements of both engineering and general skills, and so may be of greater appropriateness to Africa conditions. By 1984, low-income SSA had pushed up its proportion of medium engineering intensive industries to levels exceeding middle-income SSA and Asian countries, and even the world as a whole although not so high as low income Asia. This may have been a desirable strategy if it took advantage of, and promoted growing engineering and other industrial skills in the intermediate range. If not, however, it may have caused overstretching of domestic capabilities and consequent inefficiency.

The metal products and machinery group is extremely diverse, encompassing a range of relatively simple to highly advanced technologies. On average, it comes out as being highly demanding of engineering skills but of medium level in general industrial skills. In Africa, the level of technical and skill requirements in this industry is likely to be lower, since a large part of the industry is engaged in simple assembly, and much of local metal working is at a primitive level. Nevertheless, the industry calls for a base of metal working experience and a minimum of engineering skills which are scarce in the region. This may account for the fact that low-income SSA countries have reduced their proportion of highly engineering-intensive activities. Middle-income SSA has, by contrast, increased the proportion of these industries, but lags behind both low- and middle-income Asia.

The analysis of Table 7 suggests that African manufacturing has undergone structural "deepening" over time, and industrially more advanced countries in the region do have proportionally larger producer goods sectors than poorer countries. This is broadly in line with patterns of industrial development elsewhere. However, much of this "deepening" is accounted for by petroleum-based chemical industries. While this may not by itself denote an inefficient pattern of development, it does indicate that the industrial base is not as diverse as in other developing regions. In particular, there are important lags, especially in low-income SSA, in the development of engineering industries, which are ususally regarded as the heartland of industrial skill and technology acquisition.

There is an increasing realization of the crucial importance of effective linkages for successful industrialization. Industry functions in a dense network of information technology, and other co-operative arrangements. The growth of linkage requires receptive capabilities by potential suppliers, and transmission capabilities by lead enterprises. An illustrative list, set out by Lall[1/], shows how difficult the task of linkage creation can be:

> "Existing large-scale modern enterprises need several types of organizational and technological capabilities to establish successful linkages. For helping local small-scale (actual or potential) suppliers, firms need procurement departments which can locate and screen promising entrepreneurs. These departments must have technicians who can help

---

1/ Source: S. Lall, Industry in SSA, Background paper for the World Bank, 1987, p.110.

subcontractors to choose appropriate equipment, to master the processing technology, to improve quality to the standards needed to constantly provide designs, drawing, blueprints, etc., on their changing requirements, and to negotiate prices which are fair to the supplier and competitive for the buyer. Linkages also have to be established with large-scale local suppliers. The technical departments of both firms have to exchange data on products, jointly solve technical problems and develop new designs for components and products. For establishing downstream linkages with industrial buyers, firms must have technically trained marketing staff. Capital goods manufacturers should be able to help customers install their equipment and train operators; more advanced ones should be able to set up complete turn-key plant utilizing their products as well as complimentary equipment from other firms. For selling technology horizontally (to similar producers), firms should be able to formalize technical knowledge into blueprints, patents, models, and so on, for sale to competitors. Their projet departments should have turn-key capability to set up plants for other enterprises or their own affiliates."[1/]

Success in creating fully effective linkage-capabilities has been achieved only by the most advanced NICs. SSA industry has to date failed to create significant linkages capabilities. Some success has been achieved with expanded technical education systems, on the job training, and promotion of SME, but generally progress has been uneven and slow. Few firms have the technical or organizational manpower to set up linkages with local suppliers of industrial inputs. Few firms are able to transfer their technology to other local large firms. The "missing-middle gap", caused by a vacuum of linkages between small- and large-scale industry has been a serious barrier to industry growth. The primitive stage of mechanical, metal working and electrical skills is identified by Lall as especially harmful.

Linkages between other institutions, as well as manufacturers themselves, for example consultancy groups, universities, research laboratories, industry associations, etc. have also remained at a rudimentary stage in Africa. The various schemes set up to date have failed to link the small and large-scale enterprises. Activities in the rural sector have not been integrated into a strategy for manufacturing growth, and dualism of the industrial structure and low productivity techniques have persisted.

Selected indicators of industrial performance: weak productivity record

The MVA per capita indicator for SSA is distorted since the adverse figures are primarily explained by large declines in import capacity and capacity utilization. The use of Total Factor Productivity (TFP) is also dominated by capacity utilization, and the record varies accordingly. World Bank estimates[2/] of TFP for Zambia show a decline of 3.8 per cent per annum during 1965-1980, and for Kenya a rise of 8.2 per cent between 1976-79, and 4.8 per cent during 1980-1985.

1/ Source: S. Lall, Industry in SSA, Background paper for the World Bank, 1987, p.110.

2/ Quoted in S. Lall, op.cit.

Estimates by UNIDO of output per worker for manufacturing in the ACP/SSA as a whole show a decline by 18 per cent during 1975-1979, and a decline of 15 per cent during 1980-1985. Such a dismal productivity record is not a good basis for "promoting new relations of dynamic complementarity in the industrial field, as stated in Lomé III".

Analysis of Domestic Resource Cost (DRC) ratios for six countries is shown in Table 8. It reveals large inter-country and inter-firm differences in the ratios. In general Zimbabwe has the most efficient manufacturing sector, followed by Kenya. The ratios for Ethiopia indicate gross inefficiency and no improvement over time.

How far the reality of industrial co-operation is in tune with the objective of promoting new relations of "dynamic complementarity" is most vividly seen in a recent survey [1/] results of selected sectors covering 343 enterprises in SSA (see Tables 9 and 10).

- Only 69 units (20 per cent) function satisfactorily, i.e. at over 70 per cent of their capacity;

- 195 units (75 per cent) are functioning unsatisfactorily, i.e. performing at well below a satisfactory production threshold;

- 79 units (23 per cent) have ceased to function.

The analysis of capacity utilization rates in different sectors shows relatively good performance in the wood, dairy and brewing lemonade making sectors. In contrast serious malfunction exists in the cement, sugar, milling and above all, paper, oils and fats, canning and refining sectors, with special problems facing the textile sector which is currently facing an acute economic crisis. That is the harsh diagnosis that emerges. The fact that the sample selection has not been undertaken on a random basis means that all conclusions must be heavily qualified, including any cross-country comparisons. Those countries in the sample identified as having serious problems, primarily due to severe import restrictions, with virtual paralysis of the productive apparatus were Angola, the Central African Republic, Guinea, Madagascar, Mozambique, Nigeria and Tanzania. Countries experiencing a relatively better performance were Cameroon, Côte d'Ivoire, Gabon, Mali and Zimbabwe.

The appalling state of much of African industry makes it very difficult to address the key issue of restructuring EC industry to achieve complementarity. Dynamic complementarity, could follow from EC's acceptance of abandoning some industries likely to compete with ACP/SSA - for example in textiles, sugar and coffee processing, forest industries, other light industries, and some basic metal industries. There is little evidence of this to date. Possible approaches could include new forms of direct investment, where SSA/ACP have a comparative advantage (such as in labour-intensive production). This could have been in the form of Production-Sharing arrangements between EC and efficient SSA/ACP manufacturing units, in order to assist them in expanding in those areas.

1/ G. Egnell, The Rehabilitation of Malfunctioning Industrial Units in the ACP States, European Commission, 1985.

Table 8: Domestic resource cost[a/] in manufacturing, selected countries, 1972-1985 (selected years)

	Kenya	Zimbabwe	Ghana	Ethiopia		Cote d'Ivoire	Tanzania
	1985	1981	1983	1972	1983	1981	1984
Food, beverages & tobacco	0.8	0.88	<1	2	2-5	0.4-1.2	0.7-0.9
Textiles, apparel & leather	1.65	1.1-1.3	<1->5	5-6	4-6	2.1	3.9-00
Wood and wood products	1.58	1.3-1.8	<1->5	6	6	-	-
Chemicals	1.5 c/	0.94	<1->5	-	-	0.8-1.0	20.00-00
Petroleum & prod	-	-	-	-	-	-	-
Non-metallic mineral prods	6.29	0.98	<1->5	3	2	-	3.2
Basic metals & metal prods	5.48 b/	2.7-3.8	-	6	6	-	16.3
Non-electrical machinery	-	0.9-1.4	-	-	-	-	-
Electrical machinery	-	1.1-2.3	-	-	-	-	-
Transport equipment	3.49 a/	1.3	-	-	-	-	-
Other manufactures	-	-	-	-	-	-	-
All manufacturing industries	1.3	1.3	-	-	-	-	2.9

Sources

1. World Bank, Zimbabwe: An industrial Sector Memorandum 1983 p.71
2. World Bank, Ghana: Industrial Policy, Performance and Recovery p.58,59
3. World Bank, Ethiopia: Industrial Sector Review Dec 1985, p.28,29.
4. World Bank Zimbabwe: Country Economic Memorandum Oct 1985 p.51
5. World Bank, Cote d'Ivoire: Country economic Memorandum March 1986. p.221.

Notes

a/ includes electrical machinery
b/ includes non-electrical machinery
c/ includes petroleum products
d/ includes non-electrical machinery

Table 9: Capacity utilization of industrial ts, 1985
(number of units)

Sector	No. units in the sample	Satisfactory operation	Under-production	Stand-still
Wood	33	12	18	3
Paper	16	2	6	8
Cement	43	6	27	10
Textiles (not made up)	47	2	33	12
AGRO-FOOD:				
Sugar	32	5	19	8
Oils and fats	48	1	31	16
Cereals and poultry	33	4	26	3
Food preserving (fish, fruit and veg.)	33	5	16	12
Beer and lemonade	43	25	14	4
Milk	15	7	5	3
TOTAL	343	69	195	79
	100%	20%	57%	23%

Source: G. Egnell, The Rehabilitation of Mal-functioning Industrial Units in the ACP States, European Commission, 1985.

Table 10: Classification of industrial breakdown of units in the sample by country and by state of operation, 1985

Country	Number of units listed	Number of units in the sample	Operation	Under-production	Stand-still	Comments
Angola	18	13	-	6	7	Sample does not take account of brewing-lemonade making where capacity is generally underutilized
Benin	28	12	2	6	4	
Cameroon	73	34	19	12	3	Brewing over-represented (11 out of 34 units all working well) and no data on oils and fats
Congo	31	22	5	15	2	
Côte d'Ivoire	99	44	10	28	6	Wood and oils and fats under-represented
Gabon	33	15	8	7	-	Brewing over-represented (5 out of 15 units)
Guinea	11	11	1	-	10	
Mali	15	12	3	8	1	
Mozambique	44	21	-	20	1	Cereals-poultry over-represented
Nigeria				80%	20%	Global information from the Manufacturers Association of Nigeria
Central African Rep.	16	11	1	4	6	
Senegal	47	30	4	23	3	
Tanzania	24	13	1	11	1	Brewing, food-preserving, oil and fats and cereals not represented
Togo	15	11	1	6	4	
Zaire	44	7	1	3	3	Reduced sample is not very significant
Zimbabwe	29	15	4	10	1	Milk sector over-represented (4 units functioning well)
Other		70	7	36	27	
Total		34	69	195	79	

Source: G. Egnell, The Rehabilitation of Mal-functioning Industrial Units in the ACP States, European Commission, 1985.

2.2 The Caribbean and Pacific States[1/]

2.2.1 Recent economic trends

The Caribbean and Pacific States exhibit great diversity in size and stage of industrial development, yet they share many common economic characteristics both in terms of their resource base, industrial structure and potential for industrial growth. In the Caribbean only two States have a population in excess of one million, (Trinidad and Tobago, 1.2 million, and Jamaica 2.3 million), and in the Pacific only Papua New Guinea's population exceeds one million at 3.3 million. Thus, the CP States are confronted with strikingly similar constraints and their economic development potential bears many parallels. They are facing similar industrial policy options, opportunities and development possibilities.

Persistent volatility in the external trade environment, adverse weather conditions, and other unfavourable developments of a non-economic nature lead to corresponding changes in domestic consumption and investment demand, government revenue, external resoruce inflows, and hence a "stop-go" pattern of economic growth for some States. For example, real GDP in Fiji grew by 8 per cent in 1984, fell by 5 per cent in 1985, rose by 9 per cent in 1986 and plunged into a negative growth rate of 11.2 per cent in 1987. Similarly, in the Solomon Islands real GDP rose by 24 per cent in 1984, and fell by 8 per cent in both 1985 and 1986 but improved in 1987. Jamaica experienced three years of modest economic growth from 1981-1983, a decline in 1984 and 1985 and resumed modest growth in 1986. Export revenue from traditional exports has declined. The situation for sugar cane is particularly bad, both because of price slumps, and the decline in the US preferential import quota for Caribbean sugar producers. Bauxite and copper markets have also dwindled badly affecting the Dominican Republic, Haiti, Jamaica, and Papua New Guinea. Falling oil prices and output has severely affected Trinidad and Tobago. Debt servicing requirements have made increasing demands on foreign currency earnings. As in the case of Africa, CP States have been suffering from import strangulation.

The small size of the Caribbean economies means that they are heavily dependent on external demand. Manufactured exports in the Caribbean region have been greatly reduced by recent economic difficulties and trade restrictions in some of the key regional markets. These restrictions suddenly diminished preferential access to protected, neighbouring markets, which in many cases have absorbed the majority of production. The loss of access to key regional markets, such as Trinidad and Tobago and Jamaica, has hit producers in Barbados and OECS hard; the growth of manufacturing output experienced in the 1970s and early 1980s has given way to stagnation or decline. In the larger economies, such as Barbados, Jamaica and Trinidad and Tobago, depressed demand has reduced already limited market opportunities and real output has declined by an estimated 16 per cent in Trinidad and Tobago in 1985, by 9 per cent in Barbados in 1985, and by a similar amount in Jamaica. However, there were signs of recovery in the manufacturing sector in Trinidad and Tobago and Barbados during 1986.

Many countries have adopted restrictive economic policies, some with IMF guidance and support. Unemployment and under-employment have grown, affecting all categories of the labour force, and especially vulnerable groups such as women and young people. The slow-down in economic activity, and the additional burden of debt service, has weakened the public sector financial situation.

1/ For details of industrial development in the Caribbean and Pacific States, see UNIDO, Industrial Development Review Series: Pacific Island States, IS.645 (1986) and The Caribbean Region, PPD.51 (1987).

Table 11: Pacific States, inter-country comparison of selected economic indicators, 1980-1985 (selected years)

Indicator	Year	Unit	Papua New Guinea	Fiji	Solomon Islands	Western Samoa	Vanuatu	Tonga	Kiribati
Population	Mid-1984	'000 persons	3,400	686	260	159	127	99	64
Population density	Mid-1984	persons per sq.km	7	38	9	54	11	142	92
GDP	1983	Millions of US$	2,510	1,200	160	100	-	88	29
GDP per head	1983	US$	780	1,790	640	635	357[a]	904	478[b]
Structure of production	selected years	Per cent of GDP	(Year 1984)	(Year 1984)		(Year 1984)		(Year 1984/85)	(Year 1977)
Agriculture		Per cent	33.7	24.3	-	51.7	-	40.5	19.7
Mining and quarrying		Per cent	13.2	0.1	-	-	-	-	45.3
Manufacturing		Per cent	9.5	12.3	-	6.5	-	9.1	1.9
Construction		Per cent	3.6	6.0	-	6.7	-	3.9	8.4
Other		Per cent	40.0	57.6	-	35.0	-	46.6	2.7
Labour force	1983	million persons	1.7	0.2	0.098	0.053	0.050	0.034	0.022
Employment by sector	Early 1980s	Per cent							
Agriculture		Per cent	57	44	33	61	75	31	7
Mining		Per cent	1	1	-	-	-	-	5
Manufacturing		Per cent	3	7	25	4	-	2	3
Construction		Per cent	5	6	25	5	-	6	15
Trade		Per cent	3	10	11	6	-	4	14
Transport		Per cent	3	5	-	5	-	4	10
Finance		Per cent	12	2	-	-	-	-	-
Services		Per cent	4	17	31	18	-	22	43
Consumer price inflation	1980	Per cent	12.1	14.5	15.9	33.0	11.2	22.4	17.0
	1981	Per cent	8.0	11.2	14.6	20.5	27.5	14.9	-
	1982	Per cent	5.5	7.0	9.7	18.3	6.1	10.8	-
	1983	Per cent	7.9	6.7	7.4	16.4	1.7	9.3	-
	1984	Per cent	7.5	5.3	12.0	11.9	5.5	-	-
	1985	Per cent	4.0	3.5	-	-	-	-	-
Exchange rate		Local currency equivalents	Kina	F$	SI$	WS$(tala)	Vatu	T$	US$per Aus$
	1980	to US$ 1	0.671	0.791	0.830	0.919	68.29	0.90	1.139
	1981		0.673	0.877	0.870	1.036	87.83	0.88	1.149
	1982		0.738	0.947	0.971	1.205	96.21	0.98	1.017
	1983		0.836	1.046	1.149	1.539	99.37	0.89	0.902
	1984		0.899	1.143	1.274	1.838	99.23	1.20	0.879
	1985		1.007	1.167	1.450	2.267	107.40	1.46	1.42[c]

Source: UNIDO, Industrial Development Review Series: Pacific Island States, UNIDO/IS.645, 1986.

a/ Ni-Vanuatu population only. b/ 1982 data. c/ June 1985.

Table 12: Caribbean States, inter-country comparison of size and growth of GDP, 1982-1985, 1985 and 1986

Country grouping	GDP current prices, 1985 (million US$)	GDP per capita at current prices, 1985 (US$)	GDP growth rate (per cent) 1982-85	1985	1986[e/]
Jamaica	1,983.4	858	0.1	-5.0	2.0
Trindad and Tobago	7,723.1	6,538	5.5	-2.9	-6.4
Guyana	461.9	584	4.6	0.9	0.3
Barbados	1,236.8	4,894	0.2	0.3	5.0
Netherlands Antilles	1,370.0[b/]	5,415[b/]	-1.6[d/]	-	-
The Bahamas	1,814.6	7,822	5.0	3.0	4.5
Belize	184.7	1,110	0.2	2.7	2.3
Bermuda[a/]	10,200.0[c/]	17,800[e/]	0.9	-2.3	0.7
OECS					
St Lucia	170.3	1,245	4.5	5.8	6.0
St Vincent and The Grenadines	102.0	933	4.2	3.1	7.0
Grenada	96.0	961	0.6	3.7	4.3
Dominica	88.2	1,132	3.2	3.0	-
Antigua and Barbuda	180.2	2,244	4.9	6.7	6.0
St Kitts-Nevis	67.3	1.469	3.5	1.0	3.0

Source: Caribbean Development Bank, Annual Report 1986.

a/ Dependent territory.
b/ 1982.
c/ 1984.
d/ 1981-1985.
e/ Preliminary estimate.

2.2.2 The industrial base

Throughout the Caribbean and the Pacific the size of manufacturing activity has been very small in both absolute and relative terms. Both regions are rich in agricultural, fisheries and mineral resources, yet this potential and utilization of intra-industry linkages remains largely unexploited. As can be seen in Table 13, only in Jamaica has manufacturing a share of total value added approaching 20 per cent. In Trinidad and Tobago, manufacturing has a share of under 8 per cent, while in Guyana the share is less than 4 per cent. Of the Organization of Eastern Caribbean States (OECS) members only in St. Kitts-Nevis does the share of manufacturing exceed 10 per cent. A distinguishing feature of manufacturing in the Caribbean has been its concentration on a limited range of product areas; being mainly agro-industries, garments and footwear, furniture, and assembly-type industries. The range of activities and the scale of operations tends to be even more limited in the smaller islands. The concentration of a few product areas and dependence on a very limited number of markets tends to add to the sector's vulnerability to adverse technological or market developments.

One of the more developed industrial branches within the Caribbean economies is the agro-industrial branch. Development of this sub-sector has taken several forms, the largest and best established being the production of sugar and sugar-based products, including rum and other alcoholic drinks. In most cases, foreign capital was originally involved in the establishment of these large-scale activities, but more recently local interests, both public and private, have come to assume a larger role. Increased competition in overseas markets and falling prices are forcing these industries to become more competitive in both production and marketing activities. In some of those islands with significant agricultural potential, the processing/preserving of agricultural produce has expanded greatly in recent years, largely serving the needs of small domestic markets, but in some specialized areas producing for export - as in the case of concentrated fruit juices, spices and spice-based sauces. In some of the tourism-oriented economies, these activities have grown out of or have been combined with break of bulk or packaging operations of imported foodstuffs. In most of the smaller islands, jams and jellies and preserved foods are also produced in very small-scale or cottage enterprises, utilizing seasonal surpluses of local crops; but these operations are heavily constrained by insecurity of supplies of raw materials and the lack of adequate market outlets.

In the two decades after 1960, a number of Caribbean economies developed import-substitution industries, utilizing simpler technologies or assembling imported components/kits. Established within protected, limited markets, these industries remained highly dependent on imported inputs and technologies; inter-industry production linkages were not well developed and the sector was often characterized by deficiencies in managerial marketing and entrepreneurial skills. The type of products so produced include foodstuffs, edible oils, packaging materials, furniture, garments, footwear, chemicals, plastic goods, motor parts and electrical goods. Where overseas investors have been attracted to establish new labour-intensive, industrial ventures in the islands, garments, electronics and electrical goods have tended to predominate. Such offshore assembly operations tend not to be well integrated with the local economy; rather they tend to be closely oriented to the needs of the North American market and are largely of "foot-loose" enclave type accentuated activities encouraged by the Caribbean Basin Initiative (CBI). Caribbean governments actively encourage the establishment of enclave industries to create employment. Special incentives are laid down by the

CARICOM Secretariat for enclave industries. Service industries such as data processing, key punch operations and electronic assembly are one of the largest industrial employers.

Table 13: Sectoral value added shares of GDP in selected Caribbean countries, 1983-1985
(percentage)

Country	Value added in				
	Agri-culture	Mining	Manu-facturing	Construc-tion	Tertiary and other sectors
Jamaica	6.0	5.3	19.3	8.8	60.6
Trinidad & Tobago	4.4	24.6	7.2	12.0	51.8
Guyana	25.2	3.0	3.5	7.6	60.7
Barbados	7.0	1.4	11.8	6.1	73.7
Netherlands Antilles[a/]	-	-	-	-	-
The Bahamas	-	-	-	-	-
Belize	22.1	0.2	13.8	5.3	58.6
Bermuda[a/]	-	-	-	-	-
OECS:					
St. Lucia	14.2	0.7	8.8	6.5	69.8
St. Vincent and The Grenedines	17.4	0.3	9.3	10.7	62.3
Grenada	17.6	1.1	6.0	7.6	67.7
Dominica	29.7[c/]	0.8[c/]	7.7[c/]	7.5[c/]	54.3[c/]
Antigua and Barbuda	5.1	0.5	6.5	5.3	82.6
St Kitts-Nevis	12.3	0.3	13.8	9.5	64.1
Montserrat[b/]					

Source: UNIDO, Industrial Development Review Series: Caribbean Region, PPD.51, 1987.

a/ Dependent territory.

b/ Micro-state.

c/ Data for 1983-1984.

While few of the Pacific Islands have a well diversified resource base for industrial development, most of the larger islands have seen the growth of an industrial sector in response to the availability of resources, and domestic markets. Thus far, however, throughout the islands the size of manufacturing acitivity has been very small in both absolute and relative terms. Table 14 provides some perspective on the contribution of manufacturing to GDP; only in Papua New Guinea and Fiji is this of some significance. In employment terms, manufacturing accounts for only a small proportion of the work force, within the monetized sector. Total employment in manufacturing within the Pacific region was estimated at 37,000 in the late 1970s. The overwhelming majority of employment is in small- or medium-scale enterprises, but generally speaking, there is little "informal" activity in the island economies. It appears that in the early 1980s around 1,000 persons were employed in manufacturing non-resource-based products for export. The lack of informal enterprises is the result of the predominance of the subsistence sector and the absence of the extremes of poverty in the islands; it is also accounted for by the lack of production skills outside the formal sector and the low level of participation of indigenous people in entrepreneurial activity. The formal sector dominates commerce and trading, although in some islands specialized trading activities are the preserve of co-operatives, as in the Solomon Islands. Service activities have proved much more attractive for local investment than manufacturing.

Table 14: Sectoral contribution to real GDP in selected Pacific Island States, 1977-1984 (selected years)
(percentage)

Country	Agriculture	Mining & Quarrying	Manufac-turing	Construc-tion	Other
Papua New Guinea (1980)	33.7	13.2	9.5	3.6	40.0
Fiji (1984)	24.3	0.1	12.3	6.0	57.6
Western Samoa (1978)	51.7	-	2.8	6.7	38.8
Tonga (1983)	41.5	0.5	5.0	3.9	49.1
Kiribati (1977)	19.7	45.3	1.9	8.4	24.7

Source: UNIDO, Industrial Development Review Series: Pacific Island States, PPD.7, 1986.

In the five larger island countries, in the early 1980s, the largest single manufacturing branch was food, beverages and tobacco, accounting for 39 per cent of manufacturing employment; wood and wood products was the second largest accounting for 24 per cent, and fabricated metals was third with 18 per cent. Other sub-sectors such as textiles, paper and chemicals were very small. It was estimated that 78 per cent of output was oriented towards the domestic markets (in the main substituting for imports), 10 per cent of output was the processing of indigenous natural resources, and only 3 per cent of output involved the processing of imported raw materials for re-export. The dominance of domestically-oriented production is due to the perishability of some food products, local tastes and preferences, high transportation costs and difficulties of supply. These are all factors which work in favour of local, small-scale production. Counter forces include diseconomies of scale, limited technical skills and "service" industries, high cost of imported inputs/components, the open nature of most island economies, and awareness of branded imported goods. Fiji is the island economy where import-substituting industries are most widely developed. They include a wide range of construction materials, wood and metal working, consumer goods, and food processing industries, including some based on imported raw materials. These activities have developed under the combined enterprise of the Indian immigrant community and a long standing policy of "infant" industry protection by the governments; these factors, however, are beginning to play a less important role.

The processing of local raw materials, particularly renewable resources, has increased significantly in the island economies in the last decade. These activities have been a response to the increased exploitation of natural resources by the primary sector, offering additional employment opportunities and significant increases in value added prior to export. In terms of technology, these activities are not very demanding and often have smaller scale production options. In most cases, the procurement of supplies and the marketing of output require careful organization, because of competition in international markets, which also exert considerable pressure on production costs. Processing of coconut cream, tropical fruits and fish are in the main oriented to distant international markets. Timber procesing in contrast is often oriented to domestic markets in the smaller islands, but Papua New Guinea and the Solomon Islands have quite large export-oriented forest industries. In many of the islands the processing of indigenous raw materials is reserved for the islanders themselves, but foreign interests are almost always involved in investment, production and marketing arrangements.

The low level of processing of imported raw materials for export markets is largely a measure of the lack of competitiveness of island producers in fiercely competitive markets. There is some production for export to neighbouring islands; Fiji and Western Samoa have been able to exploit their geographic situation for a limited range of consumer goods and construction materials, but inter-island trade is hampered by transport constraints. Some special incentives and preferential schemes have fostered production, of garments for example, in some of the Polynesian islands destined for Australia and New Zealand, but often these involve expatriate interests with ties in those markets. The Pacific Islands Industrial Development Scheme (PIIDS) and the Australian Development Assistance Bureau (ADAB) sponsored by New Zealand and Australia, respectively, encourage foreign investment by entrepreneurs from these countries rather than the generation of entrepreneurship and investment in the Pacific Island States themselves.

2.2.3 Changing patterns of trade in the Caribbean and Pacific

The EC has not displaced as forceful a market attraction as the American market for the Caribbean, and New Zealand, Australia, Japan and the American markets for the Pacific. Lomé is but one of a network of trading and regional co-operation arrangements as shown in Table 15.

Table 15: Trade preference systems in the Caribbean, and Pacific Island States' membership in regional organization, 1985

A. Trade preference systems in the Caribbean

	Caribbean Common Market (Caricom)	Caribbean Basin Initiative (CBI)	Organisation of Eastern Caribbean States	Lome Convention
Anguilla	x		x	
Antigua/Barbuda	x	x	x	x
Bahamas	x	x		x
Barbados	x	x		x
Cayman Islands				
Dominica	x	x	x	x
Dominican Republic		x		
Grenada	x	x	x	x
Guyana	x			x
Haiti		x		
UK Virgin Islands		x		
Jamaica	x	x		x
Netherlands Antilles		x		
Montserrat	x	x	x	
St Kitts-Nevis	x	x	x	x
St Lucia	x	x	x	x
St Vincent-Grenadines	x	x	x	x
Trinidad-Tobago	x	x		
Turks-Caicos				

B. Selected Pacific island States' membership in regional organization, 1985

Country \ Regional Organizations	ADB	CHOGRM	ESCAP	SPC	SPEC
Papua New Guinea	*	*	*	*	*
Fiji	*	*	*	*	*
Solomon Islands	*	*	*	*	*
Western Samoa	*	*	*	*	*
Vanuatu	*	*	*	*	*
Tonga	*	*	*	*	*
Kiribati	*	*	*	*	*
The Federated States of Micronesia				*	*
Cook Islands	*		*	*	*
Nauru		*	*	*	*
Niue			*	*	*
Tuvalu		*	*	*	*

Source: The Europa Year Book, 1985.

(*) Indicates country's membership in the respective organization.

Although the Lomé Convention gives duty free access to the EC, the major influence on Caribbean trade has been the implementation of the Caribbean Basin Initiative (CBI). Conceived in 1981, the CBI finally came into effect on 1 January 1984. Twenty-seven countries were designated as eligible for CBI benefits. In 1985, 21 countries had applied for and been accepted into the programme. According to section 213 of the Caribbean Basin Economy Recovery Act of 6 August 1983, only the following products are ineligible for duty free entry into the US customs territory:

- textiles and apparel, which are subject to textile agreement;
- canned tuna;
- petroleum and petroleum products;
- footwear;
- certain leather, rubber and plastic gloves;
- luggage, handbags and flat goods;
- certain leather apparel;
- watches and watch parts when any material used originates from a centrally planned economy.

Sugar from the Caribbean enters the USA duty free, but exports are limited by the present quota system. In order to qualify for duty free treatment of sugar, beef and veal, a country has to ensure that increased sugar and beef exports will not adversely affect its levels of food production and nutrition.

To qualify, goods must be exported directly to the USA and a minimum of 35 per cent of their value added must be added locally. The initiative was supported by a $350 million aid programme. In case imports caused or threatened injury to the US industry, labour or agriculture, the President of the USA can, according to the provisions of the 1974 Trade Act, withdraw duty free treatment or impose duties lower than on imports from countries outside the Caribbean region. The President can also take emergency action to prevent perishable agricultural commodities from injuring a US industry, pending the outcome of a normal import relief investigation.

CBI applies to about 9,000 products defined in the US tariff schedule, whereas GSP covers only about 3,000. Moreover, many articles, particularly agricultural products, are only eligible for duty free treatment for a certain period of the year under GSP, while there is no such restriction under CBI. More important, GSP product coverage is shrinking and likely to be reduced in the long term so that it applies only to a few products and countries, in order to protect US industry. Initially, as enacted in 1976, exports of one single given product of a country above $50 million or above 50 per cent of the US market were excluded from GSP duty free benefit. In 1984, imports so excluded were worth $12.6 billion. GSP was renewed in 1984 for eight more years (1985-1993), but the total value of a given export could be reduced in 1987 by the President of the USA, who can also waive the limits entirely, but it is doubtful whether he would do sc given demands for increased protection and the slowdown in the economy and trade. GSP is in fact likely to fade away, while the CBI may not only be amplified in the 1986-1990 forecast period, but possibly even renewed beyond September 1995.

CBI is also more generous than Items 807.00 or 806.30 of the US tariff schedule. Both allow the duty free treatment of the portion of an import which originiates in the USA. Specifically 806.30 applies to articles previously exported from the USA for processing and then returned for further processing. 807.00 relates to articles exported for assembly abroad. According to the US Department of Commerce item 806/807 imports constituted 8.5 per cent of the total US imports in 1983, the duty free portion accounting for 2.2 per cent of total US imports. Around 3.6 per cent of total 806/807 imports was attributable to the Caribbean Basin.

On the surface the trade agreements would seem to be a failure, as they have not reversed the declining trend of the region's exports. Indeed, US imports from the 21 CBI beneficiary countries have declined steadily, even in current dollars since 1980: in that year they were valued at $10,359 million falling to $9,952 million in 1981, $8,205 million in 1982, $9,242 million in 1983, and $9,134 million in 1984. During the first half of 1985, imports dropped by a further 28 per cent.

However, the decline in exports has been the result of a fall in the earnings of the region's traditional exports, while non-traditional exports have increased significantly. The trade statistics of the Caribbean CBI beneficiary countries show that exports of petroleum products to the USA declined in the first half of 1985, by $2,99.1 million in the case of the Bahamas, by $548.4 million in The Netherlands Antilles and by $40.7 million in Trinidad and Tobago. Similarily, sugar exports declined by $44 million in the Dominican Republic, by $1.1 million in St. Kitts-Nevis and by $5.1 million in Trinidad and Tobago. Jamaica's bauxite exports declined by $126.1 million.

On the other hand, the volume of non-traditional products, most of them benefiting from duty free entrance into the USA under the CBI increased. They include vegetables, fruit, shellfish, toys, furniture, clothing, electronics, and other assembled products. In Barbados, though, exports of electrical appartus fell dramatically, partly due to a general slowdown of US demand, but more specifically to uncompetitive labour costs. The growth in some countries' exports to the USA in the first half of 1985 compared with the same period of 1984 was spectacular: St. Lucia's rose 100 per cent, St. Vincent's 255 per cent, Antigua's 290 per cent, Grenada's 250 per cent, Dominica's 8,600 per cent.

The value of trade with the Pacific States has fluctuated widely given the narrow export base, and variation in commodity prices. However, for most of the Pacific States the trade picture has been one of decline or stagnation, as shown in Table 16, and the balance of payments picture has worsened in 1987.

The main trading partners for the Pacific States have been their neighbours in the Pacific, except where traditional links have been maintained, for example, through the Commonwealth. Japan has increased its share of Solomon Island exports from 26 per cent in 1980 to 51 per cent in 1985, and of imports from 19 per cent to 23 per cent. The major trading partners for Vanuatu are the Netherlands, Australia and Japan, and for Tonga, Australia, New Zealand and the USA. The Lomé Conventions have not significantly affected trade patterns of the Pacific Island States.

Table 16: Balance of payments and reserves, selected Pacific States, 1980, 1984 and 1985

(US$ million)

	Exports(fob)	Imports(fob)	Trade Balance	Current Account Balance
Fiji				
1980	343.3	493.0	-149.7	-24.9
1984	227.9	390.7	-162.8	-26.9
1985	209.1	382.7	-173.6	-6.8
Papua New Guinea				
1980	986.1	1020.5	-34.4	-310.9
1984	915.4	965.6	-50.2	-324.1
1985	n.a.	n.a.	n.a.	n.a.
Solomon Islands				
1980	73.3	74.1	-0.8	-12.2
1984	91.7	65.8	25.9	5.3
1985	70.1	69.4	0.7	-18.9
Vanuatu				
1982	10.7	43.3	-32.6	12.2
1984	32.5	51.5	-19.0	22.9
1985	18.1	52.3	-34.2	-1.3
Western Samoa				
1980	17.2	56.9	-39.7	-12.9
1984	19.8	45.6	-25.8	0.8
1985	16.1	46.6	-30.5	1.7

Source: ABECOR, Country Report - The Pacific Islands, 1986.

2.2.4 Employment creation

Unemployment continues to be one of the most serious social problems within the Caribbean and Pacific regions. Six of the Caribbean States experienced 20 per cent or more unemployment in 1985.

Table 17: Employment and population characteristics of selected Caribbean countries, 1982-1985 and 1985

Country	Mid-year Population 1985 ('000)	Annual rate of population increase 1982-85 (Per cent)	Average labour force 1985 ('000)	Average unemployment rate 1985 (Per cent)
Jamaica	2,311.1	1.7	1,042.0	25.0
Trinidad and Tobago	1,181.2	1.5	471.1	15.3 b/
Guyana	790.8	0.8	240.0 b/	15.0 b/
Barbados	252.7	0.3	113.2	18.7
The Bahamas	232.0	1.6	120.0 b/	20.0 b/
Belize	166.4	2.7	43.7 b/	14.0 b/
Bermuda a/	54.0	...	32.0 b/	2.0 b/
OECS:				
St Lucia	136.8	2.0	45.5 b/	22.0 b/
St Vincent and the Grenadines	109.3	1.3	... b/	40.0 b/
Grenada	100.3	3.2	38.0 b/	28.0 b/
Dominica	77.9	1.4	26.0 b/	13.0 b/
Antigua & Barbuda	80.3	1.3	31.5 b/	21.0 b/
St Kitts-Nevis	45.6	0.7	23.0 b/	30.0 c/

Source: UNIDO, Industrial Development Review Series: The Caribbean Region, PPD.51, 1987.

a/ Dependent territory.
b/ 1984.
c/ 1983.

As a result of reduced output in primary sectors, unemployment has increased. Additional jobs were lost in the manufacturing and public sectors as demand fell and/or public expenditure was reduced. In a small number of countries - Grenada, Guyana and Jamaica - the proportion of unemployed within the labour force has been persistently high for some time; in others, where some greater progress has been made in job creation, there have been recent setbacks in export-oriented activities, either traditional or else in recently established offshore industries. Migration from rural to urban areas or to more developed islands in search of more prestigeous or higher paid jobs continues. In many sectors growth of wages continues to outstrip the growth of productivity adversely affecting international competitiveness; elsewhere some of the unemployment may have been disguised or have reflected reduced productivity. In many of the islands unemployment co-exists with shortages of agricultural labour, and at the same time there are perceived shortages of adequately trained labour and technical skills.

Jamaica has by far the biggest labour force in the Caribbean. Its total labour force stood at 971,400 in 1984. The sectoral distribution of GDP and employment in 1985 reveal some striking contrasts. While agricultural sector accounts for some 9 per cent of GDP, it employed over 33 per cent of the work force. Mining on the other hand produced 5.2 per cent of GDP with about 1 per cent of the work force. Manufacturing accounted for over 15 per cent of GDP and provided 11 per cent of employment. This results from some very large differences in value added per employee between more modern, capital-intensive sectors and the more traditional ones.

The total labour force of Trinidad and Tobago numbered 463,200 in 1985 and the rate of unemployment increased from 10.4 per cent in 1981 to around 20 per cent in 1986. The majority of unemployed are unskilled and there is a shortage of management personnel, technicians and skilled workers, and a relatively limited supply of agricultural workers. Since half of the population is under 20 years of age, the work force is expected to grow rapidly in the future. In order to improve skill levels in the labour force and to reduce unemployment, the government has introduced several manpower training programmes, especially in technical and vocational fields.

Sectoral distribution of employment in 1985 revealed that the construction sector was the largest employer, providing 19.0 per cent of the labour force, followed by distribution and hotels (16.6 per cent), public services (14.2 per cent), manufacturing (11.1 per cent) and agriculture (10.3 per cent).

The new industrial reorientation in Trinidad and Tobago places emphasis on the creation of jobs for the skilled and unskilled work force. While gas-based capital-intensive industries could absorb skilled workers, downstream activities in heavy industry and labour-intensive light manufacturing activities could provide jobs for the growing labour force.

In Guyana in 1984, of the total labour force of 240,000 persons, around 20 per cent was engaged in mining and manufacturing activities. There has been a 20 per cent fall in public sector employment in 1982-1985. It has been estimated that as many as 5,000 skilled and semi-skilled persons are leaving the country annually.

According to a study carried out in March 1984 by Production Sharing International Ltd the Caribbean region was becoming more cost competititive. The study entitled "Comparative Analysis of Investment Factors" compared production costs (including wages, overheads, shipping, freight, materials etc) of three different products:

- men's long sleeved dress shirts (manufactured in seven Caribbean countries), as representative of a labour intensive industry;
- automotive flashers, as representative of more capital-intensive production;
- special power supply units used in labour intensive electronic assembly.

According to this sudy, three of the four Caribbean countries under review proved fairly competitive with Asia and Mexico.

Table 18: Caribbean Production Cost Comparisons, 1984
($)

	Dress shirt	Auto flashers	Power supply
	(per doz.)	(per '000)	(per unit)
Costa Rica	54.25	231.3	16.22
Haiti	51.76	224.5	15.88
Dominican Republic	55.50	---	16.83
Jamaica	56.92	---	---
Juarez, Mexico	54.40	236.9	17.66
Barbados	60.20	255.5	18.97
Panama	59.45	255.6	---
Honduras	56.93	241.1	17.12
Far East	51.43[a/]	257.5[b/]	15.26[c/]

Source: Production Sharing International Ltd.

a/ Philippines. b/ Taiwan Province of China. c/ Malaysia.

Taking into account currency devaluations well above inflation rates in Jamaica and the Dominican Republic, those two countries will have gained significant competitiveness since early 1984 when the survey was conducted.

There are a number of uncertainties concerning the competitiveness of the Caribbean as an investment location in the longer term. First advances in industrial automation, particularly in areas such as textiles and electronics, both important industrial activities in the Caribbean, threaten to erode the labour cost advantages of some countries. But in those where wages are lowest, like Haiti, the Dominican Republic, St. Lucia or Dominica, automation will not be a threat in the immediate future period, even given the most optimistic hypotheses of progress in automation.

In some of the Pacific island countries, such as Papua New Guinea and the Solomon Islands, a significant proportion of the population remains largely outside the monetized sector, but with the drift towards the urban centres, especially in the small States, the share of wage labour has grown substantially. However migration in search of work is a characteristic of almost all island communities, with some smaller islands having their overall population growth restrained by long-distance migration to the industrialized countries of the Pacific Rim. Virtually all island countries are short of skilled manpower, especially technical and managerial personnel with practical experience. Annual output from the regions' training institutions is relatively small and there have been significant losses through emigration, high dropout rates, and inadequate incentives to acquire key skills. At the same time the continued reliance on expatriates limits the extent to which islanders can fill policy and decision-making posts. Minimum wage legislation often leads to high wage levels, which maintains the distinctions between urban and rural working conditions and deters entrepreneurs from establishing secondary activities. Tertiary activities in service transport or

constructions are much preferred by local investors largely because of greater certainty of demand. At the same time population growth rates and increasing unemployment in the main urban centres have created pressure for employment creation particularly in some of the smaller States. A number of island governments have been looking to secondary economic activities to meet this pressing need. However, in employment terms manufacturing accounts for only a small proportion of the work force, within the monetized sector. Availability of data is limited, but it is important not to exaggerate manufacturing's potential contribution to employment creation. For example in Papua New Guinea, in 1980 manufacturing and utilities accounted for about 10.8 per cent of the total formal sector employment of nationals. The latter stood at about 200,000 people. Between 1976 and 1980, national employment levels in the formal sector grew by 5.2 per cent a year. The corresponding figure for employment growth in manufacturing and utilities was 8.1 per cent per annum. However, this seemingly impressive performance represented only some 1,400 new jobs per year. It is, therefore, clear that even on highly optimistic assumptions the sector could only make a tiny contribution to the 40,000 jobs required annually by new entrants into the active labour force. In many of the islands service activities have proved much more attractive for local investment than manufacturing.

2.2.5 Extent of technical progress

The structure of industry in the Caribbean and Pacific is dominated by food, fisheries, textiles, wood and other natural resource-based activities. Since there are low engineering and skill intensity activities, they would appropriately reflect their technological comparative advantage. They are also of low capital and scale intensity.

Insofar as manufacturing has undergone structural 'deepening' in the two regions this is largely accounted for by the petroleum-based chemical industries, and mineral processing. For example Jamaica has received the largest single investment under the Caribbean Basin Initiative, a $23 million ethonol plant at Kinsgton, a joint venture of Tropicana Petroleum of California, and Shell. However the dangers of major fixed capital investments with sophisticated technology may also be illustrated in Jamaica. In 1985 prospects for exports of bauxite/alumina deteriorated with the ending of the special sales arrangements of 1984, and the temporary closure of the ALCOA alumina plant. As a result gross earnings from bauxite/alumina fell by J$200 million in 1985, with profound implications for the economy as a whole. The government sought to reduce public sector consumption under a severe austerity programme, debts were rescheduled, and long-term finance was raised.

For the great majority of the Caribbean and Pacific States manufacturing is a small sector. Options still need to be explored for increasing the linkages between manufacturing and the fishing, forestry, agricultural and mineral sectors, and to identify the scope for further resource-based industrialization using appropriate technology.

2.2.6 Indicators of industrial performance

The diversity of industrial structure and the lack of data, do not permit an overall regional view of performance, but it is possible to examine the individual cases of the States where manufacturing is most significant.

Jamaica

The manufacturing sector in Jamaica has traditionally been based on the strategy of import substitution, but in recent years exports have been of increasing importance. Significant deregulation of the sector has taken place under the Structural Adjustment Programme agreed with the IMF.

Notwithstanding various measures, including the relaxation of import licensing together with greater allocations of foreign exchange for imports of industrial inputs, the growth and performance of the manufacturing sector has been uneven. Table 19 displays the indices of both industrial and manufacturing production for the 12 year period ending 1984. The manufacturing sector in Jamaica grew at an annual average rate of 4 per cent during 1965-1973. The indices show a somewhat different behaviour of manufacturing and industrial production over the 1973-1984 period (1974=100). After the 1974 peak (102.2), the index of industrial production bottomed out (84) in the first quarter of 1982 - a year in which the bauxite sector registered a loss of 29 per cent. The Table reveals that industrial production never recovered anywhere near the level of the early 1970s. An overall downward trend existed until 1986. This was largely due to the sharp declines registered by the bauxite and alumina sector.

The picture that emerges from indices of manufacturing output is different. Manufacturing activities showed resilience between 1973 and 1978. Manufacturing indices showed the ability of the sector to recover when conditions allowed as for example through the increased availability of foreign exchange for spares and raw material parts. The production peak was reached in the second quarter of 1978 at a level of 118.3 (1974 = 100). In the following four years the manufacturing sector suffered loss of production. In 1980 the sector experienced a steep recession under the impact of foreign exchange shortages and domestic unrest, but showed some signs of recovery in 1981. After a fall in output in 1982, the sector rebounded in 1983 only to fall again in 1984. Despite this continued decline in the manufacturing output during the period of 1979-1986, manufacturing activities have been undergoing a process of structural change. The share of food products in MVA increased from 41 per cent in 1970 to 43 per cent in 1983. The MVA share of chemicals increased from 11 per cent to 16 per cent during the same period.

Table 20 shows figures pertaining to physical output of selected manufactures during 1979-1983. With the exception of fertilizer, diesel/fuel oil, cement and beer, 1983 production figures show the full extent of contraction of output when compared with 1979 level of output. Manufacturing production in 1984 showed mixed trends and uneven growth rates. Between 1983 and 1984 the processed food branch is estimated to have grown by 7.1 per cent, with large increases in the production of flour and cornmeal. Agro-based activities such as the production of sugar, rum and molasses fell some 4.1 per cent; other beverages fell by 9 per cent and cigars and beer showed the greatest falls. While apparel and sewn products grew rapidly, textiles and footwear as a whole declined. Chemicals and chemical products expanded by almost 4 per cent, but output of paints declined with the lack of construction activity; for similar reasons cement and steel production also declined.

Table 19: Jamaica: indices of industrial and manufacturing production, 1973-1984

Year		Industry	Manufacturing	Year		Industry	Manufacturing
1973	I	94.5	97.7	1979	I	90.4	94.7
	II	96.7	100.4		II	92.7	99.9
	III	98.3	101.6		III	93.2	100.7
	IV	94.9	96.1		IV	103.4	116.5
Average		96.1	98.9	Average		94.9	103.0
1974	I	97.4	98.3	1980	I	96.3	103.8
	II	102.2	102.2		II	89.5	87.7
	III	101.4	100.3		III	91.6	92.4
	IV	99.0	99.2		IV	91.9	93.4
Average		100.0	100.0	Average		92.3	94.3
1975	I	101.0	101.6	1981	I	93.4	93.0
	II	102.6	113.3		II	92.0	91.2
	III	96.5	105.5		III	95.2	98.3
	IV	96.0	108.6		IV	92.7	97.5
Average		99.0	107.3	Average		93.3	95.0
1976	I	96.9	109.7	1982	I	84.0	94.2
	II	90.1	108.7		II	85.2	91.6
	III	96.0	110.1		III	89.5	99.9
	IV	97.4	108.1		IV	84.0	95.1
Average		95.1	109.2	Average		85.7	95.2
1977	I	99.0	110.8	1983	I	94.1	109.1
	II	96.1	105.2		II	92.7	105.3
	III	98.6	108.5		III	93.9	104.8
	IV	102.6	112.8		IV	90.1	99.2
Average		99.1	109.3	Average		92.7	104.6
1978	I	97.7	105.7	1984[a/]	I	90.9	103.1
	II	105.2	118.3		II	90.3	105.9
	III	96.8	106.4		III	84.0	100.9
	IV	95.2	100.5		IV	87.8	103.8
Average		98.8	107.7	Average		88.2	103.4

Source: Planning Institute of Jamaica, Quarterly Economic Report, Oct.-Dec. 1984/85, Vol. 1, No. 3, p.42.

a/ Provisional.

Table 20: Jamaica: production of selected manufactures, 1979-1984

Product	Unit	1979	1980	1981	1982	1983	1984
Sugar	'000 tons	279	228	202	192	195	185
Rum	'000 tons	3,279	3,279	3,715	3,361	2,696	3,123
Molasses	'000 tons	108	101	79	99	93	89
Beer	'000 gal.	11,326	13,993	12,379	12,477	12,490	10,388
Cigarettes/ cigars	millions	1,412	1,309	1,269	1,435	1,378	1,280
Textiles	'000 yards	6,700	4,979	3,448	3,543	3,555	2,125
Cement	'000 tons	222	142	162	208	273	257
Gasoline	'000 gal.	59,156	50,388	44,054	55,476	43,545	25,573
Diesel/fuel oil	'000 gal	156,383	174,944	108,995	148,141	164,560	103,485
Fertilizer	tons	30,279	28,129	24,460	18,977	36,701	32,954

Source: Planning Institute of Jamaica, Economic and Social Survey of Jamaica, 1984.

Table 21: Trinidad and Tobago: physical output of selected manufactures in 1985[a/] and average annual increase, 1981-1985

Product	Unit	Volume 1985	annual increase (per cent) 1985	1981-85 (average)
Cement	'000 tonnes	305.7	-24.6	10.4
Fertilizers	'000 tonnes	1,660.0	13.8	19.3
Steel Products	'000 tonnes	474.3	-17.2	80.6
Motor Vehicles	'000 units	13.6	-40.4	2.7
Radio Receivers	'000 units	3.4	54.5	-16.3
Television Sets	'000 units	23.6	22.9	13.0
Gas Cookers	'000 units	16.2	-20.2	-7.1
Refrigerators	'000 units	8.5	-61.0	-21.0
Rum	m proof gallons	2.5	-13.8	-13.3
Beer & Stout	m litres	25.9	-23.4	-6.9
Edible oil	m litres	4.3	44.2	-11.9
Margarine	m kg	1.8	-25.0	---
Soap	m kg	1.8	5.9	-11.4

Source: Central Bank of Trindad and Tobago.

a/ Estimate.

In 1984-1985 low domestic and regional demand, high interest rates, and new duties on imported raw materials forced a reorientation of business activities which adversely affected the sector's performance, particularly in footwear and furniture. In 1984 exports of manufactured items amounted to US$148 million, a 6 per cent fall on the previous year - with the only exception of apparel and sewn products which accounted for much of the growth in exports of miscellaneous manufactures: this resulted from a number of additional producers of garments establishing new production capacity in the Kingston Free Zone and the expansion of '807' manufacturing by Jamaican apparel prooducers. Exports of manufactured items to CARICOM during 1984 fell by 37 per cent to US$ 52.5 million, largely as a result of the protective attitudes adopted by a number of member countries. However, there was a 17 per cent increase in the direction of trade from CARICOM to third countries, as producers began to seek extra-regional markets, although not in the direction of the EC.

Trinidad and Tobago

The level of industralization in Trinidad and Tobago is well below that of other countries at a similar level of per capita income. Under the auspices of the government's Industrial Development Corporation, a planned industrialization policy has been carried out in pursuit of using the country's oil revenues to develop the non-oil sector and diversify foreign exchange earnings.

For the last 25 years the manufacturing sector has benefitted from an "infant industry" status. Recently, however, import substitution is encountering increasing difficulties in the small national market. The cost of the long-term support given to infant industries has been high not least through the compensatory subsidies paid to consumers. Manufacturing has thus far been a net recipient of foreign exchange and has generated little tax revenue. The decline of the petroleum sector has created a need for alternative sources of foreign exchange to which the manufacturing sector could contribute.

Manufacturing in Trinidad and Tobago expanded rapidly after 1973 behind a tight system of non-tariff protection. Real annual growth of manufacturing output ranged between 5 per cent and 15 per cent during 1974-1978 and the manufacturing sector accounted for 10.2 per cent of GDP in 1985. The manufacturing sector registered a 2.1 per cent fall in 1982, but recorded a 4.1 per cent rise in output in 1983 in contrast to over 7 per cent decline in GDP in the same year. According to the Central Bank, manufacturing in Trinidad and Tobago suffered declining growth rates of -11.3 per cent and -15.7 per cent (at 1970 prices) in 1984 and 1985 respectively.

The share of food products in MVA rose from 15 per cent in 1970 to 26 per cent in 1983, while the share of textiles in MVA increased marginally from 5 per cent to 6 per cent during the same period. Machinery and transport equipment had a substantial increase in its share of MVA from 5 per cent in 1970 to 15 per cent in 1983. Chemicals accounted for 8 per cent of MVA in 1983.

Table 21 presents estimated physical output of selected manufactures for 1985 and figures pertaining to growth rates over the year 1984 and the period 1981-85. With the exception of fertilizers, radio receivers, television sets, edible oils and soap, all other subsectors of manufacturing suffered two-digit negative growth rates in 1985. The most striking aspect of manufacturing growth was an 80.6 per cent average growth recorded by steel products during 1981-1985, despite a 17.2 per cent fall in 1985.

Despite mixed performance of energy-intensive heavy industries, the government seems to rely on heavy industry as the possible long-term successor to an oil-based economy. The policy of the government is also aiming at developing its light industries. Assembly of imported parts and mixing and bottling operations of the food processing industry dominate light manufacturing with about two-thirds of total value added. In the 1960s, Trindad and Tobago was a net exporter of food. Now the country relies on imports for about 75 per cent of food requirements.

The sugar industry continues to be in deep recession, despite a reported 92,000 tonne harvest in 1986, which was 14.1 per cent higher than 1985 output and higher than the target. Caroni, the State sugar company incurred a financial loss of TT$11.8 million in 1986. The company is yet to recover from the impact of a two-month industrial dispute, heavy rain and high levels of cane fires. Deteriorating conditions forced Caroni to lay off 8,000 of its employees in 1985 and 1986. As part of a restructuring of sugar processing, Caroni is to be merged with another public concern, Orange Grove National Estate, with a view to producing 100,00 tonnes of sugar a year. In 1984 Trinidad's Usine St Madeline refinery processed 47,000 tonnes of raw sugar from Brazil, the Dominican Republic and Guatemala. It aims at operating at its 60,000 tonnes a year capacity.

Among the light industries, the garment industry suffered a sharp fall in sales in 1986 in the face of foreign competition and recent currency devaluations in CARICOM countries.

Because of the oil-induced recession, sharp contraction in domestic and foreign demand and high production costs, manufacturing production was almost 14.5 per cent below the level attained in 1984. Sales in almost all subsectors of light manufacturing deteriorated substantially. A comparison of sales indices for the second quarter in 1985 with that of 1984 shows that sales within food processing industries declined by 3.7 per cent; drink and tobacco by 2.9 per cent. Sale of textiles, garments and footwear fell by 14.5 per cent, and printing, publishing and paper products by 8.9 per cent.

Guyana

The manufacturing sector in Guyana, exclusive of bauxite processing and the milling of sugar and rice, is very small accounting for less than 10 per cent of GDP and of export earnings. Most of these activities are undertaken by the private sector, which has grown rapidly in the last decade, although its potential contribution to the economy has been limited. The difficult economic environment, particularly the shortage of foreign exchange and frequent interruptions of power have inhibited the growth of existing enterprises. The uncertainties of the new investment climate have constrained diversification and the creation of new enterprises and activities.

Manufacturing activities take place in both the public and private sector enterprises engaged in the production of a variety of consumer, intermediate and capital goods. The processing of sugar cane, rice, timber, coconuts, gold, manganese and diamonds accounts for about 75 per cent of the country's manufacturing output. Additional manufacturing activities encompass light consumer goods produced by a large number of small-scale firms. In terms of investment, the public sector is dominant. There are 625 enterprises in the

private sector, of which 217 firms are found in wood industry (including furniture) and 104 firms are engaged in the production of footwear, textiles and wearing apparel. In recent years a number of co-operative ventures have also been established. The small (10-50 workers) and medium (51-100 workers) enterprise sectors contribute approximately 20 per cent of MVA.

Although the manufacturing sector in Guyana grew faster than other sectors in the 1970s, its contribution to the overall transformation of the economy remained far below its potential. Lack of investment and shortage of imported inputs limited the possibility of widening the manufacturing base and boosting exports.

Notwithstanding these constraints, the performance of several industrial activities improved considerably in 1984-1985 in contrast to their performance in the period 1972-1982. Production of aerated beverages, cigarettes, sweetened biscuits, matches, textiles, footwear and stoves increased substantially in 1985 compared with the production levels achieved in 1984. Table 22 shows that pharmaceutical products, stockfeed, paints and refrigerators recorded downturns in 1985. Estimated indices of manufacturing output for 1986 show that with the exception of stockfeed and biscuits, recorded output was above the base year (1984) level.

In recent years the non-traditional manufacturing sector grew significantly in value added, although performance across the various product groups was mixed. A variety of consumer, intermediate and capital goods are manufactured; these include food and beverages, pharmaceuticals, textiles and leather, and consumer goods such as refrigerators and stoves. Given the country's natural resources, the high level of literacy and research capabilities, the potential for the manufacturing sector is considerable. However, the industrial sector in general has been constrained by inadequate machinery and equipment and insufficient supplies of spares and raw materials, leading to continued low capacity utilization.

The State-owned Guyana Mining Enterprise Ltd. (GUYMINE) undertakes bauxite production and operates mines and plants at four locations. Guyana is the world's largest producer of calcind grade bauxite and accounts for 50 per cent of the world market. Output performance of bauxite industry declined from 350,000 tonnes in 1983 to 560,000 tonnes in 1984 and 580,000 tonnes in 1985, the rate of capacity utilization was far below the installed capacity. The low level of capacity utilization is the result of poor plant and equipment condition and high operating costs. In 1984, fuel oil, wages and salaries accounted for 47 per cent of GYMINE's total cost of production. The existing plants and equipments require extensive rehabilitation. Apart from under-utilization of capacity, the industry's finances have deteriorated since 1976 because of low productivity, depressed world prices and emergence of new competitors.

In early 1986 GUYMINE invested $ 62 million to rehabilitate bauxite mining installations. The International Development Association (IDA) approved a $7 million loan in August 1986 for the industry's rehabilitation plan, particularly for developing marketing and cost control techniques. A new product development involving production of a new refractory grade of bauxite is also envisaged. In 1984 and 1985 Guyana received ECU4 million from SYSMIN for rehabilitation.

Table 22: Guyana: physical volumes and indices of manufacturing output, selected products, 1984-1986

Item	Unit	1984	Index	1985	Index	1986[a/]	Index
Rum	Litres million	17.3	100.0	17.9	103.47	18.2	105.20
Beer & stout	'000 litres	7,731.5	100.0	7,982.0	103.21	9,002.0	116.43
Aerated							
Aerated	'000 cases	2,083.0	100.0	2,418.0	116.08	2,700.0	129.62
Malta	'000 cases	273.0	100.0	342.0	125.27	300.0	109.89
Shandy	'000 cases	176.0	100.0	277.0	157.39	240.0	136.86
Cigarettes	Million sticks	373.2	100.0	466.9	125.11	510.0	136.66
Stockfeed	Million kg	26.1	100.0	50.9	97.70	25.0	95.79
Flour	'000 lb	---	---	---	---	---	---
Biscuits:							
Sweetened	'000 kg	95.5	100.0	286.4	299.89	438.6	459.26
Unsweetened	'00 kg	806.4	100.0	50.9	6.31	545.5	67.65
Pharmaceuticals:							
Liquid	'000 litres	528.0	100.0	438.0	82.95	840.0	159.09
Tablets	Million	22.5	100.0	18.4	81.77	48.0	213.33
Ointments	'000 kg	4.9	100.0	5.0	102.04	9.6	195.92
Matches	'000 gross cartons	114.5	100.0	160.8	140.44	240.0	209.61
Paints	'000 gallons	65.2	100.0	30.3	16.47	100.0	153.37
Textiles	Million metres	1.5	100.0	1.7	113.33	4.3	286.67
Footwear	'000 pairs	216.8	100.0	233.0	107.47	305.0	140.68
Refrigerators	Number	9,607.0	100.0	6,092.0	63.39	10,000.0	104.09
Stoves	Number	1547.0	100.0	1,635.0	105.69	---	---

Source: Central Statistical Bureau.

a/ Projected.

Local production of capital goods is very limited and virtually all capital goods are imported. The users of capital goods are the dominant economic sectors, namely bauxite, sugar and rice. In line with the government's aspiration to develop the indigenous capacity for local manufacturing of capital goods with a view to saving foreign exchange and to enhance the technological capability of the country, metal and engineering industries have been established both in public and private sectors.

Current production levels in manufacturing enterprises are substantially less than installed capacities, particularly in the production of garments, edible oils, margarine, flour and biscuits. Prospects for growth depend on the pace at which productive capacity in bauxite and sugar industries can be upgraded and rehabilitated, and idle capacity in the manufacturing sector refurbished and brought into production.

Barbados

The manufacturing sector in Barbados can be divided into two distinct parts according to ownership. Locally owned firms produce furniture, garments, engineering products, chemicals and food products for domestic and regional (CARICOM) markets. Multinational firms in Barbados produce electrical and electronic components, data processing services, engineering products and garments, mainly for the North American market. The problems facing these two groups differ considerably.

One of the major manufacturing activities is the processing of sugar. Secondary industries include edible oils, soap, margarine and lard compounds, together with textiles and clothing, paints, paper products, furniture and electronic components. In 1984 a major cement plant came into operation, which should more than meet local requirements and produce an exportable surplus.

The contribution of the manufacturing sector to GDP increased steadily in value during the late 1970s, and in 1981 physical output was 40 per cent higher than ten years before. In the 1980s, however, growth has slowed considerably and recently the manufacturing sector has only just held its share of GDP.

Local manufacturing enterprises have been affected by the recent marked decline in CARICOM trade in the face of severe economic difficulties in Jamaica and then Trinidad and Tobago - the major regional markets. It has been estimated that roughly half of Barbadian manufatures were sold in the regional makrket place between 1977 and 1982, Barbadian exports to CARICOM markets increased by an annual rate of almost 25 per cent. This trend reversed in 1982 and exports to CARICOM fell by 2.9 per cent in 1983 and by 8.3 per cent in 1984. Largely as a consequence, manufacturing employment in Barbados fell by 17 per cent between 1983 and 1984.

Table 23 shows that the index of industrial production (1982 = 100) fell from 108.2 in 1984 to 104.6 in 1985 in consequence of falling production levels in the major branches; electronic components declined by 20.3 per cent, wearing apparel by 15.6 per cent, chemicals by 11.1 per cent and wooden furniture by 12.4 per cent. There has been much less growth amongst companies operated by multinational corporations in the last two years; indeed in contrast to their performance in the early 1980s, output and employment seem to have declined since 1984. This is largely the result of world-wide recession and excess inventories. In addition the very success and increased

prominence of the electrical components subsector has somewhat increased the economy's vulnerability to world trade cycles. In 1985 exports of electrical components amounted to over 60 per cent of Barbados' total manufactured exports.

Table 23: Barbados: index of industrial production, 1981-1986
(1982 = 100)

	1981	1982	1983	1984	1985	1986[a/]
Total industries	103.7	100.0	104.4	108.2	104.6	117.9
Mining and quarrying	100.1	100.0	118.5	161.6	174.0	163.9
Electricity and gas	98.3	100.0	116.1	121.7	130.2	140.3
Manufacturing	104.6	100.0	102.1	103.2	97.2	112.3
Food	116.0	100.0	99.3	99.7	101.3	109.1
Beverages & tobacco	109.9	100.0	98.2	90.4	90.9	123.5
Wearing apparel	102.9	100.0	106.2	110.7	93.4	90.0
Wooden furniture	124.5	100.0	116.8	115.9	101.5	96.4
Chemicals	107.2	100.0	97.2	83.9	74.6	117.3
Petroleum products	100.0	100.0	97.5	99.5	103.7	123.7
Other non-metallic mineral products	134.2	100.0	84.3	77.8	87.2	155.2
Electronic components	69.0	100.0	108.2	141.0	133.3	142.8
Other	108.9	100.0	102.8	95.2	87.0	100.9

Source: Barbados Statistical Services.

a/ July 1986.

Papua New Guinea

Amidst strong fluctuations in the growth pattern of MVA, the food industry expanded sharply during the second half of the 1970s, with the exception of a 2.4 per cent decline in 1979 (Table 24), suggesting that it was only a pause before a spurt as value added in food industry continued to expand since 1980. Metal-based manufacturing, the second most important manufacturing branch, exhibited a much lower, strongly fluctuating growth rate. Wood products grew strongly during the late 1970s, but suffered from a setback in the early 1980s.

The structure of the manufacturing sector underwent one major change during the 1975-1984 period. Food processing replaced metal-based manufacturing as the most important branch, representing 44 per cent of MVA in 1984. The wood and wood products branch has retained and slightly improved its position. These three branches together produced some 85 per cent of MVA in 1975, and approximately 80 per cent of MVA in 1984. Among the less important branches, non-metallic minerals strengthened its position.

Manufacturing employment grew faster than manufacturing value added and productivity levels consequently declined. Table 25 presents estimates of labour productivity and of the share of value added in gross output at the branch level over the period 1978-1980. It can be seen that for the manufacturing branches shown in Table 25, aggregate labour productivity declined by about 4 per cent over this period. The fall was most marked in the case of food products where productivity levels fell by almost 40 per cent.

The paper products branch also registered a decline. On the other hand productivity increased significantly for the chemical, wood and metal based branches. The wood and metal products branches also experienced a rapid increase in the value added to gross output ratio. Overall, however, this ratio declined by about 12 per cent over this period indicating that industrial costs rose substantially. Once again the food products branch was most seriously affected - value added declined by as much as 33 per cent in this case.

Fiji

Increased national self-reliance was a major objective of Fiji's Eighth Plan (1980-1985) basic strategy, which involved considerable investment in increasing and diversifying primary sector output coupled with primary sector processing at a later stage. There was to be a reorientation of investment by region to ensure better distribution across the country. Fiji's Ninth development plan (1986-1990) aims at achieving real GDP growth of 5 per cent a year. On the output side, emphasis is given to the growth of resource-based industries. The Plan retains the diversification and distribution objectives. Creating new employment opportunities is also an ongoing concern. Measures to increase financial stability as well as efficiency and competitiveness in the manufacturing sector are to help increase economic growth. Special attention will be given to cottage and small-scale industries. There is to be a shift from investment in infrastructural works to directly productive activities.

Within these planning frameworks the industrial sector was expected to help make optimal use of the available human and physical resources and to reduce income disparities. Initially industrial projects were chosen allowing only moderate economies of scale, and with modest export potential and capabilities of enhanced value added. Although import substitution was well developed by the time of the Sixth Plan it was not to be taken as far as full self-sufficiency - rather there would be a concentration on activities with export-possiblities. In the Eighth Plan both export and industries were encouraged with high priority to industries based on local primary commodities and the production of inputs required by primary and other sectors. Industries based on imported raw materials were to produce essential items for the domestic market and goods for export. Low priority is given to industries based on imported raw materials and producing non-essential items.

Table 24: Papua New Guinea: manufacturing value added, 1975-1984
(in millions of Kina at current prices)

Year	Total manufacturing	Food products	Textiles & leather	Wood, wood products	Paper & printing	Chemicals	Non-metallic minerals	Metal-based manufacturing	Others	Total manufacturing growth rate (per cent)
1975	80,290	24,019	733	11,650	2,992	23,308	1,119	33,692	4,138	
1976	102,680	36,657	838	12,357	5,643	6,050	1,704	35,939	5,5058	27.88
1977	136,110	58,302	889	16,403	6,345	10,936	1,719	40,744	4,929	32.56
1978	138,160	66,446	1,130	22,905	6,913	6,867	5,887	26,320	2,132	1.51
1979	147,240	64,830	1,063	25,569	7,169	5,800	7,305	34,561	3,188	6.57
1980	187,840	75,359	1,315	40,409	7,584	5,818	7,559	46,446	3,345	27.07
1981	188,100	82,914	1,404	34,771	8,721	7,529	8,305	41,009	3,434	0.14
1982	198,990	87,616	1,486	36,785	9,226	7,965	8,786	43,383	3,643	5.70
1983	221,180	97,495	1,651	40,886	10,255	8,782	9,756	48,221	4,050	11.15
1984	242,250	106,783	1,809	44,780	11,232	9,696	10,696	52,817	4,436	9.53

Source: UNIDO data base.

Table 25: Papua New Guinea: performance indicators in selected subsectors of manufacturing, 1978-1980

	Value added ratio[a/]			Productivity ratio[b/]		
	1978	1979	1980	1978	1979	1980
Food products	45.5	30.2	30.0	16,360	10,700	10,290
Textiles & leather	53.3	50.5	59.0	2,985	3,514	5,058
Wood	50.3	52.4	58.5	5,087	5,176	7,108
Paper	54.8	47.8	47.4	6,934	6,494	6,841
Chemicals	60.4	52.9	52.7	22,413	19,566	27,335
Non-metallics	54.6	52.9	50.0	12,240	11,128	13,933
Metal band products.	40.1	40.7	45.8	8,001	7,009	9,624
Total manufacturing	45.7	37.5	39.8	9,508	8,013	9,219

Source: Official National Statistics.

a/ Value added to output (in percentages).

b/ Value added to total employment (K '000).

Table 26: Fiji: projected sectoral rate of growth in terms of gross value added at factor cost, 1985-1990

		Gross value added 1985	1990	Growth rate (per cent)
1.	Agriculture, forestry, fishing			
	1.1 Crops			
	1.1.1 Sugar cane	51.6	74.2	7.5
	1.1.2 Other crops	37.5	53.3	7.3
	1.2 Livestock	13.7	17.4	4.9
	1.3 Fishing	15.5	22.3	7.5
	1.4 Forestry	11.2	16.7	8.4
	1.5 Subsistence	72.4	80.0	2.0
2.	Mining and quarrying	10.3	16.9	10.4
3.	Manufacturing			
	3.1 Sugar	25.1	36.7	7.9
	3.2 Other food, drink & tobacco	48.2	67.4	6.9
	3.3 Other manufacturing	75.4	96.5	5.0
4.	Electricity, gas, water	24.4	31.9	5.5
5.	Construction	90.2	115.7	5.1
6.	Trade	229.2	293.2	5.0
7.	Transport & communications	114.8	143.2	4.5
8	Finance, insurance and real estate and business services	94.2	129.5	6.6
9.	Community & other services	328.3	390.2	3.5
	Total	1,242.0	1,585.1	5.0

Source: Ninth Development Plan 1986-1990, p.14.

Western Samoa

Manufacturing activities grew quickly during the 1970s, averaging over 3.5 per cent per annum, but are still very modest. In 1983 some 75 industrial enterprises were in operation. In 1981, the manufacturing sector contributed 6.5 per cent of GDP and employed 757 persons. In 1983, without improving its GDP share, the industrial work force had grown to 1,431, about half of these being employed in the food industry, the most important manufacturing branch.

In the period 1978-1980 a number of medium-scale enterprises came into production including a brewery, a cigarette factory, an animal feed mill and a match factory. Coconut cream, exotic tropical fruit juices and fishing boats were also produced on a significant scale. A coconut oil mill and a veneer mill factory were completed during the Fourth Plan (1980-1984). The coconut mill brought considerable benefits adding WS$ 4.7 million in foreign exchange to the 1983 export receipts. During the same period, another coconut cream factory was completed, and in 1984 a new meat canning factory started operations. A new soap factory was to be built in 1985/86, and the Samoa Forest Products factory was to be re-equipped in 1985. The majority of enterprises are small-scale employing less than 15 persons.

The market for manufactured goods in Samoa is limited by the small population, its low purchasing power and the small size of the monetized sector. Distance from major metropolitan markets also inhibits larger-scale operations. Manufacturing activities in the main are oriented towards substituting for imports of consumer goods. The potential for both forward and backward linkages remains underexploited and many enterprises rely heavily on imports of raw materials and intermediate inputs.

Table 27: Western Samoa: indicators of industrial output, 1979-1984

	1979	1980	1981	1982	1983	1984
Beer						
Volume ('000 hecto litre)	38.8	45.7	42.5	50.6	43.2	39.6
Value (market prices in '000 tala)	2,727	3,792	3,965	5,126	5,900	6,243
Cigarettes						
Volume (millions of cigarettes)	67.5	142.9	131.3	157.0	129.6	152.1
Value (market prices in '00 tala)	1,630	2,953	3,516	4,708	5,608	8,762
Timber						
Volume ('000 cubic feet)	8,906	8,983	8,197	8,666	6,722	6,273
Value ('000 tala)	1,914	2,618	2,797	3,507	3,454	4,159
Veneer						
Volume (in cubic metres)	---	---	---	1,066	1,579	1,241
Value ('000 tala)	---	---	---	261	542	575
Coconut oil						
Volume (million tons)	---	---	---	8,679	12,252	10,955
Value ('000 tala)	---	----	----	4,452	11,446	21,621
Copra meal						
Volume (million tons)	---	---	---	4,577	65,74	5,477
Value ('000 tala)	---	---	---	442	673	766
Soap						
Volume (million tons)	956	898	807	923	713	661
Value ('000 tala)	755	721	819	1,183	1,065	1,215
Matches						
Volume (in '000 boxes)	1,738	3,604	1,967	4,477	3,251	3,200
Value ('000 tala)	80	127	101	283	205	230

Source: Department of Economic Development.

3. CONSTRAINTS ON INDUSTRIAL CO-OPERATION UNDER LOME CONVENTIONS

3.1 Major constraints to industrial co-operation between ACP/SSA and EC

The experience of African industrialization under Lomé has been influenced by a complex and interdependent set of constraints. It is clear that many ACP/SSA countries are subject to exogenous shocks stemming from factors that are beyond their control. These included deteriorating terms of trade, oil crisis, drought, floods, influxes of refugees, etc. and the impact of such shocks has contributed to the severe problems encountered in fostering 'industrial co-operation'. Nevertheless, the response of individual country governments to such exogenous shocks has played a major role. The constraints limiting the impact of Lomé on industrial co-operation also include problems of a broader and longer-term structural nature.

An analysis of obstacles to "directly productive" investment was explicitly provided for by Lomé III (Article 241). Two studies were commissioned by the EC.[1/] One study focussed on the constraints as perceived in the ACP/SSA, and for this 343 ACP/SSA firms were interviewed. The second study focussed on the constraints as perceived from the European view, and more than 1,000 firms and organizations of various sizes and sectors in the EC countries were interviewed. This presentation of the constraints to industrial development include findings from both studies.

3.1.1 Dearth of investible resources: stagnating flow of funds to industry

In no low-income ACP/SSA country has significant local mobilization of domestic resources for industrial development, either by the State or individual businessmen, been achieved. The limited domestic financing capacity may be attributed to low per capita income, low or negative growth rates, and high dependency ratios within families resulting in low savings ratios. In 1984 savings as a percentage of GNP for Asian low-income countries was 24.3 per cent but for ACP/SSA only 4.3 per cent. The share of investment in GNP in 1984 for Asian low-income countries was 26.5 per cent and for APC/SSA only 11.8 per cent. Large subsistence sectors and weak trading sectors further limit taxable capacity. Most of the ACP/SSA have tax/GDP ratios below 10 per cent. Investing from retained profits are by definition impossible with loss-making/subsidized enterprises. External sources of investible resources are therefore essential for industrial development.

At first glance both Lomé I and II gave a prominent place to industrialization in terms of funds allocated and technical co-operation efforts. A total of ECU 424 million was approved for EDF 4 and ECU 755 million for EDF 5, or 14.3 per cent and 20.9 per cent of approved aid respectively, representing a 78 per cent increase. Unfortunately, the definition of industrialization used by the EC is broad, and the narrow definition of industrialization to exclude energy related projects and extractive industries indicates an increase from ECU 236 million to ECU 308 million, or an increase in share of total EDF 4 and 5 from 7.9 per cent to 8.5 per cent. In EDF 6, the allocation to industrialization has fallen

---

1/ Ph. Queyrone, The Constraints on Industrial Co-operation between Firms in the EC or ACP Countries, EC, 1985, and J.A. Tilot, Barriers to Industrial Co-operation between Firms and Partners in Developing Countries, EC, 1986.

by more than half from EDF 5 to 320 million ECU, or 14 per cent of approved aid. By December 1987, ECU 26 million, or 8 per cent of this allocation had been spent. A narrow definition of manufacturing industries, (excluding energy and extractive industries) saw a steep decline in aid approval from ECU 104 million to ECU 76 million, or 24 per cent and 10 per cent of aid approved for industrialization. In EDF 6, excluding mineral and energy related projects and extractive Industries, reduces the allocation to industrialization to only ECU 22 million, or a decrease in share of EDF 6 to 7.4 per cent. As a share of total EDF 4 the allocation of manufacturing industries according to this definition was a mere 3.5 per cent, of EDF 5 only 2.1 per cent and EDF 6 less than 1 per cent.

Under Lomé I, the commitments of European Investment Bank (EIB) whether in the form of loans from own resources of risk capital operations, climbed steadily. During the first year (1981), Lomé II saw a notable increase in the Bank's commitments was mainly as a result of the "reserve" of projects built up during 1980. Between 1982 and 1984, the annual volume of loans from own resources dropped appreciably with the result that by the end of 1984 less than 60 per cent of the ECU 685 million appropriations had been committed. The main reason for this was the worsening economic situation in most of the ACP States, which were finding it increasingly difficult to set up and finance projects in productive sectors. In 1985, however, the level of commitments from the Bank's own resources rose sharply to nearly ECU 156 million, and about 88 per cent of total funds had been committed by 31 December 1985. Adapting the broad EC definition of "industrialization", of total commitments of EIB under Lomé I and II, some 88 per cent went to industry, but excluding energy and extractive industries the share falls to 42 per cent.

The EIB has supported 50 Development Finance Banks or Corporations in 40 ACP countries through 123 operations, mainly in the form of global loans, for an aggregate amount of ECU 431 million. At 31 December 1987, a total of 595 allocations had been approved for the financing of an approximately equal number of projects.

Assistance to Development Financing Corporation (DFCs) is the single most important activity of the EIB under the Lomé Conventions, accounting for 22 per cent and 29 per cent of total loan commitments and total number of operations, respectively. Both own resources and risk capital have been used. A total of ECU 277 million of own resources have been committed through 41 different global loans for long-term lending, while ECU 154 million of risk capital have been used to finance a variety of different types of assistance, including pre-investment feasibility studies and equity participations. The latter have contributed to help promoters arrive at a better definition of their investment plans and to bridge critical equity-gaps that are often a major constraint to successful project implementation.

A break-down of activities by countries in terms of their income per capita shows that approximately 75 per cent of both total operations and funds allocated have been in favour of countries with a GDP per capita of less than $900. Countries with an income per capita of less than $450, accounted for 35 per cent of total funds allocated. As shown in Table 30, the utiliztion of own resource is concentrated in relatively high-income countries, while risk capital has, to a large extent, been used to finance global loans in lower-income countries.

Table 28: Use of risk capital of EIB, as of October 1987

Purpose of allocation	Number of allocations
Equity participations	29
Conditional loans	168
Subordinated loans	17
Feasibility studies	21
Total	235

Source: EIB

As shown in Table 29, the geographical distribution of EIB operations is widely spread throughout the ACPs.

Table 29: Geographical distribution of EIB allocations, 1987

	Africa			Caribbean	Pacific
	West	Central	East		
No. of countries	5	12	9	9	5
No. of allocations	117	133	140	141	64
Amount allocated (mn ECUs)	128	105	81	68	17

Source: EIB.

Table 30: EIB resource/risk capital distribution, 1987
(percentage)

Income groups US$ per capita	Own resources	Risk capital
Under $450	17.0	40.0
$451 to 900	37.0	30.0
Over $900	46.0	30.0

Source: European Investment Bank (EIB).

There is real concern that the EIB has as its main focus investment needs of Europe, and that industrial development requirements ACP/SSA are peripheral. For the period 1981-1985 EIB commitments under Lomé II amounted to only 3 per cent of their total financing. In 1986/87, under Lomé III, ACP share of EIB finance was 3.6 per cent. The CDI, with its small budget of ECU 40 million is also severely handicapped by limited availability of investible resources

The inadequacy of investible resources for ACP/SSA industrial development under Lomé should be seen in the context of stagnation in the overall flow of external resources to SSA. Sub-Saharan Africa relies heavily on external resource flows. In 1983-1984, net external financial resources from all sources, concessional and non-concessional, accounted for 7 per cent of Sub-Saharan African countries' GNP, more than twice the average for all developing countries of 3 per cent, and 2 per cent for Asia. For low-income Sub-Saharan African countries the share was 11 per cent. The bulk of African external resource flows consists of Official Development Assistance (ODA); about 70 per cent in 1983-1984. During the 1970s and up to the early 1980s, external resource flows to Sub-Saharan Africa increased substantially, reflecting both higher priority accorded to Sub-Saharan Africa by official development agencies and a willingness of export credit agencies, banks and multilateral development lending institutions to increase their exposure in Sub-Saharan Africa. However, there has been a sharp decline in the net flow of non-concessional resources, and also a fall in total external resource receipts. In addition, there has been a sharp decline in the net use of IMF resources.

There are no fully consistent statistical series of non-concessional resource flows to Sub-Saharan Africa covering the period 1983-1984. The main reasons are the absence of consistent statistics of bank lending until 1983, large unallocated amounts in several creditor sources and inadequate record-keeping by debtors. Beginning in 1983, however, considerable progress has been achieved with the introduction of the BIS-OECD survey of export credit

and bank lending claims which strengthens the quality of the data on the corresponding flows. The stagnating flow of credit and negative direct investment[1/] in recent years for all SSA must have especially hit industrial development.

In many of the countries where SAPs have been implemented, the liberalization of the markets (change in exchange rates, removal of tariffs and quotas, etc.) has drastically altered the former "profitability" of industries. The need to compete against world market prices, rather than artificial domestic prices has meant that the real comparative advantages, or more appropriately comparative disadvantage of industries has been revealed. It is suggested that investible resources do exist for bankable projects, but few such projects have been forthcoming. Hence, the paradox of underutilization of EIB funds for industry. The high risk nature of investment in ACP has ment that EIB "Risk Capital", and "Own Resources" have been inaccessible. This shortfall in investible resources has been exacerbated by inadequate access to equity capital.

A significant improvement in the investment climate should occur , given that economies move on to a sounder economic footing, but this could take time, and for some economies may never happen, without some intervention. An option is to liberalize the terms and conditions for risk capital. A further option is to take measures to boost availability of equity capital. In 1984, no less than 23 of the ACP/SSA countries experienced zero or negative direct investment.

3.1.2 The vicious debt cycle: industry shouldering the debt burden

At the end of 1987, Sub-Saharan African short-, medium- and long-term debt (excluding outstanding IMF credit of $7 billion) stood at $120 billion,[2/] while arrears were estimated at $11 billion. The stagnation of external resource flows to industry has paradoxically meant that the direct contribution of the sector to the ACP/SSA debt service problem does not appear to be significant. A recent study suggests that for only four countries does the "manufacturing debt" share exceed 20 per cent and in no instance does it go beyond 50 per cent.[3/] While classificatory adjustments might conceivably put the shares a little higher, the data certainly lend no support to the view that for Sub-Saharan Africa as a whole, industry has been a primary cause of the debt expansion: the sector has not been a heavier borrower than the others. In percentage terms, manufacturing industry ranks third among six sectors explicitly identified, with about one seventh of total debt. In only two countries, Benin and Nigeria, does manufacturing industry rank first among all sectors as a source of debt liability.

1/ In 1984 no less than 23 per cent of the ACP/SSA countries experienced zero or negative direct investment.

2/ IMF Survey, June 1988.

3/ UNIDO, "Industry and External Debt in Africa: A Preliminary Analysis", Industry and Development, No.17, 1986.

Table 31: Summary of EIB operations with DFCs in ACP countries: Lomé I, II, and III, as of 1987

Type of resource	Own resources	Risk Capital			Total Risk Capital	Total All Resources
Type of intervention	Global Loans	Global Loans	Equity Participation			
			Direct	Indirect		
Amount (ECU million):	277	122	6	26	154	431
No of operations :	41	50	14	18	82	123
No of countries[a/] :	19 (+4 reg)	32 (+3 reg)	9 (+1 reg)	12 (+1 reg)	32 (+4 reg)	40 (+5 reg)
No. of dfc's [a/] :	26	36	10	12	42	50
% of total amount :	21 Per cent	-	-	-	25 Per cent	22 Per cent
% of total operations :	27 Per cent	-	-	-	31 Per cent	29 Per cent
No. of allocations :	360	235	-	-	235	595
Amount allocated (ECU million) :	168	67	-	-	67	235

a/ Because of multiple operations either in one country or with one dfc, columns and rows cannot be directly aggregated

Table 32: Manufacturing sector's share of total debt, 1983
($ million)

Country	Total debt a/	Manufacturing debt b/	as a percentage
Benin	877.1	440.4	50
Botswana	383.6	-	-
Burkina Faso	653.7	22.2	3
Burundi	527.4	87.1	17
Cameroon	2,591.9	525.4	20
Cape Verde	112.1	.7	1
Uganda	1,022.5	159.8	2
United Republic of Tanzania	3,234.5	465.1	14
Zaire	4,704.7	283.2	6
Zambia	3,210.4	321.0	10
Zimbabwe	2,166.6	74.6	3
TOTAL	74,471.2		

Source: UNIDO, "Industry and External Debt in Africa: A Preliminary Analysis", Industry and Development, No.17, 1986.

a/ Total debts are debts outstanding, including undisbursed commitments as at the end of 1983.

b/ The actual debt to be attributed to the manufacturing sector will be higher than reflected in the Table because debts which have been rescheduled and debts for which repayment terms are unknown are not included, and also because debts for which the purpose is unclear or for which the country has not reported a purpose are put into the "not applicable" category. The World Bank print-out includes the following "sectors": agriculture, forestry, fishing; mining, quarrying; manufacturing; electricity, gas/water production; construction; trade, restaurants, lodging; transport, storage, communications; finance, insurance, real estate, business service, community, social, personal services; contribution to finance current imports; contribution not directly for imports; other contributions; debt reorganization; nationalization; military; pension payment; other contributions, not Development Assistance Committee flows; and "not applicables".

However, it could be argued that the failure of industrial co-operation, and inadequate domestic industrial production, has led to increased import dependence, worsening balance of payments and increased debt. Industry also has to bear a share of the debt of the economy as a whole. The weight of the debt itself is then a major reason why essential input imports cannot be obtained, and production is restricted.

ACP/SSA debtors could be classified under two groups: those who expect to gain from the generosity of the EC; and those who are seeking continued credit flows as a result of concerted efforts to revive their economies through structural adjustment. Adequate debt management and structural adjustment could be ACP/SSA's only solution to the vicious debt cycle. Debt-distressed countries seeking solutions to the debt crisis need to demonstrate greater political will to initiate structural changes by removing constraints impeding those changes.

3.1.3 Demand constraints: Lessons from "sources of growth"

Evidence is emerging from case studies that the principal source of manufacturing growth for some ACP/SSA countries over the period covered by the Lomé Conventions has been the growth of domestic demand. An analysis of sources of growth in manufacturing output for Zimbabwe shows that domestic demand accounted for 61 per cent from 1964/65 to 1980/79, with import substitution at 30 per cent and export growth 9 per cent. The relative contribution of exports and import substitution to manufacturing output growth declined significantly to be replaced by domestic demand between 1978/79 and 1982/83 (see Table 33).

Similarly, an analysis of "sources" of manufacturing growth in Kenya through the period 1964-1984 found the dominance of the growth of domestic demand in 'explaining' the growth of manufacturing output. More than two-thirds of output growth was due to domestic demand, and more than one-third of total output growth came as a result of increased domestic demand for food, beverages and tobacco products. Import substitution provided just over one-quarter of the sources of domestic output growth, with the two most important contributing sectors being chemicals, rubber and petroleum, and again, food, beverages and tobacco. Finally, export growth of manufacturing contributed only 5 per cent to total growth of manufacturing output between 1964 and 1984. The rising importance of food, beverages and tobacco as a source of output growth is evident through the whole period. The effects on the petroleum sector following the oil shocks are shown by the increases in the share of the chemicals, rubber and petroleum refining sector in the 1980-1984 period.

Import substitution constituted a negative contribution to growth in the late 1970s, reflecting a relatively rapid rise in aggregate imports. The share of output growth due to import substitution was highest in the early 1980s, and reflects in large part the stringency of import licensing and the generally depressed macro-economic conditions in the early 1980s.

From the viewpoint of the Lomé objective of trade promotion, the principal disappointing feature is the poor export performance throughout the whole period, particularly if one excludes petroleum exports. However, from the mid-1970s onwards an increasing amount of Kenya's exports to neighbouring countries were transacted under illegal means. For all sectors, excluding chemicals, rubber and petroleum export growth never exceeded 5 per cent of manufacturing growth.

Table 33: "Sources of growth" in manufacturing output by branch in Zimbabwe, 1964/65-1978/79 and 1978/79-1982/83
(percentage)

	1964/65 to 1978/79			1978/79 to 1982/83		
	Percentage of total growth due to					
Sub-sectors	Domestic demand	Export growth	Import sub.	Domestic demand	Export growth	Import sub.
Foodstuffs	75.27	2.52	17.98	104.48	-3.98	-0.51
Beverages and Tobacco	93.46	0.21	6.32	100.55	-1.40	0.85
Textiles	29.59	14.33	56.08	89.20	11.94	-1.13
Clothing and Footwear	68.22	2.20	29.58	108.45	-4.09	-4.36
Wood and Furniture	65.20	7.52	27.28	96.55	2.54	0.91
Paper and Paper Products	65.09	-1.62	36.53	103.76	1.83	-5.58
Chemical and Pharmaceutical Prods.	77.81	0.00	22.19	92.82	0.68	6.49
Non-Metallic Minerals	88.21	-1.55	13.34	84.96	5.95	6.49
Metals and Metal Products	50.36	12.93	36.71	113.78	11.64	-25.43
Transport Equip.	111.96	-7.59	-4.37	141.83	-0.38	-41.45
Miscellaneous Manufactured Prods	18.35	13.80	67.85	81.90	3.29	14.81
TOTAL	60.99	9.08	29.93	103.60	2.30	-5.90

Source: R. Ridell, Industrialization in SSA - Country Case Study - Zimbabwe, Overseas Development Institute, London, 1988.

Sectoral analysis shows that because of the dominance of food, beverage and tobacco sector in total manufacturing output, the very low rate of import substitution in that sector (15 per cent of total growth) is the major factor bringing down the overall contribution of import substitution to manufacturing growth in Kenya. The textiles, clothing and leather sectors show the highest share of import substitution as a source of growth (almost 65 per cent over the entire 20 years); followed by miscellaneous manufactures (62 per cent); machinery (52 per cent), metal products (44 per cent), paper, printing and publishing (33 per cent), and chemicals, rubber and petroleum (30 per cent).

On the other hand, disaggregation by sector does not improve the picture for exports. The principal contributors to exports as a source of manufacturing growth are refined petroleum products (where there is little paralell trade) and the building materials sector, which is basically cement production, and which enjoyed a major cost advantage in providing the Middle East and the Indian Ocean basin with bulk cement from Mombasa. Other than these two sectors, only the small miscellaneous manufacturing sector had more than 4 per cent of its output growth accounted for by exports over the full 20-year period. That this dismal export record is the experience of one of the better industrial performers is cause for concern for other ACP/SSA countries. The reliance on domestic demand for growth of manufacturing has arisen from the excessively restrictive trade regimes - itself a constraint. However, whatever the causes of this dependence on domestic demand, the collapse of purchasing power has dealt a severe blow to the manufacturing sector.

A fundamental constraint to industrial development is the restricted size of the ACP/SSA markets. Only eight countries reach the critical mass of 10 million above citizens, establishing a market whose purchasing power remains even then, limited. Fifteen of the ACP/SSA States have a population of approximately 1 million or less.

This fundamental constraint is exacerbated by a number of other factors:

(i) the dimension (size of population and purchasing power) is not necessarily what it seems, given the unreliability of statistics;

(ii) the very slow and uneven growth of the agricultural sector and the decline in agricultural GDP <u>per capita</u> is an indicator of the worsening pattern of income distributions and of falling domestic demand and of real incomes in SSA;

(iii) lax border control reduces the impact of any protective measures, which can only exert their effect against official imports;

(iv) market fragility lays open the possibility of a substantial fall in consumer demand in the event of an economic downturn;

(v) insubstantial regional markets, often more theoretical than real, do little to encourage the expansion of national markets (non-tariff barriers, hidden protection, difficulty and cost of transport, monetary problems, etc.);

(vi) the economic and political power of importers, who enjoy higher margins than the normal industrial margins, acts as a disincentive to the establishment of business activity;

(vii) market dispersion in large but sparcely populated countries reduces correspondingly the size of the available outlets.

The improved producer prices paid to farmers have meant a growing purchasing power for the rural citizens - the majority of the population - and have had a stimulating effect on demand for consumer goods bought by them as well as for agricultural implements and some intermediate goods needed in the country side. These factors have particularly benefited small-scale industries located in rural areas whose production is based on domestic inputs and geared to rural markets. However, deteriorating terms of trade for primary products have hit purchasing power of some rural populations hard.

3.1.4 Exchange rates and protective trade regimes: creating an inward-looking bias

A spate of devaluations in 1985 and 1986 halted the tendency of African currencies to serious over-valuation and marked a return to more realistic parities. Real effective exchange rates for Sub-Saharan Africa as a whole, which appreciated by 46 per cent between 1978 and 1984, fell by 7 per cent in 1985 and almost 20 per cent in 1986. The currency readjustment process got under way in 1982-1983 in a handful of the poorest countries, spreading after 1985 to the middle-income countries.

The existing structure of industry in many ACP/SSA countries is heavily influenced by the heritage of highly protected trade regimes. For example a recent study of Kenya's industrialization, in finding the principal source of manufacturing growth over the twenty years was the growth of domestic demand, concluded that a substantial portion of the growth in manufacturing was the result of increasing levels of protection both from tariffs and quantitative restrictions.[1/] Average scheduled tariff rates doubled between 1974 and 1984, and the lower duties on intermediate goods combined with the easier access to import licensing for intermediates encouraged import-intensive manufacturing industries. Trade policies and the nature of manufacturing growth were major factors in explaining the macro-economic crisis of the early 1980s.

However, the reality that exchange rate realignment coupled with trade liberalization does not provide a quick release from the constraints is clearly illustrated by the recent experience of Zambia. In close co-operation with the IMF and with substantial technical help from the World Bank, price controls and quantitative restrictions on imports were abolished, subsidies removed from all but one staple product, interest rates raised to yield positive real returns on savings, public sector employment compressed and, after several devaluations, the national currency (kwacha) left to float against the US dollar with its rate set through weekly auctions. The very sharp devaluation of the kwacha produced by the float had given rise to a two-week suspension of auctions early in 1987 which was hesitantly agreed to by the IMF. It signalled the difficult nature of the prescribed policies for a debt burdened economy with a declining import capacity. The government's announcement in May 1987 reinstated former controls and administered foreign exchange allocations. The Fund's Lusaka office was closed overnight and the Bank's technical staff drastically curtailed. The belief that Zambia's difficulties would ease from an expected upturn in the price of its major export - copper - thus allowing the continuation of the liberalization with no sacrifice of welfare, proved unfounded. The copper terms of trade are presented in Table 34.

1/ J. Sharply and S.R. Lewis, Kenya's Industrialization, Institute of Development Studies and Overseas Development Institute, 1988.

The Zambia case is a stark illustration of the acute hardships faced by a developing single-commodity economy adjusting to a hostile eternal environment. Well over 90 per cent of Zambia's foreign exchange earnings have come from sales of copper and some lead and zinc. Production bottlenecks in Zambia, weak world prices and demand for non-ferrous metals - largely the result of the irreversible substitution of man-made products - the absence of foreign ivestment, diminishing aid flows in real terms, expensive commercial loans, combine to aggravate the country's external sector constraint.

Table 34: Zambia's copper prices and derived ratios, 1965-1987

Year/Period	Current price US/MT	Current price cents/lb.	Constant 1982 Price Cents/lb.	Copper terms of trade (1970-1974 = 100)[a/]
1965-1969 [b/]	1,333	60	195	127
1974	2,059	93	155	101
1970-1974 [b/]	1,482	67	154	100
1975-1979 [b/]	1,459	66	83	54
1980-1984 [b/]	1,675	76	74	51
1985	1,417	64	61	43
1986	1,373	62	51	40
1987[c/]	1,546	69	60	44

Source: I. Karmiloff, Industrialization in SSA-Zambia, Londond, 1988.

a/ Current price index deflated by the CIF value index of industrial countries' exports to developing countries.
b/ Average for the period.
c/ Second quarter.

Action on the exchange rate and trade liberalization may be a necessary condition for industrial development, clearly it is not a sufficient condition. Hasty policy measures may do more harm than good to industrial development. Nevertheless, it needs to be recognized that some parts of Africa still suffer from serious currency overvaluation - the relatively high value of the CFA franc is perhaps the single most important case in point. Devaluation in itself while drastically reducing the income of domestic producers - who represent the overwhelming majority of the population - does not in itself assure increased foreign exchange earnings however.

The ACP/SSA States situated within the franc currency area, are relatively well placed as regards foreign exchange, but others are afflicted by a structural trade deficit and, consequently, are burdened by foreign exchange problems. This situation has two main consequences:

(i) import restrictions which paralyse local undertakings by depriving them of necessary production inputs or equipment and spare parts, leading tc capacity under-utilization;
(ii) a bias towards export-oriented projects (which tend to be few in number) that are not geared to the local market, thus considerably restricting the scope for co-operation.

3.1.5 High factor cost: resulting from inherent characteristics

Contrary to what is often imagined, production costs are not necessarily lower in the ACP/SSA States, given:

(i) the shortage of skilled manpower in production (middle rank supervisors, foremen and skilled workers) and in management (accounts), a fact not unconnected with the cultural and social environment;
(ii) the low labour productivity in relation to wages which, whilst apparently modest, are in fact kept up by the fixing of minimum thresholds;
(iii) the volume of "extra-contractual costs" resulting from other constraints (delays, procedures, requirements, etc.) which are reflected in non-recoverable costs; and
(iv) the higher cost or low quality of the local inputs which firms are sometimes obliged to buy in place of imported inputs.

3.1.6 Poor public enterprise performance: resultant budgetary strains lead to high cost of social objectives[1/]

It is argued that in many ACP/SSA countries there has been a bias in favour of state ownership, especially of large, capital-intensive projects which may have been unviable or, even when viable, were burdened with political interference, poor staffing, price controls, "social" objectives, etc, and were bailed out by massive subsidies when they made losses. Together with this went policies unfavourable to foreign direct investment, local private investment, and small-scale industry. The cost increases in many of the public enterprises have led to a rise in their operating losses, while the squeeze on state budgets has made it impossible for many governments to continue their subsidies, or to extend greater credit to parastatal companies to enable them to maintain output while restructuring their operations. As a consequence, a number of public enterprises have had to close; others in better financial shape or operating in more attractive markets have been sold off to the private (often foreign) sector. This has augmented unemployment since many of these in principal capital-intensive enterprises are judged by their new owners following employment generation policies (often including elements of manpower localization) under government guidance. The resources available to the public sector from mining and agriculture, the traditional sources for investment have been drastically reduced. Even in the best of years, the low level of development in any sector of the economy forced the African States, as the major entrepreneurs, to rely on foreign financial and material resources. The State has been crucial in decisions regarding the role of foreign investment in domestic manufacturing with the State acting as buyer not only for certain basic industrial commodities but also for many intermediates.

1/ UNIDO, The Changing Role of the Public Industrial Sector in Development, IS.386, 3 June 1983 (see especially Chapter IV for an in-depth assessment of the role and performance of public sector enterprises in selected African countries).

3.1.7 Inadequate industrial capabilities: lack of entrepreneurial efficiency and infrastructural facilities

The installation, operation and expansion of industrial facilities require specialized skills and capabilities. These skills and capabilities vary widely by country and include: entrepreneurial response and capabilities, investment capabilities, and operation capabilities, the efficiency with which similar facilities are operated under similar market conditions and external constraints in terms of productivity, quality, raw material, usage, intensity of operation, etc. Various managerial and organizational skills also differ, for example in management, marketing, financial mobilization, recruiting workers, etc.

Classifying industrial capabilities into three categories of entrepreneurship, management and technology, the ACP/SSA countries suffer from limitation in each. The surveys undertaken by the EC into industrial co-operation with ACP concluded:[1/]

(i) Absence of competent promoters

Co-investment, the most common form of industrial co-operation, by definition assumes the presence of at least two parties, one from the North and the other from the host country. Unfortunately, industrial partners are rare in the ACP countries and many ideas for projects come to nothing owing to the absence of reasonably competent promoters with a real interest in industrial development.

(ii) Absence of industrial fabric

The whole range of upstream and downstream business enterprises and the availability of various facilities, to which businessmen have ready access in the developed countries, the industrial "fabric", is lacking. Such an industrial fabric is constrained by basic infrastructure difficulties, high cost and unreliability of communications (transport, post and telecommunications); maintenance and repair services; absence of subcontractors; inadequate industrial supplies of all sorts; lack of information, etc. This structural deficiency, inherent in less developed countries, is felt all the more severely since import restrictions shut off other solutions, and even these would inevitably be expensive.

1/ Ph. Queyrone, The Constraints on Industrial Co-operation between Firms in the EEC and ACP Countries, Commission of the European Community, February 1985.

3.1.8 Political constraints: greater political will urged over inconsistent policies

The EC survey[1/] suggests that a major problem has been the radical swings in most ACP/SSA countries between excessive interventions by the State, and economic openness and reliance on the market. Few are the countries which have unambiguously espoused one or the other option or which have not switched their attitude.

The debate goes on within governments and in all public institutions and accounts for contradictory and inconsistent legislative measures or actions. The "protective" measures taken against foreign investment have generally been based on views held regarding large multinational companies (whose activities are often the subject of political debate) and do not take account of small and medium-sized undertakings; overall these are much larger in number, represent a totally different phenomenon, yet they find themselves the victims of inadequate measures from the outset.

The low priority which most of the ACP/SSA States in reality give to industry reflect a precise awareness of the real development priorities (basic infrastructure, agriculture, food security, education and health), explains the limited resources made available to industry and the fact that some institutions or administrative bodies therefore accord industry only relatively minor importance (e.g. the trade ministry often covers industry as well and the influence of traders and importers is well known). These factors account for a number of initiative-inhibiting measures or actions which European businessmen regard as political, institutional, administrative or legal constraints, including:

(i) Failure to honour commitments

European firms criticize host countries for their inability to provide stable conditions within which to set up a business. A firm can get used to strict rules provided that those rules are predictable and reliable and do not change in the course of the operation being undertaken.

Apart from individual cases (business losses, closure of undertakings, failure of projects), the most serious long-term effect is the loss of confidence of investors. The investment climate, to which businessmen attach supreme importance, is adversely affected and the damage which is quickly done can be repaired only slowly.

(ii) Restrictions on employment of expatriate staff

These restrictions take various forms: quantitative restrictions fixed in absolute terms or as a percentage of the total number of employees per undertaking, restrictions concerning salary transfers (shortage of foreign exchange), complex procedures for obtaining exit visas or the treatment of heads of firms as mere company representatives. To this list must be added the lengthy delays resulting from the various cumbersome procedures. For many investors the problem is a major one, which is not properly appreciated by the host countries.

1/ Source: Ph. Queyrone, Ibid.

(iii) Restrictions on foreign capital remuneration

Even when foreign capital is welcomed, the ACP/SSA States sometimes try to limit the repatriation of foreign exchange, either by fixing maximum rates of remuneration, taxing transfers progressively, manipulating exchange rates or, in some cases, limiting maximum transfers to the amount of capital invested plus a dividend fixed by the government. In addition, transfers that are officially authorized are blocked in practice in certain countries through the lack of foreign exchange.

(iv) Protectionist measures

Measures to encourage local production by limiting imports may be justified temporarily in order to enable a new industry to establish itself but can often lead to the featherbedding of uncompetitive industries. Unjustified protectionism may penalize local industries by depriving them of foreign supplies of raw materials or equipment or else by obliging them to use local inputs that are unsuitable or of inadequate quality, with the result that their activities, sales and, consequently, results are placed in jeopardy.

(v) Economic policies biased towards non-economic factors

Restrictions of this type take different forms and have varying degrees of impact on the firms whose freedom of action they limit. They consist chiefly of geographical constraints imposed by the national development plan (firms required to set up business in areas of political priority but little economic interest or a ban on the establishment of businesses in particular areas, often the most attractive) or restriction affecting sectors (foreign concerns obliged to forego the most attractive opportunities). Foreign enterprises in all cases find themselves directed to places or sectors which they regard as not meeting their minimum criteria. The potential foreign investor will obviously draw the appropriate conclusions and not become involved.

(vi) Nationalization or expropriation

An element of risk stemming from nationalization and expropriation differs from country to country. These are not felt to be a serious risk by firms contemplating the setting up of business in the ACP States. There was little recourse to such measures in the ACP States following independence. Except in the case of mining and plantations, virtually no action was taken against manufacturing industries (except by Zaire).

Investors do attach great importance to the concept of guarantees against non-commercial risks. The unconvincing nature of the previous Lomé Conventions in this regard has impeded EEC-ACP industrial co-operation.

3.1.9 Institutional, administrative cultural and legal constraints: failing to cope with industrial realities

These constraints result from the political context, the debate between the supporters and opponents of a foreign economic presence, the low priority accorded to industry and the inevitable imperfections of young institutions, administrations as well as managerial and supervisory staff that are in some cases still inexperienced or insufficiently aware of industrial realities.

Two cases should be mentioned with regard to institutional constraints:

(i) the insufficient transparency of institutions within which the undertaking wishing to set up a co-operative venture has to find a suitable party or parties leading to slowness and discouragement. The establishemnt of a "single window" (a body to centralize all procedures) could help to resolve this problem;

(ii) the unpredictability of legal and tax measures is greatly disliked by businessmen who are willing to accept restrictions clearly defined in advance but object to coping with a lack of continuity. In the sphere of industrial co-operation, administrative and legal constraints take the form of extra costs (non- contractual) and management problems.

Social and cultural constraints are hard to come to grips with. They can be overcome only in the long term and offer little or no scope for negotiation. But they are one of the main problems which a business has to resolve, necessarily involving extra-contractual costs that are difficult to predict and bringing the risk of a large number of failures resulting from:

- confusion between industrial co-operation and technical assistance;
- short-term vision;
- misconception of industrial reality;
- mistrust of intangible contribution by the foreign partner; and
- preference for prestige projects.

3.1.10 Major constraints to ACP/SSA-EC industrial co-operation as identified in a survey of European firms: a host of obstacles[1/]

Manpower shortage. There has to be enough qualified staff to study the situation, produce dossiers and, above all, set up production. After this final stage, someone has to live on the spot, have his firm and even face a whole range of personal problems such as tax status, maintenance of social security and conditions of family life. Without the right status and enough gaurantees, an increasing number of qualified managers are refusing to agree to expatriation - which often also means harder work than in Europe and doing such things as training local staff, too.

Financing problems. Public financing institutions which the private sector says are short of means, slow and formal in their procedures, geared to big firms and full of red tape. The trading banks are said to have high lending rates, dislike non-material operations (the transfer of know-how, for example), and tend to rely on a public institution, one of the consequences of which is that local development banks then intervene, apparently creating difficulties. There are also complaints about lines of credit. These, it would appear, often help sectors other than industry and are used without consulting the businessmen concerned. It is hard to find a source of financing for some components of an industrial investment, particularly preparatory studies and equipment.

1/ Extracts from P.A. Tilot, Barriers to Industrial Co-operation between European Firms and Partners in the Developing Countries, European Community, 1986.

Intellectual property rights were ill-defined and badly protected in industry - and this applied to the technology, the know-how and professional techniques. The worst affected are the SMEs.

Training. European businessmen who negotiate with the developing countries have noticed a remarkable change over the past 15 years in the know-how and ability of the people they are negotiating with. But there has been no equivalent improvement in the European staff sent overseas, and staff in European firms would like to be taught to shoulder responsibility in the Third World. They want advanced classes on the economic environment in the developing countries, on recent experience of industrial co-operation, and on the particular conditions of industrial activity in the developing world. Local staff and technicians also need specific industrial training - which the European businessmen would prefer to see offered locally, possibly on an in-service basis.

Miscellaneous problems. For guarantees and insurances, the European businessmen want to see any commitments the European partner made in an industrial co-operation contract covered by a collective private investment guarantee system involving a broad definition of the "non-commercial risks" and aimed at a wide audience. Only 10-15 per cent of international investments are insured because the big firms often provide their own cover and because the present premiums are too high, as well as being at a flat rate (instead of scaled according to risk and host country).

3.1.11 Identification of sub-sectoral constraints in the survey of ACP/SSA firms

Analysis of the sub-sector constraints reveals even more dramatically the severe problems facing ACP/SSA industrial development. The following is based on the study of 343 enterprises in SSA:[1/]

The dairy industry. The small dairies of Kenya, Rwanda and Zimbabwe, which are working properly, account for almost half the sample; but, in fact, throughout the rest of Africa, the sector is hampered by poor milk supplies.

The problem is a substantial one, as the local breeds produce mediocre milk and the dairy breeds do not adapt on a lasting basis. So most of the plants use reconstituted milk. This is considered to be only a temporary solution but it has proved risky and unprofitable. All the products (powder, butter oil, sugar) are imported and they are fragile and therefore pose delicate problems of storage and transport to the place of production. In addition to this, milk reconstitution is highly energy-intensive.

A further problem in this sector is the narrowness of the market. The consumer centres are spread over a wide area and communications are poor or non-existent. Rwanda, for example, has good production, but cannot develop it because it is unable to export to the neighbouring countries. Thirdly, the dairies are sophisticated factories using precision technology. One of the problems is the poor quality of the finished products, which hinders marketing.

1/ J.A. Tilot, Ibid.

However, although involvement by large Western firms (Nestlé, in particular, and France Lait) can attenuate this problem, it cannot guarantee the proper functioning of plants by itself. The difficulties encountered in this sector arise more from demands that are usually more political than economic in origin than from any lack of competence. Many countries have in fact demanded to have a dairy industry established locally to ensure local productions at all costs, often with support from international health organizations. The western industrialists have responded in order to "get their foot in the door" of a possible base for the regional distribution of other products (as Nestlé has done in Dakar).

The timber industry. In spite of what seems to be relatively satisfactory performance (12 out of 33 processing units working to capacity), is in fact doing badly. Wood processing (sawing, veneering and peeling) only occurs, essentially, in five countries of Africa - Cameroon, Gongo, Gabon and Côte d'Ivoire - all of which are in the sample - and Liberia, which is not.

The fact that Africa, which exports three fourths of its output as round-wood, is even partly under-utilizing what are extremely inadequate processing capacities compared to existing potential reflects a profound malaise. The international market is certainly not large, in particular as there are no real regional markets and some investments are only amortizable on a large-scale. The laminate plants in Côte d'Ivoire are too large for the present market and have to close periodically as they have no orders. However, there is a good export market, in Europe mainly - 75 per cent of Europe's imported sawn wood comes from Asia, as against only 15 per cent from Africa (but for roundwood the figures are 96 per cent for Africa and 3 per cent for Asia). Although the (20 per cent approximately) price difference between the countries of Asia and Africa was justification for this in the 1970s, the gap is closing (5 per cent approximately).

The beverages industry. The beverage industry may be the only really thriving industry (brewing and lemonade making). However, the survey reveals that the situation is sound in only slightly more than half the units - and the sample includes the units of three countries (Mozambique, Nigeria, where new projects are being run, and Zimbabwe) which have systematic import restructions in all sectors.

Breweries seem to have relative advantages - reliable local markets, considerable involvement (if not control) by big western brewers (BGI and the Artois groud, in particular) and, above all, substantial government help, especially with import licences. Breweries are a major source of indirect tax earnings and so the States are particularly interested in seeing that they work properly.

The cement industry. This industry is often considered to be one of the keys to development and economic independence and it has attracted major internationally financed investments. Overall, the situation is a serious one, as ten units have stopped and nearly 30 are under-producing on a permanent or sporadic basis.

On the continent, as in most of the individual countries, the production capacity is far too large for present requirements. The two main causes of difficulty in this sector stem from:

- bad location, which creates problems bringing in the raw materials and taking the products out (as in Madagascar and Mozambique) or inadequate energy supplies (as in Madagascar, Mozambique and Togo); and

- competition from imported products, which are often cheaper and sometimes better than those produced locally.

The paper and pulp industry. Pulp and paper is produced by only eight countries of Africa and paper by 12 countries. The capacity of each country suggests that, in most cases, paper and pulp production is satisfactory. Paper production, however, has bigger problems to contend with, as capacity in the majority of producer countries is being used to less than two-thirds and sometimes less than 50 per cent of potential (Angola, Madagascar, Mozambique and Zaire). Only two countries (Nigeria and Sudan) are producing to capacity.

These overall figures mask a situation that is not reflected in the official statistics - units that have been started and even completed but never been put into operation. The financial burden of schemes of this kind is considerable. The cellulose-paper sector alone has at least four integrated projects of this sort (in Angola, Gabon and Nigeria).

The market, as in the cement sector, is not the sole culprit. Although the market is very narrow (per capita consumption varies between 0.1 and 4 kg. per annum), it represents a volume of national consumption that is always in excess of the volume of production (except in the case of Kenya, which exports). Assuming constant consumption, some countries - Angola, Cameroon, Madagascar, and Zimbabwe for example - ought to be able to stop their imports entirely, and even export, and others could cut imports drastically.

Over and above the problems of poor project specifications, poor financial arrangements, a defective environment (water and energy) and insecurity, the weakness in this sector is maintenance. Paper mills demand considerable technical skill and they extensively use spare parts. The plants that work well are those that have plenty of logistical back-up from international companies (La Rechette, Cenpa and Parsons and Whittemore, for example).

The textile industry. In several cases, rehabilitation of installations are under way. However, there are cases operating with market uncertainty. For example, Togotex (Togo), although completed, has never gone into operation as it has no orders.

The problems of almost all the units in this sector are largely due to their exposure to both domestic and external market vulnerabilities. The closure of neighbouring frontiers coupled with the cyclical downturn of the global demand also added to the sluggish environment. The decline in African textile production, which began in the Côte d'Ivoire three years ago is now reaching other countries - Benin and Cameroon, for example.

The textile sector is also very sensitive to the import restrictions associated with the foreign exchange shortage. In Nigeria, to take but one example, one-third of the factories have had to close down and others are running at less than 40 per cent capacity now that import licences are restricted (only 30 per cent of needs are now authorized). The sector, including the making-up of garments, now provides only 80,000 jobs, as against 200,000 in 1978.

The sugar industry. Sugar refining and processing industries are aimed at capitalizing on agricultural production locally. In cases of under-production, it is often difficult to decide what is due to the agricultural sector and what to the processing industries proper, unless of course, the problem is one of co-ordination between production on the farm and processing in the factory.

In this sector, the installed capacity is more or less systematically oversized, which Somidaa, one of the main western companies involved in Africa, justifies by pointing to the long-term savings accruing from building units today to meet demands 10 years hence. Due to the crisis in the Côte d'Ivoire's sugar plants, two have been closed down and are due to be converted and three of the other four, opened in 1978, are functioning well below capacity, although normal operation was scheduled for 1980-1981. Rehabilitation studies are currently being undertaken for the whole industry.

The oils and fats industry. Only one out of 50 units is operating properly and 16 units have stopped altogether. The problem of agricultural supplies is of prime importance here. Many consecutive years of drought have set the groundnut and palm oil plantations back, so rehabilitation of the sector will inevitably involve rehabilitating the plantations as well.

3.2 Constraints to industrial co-operation: The experience of the Caribbean and Pacific States

Many of the Caribbean and Pacific States, like their SSA partners, have been subject to exogenous shocks stemming from factors that are beyond their control. Hurricanes and cyclones have been a particularly severe problem, and some of the economies have suffered drastic damage. Deteriorating terms of trade and oil price fluctuations have also impeded industrial co-operation. Superimposed on these obstacles to industrial co-operation under Lomé have been problems of a broader and longer-term structural nature, in many cases similar to those encountered by SSA, though in a less pronounced degree.

Unfortunately, there are no in-depth research studies of constraints to directly productivce investment in the Caribbean or Pacific. A few research studies undertaken as part of Lomé III, Article 241 encompass issues directly related to the Caribbean and Pacific States. Most of the research findings listed in Chapter 3.1 also seem relevant to the process of industrial co-operation between the Caribbean/Pacific States and EC. It may, however, be useful to make a few supplementary points with additional and more up-to-date information on the constraints impeding industrial co-operation between the ACP Caribbean and Pacific States and EC.

The vast bulk of national programmed aid from the EC goes to Africa; the Caribbean and Pacific Islands accounted for less than 7 per cent of the total Lomé II aid. Under both Lomé I and Lomé II, East and West Africa were allocated over 70 per cent of total national indicative programmes. The share of Southern Africa rose under Lomé II, due mainly to Zimbabwe acceding to the Convention.

The regional patterns of programmed aid allocations and approvals in the first five years of each Convention are shown in Table 35. Under Lomé I, all African regions showed approval rates of about 80 per cent or more. All the countries in Southern Africa, except Lesotho had approval rates over 90 per cent giving this region the highest rate of approvals. Central Africa, except for Cameroon, also performed well. In West Africa, only Benin was significantly below the group's average. While, in general, approval rates were high in East African countries, Ethiopia, Somalia and Uganda had the lowest rates of approval. In the Caribbean and Pacific Islands, very low approval rates were experienced in Surinam, Trinidad and Tobago, Kiribati and Papua New Guinea.

In line with the drop in the overall rate of approval of programmed aid in the first five years of Lomé II, significant changes occured in the comparative performance of the six geographical groups, with substantial improvement in approval rates in Ethiopia, Uganda and Mauritius in East Africa. However, the position of some other large aid recipients in East Africa deteriorated significantly (mainly Kenya and Sudan). Most countries in Southern Africa, except Lesotho, registered declines in approval rates, particularly Zambia.

In other African regions, low approval rates were recorded under Lomé II among large aid recipients - for example, Sierra Leone, Zaire and Senegal. In the Caribbean, very low rates were recorded in Surinam and, to a lesser extent, in Trinidad and Tobago. In the Pacific, low levels of aid approvals were registered for the Solomon Islands and for Papua New Guinea. Under Lome III, revisions in the planning procedures have attempted to improve the approval rates. Unfortunately, no data was available showing allocation by region or by sector.

Table 35: Regional characteristics of national programmed aid allocations and approvals,[a/] 1976-1980 and 1981-1985

Regional groups	Lomé I Total allocation ECU million	Lomé I Total allocation Per cent	Lomé I Per cent of aid approved 1976-1980	Lomé II Total allocation ECU million	Lomé II Total allocation Per cent	Lomé II Per cent of aid approved 1976-1980
East Africa	734	38.0	81.7	897	35.7	82.2
West Africa:	687	35.5	87.9	912	36.2	77.9
-Coastal	317	6.4	88.5	447	17.8	70.5
-Sahel	370	19.1	87.3	465	18.4	85.1
Southern Africa	166	8.6	92.0	257	10.2	78.9
Central Africa	237	12.2	88.6	282	11.2	82.0
Caribbean	69	3.6	75.1	100	4.0	73.6
Pacific	41	2.1	72.0	68	2.7	66.6
Total	1934	100.0	85.2	2516	100.0	79.4

Source: European Investment Bank.

a/ Excluding regional aid.

The main objectives of regional programming are: reduction of ACP States' dependence on imports, widening of markets and expansion of intra-ACP trade and acceleration of regional co-operation. The allocation of regional aid takes account of the policy objectives and priorities of the individual ACP States forming a region. As it involves several States, the applications of the different stages of regional programming is inevitably complex and slow. This form of EC aid is of particular importance to the Caribbean and Pacific.

Under Lomé I, as for Lomé II, allocations were made by subregion, after deduction of an amount in respect of general operations. Table 36 presents the pattern of regional aid progamming in the preceding two Conventions.

Table 36: Programming of regional aid by subregion, 1976-1985

Subregion	Lomé I (1976-1980) Amount ECU million	Per cent	Lomé II (1980-1985) Amount ECU million	Per cent
West Africa	130	38	160	25
Central Africa	24	7	60	10
East Africa	79	23	140	22
Southern Africa	27	8	70	11
Indian Ocean	6	2	20	3
Caribbean	28	8	55.6	9
Pacific	10	3	25.9	4
General Operations -all ACP States	33	11	100	16
TOTAL	339	100	631.5	100

Source: EC.

Under Lomé I, West Africa's share was quite high, mainly because of EIB operations; in fact, most of EIB aid under this heading was channelled into this region. This may be attributed to the already well-established links between these States and the Community at the beginning of Lomé I. Under Lomé II, however, the precentage was reduced to a more "normal" level. In terms of the per capita allocation of resources devoted to regional co-operation, the Caribbean and Pacific groups were given special treatment under both Conventions on the grounds of their remoteness and insularity. STABEX and SYSMIN have also been sources of funds, for example Papua New Guinea received ECU50.7 million under Lomé II from STABEX and Guyana, Jamaica and Surinam were beneficiaries from SYSMIN.

Recent aid flows have stagnated or declined for most Caribbean States. Over the period 1980-1984, only Jamaica and Grenada enjoyed an increase in ODA. The CBI with its package of measures, including $340 million of assistance, was designed to reverse this trend. Nor has the trend in direct investment from DAC countries to the Caribbean and Pacific been favourable. Only the Bahamas and Papua New Guinea have received sizeable flows for direct investment, the former as an off-shore investment tax-haven for holding companies and the latter largely for mineral enclave development. The evidence seems to indicate that direct investment has made a small contribution to developement of a diversified, wider, industrial capability in the two regions. For the Pacific Islands, the obvious obstacles of small market size, narrow resource-base, and high transport costs explain this lack of interest. However, there are schemes to assist the private sector business development to overcome these barriers.

Australia's (South Pacific) Joint Venture Scheme (JVS) has provided or committed, since its inception in 1976, approximately A$6 million through the International Development Assistance Bureau (ADAB) in support of local equity participation by Pacific island bodies or firms in both the public and private sectors in joint business undertakings with Australian partners. The latter normally hold at least a quarter of the equity investment in the projects. To be eligible for aid, all assisted ventures should be commercially viable and development-oriented. The funds are not used to assist the joint ventures themselves or the Australian partners; they are only available to facilitate the acquisition of project equity by the local counterparts.

Financial assistance is transferred as a grant to island governments, or is treated as a grant-in-aid if made available to public sector bodies. For private sector local partners, JVS funds are to be on-lent through a local institution, usually a development bank or the economic development board, under its normal terms although some concessionary elements may be involved (e.g. less flexible lending and repayment conditions). The amount of repaid loans, however, remains in the participating island and thus finance under the Joint Venture Scheme constitutes a de facto revolving fund available to meet additional needs for development finance.

The available information indicates that support under the Scheme has been extended to 10 projects, covering banking and finance (2 projects); agro-business activities such as forestry, agriculture and cattle raising (3 projects); transport (1 project); and manufacture, including wood veneer products, cement and leather work, and wine making (4 projects). Of these joint ventures, nine remain operational. In terms of geographical distribution, three assisted projects each were located in Samoa and Vanuatu, while there are two in Fiji and one each in Kiribati and the Solomon Islands.

A similar aid programme, the Pacific Islands Industrial Development Scheme, administred by the Department of Trade and Industry, offers financial incentives and assistance for New Zealand entrepreneurs to establish approved manufacturing or agro-based processing ventures with local business partners of the South Pacific Forum. Among other qualifying conditons for assistance under the Scheme, business projects and joint ventures must have a minimum New Zealand share holding of 20 per cent, and a minimum combined New Zealand/island share holding of 75 per cent.

Table 37: Official development assistance to selected Caribbean islands, 1975 and 1980-1984[a/]
($ millions)

Island	1975	1980	1981	1982	1983	1984
Jamaica	25.1	123.0	154.5	181.6	181.2	170.3
Trinidad & Tobago	5.4	4.7	-1.4	5.7	5.6	4.6
Barbados	5.6	14.7	17.9	12.9	19.0	8.8
Bahamas	0.7	2.1	2.0	1.9	0.9	10.9
Bermuda	0.0	0.3	0.2	0.1	0.1	0.1
St Lucia	8.9	8.6	11.5	8.2	6.9	5.7
St Vincent & The Grenadines	6.0	9.7	9.2	7.6	5.4	4.1
Grenada	3.2	3.7	6.6	6.2	7.5	27.5
Antigua & Barbuda	2.1	5.6	9.1	5.0	3.4	2.4
Dominica	7.9	18.7	15.3	17.3	10.2	16.5
St Christopher-Nevis	1.6	6.2	3.8	3.2	2.8	3.6

Source: UN, Specific Measures in Favour of Island Developing Countries: Report of the Secretary-General, 18 August 1986.

a/ Net disbursements of ODA from DAC and OPEC sources and gross disbursements from CMEA countries.

Table 38: Direct investment from DAC countries to Caribbean and Pacific States, 1974-1984
($ million)

Country	1974	1976	1978	1980	1982	1984
Antigua & Barbuda	-	-19.9	1.9	-	1.0	-
Bahamas	143.4	309.6	539.8	471.5	344.9	47.0
Barbados	0.0	-	3.8	4.0	3.3	0.3
Belize	-	-	-	-	-	-
Dominica	-	-	-	-	3.0	-
Fiji	7.5	7.3	12.2	14.3	5.4	-4.3
Grenada	-	-	0.1	0.0	-	1.6
Guyana	1.4	5.0	-	-0.2	2.0	0.1
Jamaica	-1.4	-80.9	-42.3	3.1	14.2	0.8
Kiribati	...	...	...	...	...	...
Papua New Guinea	72.7	49.0	33.0	40.4	84.5	68.9
St Christopher & Nevis	...	...	...	...	...	...
St Lucia	-	-	-	0.0	-	-
St Vincent & the Grenadines	-	-	-	-	0.0 [a/]	0.1
Solomon Islands	0.0 [a/]	0.1	0.6	-0.1	-	-0.3
Suriname	7.5	1.1	1.0	-0.4	-	-1.2
Tonga	-	-	0.1	-	-	-
Trinidad and Tobago	10.4	-0.7	10.9	54.1	18.0	-3.0
Tuvalu	...	...	...	...	...	...
Vanuatu	1.8	10.1	4.9	2.7	7.6	2.0
Western Samoa	0.0 [a/]	-	0.3	-	-	0.0 [a/]

Source: OECD, computer extracts.

a/ Less than $1/2 millions.

Currently, financial assistance under the Scheme is obtainable for a number of pruposes. Grants may be provided for up to 50 per cent of the cost of approved feasibility studies training local employees either in the islands or in New Zealand or redeployment of selected work force and plant equipment owned by New Zealand shareholders to the island location. In addition, interest-free loans may be provided for up to 30 per cent of qualifying capital expenditure in large business joint ventures. The maximum size of such loans is NZ$75,000, although larger amounts would be considered in exceptional circumstances. These loans will be converted to grants if the business is still operational after 5 years from the time of loan disbursement. Lastly, there are smaller grants of up to NZ$25,000 for approved capital expenditure or working capital costs or job creation measures. The value of the qualifying capital asssets or costs must not exceed NZ$50,000 and the new jobs must be maintained for at least six months for grant qualification.

As of March 1986, assistance under the Scheme included NZ$1.93 million made to 228 proposals; of these, one-third related to feasibility study grants, 42 per cent to other types of grants and 15 per cent to suspense loans. Most of the established projects, totalling some 78 in number, received more than one type of assistance; about 20 projects, of which 19 were joint ventures, were no longer operating.

In terms of geographical distribution, projects were set up in seven countries with Fiji accounting for 27 per cent of the established ventures, followed by West Samoa (24 per cent) and Cook Islands and Tongo (17 per cent and 14 per cent, respectively). Businesses assisted by the Scheme covered a wide range of activities, from food processing, wood works, building materials and accessories to various kinds of manufactured goods. There was an estimated 935 jobs directly created with assistance under the Scheme.

Lastly, the Centre for Development of Industry (CDI) under the Lomé Convention also provides technical and financial assistance for the Joint promotion of industrial development in the region. Under the Scheme, assistance is obtainable for the promotion of, and negotiations concerning contractural agreements and/or finance for, joint ACP-EEC ventures. The Centre also assists the conduct of feasibility studies, as well as the rehabilitation or upgrading of existing industrial activities and the training of key technicians and supervisors in EEC and ACP countries. The Centre, however, does not participate directly in any financial investment in the joint venture.

These schemes, however, do not appear able to provide sufficient support for industry. There are grounds for considering an initiative for the Pacific similar to the CBI in the Caribbean, possibly in the context of new round of negotiations.

Caribbean industries have so far found it difficult to compete successfully with South East Asian NICs. Textiles has developed within the Caribbean, but only because US textile import quotas have been filled by South East Asia and not by the Caribbean countries. The advantages of Asian NICs over the Caribbean countries have included the availability of cheaper local inputs, particularly in textiles, a dynamic and experienced business community, a generally higher degree of political stability better infrastructure and a highly skilled and productive labour force.

Mexico is also a serious competitor as an investment site due to the development of the maquiladora or in-bond industries. Although labour costs here are higher than in many Caribbean countries (around $1.10 an hour), the maquiladora does offer the advantages of experience and proximity to the US market. At the end of 1983, there were 600 maquiladoras, almost all of them operating near the Mexican border, employing a total of 151,000 and with value added of $829 million. In January 1985, their number had grown to 734, with a total employment of 202,000 and value added close to $1.3 billion. By the end of 1985, the number is estimated to be close to 800, with employment around 250,000 and a value added component of $1.5 billion. Many US corporations have transferred affiliate companies from the Republic of Korea, Hong Kong or Taiwan Province of China to Mexico in order to take advantage of the proximity of the US market and of the fall in wage costs occasioned by the devaluation of the peso.

But the Caribbean does have advantages over competitors, particularly now that the USA's geopolitical concerns have strengthened the amount of economic, political and promotional support it is prepared to give the region. For example the Caribbean benefits from easy access to the US market, especially through the CBI, which has more and longer term benefits than GSP and Items 806 and 807. The volume of Caribbean textile exports to the US grew from 423 million square yards in 1986 to 534 million square yards in 1987. In gaining foothold in the US garment market the Caribbean region now accounts for more than 9 per cent of imports and is ahead of the EC as a source of imports by the US.

Many South East Asian businesses are now looking at the Caribbean as an alternative production site, and no longer just for textiles. Japanese, Taiwanese, Korean and Hong Kong investment missions are studying the region closely. For many Hong Kong businessmen, there is the added attraction of finding an alternative country and nationality, even though the People's Republic of China is committed to maintaining the present economic system in the area of Hong Kong for at least 50 years after the end of the British rule in 1997. In order to attract such migrant investors, Haiti changed its nationality law in 1984.

The Caribbean is in a transitional phase, its potential is clearly demonstrated by the number of new projects coming on stream. A survey conducted by Caribbean/Central American Action, a private US association promoting Caribbean opportunities, identified 250 companies that were represented at the December 1984 Miami Conference as being able either to undertake investments or to enter into major import commitments. Over 20 per cent responded to the survey. Of those responding, 91 per cent were considering new or expanded Caribbean operations. A US Department of Commerce survey puts the number of export oriented businesses staring up in the Caribbean Basin (Central America and Panama included) between January 1984 and May 1985 at 285; this represented an investment of $209 million and the creation of 35,891 new jobs (see Table 39). Unfortunately there is no equivalent data for the EC.

One avenue for investment recently explored is twin plants agreements, which is essentially a form of production sharing between two or more countries, often using accumulated tax relief funds. Twin plant investment offer an opportunity to capitalize on low-cost locations in CBI ccountries to maintain international competition. These are found mainly in assembly operations covering a wide range of product groups. At the same time it is

also true that a number of CBI beneficiaries have so far failed to benefit from twin plant investment (Antigua and Barbuda, Bahamas, Belize, Honduras, Montserrat, St. Lucia, Netherlands Antilles). While these are undoubtedly low-wage economies most of them tend to lack adequate infrastructure. It is of interest to inquire why twin plant investment has failed to take off so far in these economies. The Lomé and Caribbean Conventions, which offer duty-free access to the European Community and Canada, also provide additional market access considerations for potential twin plant investment, particularly with respect to the English-speaking Caribbean. This remains the case, even though the main driving force at present is the CBI offering duty-free access to the United States.[1/] Available data indicates that between 1986 and 1987 about $70 million was invested in twin plant operations between Puerto Rico and the rest of the Caribbean; a total of 39 joint projects with employment generat on of 5,000 in ten countries in electronics, textiles, pharmaceuticals, leatner goods manufacture and telecommunications. The CBI offering duty-free access to the US tends to exert greater influence than the array of concessions offered by Lomé, but access to Europe in Lomé could also be of greater significance if related to greater promotional effort.

The constraints to industrial co-operation in the Pacific region are similar to those operating in the Caribbean:

- small populations;
- limited natural land resources;
- absence of economies of scale;
- isolation from world markets, yet with open economies dependent on the world trade system;
- limited opportunities for employment or development;
- primary production of one or two agricultural commodities which are subject to severe price fluctuations;
- little industrial activity or development;
- high population densities; and
- low levels of training and other basic human services.

1/ See forthcoming article by Frank Long, "The Puerto-Rican Model of Industrialization: New Dimensions in the 1980s", Development Policy Review, London, 1988.

Table 39: New investment in the Caribbean, January 1984 - May 1985
(value in $ million)

	Total	Textile/ apparel	Electrical products	Wood furn products	Misc manufacture	Horti-culture	Fruit/ vegs	Other agri-business	All others	Value of investment	Jobs created
Antigua	6	1	3	--	2	--	--	--	--	1.0	356
Barbados	20	4	1	6	7	--	1	--	1	0.8	197
Belize	12	--	--	3	1	--	4	3	1	15.7	310
Costa Rica	22	3	--	--	1	7	5	3	3	43.0	4,450
Dominica	4	1	--	--	--	1	--	2	--	0.6	148
Dominican Republic	31	12	--	2	7	--	7	1	2	44.0	9,789
El Salvador	11	--	1	--	3	1	3	2	1	4.0	3,295
Grenada	6	1	--	1	--	--	--	2	2	1.2	118
Guatemala	12	2	--	1	4	--	1	2	2	8.5	1,063
Guyana	1	--	--	--	--	--	--	1	--	...	10
Haiti	21	6	2	1	9	1	--	2	--	8.8	2,144
Honduras	29	9	--	7	8	--	4	--	1	15.2	4,312
Jamaica	75	25	1	3	8	13	4	15	6	48.3	4,621
Montserrat	2	2	--	--	--	--	--	--	--	..	80
Panama	13	5	--	--	--	--	1	9	3	15.4	4,086
St Kitts	2	--	1	--	--	--	--	1	--	0.3	...
St Lucia	11	3	4	--	1	--	1	1	1	1.2	676
St Vincent	1	--	--	--	--	--	--	1	--	0.4	120
Turks and Caicos	1	--	--	--	--	--	--	1	--	0.2	80
Total	285	74	13	24	51	23	31	46	23	208.5[a/]	35,891

Source: US Department of Commerce.

a/ Total does not add precisly due to rounding.

There is, therefore, a tendency to become dependent on the major regional powers for financial resources and technical expertise to carry out their development programmes. Further recurrent expenditures are often supported by bilateral assistance and policy making and implementation are inevitably heavily circumscribed. In terms of industrial development the very limited domestic market opportunities can support only very small-scale, low technology activities using local raw materials since such economies possess few comparative advantages vis-à-vis the larger external or regional markets with which they are linked. There is very little in the way of private sector initiative or enterprise with access to sufficient resources to balance the public sectors. Inevitably the public sector tends to dominate not only in essential services but also in some cases trading and distribution, and consequently the public sector assumes roles and responsibilities which it is not always well equipped to fulfil. Industrial enterprises in the micro states face an overwhelmingly hostile environment unless special circumstances create special market opportunities and special assistance is available to facilitate the supply of inputs.

Within the Pacific region Papua New Guinea should be seen as a special case, and the UNIDO review[1/] identified the following constraints to their development of manufacturing industries:

- delays in securing land for industrial sites as a result of the land administration system;
- a small and fragmented domestic market;
- inadequate and expensive public utilities and transport;
- shortages of production skills and low productivity in relation to wage levels; and
- administrative and regulatory obstacles for investors.

At a workshop[2/] held in 1987 by UNIDO to examine the various approaches within the Pacific and Caribbean island economies for promoting economic and industrial development, ..."Some members of the group stated that the Lomé Convention III provided great opportunities for export to the developed countries of the EEC. Both the Caribbean and the Pacific island countries are signatories to the Lomé Convention; yet exporters stressed the difficulty of benefitting from the Convention due to the administrative procedures which required long procedural formalities inhibiting export marketing. The Convention had therefore not achieved the intended results."

1/ UNIDO, Industrial Development Review Series: Pacific Island States, PPD.6, 1986,

2/ UNIDO, International Co-operation between Pacific and Caribbean Island Countries in the Development of Small- and Medium-scale Agro-industries (live marine resources and tropical fruits): Workshop-cum-Study Tour (Jamaica, Trinidad and Tobago, Barbados, Saint Lucia), 15 February 1988, PPD.73.

4. TOWARDS EFFECTIVE INDUSTRIAL CO-OPERATION: ISSUES AND OPTIONS

The purpose of documenting the past record of industrial performance in the ACP States is to look into the future within the perspective of possible options for industrial co-operation. Although the ACP States represent a highly diversified economic grouping, with hetrogeneous characteristics of industrialization, many of the issues pertaining to industrial co-operation are similar. This is due in part to the nature of the complex and long-term process of industrialization, and also in part due to the rolling basis of negotiations between ACP and the EC. There is a strong case for ACP and the EC to become more involved in the debate on the macro-economic environment and structural adjustment policies. The record of industrial development in ACP as outlined in Chapter 2 and the severe constraints limiting industrial development detailed in Chapter 3 provide the framework for drawing up an outline of possible options for industrial co-operation. The variation between the three regions in industry performance and constraints lead to shifts of emphasis rather than fundamentally different outlines for industrial co-operation.

4.1 Selecting a strategy for ACP industrialization

The relatively slow pace of industrialization in many ACP States creates grounds for concern. A realistic and consistent strategy for industrialization is yet to emerge and this remains a challenge for the new round of renegotiations for industrial co-operation. Given the relatively limited resources that are likely to be available for the enhancement of industrial projects within the Lomé III framework it is particularly important to adopt a selective approach and to carefully target for co-operation strategically important activities with the greatest potential for co-operation and of high importance in the structural adjustment programmes of the ACP States. In the face of changing industrial realities in the ACP States the following possible options merit attention:

(i) An immediate action programme for rehabilitation

Many industries in Africa are viable but are not operating efficiently for a variety of reasons. These include shortage of spare parts, obsolescent machinery, insufficient supply of inputs, infrastructural shortcomings (roads, power supply, etc.) marketing problems and inconsistent policies that are obstacles to industrial production.

The wide range of reasons for inefficient operation indicates that the rehabilitation of plants, and the choice of plants to be rehabilitated, must be seen in a wider context.

Industrial rehabilitation initiatives could begin with an objective evaluation of the overall macro-economic environment, with a focus on the respective country's political context. This could be followed by an analysis of the characteristics and future role of the manufacturing sector and its key subsectors. Promising candidates for successful rehabilitation could be selected on the basis of their ability to thrive and keep pace with the changing industrial realities (see Annex C).

It is also important to stress the fact that particularly in the SSA countries the development of industries requires the strengthening of the links between manufacturing and agriculture. Agriculture is now and is

likely to remain the leading sector in SSA for the medium-run and industry must be geared to more efficiently utilizing its output and of producing agricultural inputs particularly fertilizers and agricultural machine tools.

(ii) Selective import substitution

Some of the industries created are well suited to the size of the local markets and are economically justified (e.g. cotton, textiles clothing, beer-making, soft drinks, footwear). Others, mainly in the intermediate and capital goods sectors, are out of proportion to the available markets and have been built up on the basis of tax and tariff incentives (investment and import concessions, high protection against competing imports) and are thus of little economic benefit to the country. They have frequently proved to be non-profitable, creating a substantial burden for the national economy. There is a need to devise a selective import substitution strategy which concentrates on a relatively small number of potentialy profitable branches and enterprises.

(iii) Processing of local resources for primary export substitution

Examples of this strategy include manufacture of cocoa butter, cotton-ginning, primary and secondary processing of timber, processing of fishery and other marine products, processing of mineral ores, refining of non-ferrous metals, etc. The successful implementation of such a strategy requires identification of product areas being vacated by more advanced developing countries and in which ACP countries have a potential comparative advantage. There is also a need to investigate the possibility of linking the national export drives of ACP States to the production and marketing strategies of leading TNCs in specific product areas. In general the scope for developing an export-oriented industrialization strategy appears somewhat limited for most African ACP States. Some success has been achieved in linking export initiatives to subcontracting activities, for example the growth of textiles in Mauritius and Jamaica, but most ACP countries do not have abundant cheap skilled labour to attract all or part of a manufacturing process. Sub-contracting could play a significant role in strengthening both forward and backward linkages especially in downstream activities.

The provision of measures to expand exports and to reduce import strangulation in this respect must take into account the close linkage between trade and debt issues. Measures designed to permanently reduce the debt burden of the ACP States should be integrated within a trade reform and assistance package which aims to increase the capacity of their manufacturing sectors to earn and save foreign exchange.

(iv) Self-reliant development strategy for industry

This strategy received significant support both from the studies undertaken by the EC on African industrialization, and by a large number of European and African researchers. A major inference underpinned by most research findings is that a new strategy towards industrialization would result from a different conception of development, namely one of endogenous development based primarily on strategies of self-reliant integrated development concentrated chiefly on rural communites, agriculture and food self-sufficiency.

This strategy includes an industrial component which will accompany rural development instead of trying to precede it. It introduces a new dimension and a new role to industrialization which would be based on local needs and resources, on domestic or regional markets, on self-sufficiency rather than on exports. The strategy would as a matter of priority be directed towards overall development in an integrated fashion in contrast with the externally oriented ad hoc approach which has often prevailed.

The practical implementation of the self-reliant strategy is impeded by the slow pace of agricultural development and the lack of effective demand for manufactured products among the rural population in the ACP States. Priority must therefore be given to:

(a) increasing rural productivity so as to obtain a larger surplus; and

(b) leaving the rural population with a larger share of that surplus so as to create purchasing power to be used on the purchase of agricultural inputs and consumer goods manufactures.

Industrialization, in this context, should therefore no longer be viewed in isolation as it has been hitherto but integrated within a process of integrated development in which the rural population and agriculture provide the motive force.

Within this new strategy, three directions of industrialization could warrant special attention:

(a) Supply of agricultural inputs

If peasant farmers acquire the necessary motiviation and aspire to greater productivity, if access to credit and technical expertise is assured and if inputs are made available through local distribution and marketing, consideration could be given to producing such inputs as far as possible locally. It becomes necessary to link up the modernization of agricultural production systems and industrialization with a view to producing inputs - something that so far has rarely been done. In practical terms, this involves: equipment for cultivation and harvesting (tools and implements), irrigation equipment, transport equipment, storage, first-stage processing, fertilizers and pesticides, animal feed, etc.

Potentially, the market is huge, if only because the point of departure is excessively low. The key problem is to render the market effective; this could be the aim of agricultural and pricing policies, but also of institutional and administrative adjustment measures.

(b) Product adaptation

Clearly, products must be processed and adapted to the needs and tastes of the urban consumer. The main obstacles to such adaption are:

- weakness of applied research;
- competition from products imported from the industrialized countries; and
- food aid.

However, there is scope for industrialization in many different areas; milling of various sorts of flour, beverages, biscuits and bread-making, ready-to-use traditional food products, canning, etc.

(c) Other basic requirements of the rural population

Demand also exists for a range of products and services which could provide opportunities for local industries such as:

- basic manufactures:	utensils, textiles, clothing, footwear, bicycles and mopeds, furniture, radios, etc. (for which the potential demand is very high);
- housing construction:	low cost housing materials, ironwork;
- supply of water:	hand pumps and other equipment;
- lighting:	hurricane lamps, acetylene lamps, other forms of lighting, etc.

Commitment to a self-reliant strategy would necessitate incorporation of appropriate objectives and instruments in the new round of re-negotiations for industrial development. A strategy for self-sustained growth is to be tailored as to avoid any delinking process between manufacturing units in ACP/SSA and the EC, so far established in export promotion and import substitution activities. Furthemore, Lomé III marked a new recognition by both parties of the need to encourage private investment. The question could be raised whether EC firms would become involved in a self-reliant strategy given the narrow profit-margins for satisfying low-income rural dweller markets, and the gulf in technology and marketing which would exist, at least in the short term, until adaptations were made. Furthermore, evidence for some countries shows that domestic demand has already been the overwhelmingly important source of growth for manufacturing output. This must raise doubts whether further reliance on domestic markets would lead to any significant growth in the near future. The involvement of the EC States in a self-reliant strategy is required to ensure that resources are provided for an expansion of domestic (particularly rural sector) demand and production undertaken to satisfy this demand is organized in an efficient manner.

4.2 Increasing the flow of investible resources to manufacturing

Increasing the financing of manufacturing must be linked to an overall expansion of funding necessary for the development of an integrated development strategy, the centre-piece of which must be the achievement of a rapid and substantial growth in rural incomes. So far manufacturing's share in total funding has been inappropriately low.

The EDF allocation is determined bilaterally between the EC and each Member State, with the priorities of the member States paramount. The priority of the ACP States has been towards rural development and food security. Hence, a negligeable share of the EDF flows to manufacturing, and there is evidence of a continued shift away from manufacturing.

However, emphasis on the self-reliant strategy option for industrialization, which focuses on the rural development needs, would de facto lead to a greater share of the EDF to manufacturing. More attention could also be given to initiatives to co-ordinate EDF operations with local and EC private sector investment and management. To this end the EC and ACP could establish a joint private sector working group to prepare proposals for co-ordinating EDF operations with private sector investment and management. EDF funds could be programmed to support such operations in the ACP States. The new round of negotiations could provide an opportunity for private entrepeneurs to become partners eligible for allocation of EDF funds.

Lomé III Convention contains a separate Chapter on investment (Articles 240-247). In this Chapter the contracting parties underline the importance of private (direct) investment for the promotion of their development co-operation and the laying down of principles for the treatment of those investments. New forms of direct investment could be encouraged, for example, in areas where the foreign investor does not hold a controlling interest via an equity participation but where his investment is in the form of various international contractual arrangements such as licensing agreements, franchising, management contracts, product-in-hand contracts, production sharing contracts, risk service contracts, international subcontracting, and joint international business ventures, in which foreign-yield equity does not exceed 50 per cent.

The scope for increasing the flow of resources to manufacturing from the ACP government and its role as a mobilizer of domestic resources could be developed. Much effort has already gone into restructuring public spending and cutting budgetary deficits. By dint of recruitment freezes, stringent selection, cuts in pay or redeployment measures, a number of governments have managed to reduce the public sector wage bill. Many countries have overcome considerable misgivings to set in train the process of reducing subsidies on staple food items and agricultural inputs. The reform of public-sector firms has also allowed significant reductions in deficit subsidies and a number of countries have succeeded within the space of two or three years in cutting overall public sector deficits by half, to under 5 per cent of GDP. The potential for fiscal measures, cost-recovery, etc. could be explored further, but generation of investible resources of the necessary volume would seem to require additional sources.

An important impediment to investment in ACP has been inadequate insurance cover. The scope of the national systems and the private sector has been limited and attempts have been made to establish a multilateral system which would provide much broader coverage of investments against political risks. Discussions began in the early 1960s and a variety of proposals were made, in particular by the World Bank and by the European Commission. Progress was blocked until recently, when the World Bank lanunched its proposal for a Multilateral Investment Guarantee Agency (MIGA). MIGA is likely to extend the scope of available insurance by covering a wider range of risks, by extending its coverage to a host of activities enabling investments to be insured even where the home country has no national scheme. MIGA could also facilitate insurance of projects promoted by multinational consortia.

Lomé III provides, in the Investment Chapter, for a study to be made jointly by the ACP and the EC of the scope and appropriate mechanisms of a joint ACP-EEC insurance and guarantee system, complementary to eixisting systems under Articles 241 and 244. The study was envisaged in two phases: the first phase to determine whether the gaps in the coverage offered by existing systems (including MIGA) provide sufficient scope for a viable and financial autonomous ACP-EEC system, and the second phase to outline the possible operating principles and mechanisms of such a system. The results of the study will be examined in the Joint Working Party established to monitor the implementation of the provisions of the Investment Chapter. Its recommendations would be the basis for amending appropriate clauses of future negotiations, with a view to improving insurance cover and facilitating direct investment. A note of caution has been expressed in previous debates from the ACP viewpoint concerning export credits and investment guarantees. As presently constituted the cost of the schemes are borne directly by the EC country involved and are not a charge on EDF. The attractions would have to be high for ACP to change this.

The scope for increasing the flow of resources to manufacturing from the ACP domestic financing institutions should also be developed, although in most ACP countries local capital markets are at present extremely small, or non-existent. Such broad assessments will have to be qualified, as with statements on the attractiveness of ACP to commercial borrowing.

Additional financial resources for industrial rehabilitation and restructuring are required due to the stagnation in export earnings. Given the adverse impact of declining primary commodity prices of most ACP States there now exists a strong case for the EC providing increased market opportunities for manufacture from ACP. A necessary condition is to improve market access. Therefore, the required level of processing codified in the rules of origin should be reduced to 30 per cent. The Caribbean Basin Initiative rules of origin stipulates only 35 per cent. The expansion of STABEX to cover more traditional exports incorporating more flexible requirements with regard to local content of manufactured exports to EC markets can be of considerable importance to the ACP countries.

The Uruguay Trade Round will be important in determining the EC/ACP trade relations with third partners, possibly for the next decade. Since the Punta del Este meeting the EC has submitted offers on tropical products, natural resources, and the Commission has been authorized to make an offer on agricultural products. Within the Lomé framework consultations could take place between EC and ACP to limit any erosion of existing preferences, providing compensation if necessary.

Improved market access may be a necessary condition, but it is not a sufficient condition for accelerating the export-drive in manufactured goods from ACP/SSA. Industry in the EC should be encouraged to enter production-sharing arrangements with the ACP enterprises, and the EC could implement favourable tariff and non-tariff measures to ensure that the products from these enterprises gain access. Further, action along the production chain, for example in marketing, may be essential. The UK has established a Developing Country Trade Association to assist in marketing. Opportunities could be created for small groups of African business persons in order to help them establish trade links. A major expansion in export earnings could go a long way towards reducing the need for concessional financing in the ACP countries which is increasingly required to offset the rising debt burden. In the long run this must mean a large-scale increase in

the flow of DFI and PFI flows to the ACP States. At present the scope for enhancing the flow of risk capital is limited because risk capital flows are increasingly associated with the same creditworthiness criteria that determines a country's international credit rating. Nevertheless, scope exists for creating an International Industrial Investment facility within the Lomé framework which would facilitate the allocation of seed capital to projects with long run potential and which also provides a framework for the supervision of the utilization of these funds and the perfomance of the projects concerned.

ACP/SSA debt service relative to export earnings has risen rapidly from around 80 per cent in 1976 to above 300 per cent in 1987. Arrears are estimated to have amounted to roughly $11 billion by the end of 1987. Debt service payments stood at $12 billion at the end of 1987. During 1980-1987, only 12 of the 44 Sub-Saharan countries, representing about 13 per cent of the group's 1987 debt, were able to service their debt promptly.

Although the manufacturing sector in ACP/SSA has contributed only a relatively small share of this debt it is badly affected by the resulting 'import strangulation' and deflationary impact on domestic purchasing power. The debt problem is less severe for the Caribbean and Pacific regions as a whole, but for some States, e.g. Jamaica, it poses a threat to development. One view is that there is no shortage of solutions, only of the political will to apply them. The Lomé framework could be used as a medium to agree on some measure of debt relief.

A new impetus to new debt relief for the poorest developing countries was given at the Toronto Summit in June 1988 with provisions for rescheduling of debt over longer periods, concessional interest rates and debt write-offs. The details of the plan will have to be worked out by the Paris Club of official creditors.

The Paris Club in 1987 stood for longer repayment and grace periods (up to twenty and ten years respectively) in rescheduling operations with hard pressed, low-income countries. But this brings no immediate relief to debtors. First it makes no difference for the first five years (the previous norm for grace periods) and, second, the debt burden is pushed into the future with compound interest. This is tantamount to taking new credit on market related terms to discharge a maturing liability, and only makes sense if the debtor country can reasonably be expected to become creditworthy in the meantime. Where this cannot be anticipated - and this is the case for much of Sub-Saharan Africa - more is needed than the improved Paris Club rescheduling terms.

One additional step, which has already been taken by some bilateral creditors, is to convert official development assistance (ODA) loans into grants. This could be extended to all existing ODA claims on low-income countries with no prospect of attaining creditworthiness in the foreseeable future. The WASS Report[1/] recommended that "Paris Club reschedulings, which are in effect long-term loans, should not be more onerous in our view, than IDA or other soft loans". Recent proposals by creditor countries, such as the UK, France and the Nordic countries, for interest rate reductions or the concessional refinancing of existing non-concessional debts are in this direction.

1/ United Nations, Financing Africa's Recovery, Report and Recommendations of the Advisory Group on Financial Plans for Africa, February 1988.

Though commercial bank creditors account for only about 25 per cent of Sub-Saharan Africa's outstanding debt, they have received about half the total interest paid by the region in recent years. Moreover, the London Club has not normally rescheduled interest payments. Nor has there yet been any element of debt reduction in London Club reschedulings.

Many European and US banks have built up provisions against the risk of losses on Third World debt, and some have started to sell or swap claims on developing countries at a discount. However, this "secondary market" is still thin, especially for African debt, and the debtor country's obligations are in no way diminished whether by the writing down of claims by bank creditors or by the trading of claims at a discount - unless the debtor can buy back its own debt.

The EC could consider providing funds to debtor countries to enable them to repurchase some of their commercial bank debt, or to facilitate debt-equity swaps or the conversion of debt into long-term securities or bonds, if creditors accepted a lower rate of interest and could be assured of their value and liqidity. A proposal along these lines, involving the conversion of debt into securities of at least twenty years, has recently been floated by the African Development Bank.

There are many possible variations in the implementation of these schemes. For example if the EC purchased debt outright, the ACP State could be required to service debt, but in local rather than hard currency. This money could go into a Development Fund used to contribute towards the local currency costs of investment in long-term industrial development in the debtor country.

The extent of existing debt can easily act against the implementation of projects that promise to yield foreign exchange. The reason is simply that current creditors may insist on having first claim to any funds generated by the project, thereby cutting out the project sponsors (or at best relegating them to the queue). To confront this obstacle, some efforts have been made to "cordon off" projects generating foreign revenue from the burden of meeting prior claims due to the perilous debt position of the country as a whole. One example of this type appears to be the urea factory constructed to use the natural gas resources at Songo Songo in Tanzania. Manufacturing would benefit especially given a relaxation of the depressing effects of the debt problem on import availability and domestic purchasing power.

The provision of expanded financial resources through concessional loans, greater market access or reduction of debt repayment obligations requires the building up of an effective institutional infrastructure for the allocation and utilization of these resources. Expanded industrial co-operation between the EC and the ACP States requires that the current negotiations focus on the question of the development of institutional strategies that can lead to effective rehabilitation and restructuring of the manufacturing sector. The relevant steps required for raising productive investment between EEC and ACP States are detailed in Annex D.

4.3 The role of European Investment Bank

(i) Increase in sector funding for industry

As yet, EIB have no sectoral loans to industry, although they are currently reviewing the possibility of such sectoral support. The EIB Board would have to be convinced that a move away from their traditional project lending role, and the resulting possible dilution of control, would be offset by the gains to industry through quicker and easier disbursement with minium risk of loss to the Bank.

The EDF Programme makes allowance for sector loans, and the use of sector loans is increasing particularly given the additionality effect of sector loans. However, the focus of the EC/EDF is more on rural development and social/physical infrastructure, rather than on industry, which has traditionally been left to the EIB, although some of the import programmes have included spare parts etc. for industry, (as in the case of a recent Malawi loan). Serious consideration would need to be given to altering this traditional role sharing if the EIB was unable to shift from its project lending to sector-lending.

(ii) Increase in risk capital

There is still a role for risk capital. The take up of risk capital could be increased by softening the terms, for example longer grace periods and more interest rate subsidy by EIB management accepting the greater incidence of failure, giving the prevailing harsh business climate.

Evidence from EIB loans to Development Finance Corporations (DFCs) shows that the grace periods have been too short. Whilst they may have been adequate to protect the investors during the implementation period, they have offered little margin for the difficulties often encountered in the start-up phase. As a result, a number of DFCs have had little option but to extend the grace period.

There is a strong case for increasing the availability of equity participation, which up to end of 1987 accounted for only 7 per cent of EIB operations with DFCs in ACP countries. Similarly, operations through global loans should be increased. The Development Finance Corporations are usually more aware of local business potential and problems. There have, however, been problems with the viability of DFCs in some countries, and in these cases the EIB could adopt a more "hands-on" rather than their usual "hands-off" approach. Special provision could also be made for exchange rate losses, when ECUs are denominated in local currency and an exchange rate depreciation is not offset by asset revaluation due to market imperfections.

In the case of project financing, EIB data shows that typically projects have been funded with a standard debt/equity ratio of about 2:1 equity. There is a need to raise the equity component and in the long run this can be greatly facilitated by an industrial investment facility with the Lomé framework.

This is particularly impeded if new projects are to get of the ground for equity requirements are usually significantly higher for new projects than for extensions or rehabilitations of existing investments. This corroborates the widely held opinion that the start-up of new enterprises is, almost invariably, the most critical stage often requiring a level of equity participation that excludes otherwise viable entrepreneurs.

(iii) Contribution to budgetary support

Availability of counterpart funds may be a major constraint to industrial projects, especially for those countries implementing SAPs and facing periods of protracted budgetary austerity and sharp exchange rate devaluations. Such countries can hardly be expected to take on new commitments when they are cutting back on existing projects, etc. Provision of counterpart funds could be justified by the EIB by reference to commitments in support of projects already financed by EIB, or in support of agreed adjustment objectives. Other measures to support the budget could be examined for example, payment of tariffs and duties on project input imports which are currently exempt.

4.4 Strengthening the institutional framework for effective industrial co-operation

The development of a viable institutional framework for industrial co-operation between the EC and ACP States must represent one element in the broader design of consultation and co-ordination of national macro-economic policies.

There is a strong case for ACP/EEC to be more involved in the debate over the macro-environment and structural adjustment while recognizing the de facto lead of the IMF and World Bank.

A major innovation of the Structural Adjustment Facility (SAF) is the requirement that a comprehensive three-year policy framework paper (PFP) be prepared by the national authorities, with the joint assistance of the staff of the World Bank and the Fund. The PFP sets out the macro-economic and structural policy objectives of the authorities for the ensuing three-year period, the policy strategy and measures that will be employed, and estimates of the financing requirements associated with the adjustment programme.

Viable structural adjustments must pay special attention to the task of creating an environment suitable for enhancing the development of the informal sector which has shown dynamism even when the formal sector has been contracted. Stimulating informal sector growth should be an important element of the liberalization strategy.

Industrial policy measures identified by some PFPs are concerned primarily to improve the environment for industrial investment in general, and production of tradables in particular (see Table 40). Measures to eliminate institutional or regulatory barriers to growth have included, for example, the elimination of labour codes that acted as disincentives to new employment, reduction of quantitative restrictions on imported inputs, and streamlining of investment approval procedures.

There have not been direct involvment in the formulation or financing of SAPs in ACP, although SAPs have made an important contribution in terms of both dialogue and operational support. SAPs have focussed on sectoral policies and on long-term development policies, downstream from macro-economic adjustment. Renegotiations governing the future pattern of assistance for industrial development could provide an opportunity to regularize this new involvement and consider the following four complementary steps:

(a) increased and more flexible use of certain existing co-operation instruments, for example, considering budgetary and balance of payments support, at presently not allowed;

(b) close co-ordination between the Member States and the EC;

(c) gradual adoption of a common approach to the problem of structural adjustment in ACP;

(d) a more active and concerted participation in co-ordination and discussions prior to drawing-up structural adjustment programmes; otherwise project success may be jeopardized by macro economic policies.

Table 40: Types of policy measures requested in return for structural adjustment loan (SAL) finance, 1980 to October 1986

Measure	Percentage of SALs subject to conditions in this area
Trade policy:	
Remove import quotas	57
Cut tariffs	24
Improve export incentives and institutional support	76
Resource mobilization:	
Reform budget or taxes	70
Reform interest-rate policy	49
Strengthen management of external borrowing	49
Improve financial performance by public enterprise	73
Efficient use of resources:	
Revise priorities of public investment program	59
Revise agricultural prices	73
Dissolve or reduce powers of state marketing boards	14
Reduce or eliminate some agricultural input subsidies	27
Revise energy prices	49
Introduce energy-conservation measures	35
Develop indigenous energy sources	24
Revise industry incentive system	68
Institutional reforms:	
Strengthen capacity to formulate and implement public investment program	86
Increase efficiency of public enterprises	57
Improve support for agriculture (marketing, etc.)	57
Improve support for industry and subsectors (including price controls)	49

Source: P. Mosley, "Conditionality as Bargaining Process: Structural Adjustment Lending - 1980-1986, Essays in International Finance, Princeton, No.168, 1987.

The new round of negotiations could provide an opportunity to emphasize the need for growth-oriented remedies to the balance-of-payment problems. Individual ACP States may however question the desirability of yet another participant in the SAL negotiations, particularly since they are full members of the World Bank/IMF institutions, and may wish to retain the current status of their bargaining positions. Furthermore in many countries the EC/EIB 'subscription' to the SAL 'club', is unlikely to be such as to give them significant bargaining power. They are unlikely to wish to duplicate the role of the IMF/World Bank, nor do they have the necessary staff expertise to do so. Nevertheless, involvement by the EC can be useful if such involvement is dovetailed with an independent consultative programme to identify operational priorities and monitor progress in specific sectors (such as industry) with respect to the utilization of financial allocation. Appropriate institutional mechanisms, at the sector level, need to be created to achieve this goal.

A new institution (ACP/European Development Co-operative Council) or function, may also be considered to bring together representatives of the business community to advise ACP and EC governments in the field of policies and regulations on business and the specific needs of the business community. The CDI could be well-placed to make initiatives towards the creation of such an institution.

A key issue in the future negotiation for industrial co-operation using the availability of investible resources for manufacturing in ACP is whether to expand the EIB or create a new ACP/Development Corporation. This issue transpired during previous debates and discussions, and many of the same pros and cons are still valid. The establishment of a separate development bank would be worthwhile if there was additionality, i.e. if it made available to member countries funds that would not otherwise be available.

Concern about expanding the EIB include the fact that its operations in the ACP are peripheral to its major investment activities, and that its current form of operations would make it difficult to contribute significantly to a self-reliant strategy, in particular rural development. However, several factors continue to strengthen the case for expansion of EIB to increase the flow of funds to ACP/SSA manufacturing.

The EIB is already operational. Since 1976, certain broad trends can be distinguished in the sectoral breakdown of EIB financing. During the first two years of Lomé, the bulk of EIB funding involved individual financing for new projects or extensions. Agro-industry took a major share (34 per cent), followed by energy projects (20 per cent of all funding and 34 per cent of the sum total of loans from the Bank's own resources) and investment in construction materials (18 per cent). In the remaining period of Lomé, the most striking feature was the significant share of global loans (lines of credit) provided through the medium of ACP development banks (25 per cent of loans from the EIB's own resources between 1978 and 1980). This flexible aid formula was used principally to help finance investment by small and medium-sized enterprises which generally adapt better to the diversified needs of limited markets.

The trend became even more marked with the implementation of the Second Lomé Convention, which increased considerably the scope for providing risk capital to ACP development banks. As of 31 December 1985, the Bank had undertaken 61 operations with 34 development banks in ACP countries and with four regional development banks, for a total amount of ECU 268 million, ECU 86.5 million under Lomé I and ECU 181.5 million under Lomé II.

The EIB had by end-1985 approved some 400 allocations representing a total of ECU 177 million. The total funding for all projects amounted to ECU 675 million, giving an average allocation of ECU 1.8 million. It is estimated that some 30,000 jobs have been created or preserved, with an average cost per job in the region of ECU 23,000. The four principal sectors in receipt of aid in the form of EIP global loans are agro-industry (32 per cent), textiles and leather (11 per cent) and paper (10 per cent).

One of the objectives of global loans is to facilitate the participation of ACP promoters (private and public) in implementing and financing productive investment. This goal would seem to have been achieved since nationals of the ACP States account for over 75 per cent of the capital of the enterprises financed (61 per cent being private concerns). This is, however, an average figure and does not apply to all countries. For example, in Botswana, Côte d'Ivoire, Lesotho, Liberia and Malawi, the share of foreign investment is higher, even though majority holdings are very unusual.

The EIB has a broad operational base and its focus on the EC may be seen as an advantage in spreading the risk away from too much concentration on a high risk area such as the ACP/SSA. The EIB is already involved in co-financing whereby it joins with other official agencies to provide the total finance required for a particular project. Under Lomé I and II, some 273 projects were subject to co-financing between the EC and other donors. The EIB is already a major borrower on the European capital markets. As some of the funds borrowed are lent to ACP countries the EIB is already facilitating the flow of private investment from the EC to the ACP.

Another area in which institutional innovation can lead to beneficial results is that of assistance to EC businesses intending to invest in ACP States. There is a strong case for suggesting that the Community's development policy needs to assist European industry to identify opportunities for production-sharing in ACP, and to invest in areas where restrictions on the movement of foreign exchange would normally deter investors. This could be complementary to the restructuring of European production away from industries, in which Europe no longer enjoys a comparative advantage. The European Investment Bank (EIB), with responsibility for strategic investment within the Community and support for the private sector in ACP could be called upon to take up this role. Resources to relaunch growth simultaneously in the European Community and the ACP could be incorporated into a special EIB programme to support production-sharing projects.

The question of the ACP participation in the management of EIB resources to be allocated to ACP States remains a contentious issue. The points made prior to the Lomé III negotiations remain relevant. It would not be correct to say that ACP countries have no say in the provision of loans for industrial development. Obviously the loans would have to have been agreed by the governments in the ACP States before they can be requested, not to mention provided by the EIB. The major problem is the lack of effective ACP involvement in its decision-making process. A specific cell at the EIB for the ACP countries, on whose management the ACP would have representation, could be an appropriate compromise.

There is, however, a growing list of demands for specific cells (for example "Women and Development") and there is a danger of making the administration complex and rigid. Under Lomé II a Special Fund for Mining and Energy was created for ECU 200 million, and only one country called on the Fund for ECU 35 million, and it was dropped under Lomé III. This would suggest that one should move cautiously in the creation of new institutions. In many cases strengthening existing institutions and broadening their mandate may be the most appropriate policy alternative.

Enhancing the effectiveness of the Centre for the Development of Industry (CDI) would require a major expansion of its resources. The CDI has been allocated a budget of ECU 40 million for the duration of Lomé III, covering the period 1985-1990. Vigorous efforts have been made to establish working programmes for all ACP States. By the end of 1986 all ACP/SSA States had country programmes with the exception of Angola, Chad and Equatorial Guinea. Although the number of interventions by the CDI has rapidly increased, totalling 263 between 1981 and 1985, the absolute size of its impact is at best marginal. In 1986, its additional investment resulted in the creation of 690 new jobs. It did not prove possible for the EC to involve the CDI in Lomé III ACP country indicative programming missions.

A framework for regular exchange of information between the CDI and EIB on ACP investment projects could pave the way for filling the lacuna in the institutional channel for bringing risk capital assistance to ACP projects promoted by CDI, notwithstanding that the provisions of Article 199 (6) confer eligibility to "programmes and projects identified and promoted by the joint bodies set up by the Community and the ACP States, and authorized by those States to attain certain specific objectives in the spheres of agriculture, industrial and trade co-operation."

A radical appraisal of the objectives, resources available to fulfil those objectives, and commitment of the various parties, EC, EIB and ACP States, to the CDI seems to be required. The CDI has drawn up a detailed evolution of its role and structure in early 1988, which could be a significant input into such an appraisal.

A realistic overall assessment of the effectiveness of the two major institutions, EIB and CDI channelling resources to the ACP/SSA seems to be a prerequisite for a successful future negotiations towards fostering the process of industrial co-operation.

Of equal importance is the need to strengthen the ACP Secretariat itself and enhance its capacity to participate in the negotiation, implementation and monitoring of industrial co-operation programmes. There is a strong case for multilateral and UN agency support to the ACP Secretariat in the field of industrial development and co-operation, the provision of information and other facilities for foreign investors in the ACP States, evaluating industrial trends and assisting in the formulation, co-ordination, and harmonization of national policies in the ACP region. The establishment of the ACP/UNCTAD sub-committee on trade issues, represents one option available to UN agencies to extend support to the ACP Secretariat.

New institutional initiatives are also required to foster the public sector rationalization programme and in particular to co-ordinate the national privatization strategies in the SSA region. Without such co-ordination, there is the danger that ACP States will end up competing against each other for a relatively small amount of foreign private investment and foreign assistance for public enterprise. Although the governments of ACP adopting privatization policies have been turning to domestic business circles with their proposals, it has generally become apparent that, given the limited savings capacity of these countries, the capital outlays required for the take-over of public enterprises exceeds available domestic resources, and hence the search for foreign investors. Even this alternative encounters serious limitations in the case of the ACP/SSA, as their ability to attract foreign investment is impeded by their small domestic markets, lack of skilled labour, and inadequate infrastructure. Given the great number of public enterprises in need of rehabilitation, governments must decide how much, if any, of the country's manufacturing sector they want to see in foreign hands, and on which discounts they are prepared to sell the enterprises built up with substantial capital outlays. Unlike equivalent policies in developed countries, such as France and the United Kingdom, where privatization of powerful monopolies or internationally competitive major firms have raised enormous sums for the national treasuries in ACP very large concessions usually have to be made to induce private buyers to take on weakening assets. Thus in Togo, for instance, where State corporations were sold to the private sector at very low valuations, the immediate, once-and-for-all benefits to the national budget may be outweighed by the longer-term effects on the economy as a whole. In addition, for a number of ACP States with a heavily subsidized public enterprise sector, privatization through foreign investment is not a viable option, as no investor is likely to be prepared to buy loss-making enterprises whose long-term profit prospects are doubtful without enormous local subsidies and long-term concessions.

Regional co-ordination of national privatization strategies could serve to increase the attractiveness of potentially viable enterprises to foreign investors, since it could serve as a mechanism for widening the market and eliminating production duplication. Regional based public firms (created out of the amalgamation of national public enterprises) would enjoy similar advantages. An effective privatization programme in the ACP/SSA region would require not just the reorganization of national ministries, development financing corporations, and parastatals,[1/] but the creation of a regional institutional network for policy co-ordination and the establishment and sustainance of regional privatization and regional public sector re-organization programmes. Both the EC and ACP Secretariats and UN-based agencies concerned with industrial development can play a key role in the development of a regional institutional and policy framework for the harmonization of national privatization and public sector rationalization programmes and strategies. The current negotiations could, therefore, seriously address this question.

1/ As recommended by the World Bank in relation to the national SAF programmes.

4.5 Upgrading industrial capacities

Future policies could make a major contribution to upgrading industrial capabilities. In a macro-policy environment conducive to rehabilitation and growth, industrial co-operation could give priority to raising industrial capabilities in the following areas:

a) Industrial planning has remained a relatively undeveloped area in ACP/SSA in most countries. There is scope for improvement in project selection with a clearer set of criteria for rehabilitation and for ridding economies of the burden of "white elephants"; project initiation should be co-ordinated and monitored at the national and regional level to assess the overall impact of industrial projects on foreign exchange and other resource requirements; linkages should be developed between the private and public sectors.

b) The three main areas identified as gaps in industrial capabilities in ACP/SSA, namely, entrepreneurship, management, and technology, require major initiatives. The existing instruments available to implement the Lomé objectives need to be considered in the light of their effectiveness in up-grading industrial capabilities. The new round of negotiations could help to bridge the "missing middle" between intermediate and informal parts of the small-scale sector and the medium- and large-scale industrial sector. The case for an Intra-ACP Facility should be examined. It was already accepted by the EC that industrial experts should be appointed on a regional basis.

c) There is an increased awareness of the need to improve the process of project preparation and selection.

   - Pre-investment studies are often undertaken by parties which have an investment stake. This has led to grave and often unrectifiable mistakes. Feasibility and pre-investment activities should be conducted as far as possible by neutral agencies. UNIDO can play an important role in this respect.

   - There is also a need to improve contract negotiation. An effort could be made to reduce the liability of ACP governments in the case of delivery hold-ups, and construction delays. Assistance is needed in improving ACP negotiating capacity, and regional co-ordination can also prove beneficial in this respect.

   - Equipment supplies to ACP projects have often been sub-standard. A co-ordinated technology acquisition and procurement policy based on relevant market information could be given high priority, and more competition could be introduced into procurement.

- Neglect of project appraisal could lead to high economic costs. Project monitoring on a continuous basis would be helpful, particularly in view of rapidly changing international price structures.

- In drawing up the indicative programme within the framework of ACP-EC co-operation, initiatives in the manufacturing sector could be supported by substantial technical assistance from other organizations in full co-operation with UNIDO.

- In addition, different interest groups, for example the local private sector, the different ministries (not only the Ministry of Finance), regional/commercial banks, representatives from local Chambers of Commerce, could participate in the dialogue determining the Indicative Programme. Consideration could also be given to the different interest groups making direct requests to the EDF, for example to subsidize exploratory missions to identify investment opportunities, and/or to have an Investment Promotion Fund. It would also be necessary to improve co-ordination with Regional Development Banks, and other multilateral agency initiatives, for example, IFC.

d) A key feature in pursuing industrialization through encouraging the entrepreneurial development and private investment is that priorities for industry are determined primarily by the private sector. However, in co-operating with the private sector, and in influencing the priorities of the public sector, certain priority areas may be specified - for ACP/SSA in particular:

- small- and medium-sized enterprises;

- manufacturing activities located in rural areas and small secondary towns;

- manufacturing activities which are linked to processing, upstream and downstream, of agricultural products;

- manufacturing activities which create employment, develop linkages, and industrial capabilities, and use appropriate technology;

- metal-working and mechanical engineering deserve particular attention since they usually play a pivotal role in development.

For the Caribbean and Pacific countries the following areas have been identified :

- Agro-based and marine-resource based industries have become priority industries in development strategies which seek to promote forward and backward linkages between economic sectors and which aim at reducing the island countries vulnerablilities to adverse external economic shocks. Indeed, the need for structural change in the island economies is most evident in these industries.

- In the field of food processing, there is need for harnessing linkages between agriculture and industry with greater focus on parallel diversification of both sectors; improved processing and supply for domestic markets; and higher degree of processing for export markets with emphasis on creating market niches for high value-added products with the support of good export promotional initiatives and marketing techniques.

- In the field of marine-resource based industrial development, new concepts and integrated approaches would need to be promoted with a focus on developing and improving: aquaculture and mariculture; sea-food processing and distribution; fishery gear equipment and technology; boat building and repair facilities; salt processing; marine biotechnology for food, pharmaceutical and chemical production, including utilization of sea-weed; leather production based on fish skin; and marine cottage industry and handicraft (such as pearl buttons). Industrial opportunities arising from marine resources are far greater than generally recognized, not least due to the UN sponsored Convention of the Law of the Sea.

- Other marine resources with long-term development potential include hydrocarbons, manganese modules, phosphate and heavy mineral deposits, etc. In most cases the exploitation of such resources is at the limits of current mining technologies and is normally beyond the financial and development capabilities of almost all the islands unless there is major participation by external interests. There is also need for improving development techniques for surveying and assessing marine resource potential and for the development of alternative ocean-based energy sources.

There is a general consensus that some key institutional instruments within the Lomé framework would need to be improved to assist manufacturing sector growth in ACP. Such improvements, for example, with respect to the role of the CDI and EIB, the strengthening of the ACP Secretariat, the establishment of regional based institutions for the harmonization of national privatization and public sector rationalization strategies and the involvement of the EC in the SAF process have been specified in this Chapter. The ACP States have commissioned no independent research on industrialization, given inadequate resources. Hence EC commissioned studies form the main basis of evidence for evaluationg performance and shaping recommendations. Additional efforts to conduct in-depth research could enable the ACP States to identify and assess their needs and opportunities, resources and constraints, issues and options and policies and strategies in the field of industry. As part of this exercise, linkages could be strengthened with concerned international agencies, including UNIDO.

ANNEX A

LIST OF ACP STATES

ANNEX A

LIST OF ACP STATES

ANGOLA (o)
ANTIGUA AND BARBUDA (*)
BAHAMAS
BARBADOS
BELIZE (*)
BENIN (*)
BOTSWANA (*)
BURKINA FASO (*)
BURUNDI (*)
CAMEROON
CAPA VERDE (*)
CENTRAL AFRICAN REPUBLIC (*)
CHAD (*)
COMOROS (*)
CONGO
DJIBOUTI (*)
DOMINICA (*)
EQUATORIAL GUINEA (*)
ETHIOPIA (*)
FIJI
GABON
GAMBIA (*)
GHANA
GRENADA (*)
GUINEA (*)
GUINEA BISSAU (*)
GUYANA
IVORY COAST
JAMAICA
KENYA
KIRIBATI (*)
LESOTHO (*)
LIBERIA
MADAGASCAR
MALAWI (*)
MALI (*)
MAURITANIA (*)
MAURITIUS
MOZAMBIQUE (*) (o)
NIGER (*)
NIGERIA
PAPUA NEW GUINEA
RWANDA (*)
ST KITTS AND NEVIS (*)
SAINT LUCIA (*)
ST VINCENT AND GRENADINES (*)
SAO TOME AND PRINCIPE (*)
SENEGAL
SEYCHELLES (*)
SIERRA LEONE (*)
SOLOMON ISLANDS (*)
SOMALIA (*)
SUDAN (*)
SURINAME
SWAZILAND (*)
TANZANIA (*)
TOGO (*)
TONGO (*)
TRINIDAD AND TOBAGO
TUVALU (*)
UGANDA (*)
WESTERN SAMOA (*)
VANUATU (*)
ZAIRE
ZAMBIA
ZIMBABWE

(*) Least Developed ACP States under Lomé II.
(°) Member States since Lomé III.

ANNEX B

SELECTED TITLES AND ARTICLES OF LOME III

ANNEX B

SELECTED TITLES AND ARTICLES OF LOME III

TITLE III

INDUSTRIAL DEVELOPMENT

ARTICLE 60

The Community and the ACP States, acknowledging that industrialization is a driving force in bringing about balanced and diversified economic and social development and creating conditions conducive to the attainment of the ACP States' collective self-reliance, agree to promote industrial development in the ACP States with a view to providing them with a framework for strengthening their development efforts and increasing their share of world trade.

ARTICLE 61

The aim of industrial co-operation between the Community and the ACP States shall be, in particular, to derive full benefit from those States' human and natural resources through the modernization of their societies, to create jobs, to generate and distribute income, to facilitate the transfer of technology and its adaptation to conditions in the ACP States and their specific needs, to foster complementarity of the different branches of industry and between industry and the rural sector in order to make full use of that sector's potential, and to promote new relations of dynamic complementarity in the industrial field between the Community and the ACP States.

Account shall be taken in industrial co-operation of the need to establish and strengthen an economic, technical, social and institutional environment conducive to industrialization. Emphasis shall be placed on the development of all types of appropriate industries, training and co-operation between firms in the Member States of the Community and in the ACP States.

In pursuit of these aims, the Contracting Parties shall have recourse to, in addition to the specific provisions on industrial co-operation, those on trade, trade promotion for ACP products and private investment.

ARTICLE 62

In order to implement industrial co-operation, the Community shall help carry out programmes, projects and operations submitted to it on the initiative or with the agreement of the ACP States. To this end, it shall use all the means provided in this Convention, notably those at its disposal under financial and technical co-operation and, in particular, those which are the responsibility of the European Investment Bank (hereinafter referred to as the "Bank"), without prejudice to operations to assist ACP States in mobilizing finance from other sources.

Industrial co-operation programmes, projects and operations which involve Community financing shall be implemented in conformity with Title III, Part Three, of this Convention, having regard to the particular characteristics of aid operations in the industrial sector.

ARTICLE 63

The Community shall assist the ACP States in the improvement of their institutional framework, reinforcement of their financing institutions, the establishment, rehabilitation and improvement of industry-related infrastructure and in their efforts to integrate industrial structures and regional and inter-regional markets.

ARTICLE 64

On the basis of a req est from an ACP State, the Community shall provide the assistance required in the field of industrial training at all levels, bearing notably on the evaluation of industrial training needs and the establishment of corresponding programmes, the setting-up and operation of national or regional ACP industrial training establishments, training for ACP nationals in appropriate establishments, on-the-job training both in the Community and in the ACP States and also co-operation between industrial training establishments in the Community and in the ACP States, and between the latter and those of other developing countries.

ARTICLE 65

The Community shall assist in the establishment and expansion of all types of viable enterprise which have been identified by the ACP States as important in terms of their development objectives.

The Community and the ACP States shall place special emphasis on the restoration, upgrading, reorganization or restructuring of existing industrial capacities which are viable but temporarily out of action or performing badly and also on the maintenance of plant and equipment and of enterprises and, for this purpose, industrial co-operation shall be focused on assistance for the start-up or rehabilitation of such enterprises and on the relevant forms of training at all levels.

Particular attention shall be paid to

- industries for the domestic processing of ACP raw materials;

- agro-industries;

- integral industries capable of creating links between the different sectors of the economy;

- industries which have a favourable effect on employment, the trade balance and regional integration.

Community financing shall take the form, as a matter of priority, of loans from the Bank on its own resources and of risk capital, these being the specific financing methods for industrial enterprise .

ARTICLE 66

The Community shall contribute in a spirit of mutual interest to the development of ACP-EEC and intra-ACP co-operation between enterprises by information and industrial promotion activities.

The aim of such activities shall be to intensify the regular exchange of information, organize the contacts required in the industrial sphere between industrial policy-makers, promoters and economic operators from the Community and the ACP States, carry out studies, notably feasibility studies, facilitate the establishment and operation of ACP industrial promotion bodies and foster joint investment, subcontracting arrangements and any other form of industrial co-operation between undertakings in the Member States of the Community and in the ACP States.

ARTICLE 67

The Community shall contribute to the establishment and development of small and medium-sized enterprises in the artisanal, commercial, service and industrial sectors in view of the essential role that these enterprises play in the modern and informal sectors in building up a diversified economic fabric and in the general development of the ACP countries, and in view of the advantages they offer as regards the acquisition of skills, the integrated transfer and adaptation of appropriate technology and opportunities for taking the best advantage of local manpower. The Community can also help with sector evaluation and the establishment of action programmes, with the setting-up of appropriate infrastructure, the establishment, strengthening and operation of institutions providing information, promotion, extension, training, credit or guarantee and transfer of technology facilities.

The Community and the ACP States shall encourage co-operation and contact between small and medium-sized enterprises in the Member States and the ACP States.

ARTICLE 68

With a view to assisting the ACP States to develop their technological base and indigenous capacity for scientific and technological development and facilitating the acquisition, transfer and adaptation of technology on terms that will seek to bring about the greatest possible benefits and minimize costs, the Community, through the instruments of financial and technical co-operation, is prepared, inter alia, to contribute to:

(a) the establishment and strengthening of industry-related scientific and technical infrastructure in the ACP States;

(b) the drawing-up and implementation of research and development programmes;

(c) the identification and creation of opportunities for collaboration among research institutes, institutions of higher learning and enterprises of ACP States, the Community, the Member States and other countries;

(d) the establishment and promotion of activities aimed at the consolidation of appropriate indigenous technology and the acquisition of relevant foreign technology, in particular that of other developing countries;

(e) the identification, evaluation and acquisition of industrial technology including the negotiation on favourable terms and conditions of foreign technology, patents and other industrial property, in particular through financing or through other suitable arrangements with firms and institutions within the Community;

(f) providing ACP States with advisory services for the preparation of regulations governing the transfer of technology and for the supply of available information, in particular on the terms and conditions of technology contracts, the types and sources of technology, and the experience of ACP States and other countries with the use of certain types of technology;

(g) the promotion of technology co-operation between ACP States and between them and other developing countries in order to make the best use of any particularly appropriate scientific and technical facilities they may possess;

(h) facilitating, wherever possible, access to and use of documentary and other data sources available in the Community.

ARTICLE 69

In order to enable the ACP States to obtain full benefit from the trade arrangements and other provisions of this Convention, promotion schemes shall be undertaken for the marketing of ACP States' industrial products on both Community and other external markets, and also in order to stimulate and develop trade in industrial products among the ACP States. Such schemes shall cover market research, marketing and the quality and standardization of manufactured goods, in accordance with Articles 190 and 191 and taking into account Articles 95 and 96.

ARTICLE 70

1. A Committee on Industrial Co-operation, supervised by the Committee of Ambassadors, shall:

(a) review progress made with the overall industrial co-operation programme resulting from this Convention and, where appropriate, submit recommendations to the Committee of Ambassadors;

(b) examine problems and policy issues in the field of industrial co-operation submitted to it by the ACP States or by the Community, and make any appropriate proposals;

(c) organize, at the request of the Community or of the ACP States, a review of trends in industrial policies of the ACP States and of the Member States as well as developments in the world industrial situation with a view to exchanging information necessary for improving industrial co-operation and facilitating the industrial development of the ACP States;

(d) establish the general strategy of the Centre for the Development of Industry referred to in Article 71, appoint the director and deputy director, nominate the members of the Governing Board, appoint the two auditors, apportion, on an annual basis, the overall financial allocation provided for in Article 73(4) and examine, on the basis of the Centre's annual report, the deployment of these resources in order to assess whether the Centre's activities are in conformity with the objectives assigned to it in this Convention and report to the Committee of Ambassadors and, through it, to the Council of Ministers;

(e) carry out such other duties as may be assigned to it by the Committee of Ambassadors;

2. The composition of the Committee on Industrial Co-operation and the detailed rules for its operation shall be determined by the Council of Ministers.

ARTICLE 71

The Centre for the Development of Industry shall help to establish and strengthen industrial enterprises in the ACP States, particularly by encouraging joint initiatives by economic operators of the Community and the ACP States.

As a practical operational instrument, the Centre shall assist in the identification, promotion and implementation of viable industrial projects that meet the needs of ACP States, taking special account of domestic and external market opportunities and possibilities for the processing of local raw materials while making optimum use of the ACP States' endowments by way of factors of production.

In its efforts to help in establishing and strengthening industrial undertakings in the ACP States, the Centre shall adopt appropriate measures within the limits of its resources and its functions, in the field of transfer and development of technology, industrial training and information.

In carrying out the above tasks, the Centre shall take care to operate selectively by giving priority to small and medium-sized industrial enterprises and rehabilitation operations, and restoring existing viable industrial capacities to full utilization. It shall place special emphasis on opportunities for joint ventures and subcontracting.

The Centre shall act in close co-operation with the ACP States, the Member States and also the Commission and the Bank within their respective areas of responsibility. Its activity shall be subject to periodic evaluation.

ARTICLE 72

In the framework of the objectives set out in Article 71, the Centre's functions shall be to:

(a) gather and disseminate all relevant information concerning trends in industrial sectors in the Community and the ACP States;

(b) carry out studies, market research and evaluation work and gather and disseminate all relevant information on the industrial co-operation situation and opportunities and notably on the economic environment, the treatment which would-be investors may expect and the potential of viable industrial projects;

(c) identify industrial policy-makers, promoters and economic and financial operators in the Community and ACP States, and organize and facilitate contacts and meetings of all kinds between them;

(d) carry out studies and appraisals aimed at identifying practical opportunities for industrial co-operation with the Community in order to promote the industrial development of the ACP States, and at facilitating the implementation of appropriate schemes;

(e) supply information and also specific advisory services and expertise, including feasibility studies, with a view to expediting the establishment or restoration of industrial enterprises;

(f) identify potential partners of the ACP States and the Community for joint investment operations and assist in the implementation and follow-up;

(g) identify and evaluate, on the basis of needs indicated by ACP States, opportunities for industrial training, chiefly on-the-job, to meet requirements of existing as well as projected industrial undertakings in ACP States and, where appropriate, assist in the implementation of appropriate schemes;

(h) identify, collect, evaluate and supply information and advice on the acquisition, adaptation and development of appropriate industrial technology relating to specific projects and, where appropriate, assist in the setting-up of experimental or demonstration schemes;

(i) identify, appraise, evaluate, promote and assist in the implementation of viable industrial projects of the ACP States;

(j) help, in appropriate cases, to promote the marketing of ACP manufactures on their domestic markets and on the markets of the other ACP States and the Community in order to encourage optimum exploitation of installed or projected industrial capacity;

(k) identify and provide information on possible sources of financing and, where necessary, assist in the mobilization of funds from these sources for industrial projects in ACP States.

ARTICLE 73

1. The Centre shall be headed by a director assisted by a deputy director, both of whom shall be appointed by the Committee on Industrial Co-operation.

2. A joint Governing Board shall:

(a) advise and back up the director in providing impetus and motivation and managing the Centre;

(b) take the following decisions:

- approve the budgets and annual accounts;

- establish multiannual and annual programmes of activities;

- approve the annual report;

- establish the organizational structures, staffing policy and establishment plan.

(c) transmit an annual report to the Committee on Industrial Co-operation.

3. The Governing Board shall be composed of persons with substantial experience in the private or public industrial and banking sectors or in industrial development planning and promotion. They shall be chosen on a personal basis on the grounds of their qualifications from among nationals of the States party to this Convention and appointed by the Committee according to the procedures laid down by it. A representative of the Commission and of the Bank shall take part in the Board's proceedings. The secretariat shall be provided by the Centre.

4. The Community shall contribute to the financing of the Centre's budget by means of a separate allocation of a maximum of 40 million ECU taken from the resources earmarked under Article 112 for the funding of regional co-operation projects.

5. Two auditors appointed by the Committee shall audit the financial management of the Centre.

6. The Centre's statute, financial and staff regulations and rules of procedure shall be adopted by the Council of Ministers on a proposal from the Committee of Ambassadors after the entry into force of this Convention.

ARTICLE 74

In implementing this Title, the Community shall pay special attention to the specific needs and problems of the least-developed, landlocked and island States, notably in the following areas:

- processing of raw materials;

- development, transfer and adaptation of technology;

- development and financing of schemes in favour of small and medium-sized industrial enterprises;

- development of industrial infrastructure and energy and mining resources;

- adequate training in the scientific and technical areas.

The Centre for the Development of Industry shall pay special attention to the specific problems that arise as regards promotion of industrialization activities of the least-developed, landlocked and island ACP States.

At the request of one or more least-developed ACP States, the Centre shall grant special assistance for identifying on the spot, examining, assessing, preparing, promoting and assisting in the implementation of industrial projects in the ACP State concerned.

Chapter 3

Technical co-operation

ARTICLE 207

1. The purpose of technical co-operation shall be to provide enhanced support for the development of human resources in the ACP States.

2. Where such co-operation involves the provision of external supplementary human resources, then as a basic principle:

(a) such support through the provision of technical assistance personnel (consultancy firms, consulting engineers or experts, training or research institutions) shall be made available only at the request of the ACP State or States concerned;

(b) however, arrangements shall be made to train local personnel so as to phase out technical assistance and to staff projects entirely with ACP nationals on a permanent basis;

(c) the co-operation shall include arrangements to enhance the capacity of the ACP States to build up their own expertise and improve the technical skills of their own consultants, consulting firms and experts. In furtherance of this, effective training of local personnel shall be part of the assignment of technical assistance personnel;

(d) the experts provided under this co-operation shall be qualified for the specific tasks as defined in the ACP request.

3. The service contracts under which technical assistance personnel is to be recruited shall include those covering the recruitment of consultants and other technical specialists; they shall be negotiated, drawn up and concluded by the ACP State concerned subject to the agreement of the Commission delegate.

4. The Community shall take practical measures to increase and improve the information placed at the disposal of ACP States concerning the availability and qualifications of relevant specialists.

ARTICLE 208

1. Technical co-operation may be either linked with operations or of a general nature.

2. Technical co-operation linked with operations shall comprise inter alia:

(a) development studies;

(b) technical, economic, financial and commercial studies, and research and surveys required to prepare projects or programmes;

(c) help with the preparation of dossiers;

(d) help with the execution and supervision of works;

(e) temporarily meeting the cost of technicians and providing the resources needed for them to accomplish their assignments;

(f) technical co-operation measures which may be required temporarily to permit the establishment, launching, operation and maintenance of a specific project;

(g) aid for the evaluation of operations;

(h) integrated training, information and research programmes.

3. General technical co-operation shal' comprise inter alia:

(a) studies of the prospects and resources for economic development and diversification in the ACP States, and of problems of interest to groups of ACP States or to the ACP States as a whole;

(b) sectoral or product studies;

(c) the provision of experts, advisers, technicians and instructors for specific assignments and for limited periods;

(d) the supply of instructional, experimentation, research and demonstration equipment;

(e) general information and documentation to promote the development of the ACP States and the achievement of the aims of co-operation;

(f) exchanges of executive and specialized staff, students, research workers, motivators and heads of social or cultural groups or associations;

(g) the granting of study or training awards, particularly to persons already in employment and requiring further training;

(h) the organization of seminars or sessions for training, information and further training;

(i) the setting-up or strengthening of information and documentation instruments, particularly for exchanges of know-how, methods and experience between ACP States and between them and the Community;

(j) co-operation between or twinning of ACP institutions or Community and ACP States' institutions, particularly universities and other ACP and EEC training and research establishments;

(k) support for particularly representative cultural events.

ARTICLE 209

1. Technical co-operation shall be provided under service contracts concluded with individual experts, or consultancy firms, training and research institutions, or exceptionally, by direct labour.

The choice of whether to use the services of consultancy firms or of experts recruited individually shall take account of the nature of the problems and the scale and complexity of the technical means and management resources required, as well as the comparative cost of each of the two solutions.

2. The criteria to be observed in the choice of technical co-operation contractors and their staff shall refer to:

(a) professional skills (technical and training ability) and human qualities;

(b) respect for the cultural values and the political and administrative circumstances of the ACP State or States concerned;

(c) knowledge of the language necessary for the execution of the contract;

(d) practical experience of problems of the type to be dealt with;

(e) cost.

3. Given equal competence, preference shall be given to ACP States' experts, institutions or consultancy firms.

4. The recruitment of technical co-operation staff, the determination of their aims and functions and duration of their missions, their remuneration and the ways in which they contribute to the development of the ACP States to which they are sent, must conform to the principles for technical co-operation policy laid down in Article 207. The procedures to be applied in this context must ensure objectivity in terms of the choice and quality of the services provided. The following additional principles shall also apply:

(a) recruitment shall be carried out by the national institutions that will use the technical assistance, with the help of the Commission and its delegate;

(b) due account shall be taken of the availability of suitable candidates, according to the criteria established in paragraph 2, residing in the ACP State itself or in the region;

(c) efforts shall be made to facilitate direct contact between a candidate and the future user of the technical assistance.

ARTICLE 210

1. Service contracts shall be awarded on the basis of restricted invitations to tender.

2. Certain contracts, however, may be awarded by direct agreement, notably in the following cases:

- small-scale or short-term operations;

- operations assigned to individual experts;

- operations continuing others already in hand;

- following an unsuccessful invitation to tender.

3. (a) Where an ACP State has, within its administrative and technical staff, nationals making up a substantial part of the work force necessary for the performance by direct labour of a technical co-operation project, the Community shall contribute exceptionally to the costs of the department involved by providing equipment that it lacks, or supply the required additional staff in the form of experts from another state.

(b) The participation of the Community shall cover only costs incurred by supplementary measures and temporary expenditure relating to execution strictly confined to the requirements of the project in question and shall exclude all operating expenditure of a permanent nature.

4. The manner in which the contract is to be awarded or the services undertaken shall be decided by agreement between the Commission and the ACP State concerned on the basis of the ACP State's needs and available resources.

ARTICLE 211

1. (a) For each technical co-operation scheme for which an invitation to tender has been issued, a shortlist of candidates from the Member States or the ACP States shall be drawn up, within two months of the date of the request, by agreement between the Commission and the ACP State concerned, where appropriate following prequalification; candidates shall be chosen by reference to their legal and financial situation, qualifications, experience, independence, availability and the criteria and principles set out in Article 209.

(b) Depending on requirements, the invitation to tender may cover:

- the design of the co-operation scheme and the services or staff resources to be deployed, the financial information being submitted at the same time but separately and the prices to be paid being negotiated at a later stage;

- prices, where in special, well-founded cases, the co-operation scheme is of a less complex nature.

(c) The invitation to tender dossier, drawn up by the ACP State in agreement with the Commission, shall contain details of the way in which tenders are to be presented and the criteria for selection of the successful tenderer, who must be chosen within thirty days of the date on which tenders are examined.

(d) Without prejudice to the respective powers of the National Authorizing Officer and the delegate referred to in Articles 227 and 228, the relevant authorities of the ACP States shall award the contract subject to the agreement of the Commission. The tender selected for each operation must be the most advantageous one, account being taken notably of its technical qualities, the organization of and methods proposed for the services rendered, the competence, experience and aptitude of the staff employed for the operation and, in the case referred to in the second indent of subparagraph (b), the cost of the services.

2. Where the procedure by direct agreement is applied, the successful candidate shall be chosen by the ACP State on the basis of a Commission proposal. A candidate may also be proposed by the ACP State.

The ACP State shall be notified of the Commission's proposal within one month of making its request. The ACP State shall take its decision during the month following that notification.

3. In order to speed up the procedures, service contracts, including those covering the recruitment of consultants and other technical assistance specialists, may be negotiated, drawn up and concluded either by the National Authorizing Officer, on a proposal from the Commission or with its agreement, or by the Commission on behalf of the ACP State concerned and with its agreement, notably where urgent, small-scale or short-term operations are involved and in particular for experts' services in the preparation and execution of operations.

4. At the request of the ACP State concerned, the Commission may recruit and deal with the administrative formalities for individual technical assistance through its relevant agency.

5. The firms in the ACP States, which may be taken into consideration for technical co-operation operations, shall be selected by agreement between the Commission and the ACP State or States concerned.

6. In exceptional cases and in agreement with the Commission, recourse may be had to consultancy firms or experts that are nationals of third countries.

ARTICLE 212

1. Service contracts shall be negotiated, drafted and concluded by the relevant authorities of the ACP States, in agreement with the Commission delegate, on the basis of general conditions applicable to the award and performance of contracts which shall be adopted by decision of the Council of Ministers, at its first meeting following the entry into force of this Convention, after consultation of the ACP-EEC Committee referred to in Article 193.

2. Until the entry into force of the decision provided for in paragraph 1, the award and performance of service contracts financed by the Fund shall be governed by the national legislation of the ACP States or their established practices regarding international contracts or, if the ACP States so wish, by the general clauses currently used in the contracts financed by the Fund.

ARTICLE 213

In order to enhance the ACP States' capacity to build up their technical skills and improve the know-how of their consultants, co-operation between consultancy firms, consulting engineers, experts and institutions of the Member States and those of the ACP States shall be encouraged by means of temporary associations, subcontracting or the use of experts who are nationals of the ACP States in teams employed by consultancy firms, consulting engineers or institutions in the Member States of the Community.

ARTICLE 214

Technical co-operation shall provide support for educational and training operations in accordance with Article 119.

TITLE IV

INVESTMENT, CAPITAL MOVEMENTS, ESTABLISHMENT AND SERVICES

Chapter 1

Investment

ARTICLE 240

The Contracting Parties recognize the importance of private investment for the promotion of their development co-operation and acknowledge in this respect the need to take such steps as would promote such investment. In this regard the Contracting Parties jointly and severally agree to:

(a) implement measures to encourage private economic operators who comply with the objectives and priorities of their development co-operation and with the appropriate laws and regulations of their respective States to participate in their development efforts;

(b) accord fair and equitable treatment to such investors, and encourage and create clear and stable conditions conducive to the participation of such investors;

(c) maintain a predictable and secure investment climate and be prepared to enter into negotiations on agreements which will improve such a climate and, in so doing, further mutual interests;

(d) promote effective co-operation amongst their respective economic operators.

ARTICLE 241

1. In order to accelerate further their development co-operation and the expansion of directly productive investment, the Contracting Parties, using the technical and financial assistance provided within this Convention, agree to study measures which will facilitate an increased and more stable flow of private capital and which will further enhance:

(a) joint financing of productive investments with the private sector;

(b) access by interested ACP States to international financial markets;

(c) the activity and effectiveness of domestic financial markets.

2. To this end, the Contracting Parties agree to review the economic, technical, legal or institutional obstacles which currently hamper such developments as well as the action required to remove these obstacles, with due respect for international commitments, in order to promote further the development of productive investment.

ARTICLE 242

1. Taking account of the link between investment decisions, the capacity of the ACP States to generate adequate export earnings to service the investment and the ability effectively to support existing and new productive investment, the Community undertakes to explore ways and means to provide, within the framework of financial and technical co-operation:

(a) credit lines to finance imports of intermediate materials needed for the export industries of a requesting ACP State;

(b) appropriate and effective support for export promotion.

2. Taking account of the role of domestic development financing institutions as channel and intermediary for attracting private capital flows into development co-operation, the Contracting Parties agree, within the framework of financial and technical co-operation, to encourage the setting-up or the strengthening of:

(a) national or regional financing institutions to finance exports and guarantee export credits;

(b) regional payment mechanisms that would facilitate intra-ACP trade.

ARTICLE 243

1. The Contracting Parties affirm the need to promote and protect either party's investments on their respective territories, and in this context affirm the importance of concluding between States, in their mutual interest, investment promotion and protection agreements which could also provide the basis for insurance and guarantee schemes.

2. In order to further encourage European investment in development projects of special importance to, and promoted by, the ACP States, the Community and the Member States on the one hand, and the ACP States on the other, may also conclude agreements relating to specific projects of mutual interest where the Community and European enterprises contribute towards their financing.

ARTICLE 244

1. The Contracting Parties agree to undertake a joint study of the scope and appropriate mechanisms of a joint ACP-EEC insurance and guarantee system, complementary to existing national systems, that could have a positive effect on the flow of private-sector resources from the Community to the ACP States.

2. The Contracting Parties further agree to explore the use of private sector market insurance to insure additional private capital flows to the ACP States.

ARTICLE 245

In order to promote the development of private investment flows, the Community and the ACP States hereby agree, within the framework of this Convention and in co-operation with other interested bodies, to:

(a) encourage the flow of information on investment opportunities between financial or development finance institutions, other specialized financial institutions and other potential investors and sponsors by organizing periodic investment promotion meetings, making available periodic information on existing financial or other specialized institutions, their facilities and conditions and encouraging the establishment of focal points in ACP States;

(b) make a detailed analysis, taking full account of work being done in other institutions, of possible net increases in the flow of funds for investment financing that might result from greater use of cofinancing and joint ventures and, in this regard, enable suggestions to be made to multilateral, regional and other institutions regarding ways and means of improving and increasing the number of such arrangements in order to expand the funds available to ACP States in the form of equity and long-term capital;

(c) strengthen, with financial and technical assistance from the Community, existing activities to promote European private investment in the ACP States by organizing discussions between any ACP State interested and potential private investors on the legal and financial framework which that ACP State offers or might offer to a potential investor;

(d) encourage the dissemination, to all interested parties, of information on the nature and availability of investment guarantees and insurance mechanisms to facilitate investment in ACP States, and encourage or prepare, wherever appropriate, the creation or expansion of such mechanisms in ACP States, if necessary in collaboration with other appropriate agencies;

(e) provide assistance to small and medium-sized enterprises in ACP States in designing and obtaining equity and loan financing on optimal terms and conditions;

(f) explore ways and means of overcoming or reducing the host country risk for individual investment projects that are in themselves viable and could contribute to economic progress;

(g) help ACP States to:

(i) improve the quality of feasibility studies and the preparation of projects with appropriate economic and financial effects;

(ii) introduce integrated project management covering the entire project development cycle within the framework of the development programme of the State.

ARTICLE 246

1. The Contracting Parties hereby recognize that the least-developed, landlocked and island ACP States suffer from certain unique disadvantages which render them less attractive to private investment.

2. The Contracting Parties therefore commit themselves to undertaking, as soon as possible after the entry into force of this Convention, a joint study to identify the specific measures it may be desirable to adopt in relation to those States in order to improve their attractiveness to investment.

ARTICLE 247

1. In order to improve understanding of the issues involved in private-sector flows and the effectiveness of attempts to encourage such flows, the Contracting Parties hereby agree that the Commission shall, with their assistance, produce regular reports for the information of the Council of Ministers on flows of investment, lending, payment arrears and capital movements between the Community and the ACP States.

2. The Contracting Parties hereby agree that the issues relating to the promotion and protection of investment in their respective territories may be the subject of discussions in the appropriate ACP-EEC co-operation forum or of consultations between the ACP State concerned and the Community, especially where particular investment promotion schemes are being implemented.

3. The Contracting Parties hereby agree to launch all the studies referred to in this Chapter in the shortest possible time and, in any event, not later than one year after the entry into force of this Convention. The result of these studies will be submitted upon completion to the interested parties for consideration and appropriate action, not later than two years after the entry into force of this Convention.

Chapter 2

Provisions relating to current payments and capital movements

ARTICLE 248

With regard to capital movements linked with investments and to current payments, the Contracting Parties shall refrain from taking action in the field of foreign exchange transactions which would be incompatible with their obligations under this Convention resulting from the provisions relating to trade in goods, services, establishment and industrial co-operation. These obligations shall not, however, prevent the Contracting Parties from adopting the necessary protective measures should this be justified by reasons relating to serious economic difficulties or severe balance-of-payments problems.

ARTICLE 249

In respect of foreign exchange transactions linked with investments and current payments, the ACP States on the one hand and the Member States on the other shall avoid, as far as possible, taking discriminatory measures vis-à-vis each other or according more favourable treatment to third states, taking full account of the evolving nature of the international monetary system, the existence of specific monetary arrangements and balance-of-payments problems.

- 258 -

To the extent that such measures or treatment are unavoidable, they shall be maintained or introduced in accordance with international monetary rules and every effort shall be made to minimize any adverse effects on the parties concerned.

ARTICLE 250

Throughout the duration of the loans and risk capital operations provided for in Article 194, each of the ACP States hereby undertakes to:

(a) place at the disposal of the beneficiaries referred to in Article 191 the currency necessary for the payment of interest and commission on and amortization of loans and quasi-capital aid granted for the implementation of aid measures on their territory;

(b) make available to the Bank the foreign currency necessary for the transfer of all sums received by it in national currency which represent the net revenue and proceeds from transactions involving the acquisition by the Community of holdings in the capital of companies or firms.

ARTICLE 251

At the request of the Community or of the ACP States, the Council of Ministers shall examine any problems raised by the application of Articles 248, 249 and 250. It shall also formulate any relevant recommendations.

Chapter 3

Provisions relating to establishment and services

ARTICLE 252

As regards the arrangements that may be applied in matters of establishment and provision of services, the ACP States on the one hand and the Member States on the other shall treat nationals and companies or firms of Member States and nationals and companies or firms of the ACP States respectively on a non-discriminatory basis. However, if, for a given activity, an ACP State or a Member State is unable to provide such treatment, the Member States or the ACP States, as the case may be, shall not be bound to accord such treatment for this activity to the nationals and companies or firms of the State concerned.

ARTICLE 253

For the purpose of this Convention "companies or firms" mean companies or firms constituted under civil or commercial law, including co-operative societies and other legal persons governed by public or private law, save those which are non-profit-making.

"Companies or firms of a Member State or of an ACP State" means companies or firms formed in accordance with the law of a Member State or an ACP State and whose registered office, central administration or principal place of business is in a Member State or ACP State; however, a company or firm having only its registered office in a Member State or an ACP State must be engaged in an activity which has an effective and continuous link with the economy of that Member State or the ACP State.

ARTICLE 254

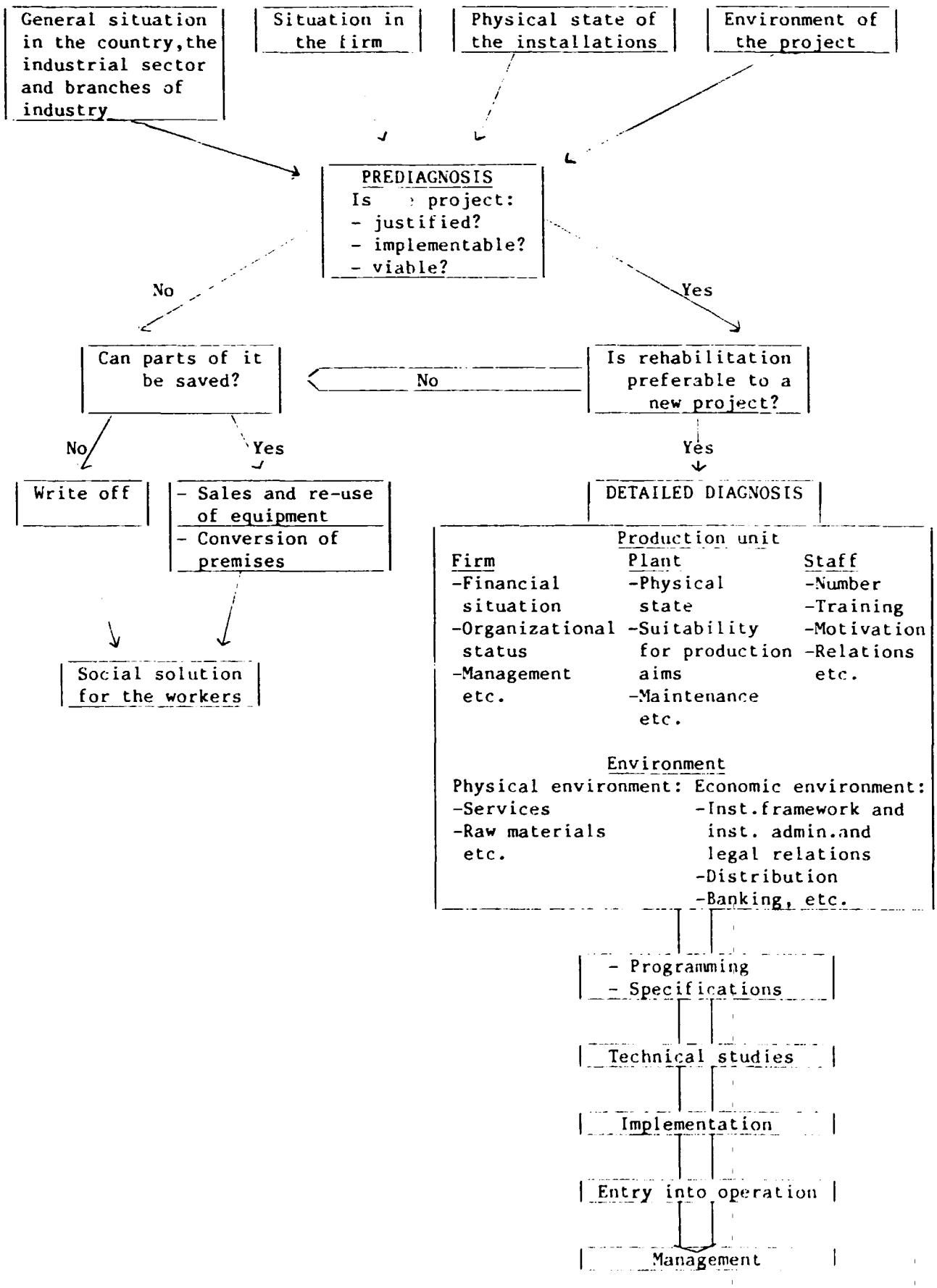
At the request of the Community or of the ACP States, the Council of Ministers shall examine any problems raised by the application of Articles 252 and 253. It shall also formulate any relevant recommendations.

Source: ACP-EEC Council of Ministers, The Third ACP-EEC Convention, Signed at Lomé on 8 December 1984 and Related Documents, 1985.

ANNEX C

STANDARD OUTLINE OF A REHABILITATION OPERATION

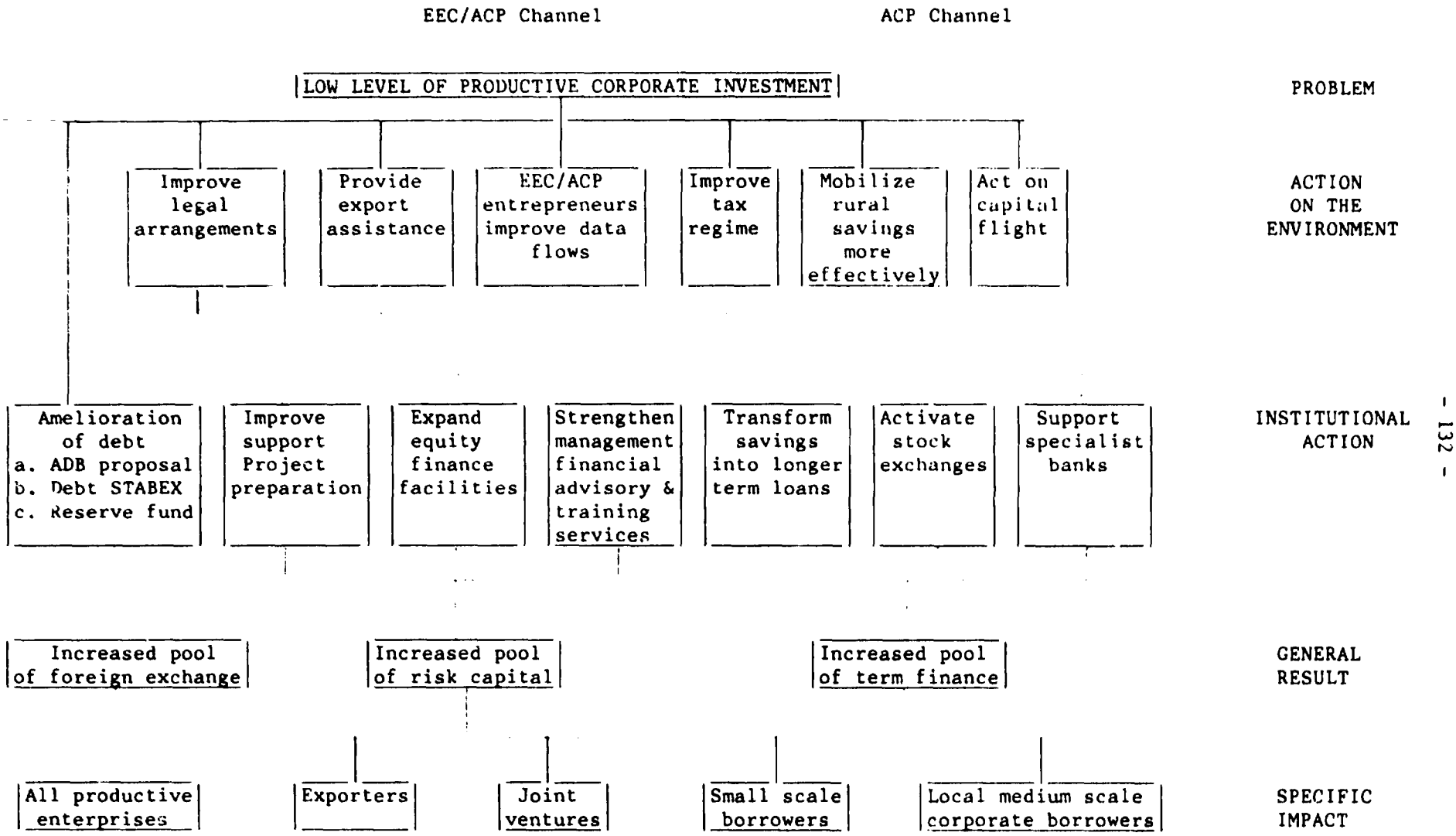
Annex C. Outline of a rehabilitation operation



ANNEX D

STEPS IN RAISING PRODUCTIVE INVESTMENT BETWEEN EEC AND ACP STATES

Annex D - Steps in raising productive investment between EEC and ACP States



Source: Investment in the ACP States and related financial flows, ACP/EC, 1988.

SELECTED REFERENCES

ACP-EEC Council of Ministers, The Third ACP-EEC Convention, Signed at Lomé on 8 December 1984 and Related Documents, 1985.

G. Egnell, The Rehabilitation of Malfunctioning Industrial Units in the ACP States, European Commission, 1985.

The Europa Year Book, 1985.

EUROSTAT, EC-Developing Countries, Manufactured Products - Analysis, 1970-1974, Luxembourg, 1987.

I. Karmiloff, Industrialization in SSA-Zambia, London, 1988.

S. Lall, Industry in SSA, Background paper for the World Bank, 1987.

Frank Long, "The Puerto-Rican Model of Industrialization: New Dimensions in the 1980s", Development Policy Review, London, 1988 (forthcoming).

Ph. Queyrone, "The Constraints on Industrial Co-operation between Firms in the EEC and ACP Countries", Commission of the European Community, February 1985.

R. Ridell, Industrialization in SSA - Country Case Study - Zimbabwe, Overseas Development Institute, London, 1988.

J. Sharply and S.R. Lewis, Kenya's Industrialization, Institute of Development Studies, and Overseas Development Institute, 1988.

C. Stevens, Manufacturing Development in Nigeria, O.D.I., 1988.

C. Stevens and A. Weston, "Trade Diversification: Has Lomé Helped?", in EEC and the Third World: A Survey, No. 4, 1988.

P.A. Tilot, Barriers to Industrial Co-operation between European Firms and Partners in the Developing Countries, European Community, 1986.

UNIDO, The Changing Role of the Public Industrial Sector in Development, 3 June 1983.

UNIDO, Industrial Development Review Series: The Caribbean Region, 1987, PPD.51.

UNIDO, Industrial Development Review Series: Selected Pacific Island States, 1986, PPD.6.

UNIDO, "Industry and External Debt in Africa: A Preliminary Analysis", Industry and Development, No. 17, 1986.

UNIDO, Interregional Co-operation between Pacific and Caribbean Island Countries in the Development of Small- and Medium-Scale Agro-industries (live marine resources and tropical fruits): Workshop-Cum-Study Tour (Jamaica, Trinidad and Tobago, Barbados, St. Lucia), 15 February 1988, PPD.73.

World Bank, World Development Report, 1987.