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THE CONSTRAINTS ON INDUSTRIAL CO-OPERATION BETWEEN FIRMS IN THE EEC AND THE ACP COUNTRIES.

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SUMMARY

A. ORIGIN AND OUTLINE OF THE STUDY

(a) The Commission of the European Communities found that industrial cooperation between firms is far from having fulfilled the hopes placed in it and therefore launched a thorough, long-term investigation of the main constraints encountered in this field. The following study, which forms part of this investigation, deals exclusively with the obstacles found in the ACP countries themselves and does not examine those which may exist within the countries of the European Community.

(b) The following study is mainly, but not exclusively, concerned with the ACP countries, European SMEs and the manufacturing sector. It looks at all the main forms of cooperation between firms - direct investments, joint ventures, management contracts, licence contracts, sub-contracting and product-in-hand contracts.

(c) It is based on an analysis of a large number of surveys already run in the countries of the EEC, on interviews with European businessmen and on many working sessions with the main European industrial promotion bodies, international organisations and financial institutions. It also reflects the work of a specially convened group of experts.

The analysis of the constraints is illustrated by 50 cases of industrial cooperation between firms, which are set out after the main body of the report.

B. SUMMARY OF INDUSTRIALIZATION IN THE ACP COUNTRIES

A brief summary shows that, in spite of a few successes in some countries and sectors, both the quanity and quality of ACP industrialization is poor. The summary, based essentially on what happens in Africa, which contains 43 of the 64 ACPs, highlights the very small degree of industrialization in these countries at all levels. There are four main findings:

(a) The value added in manufacturing is low

The value added (manufacturing) in Africa represents barely 1% of the world figure and it is growing more slowly than the figure for any other region. It also represents the smallest percentage (less than 10%) of GNP, although the per capita figure is better. Lastly, the more elaborate the products, the more Africa's share of world production decreases.

(b) There are few jobs in industry

In spite of a sharp increase between 1960 and 1979 (71%), the industrial share of the labour-force is still modest (12%). However, there are strong differences between the countries.

(c) Capacities are poorly used

Almost everywhere, African industry under-uses its installations. The average rate of utilization has been estimated at less than 50%.

(d) There is a high proportion of foreign investments

The ACP countries nearly always have a higher percentage (x 3-6) foreign investments in their GNP than the average for their region.

C. TYPOLOGY OF THE PRINCIPAL CONSTRAINTS ON INDUSTRIAL COOPERATION BETWEEN FIRMS

Thirty five principal constraints were recorded and analyzed. They were subjected to an initial classification — by type — and then an attempt was made at further classification, this time in the light of five main criteria:

(a) Nature

The constraints fall into seven categories:

- structural, the most important one here being the narrowness of the market. This is followed by the cost of input, the shortage of foreign exchange, the shortage of local businessmen, of means of financing and industrial fabric. All these obstacles lead to poor international attraction, which is in itself a factor of constraint;

- political, largely due to the host Governments' failure to take any clear stand on foreign investors. This category includes a false priority on industry, a failure to respect commitments, restrictions on employment and returns on capital, protectionist measures, restrictions attendant on economic policy, bans on the buying up of local firms, forced assignment of capital and, lastly, nationalization and expropriation;

- cultural, those resulting from the ACP lack of industrial habits, which is reflected in a certain confusion between industrial cooperation and technical assistance, short-term views of things, a misunderstanding of the demands of industry, wariness about non-tangible contributions from investors and a certain preference for prestige investments;

- institutional. The countries of the South are usually reproached for having institutions that are not sufficiently transparent and far too unstable;

- administrative, which are of four kinds — those connected with slow and arbitrary decision-making, a lack of coordination, interference in the firms and corruption;

- legal. If the law is to be brought in line with the demands of industry, then the ACP countries have to adapt their legislation, provide better protection for property, be less legalistic and accept foreign arbitration;

- technical. More practically, the ACP countries suffer from a shortage of skilled labour, poor local input and communications problems.

(b) Importance

If the constraints are taken by degree of importance, the principal ones would appear to be structural and political and the administrative, legal and even technical ones relatively secondary. The constraints can also be divided into two negotiable and non-negotiable, i.e. according to the degree to which they obstruct an industrial cooperation project.

(c) Type of agreement between the firms

A distinction has to be made here with foreign shareholding. In agreements involving holdings, the main constraints are structural and political, while in the others they are technical and legal. Generally speaking, sensitivity to the constraints increases with the size of the foreign capital holding.

(d) Stage of implementation of the project

There are more and stronger constraints during the period of exploitation. The phases of negotiation and construction are also affected, although to a lesser extent, while the study phase is fairly problem-free.

(e) Sector of activity

It is not possible to produce a precise classification of constraints by industrial sector. At best, one can say that some constraints are specific to some industries (politically sensitive staples, mining industries subject to nationalization, the chemical industry subject to legal constraints and textiles sensitive to manufacturing costs).

(f) Host country

There are four criteria here:

- the market, which is a fundamental constraint for more than 80% of the ACP Group;
- geographical situation, which highlights the strong constraints in Africa and the way the Caribbean and the Pacific are isolated from Europe;
- level of development. The least-developed countries tend to be worse off than the rest, as the constraints there are greater;
- economic and social system. It is by no means clear that countries with market economies have less constraints than those with planned economies (of which there are in fact very few in the ACP Group).

D. RECOMMENDATIONS

There are three series of recommendations:

(a) For the host countries

Emphasis must be placed on the need to remove or reduce most of the political constraints — which are, ultimately, surmountable — and the administrative and institutional ones. More practically, it would be a good idea to set up suitable structures to receive the investments. A strong, long-term drive must be made to make the authorities and the local industrial promoters aware of what industry involves. Lastly, the legal framework has to be brought into line with the needs of industrial cooperation.

(b) For the European partners

The first recommendations are for the Community, which is invited to:

- continue and expand the work it has already begun (with the CID, aid for industrial promotion offices and one-off schemes);
- set up a fund to finance feasibility studies;
- work more closely with the financial institutions in the Member States.

Secondly, it is recommended that the Member States:

- set up or expand their industrial promotion bodies;
- create study and project financing funds;
- increase their technical assistance to the ACP countries.

Lastly, the European firms should be encouraged to:

- ensure they have suitable structures for industrial cooperation;
- realize how much effort is called for with information;
- call in experts, in particular to draft their cooperation contracts;
- maintain regular, personal contact with the host country;
- only send their best staff out to the ACP countries;
- provide a strong, but flexible financial structure;
- decentralize their management.

(c) For the promotional schemes

The five suggested lines of action here are to:

- discard bad projects, i.e. run proper feasibility studies;
- develop project follow-up;
- move towards company rehabilitation;
- be alert about technological changes;
- devize a new promotional strategy.

* * * * * *

1. INTRODUCTION

1.1 Origin of the study

Industrial cooperation, in the broadest sense of the term, has been a major topic of discussion in the field of economic development over the past few years, to the point where it has become one of the main demands of the countries of the Third World. It is a complex concept encompassing many types of North-South cooperation and its success varies considerably from one industrial sector, one region and one type of activity to another.

Generally speaking, industrial cooperation has not always reached the anticipated degree of intensity, in particular because of the many obstacles it has to contend with. The developing countries of Africa, the Caribbean and the Pacific (ACPs - Annexe I), which are associated to the Community, seem so far to have been even less involved in industrialization and the flow of investment from the North than the rest of the developing world.

This is why, when renewal of the Lomé Convention was being negotiated, the Commission of the European Communities decided to investigate the main constraints in the ACP-EEC industrial dialogue, with particular reference to an analysis of industrial cooperation between firms.

1.2 Aims of the study

The terms of reference of the study said it was to deal with the internal constraints and obstacles that hamper or prevent cooperation between firms in the developing countries themselves.

In particular, the consultant was invited to produce a detailed typography of these obstacles, to be backed up by examples or actual cases.

Lastly, solutions were to be isolated, in the light of the results obtained, in particular so that certain industrial promotion schemes could be reoriented.

1.3 Methodology

The consultant worked, as available means allowed, with the main European industrial promotion bodies and development banks and with certain specialist international organizations. European firms that were particularly representative were asked about their experience of industrial cooperation. Some 50 cases of industrial cooperation between firms were identified and analyzed all told and they are set out in part two of this report.

The preliminary versions of the report were put before a group of high-level experts (see Annexe II), who met twice. Many of their comments and suggestions have been included here.

Alongside this, a large number of studies and documents on the problems of industrial cooperation were examined.

1.4 Outline of the study

1. 41 Constraints investigated

The study deals exclusively with the obstacles encountered in the developing countries and not with any blockages originating in the countries of Europe. It can, perhaps, be seen as a first stage of a more general piece of research into all the constraints on industrial cooperation in both North and South. It makes no assumptions about the breakdown of responsibility for the difficulties encountered in cooperation between firms in the EEC and the ACP Group.

Nor should it lead one to overlook the fact that there are successful cases of industrial cooperation in the ACP countries — which have made non-negligeable (but not always effective) attempts to attract European investors.

1.42 Geographical scope

The study deals with cooperation between European firms (from the EEC essentially) and ACP firms. However, it is not confined to any particular area and some significant examples have been taken from non-ACP countries.

1.43 Sectoral scope

Priority has been put on manufacturing in the broadest sense of the term, although, here again, the study does not deal exclusively with this sector and one or two examples from mining and the tertiary sector have been included.

1.44 Firms covered

The firms investigated in the North are essentially medium-sized ones. This concept is difficult to describe with any precision, as the term "small and medium-sized enterprises (SMEs)" covers things which differ widely with country, sector and so on. For practical purposes, the term here means firms that do not come under the usual "multinational" heading, in spite of the fact that their industrial cooperation activities do in fact give them an international character. This category of firms is virtually the typical clientèle of European industrial promotion agencies — although there are many exceptions to this rule. They are large enough to be interested in industrial cooperation, but lack the structures to go in for it unaided.

The size of the Southern firms involved in cooperation was not seen as a criterion likely to make any noticeable difference to the data under scrutiny here, so firms of all sizes have been taken into consideration.

In practice, all the Northern firms are privately owned, while the Southern ones may be private, mixed or under public ownership.

1.45 Types of industrial cooperation

The study deals exclusively with cooperation between firms, excluding any outline State agreements and constracts financed from bilateral or multilateral aid funds. It is therefore concerned solely with private legal agreements involving two industrial partners and aimed at commercial and financial profitability.

The different forms of industrial cooperation are described in §3 below.

1.5 Plan of the report

The study defines the concept and different methods of implementation of industrial cooperation and then goes on to analyze the main constraints encountered in each type. This constitutes a basic typology which will be used as a support for other classifications based on:

. the degree of importance of the constraints;

. the form of industrial cooperation;

. the stage reached in the agreement between the firms;

. the sector of activity;

. the host country.

Lastly, solutions for some of these problems are set out, on the basis of the typologies produced, and practical recommendations about industrial promotion are made.

2. SUMMARY OF INDUSTRIALIZATION IN THE ACP STATES

This analysis does not aim to produce an exhaustive account of industrialization in the ACP States. That would be beyond the scope of the study. The idea is simply to point up some basic data to make for a better grasp of the context of industrial cooperation with these countries.

There are two preliminary remarks:

- Industrialization in the ACP States over the past 20-25 years has been rather disappointing both quantity- and quality-wise, in spite of a number of national and sectoral successes.
- There are not nearly enough statistical data available for a close analysis to be made, which is why the ACP situation has been assessed primarily through the countries of Africa, which contains 43 of the 64 members of the ACP Group (including all the biggest ones).

2.1 Added value

2.11 Africa's share

Africa represented 1% of the added value in world manufacturing in 1980, as against 0.8% in 1960. The figure for South-East Asia rose from 2% to 3.8% and that for Latin America from 5% to 6.1% over the same period (Table I).

So Africa (and the ACP countries, therefore) is lagging far behind the other regions as far as industry is concerned and the same thing is true of other criteria of assessment (industry's share of GNP, growth of added value in manufacturing etc) too.

2.12 Added value as a percentage of GNP

Added value (manufacturing) as a percentage of GNP has been constantly lower in the countries of Africa than in the rest of the developing regions of the world — less than 10% in 1980, as compared to 19% in South-East Asia and 26% in Latin America. Only West Asia, with just over 10%, has a comparable rate (Table II).

TABLE I - DEVELOPING REGIONS' SHARE OF ADDED VALUE IN WORLD MANUFACTURING IN CERTAIN YEARS (%)

Year	AFRICA	W. ASIA	S.E. ASIA	LATIN AMERICA
1960	0,8	0,4	2,0	5,0
1965	0,8	0,5	2,1	4,8
1970	0,9	0,6	2,2	5,2
1971	0,8	0,6	2,3	5,4
1972	0,8	0,6	2,3	5,6
1973	0,8	0,6	2,4	5,6
1974	0,9	0,6	2,4	5,8
1975	0,9	0,7	2,6	6,0
1976	0,9	0,7	2,8	5,9
1977	0,9	0,7	2,9	5,9
1978	1,0	3,8		5,8
1979	0,9	3,8		5,9
1980	1,0	3,8		6,1

Source: UNIDO, World industry in 1980

TABLE II - ADDED VALUE (MANUFACTURING) AS A PERCENTAGE OF GNP IN THE DEVELOPING REGIONS, 1963-1980 (%, constant prices for 1975)

Year	DEVELOPING REGIONS				DEVELOPED REGIONS
	AFRICA	W.ASIA	S.E. ASIA	LATIN AMERICA	
1963	7,77	8,79	12,75	21,41	26,62
1970	8,61	10,45	14,00	24,22	28,19
1973	9,21	10,36	15,22	26,03	29,19
1975	9,62	10,42	15,65	25,81	27,50
1978	9,35	10,98	18,23	25,78	28,52
1979	9,55	10,25	19,10	25,95	28,68
1980	9,67	10,25	18,94	25,98	27,47

Source: UNIDO data bank.

Table II shows that the manufacturing sector grew more rapidly in Asia than in Africa (but more strongly in Africa than in Latin America over the period 1973-1980).

2.13 Added value per capita

If we look at the industrial added value per capita, then Africa's position seems better, particularly over the past decade, when it came into second place behind South East Asia and well ahead of Latin America (Tables III and IV).

TABLE III

GROWTH OF ADDED VALUE (MANUFACTURING) BY REGION, 1962-82 (%)

	1963-1973	1973-1980	1973-1982
DEVELOPING COUNTRIES	8.0	5.8	4.7
. Least developed countries	5.8	3.0	...
. Africa	7.2	5.6	...
. West Asia	9.4	6.3	...
. South East Asia	7.6	8.5	...
. Latin America	8.1	4.4	...
COUNTRIES WITH PLANNED ECONOMIES	9.8	6.6	5.4
COUNTRIES WITH MARKET ECONOMIES	5.5	2.4	1.7

Source: UNIDO data bank.

2.14 Added value in each sector

An analysis of the different sectors shows that the more elaborate the product, the more Africa's share of world production decreases.

The figure, around 2% for food products and textiles, drops to below 0.3% for mechanical construction, the electrical industry and transport (Annexes III and IV). Figure I shows the trend in industrial structures, by region, in time. Africa is clearly in phase one of the industrialization process (small workshops and factories).

2.2. Jobs created

Industrialization in Africa seems to have a more positive record when it comes to employment. In 39 ACP countries of Africa, the share of the industrial labour force rose

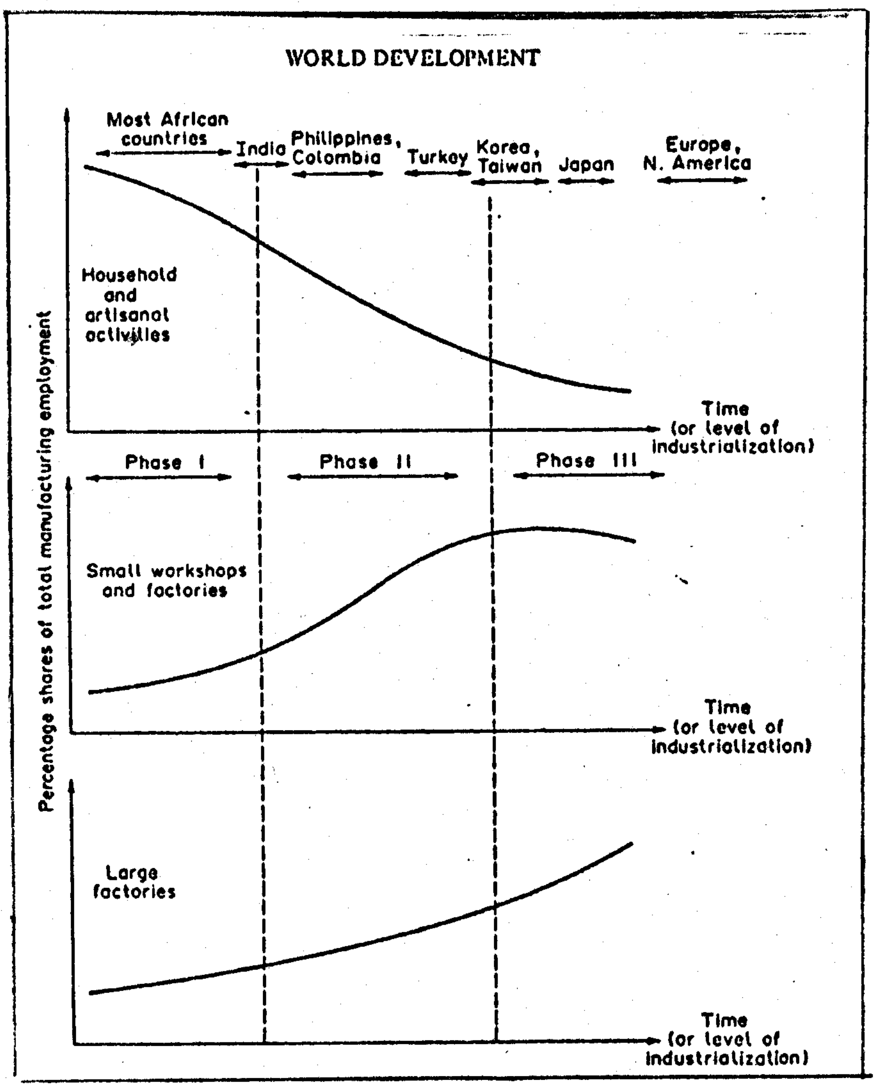
TABLE IV - GROWTH OF ADDED VALUE (MANUFACTURING)PER CAPITA AND BY REGION, 1964-1982

END OF:	DEVELOPING COUNTRIES		COUNTRIES WITH PLANNED ECONOMIES	COUNTRIES WITH MARKET ECONOMIES	DEVELOPING REGIONS			
	TOTAL	LDCs			AFRICA	WEST ASIA	SOUTH EAST ASIA	LATIN AMERICA
1964	7,3	4,3	4,0	6,8	6,7	5,8	4,3	8,6
1965	3,8	5,7	10,4	5,2	5,1	7,1	2,4	3,7
1966	3,2	10,6	7,1	5,6	3,1	7,4	-0,2	4,1
1967	1,7	5,0	10,6	1,6	-2,2	6,0	3,6	0,9
1968	6,8	4,2	9,6	6,4	7,8	9,3	6,9	6,2
1969	6,9	4,2	10,8	6,4	7,2	7,3	8,0	6,2
1970	5,9	-4,1	8,0	1,4	7,8	3,3	5,7	5,8
1971	5,5	-4,9	7,5	1,9	2,5	5,1	3,9	6,5
1972	6,0	-0,2	8,2	5,9	1,1	5,3	7,2	6,2
1973	7,4	15,0	7,5	7,8	7,0	7,7	9,1	6,6
1974	2,8	1,4	9,8	-2,1	-0,6	-0,8	3,7	3,2
1975	0,7	-1,3	8,5	-5,1	3,1	3,4	3,4	-1,2
1976	5,2	0,8	6,0	7,7	-0,4	7,4	11,3	2,9
1977	3,0	3,8	6,4	4,0	3,6	4,6	6,8	0,8
1978	3,6	-2,4	4,2	2,3	3,7	5,2	7,9	1,2
1979	3,9	-0,2	3,2	3,2	5,1	0,6	5,4	3,2
1980	0,5	-1,2	2,2	-3,6	2,7	-3,5	-3,9	2,9
1981 a)	-2,7	...	0,9	-0,5	3,7	2,4	2,4	-7,2
1982 b)	-2,2	...	1,6	-3,9	3,4	1,7	1,7	-6,2
moyenne: 1963-73	5,2	3,1	8,8	4,5	4,4	6,4	5,0	5,2
moyenne: 1973-82	2,1	0,2 c)	4,6	1,0	2,9	2,6	4,7	0,4

a) provisional figures.
b) estimate.
c) 1973-1980

Source: UNIDO data bank.

FIGURE I - TRENDS IN THE SIZE OF INDUSTRIAL UNITS IN TIME



Source: Small industries in developing countries: Some issues - Dennis Anderson - World Bank.

TABLE V - ACP COUNTRIES OF AFRICA* - INDUSTRIAL EMPLOYMENT, 1960-1979

COUNTRY	PERCENTAGE OF LABOUR FORCE EMPLOYED IN INDUSTRY	
	1960	1979
Low-income countries	5 p	9 p
- semi-arid countries	5 p	7 p
1. Chad	2	7
2. Somalia	4	8
3. Mali	3	5
4. Burkina	5	12
5. Gambia	7	10
6. Niger	1	3
7. Mauritania	3	5
- other	6 p	9 p
8. Ethiopia	5	7
9. Guinea Bissau	..	1
10. Burundi	3	5
11. Malawi	3	5
12. Rwanda	1	2
13. Benin	9	16
14. Mozambique	8	17
15. Sierra Leone	12	19
16. Tanzania	4	6
17. Zaire	9	13
18. Guinea	6	11
19. CAR	2	4
20. Madagascar	2	4
21. Uganda	4	6
22. Lesotho	2	4
23. Togo	8	15
24. Sudan	6	10
Oil-importing countries with intermediate incomes	7 p	11 p
25. Kenya	5	10
26. Ghana	14	20
27. Senegal	5	10
28. Zimbabwe	11	15
29. Liberia	10	14
30. Zambia	7	11
31. Cameroon	5	7
32. Swaziland	4	9
33. Botswana	3	5
34. Mauritius	26	24
35. Ivory Coast	2	4
Oil-exporting countries with intermediate incomes	10 p	18 p
36. Angola	12	16
37. Congo	17	26
38. Nigeria	10	18
39. Gabon	7	10
Sub-Saharan Africa	7 p	12 p
All low-income countries	10 p	14 p
All intermediate-income countries	17 p	23 p
Industrialized countries	39 p	38 p

* plus Angola and Mozambique. p = weighted average.

Source: World Bank, Accelerated development in Africa south of the Sahara, 1981.

from 7% to 12% between 1960 and 1979, a 71% increase (Table V). Note, however, that this increase is stronger in the more advanced, oil-producing countries than in the low-income ones.

2.3 Capacities used

The capacity of African industry is considerably under-used, with swollen production costs and, in many cases, negative profit margins as the obvious result. In all but rare cases (breweries particularly), African factories turn over slowly and some of them have been doing so since they were set up in the sixties.

Take the example of Tanzania, where the average utilization rate of industrial capacity is only 45% (Table VI). Similar figures were also recorded in Zambia and Ghana (Annexe V).

TABLE VI - INDUSTRIAL CAPACITY IN USE IN TANZANIA IN 1979-1980

SECTOR	CAPACITY IN USE (%)
Sugar industry	58
Cashew nut processing	53
Brewing	76
Tobacco	70
Textiles	49
Leather	49
Bicycles	15
Motor vehicles	25
Cement	45
Fertilizer	30
Rolling mills (22 000 t)	50
Plastics	20
Tyres	50

Source: UNIDO

There are a number of reasons for this under-utilization:

- capacity that is too large in the first place;
- a shortage of raw materials and energy;
- inadequate outlets;
- a shortage of qualified staff;
- a shortage of components, sub-sets and spare parts;
- a questionable choice of technology in some cases.

This alas fairly common situation in Africa explains the importance and the urgency of running company rehabilitation programmes (§ 5.22).

2.4 Share of foreign investments

An analysis of the relationship between direct foreign investment and GNP in the developing countries shows that it tends to be higher, overall, in the ACP Group than elsewhere. In each of the major regions in question here (Africa, the Caribbean and the Pacific), the ACP countries almost always have a higher than average percentage of foreign investments in their GNP (Table VII and Annexe VI).

Table VII - ACP COUNTRIES - DIRECT FOREIGN INVESTMENTS AS A PERCENTAGE OF GNP, 1978*

REGION	ACP COUNTRY	OTHER COUNTRIES	ALL COUNTRIES
Africa	7.3	2.8	5.4
Caribbean	61.3	9.9	10.8
Pacific	40.4	11.9	30.0

* See details in Annexe V.

Source: Weltwirtschaftsinstitut, Hamburg, 1982.

This tendency is particularly noticeable in the Caribbean, where foreign investments amount to more than 61% of GNP, and in the Pacific, where the figure is 40%. In Africa, which gets more than 55% of direct foreign investments in the ACP Group, the figure is only 7.3%, but it is still substantially larger than that for the other countries of the region (2.8%).

This is an apparently interesting finding, although no final conclusions can be drawn from it. Perhaps it goes part-way to explaining the defensive attitude that some ACP countries adopt to foreign investments (see § 3.21).

3. THE DIFFERENT FORMS OF INDUSTRIAL COOPERATION BETWEEN FIRMS

3.1 Definition

There are a number of controversial interpretations of this term, which is quite natural for something so new. Without wishing to justify the way it is used in this report, it is fairly general in scope so it can take in all the (traditional and other) forms of industrial cooperation without entering in to any philosphical controversy on the extent to which it contributes to economic development. This is why we have deliberately brought in UNIDO's definition* here.

International cooperation between firms, it says, covers all types of **long-term industrial inter**-action between a firm in a developing country and a foreign firm with complementary activities. This inter-action should result in a community of interest taking practical shape, in the form of a specific project and in the light of lasting cooperation.

So we can deduce that the following things must be present if we are to talk about cooperation between firms:

- a contractual link between the firms;
- a common interest and joint schemes that will meet a given economic objective (in joint venture agreements at least);
- complementarity and coordination of both firms;
- long-lasting relations between the firms.

As is mentioned in the following paragraphs, industrial cooperation also covers firms from the North buying capital in firms from the South and those non-holding agreements which the OECD also calls "new forms of investment" (NFI).

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* UNIDO, Industry in the year 2000, new perspectives, 1979.

3.2 Direct investment

Direct investment is the most conventional form of industrial cooperation — although the cooperation, properly speaking, tends to be very poorly developed. Under this heading, we find, essentially, the subsidiaries which European parent firms set up in the developing countries. The subsidiary remains the exclusive property of the parent firm and so often represents an investment of 100% of the capital of the new unit. However, there is deemed to be effective control when an economic unit constituted by residents of a foreign country has at least 25% of a company's shares (a blocking minority). In spite of this relative flexibility, direct investment is tending to lose ground in industrial cooperation relations, giving way to formulae in which foreign holdings are replaced by other methods of control.

3.3 Joint ventures

This means firms whose capital is shared (in varying proportions) by the foreign investor and a local promotor. Both parties are entitled to inspect the way the firm is managed and either may have the job of actually running it.

Direct investments and joint ventures differ from the other forms of industrial cooperation in that they involve holding capital.

3.4 Management contracts

These are contracts under which a foreign firm provides management services for a local firm in return for a pre-arranged sum of money. Such contracts may be integral parts of broader (key-in-hand for example) agreements or be concluded independently once the project has become operational. They are often, but not necessarily, concluded for a long period.

The definition used here covers contracts to run firms as well as to provide administrative or technical management.

3.5 Product-in-hand and market-in hand contracts

In this type of agreement, the supplier provides a set of services including the actual production and even marketing of the product as well as the building of the factory, all to pre-arranged objectives.

This is in fact a key-in-hand operation tied to the achievement of a given objective.

3.6 <u>Granting licences</u>

With this type of agreement, the issuer (the issuing country) authorizes the concessionnaire (the host country) to exploit a given technology or series of technologies for remuneration. It may cover patented inventions or non-patentable industrial know-how. What makes the granting of licences a form of industrial cooperation is, above all, the importance of the technical assistance that goes with it. Such technical assistance is usually fundamental when it comes to getting the local firms to assimilate the imported technology.

The same rules apply to franchising as to the granting of licences.

3.7 <u>Sub-contracting/co-production</u>

Sub-contracting is defined as the manufacture of parts, elements or semi-finished products by a sub-contractor to the specifications of the person giving the order. In the industrial cooperation framework, it is understood that the person giving the order and the sub-contractor are geographically separate (in North and South respectively) and that the firms involved are legally and operationally distinct. For the OECD, the notion of international sub-contracting (ISC) also covers contracts between **subsidiaries of transnationals and local firms** and between subsidiaries of different transnationals and within a given transnational.

Co-production here is understood to be a more sophisticated and more egalitarian form of international sub-contracting. It often leads to a form of joint venture.

This study is such that there is no need for a closer definition of the various forms of industrial cooperation, nor for other forms — generally variations on those already mentioned — to be included. The above list fairly faithfully covers all the cases that occur in the analysis that follows.

The definitions given in § 3.4 and § 3.7 correspond to what the OECD calls the new forms of investment (NFI). But the firms do not always see them as investments, so the examples of cooperation between firms set out in part two of this report are essentially of direct investments and joint ventures.

4. THE PRINCIPAL CONSTRAINTS ON INDUSTRIAL COOPERATION

4.1 Structural constraints

4.11 Poor international attraction

Clearly, the European firms that are interested in industrial cooperation find it difficult to choose between the 150 or so developing countries, not to mention the often greater attraction of the industrialized countries themselves. The investor is the subject of fierce competition between the potential host countries, only some of which are really attractive propositions. All but one or two of the developing countries that have signed the Lomé Conventions are at a particular disadvantage here, as will emerge later on. More than two thirds of the ACP Group are African and Africa seems to offer fewer comparative advantages to the potential investor. Without confusing cause and effect, it is perhaps useful to analyze the pattern of investment between the industrialized and the developing countries — in spite of the inadequacy and imprecision of the statistics available.

Two conclusions emerge from the OECD figures (Tables VIII and IX):

. Africa is, overall, a zone which is far less sought after by investors in the developed countries. Only the five big investing countries in the OECD and France and the United Kingdom attach any sort of importance to Africa, although they put America in the lead (Table VIII).

. More than half the flow of investments between the members of DAC (The Development Assistance Committee) and the developing countries is channelled into the 11 new industrial countries (NIC — Table IX)*.

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* Argentina, Brazil, Greece, Hong-Kong, The Republic of Korea, Mexico, Portugal, Singapore, Spain, Taiwan and Yugoslavia.

TABLE VIII - GEOGRAPHICAL BREAKDOWN OF NET DIRECT INVESTMENTS FROM THE MAIN INVESTING COUNTRIES, 1979-1981[1] (%)

	Europe	Africa	America	Asia	Total
France	33 (34)	23 (16)	39 (6)	5 (2)	100
Germany	21 (18)	5 (3)	59 (7)	15 (4)	100
Japan	1 (4)	9 (16)	29 (11)	61 (49)	100
United Kingdom[2]	10 (13)	30 (25)	36 (7)	24 (9)	100
USA	5 (31)	9 (40)	69 (69)	17 (36)	100
Total	(100)	(100)	(100)	(100)	(100)

1 The figures in brackets represent the country of origin's share of total direct foreign investments on the continent by the five investing countries. The basic data include support from the sector.

2 Excluding investments in the oil sector.

Source: OECD, Investing in the Third World, 1983.

More than a quarter of the investments go to the so-called intermediate-income countries (only 19 of the 73 are in the ACP Group - Annexe VII) and only 4% - 5% to the low-income countries (the majority of these, 37 out of 61, are ACPs). Even taking account of the fact that two ACP oil-producers, Nigeria and Gabon, are in the OPEC category, there is no doubt as to where the preferences of the international investors lie.

TABLE IX - NET FLOW OF DIRECT FOREIGN INVESTMENTS FROM DAC COUNTRIES - SHARE OF THE VARIOUS GROUPS OF DEVELOPING COUNTRIES - 1977-1981 (%)

COUNTRIES	1977	1979	1981
Low-income countries	8	5	4
Intermediate-income countries (including off-shore centres)	19 (7)	31 (19)	27 (15)
New industrial countries (11)	51	61	44
OPEC (13)	22	3	25
TOTAL	100	100	100

Source: Investing in the Third World, OECD, 1983.

This analysis is confirmed by the various classifications established by specialized bodies (Business International, Institutional Investor etc),whose conclusions are along the same lines. Overall, Africa — i.e. two thirds of the ACP countries and the biggest of them — comes in last behind the five other big geographical regions of the world (Annexe VIII). And its relative position is deteriorating to the benefit of more attractive regions such as Asia and even Latin America. According to Business International's rating, Africa has been declining constantly since 1974 because of its political instability and economic difficulties (trade deficits, inflation and external debts). Compared to other regions, Africa is a high risk/limited advantages zone as far as the investors are concerned (Annexe IX).

Without going in to this concept any further here, it is clear that, overall (the exceptions are rare), the foreign investors do not consider the ACP countries to be the most attractive in the present economic situation. This is obviously the outcome of a series of inter-acting phenomena, but it is also, given the results, an additional cause of waning interest from the North. Here we have the vicious circle of under-development, from which it is very difficult to escape.

Similarly, in the analysis of structural constraints below, there often appears to be a narrow margin between those due to under-development as such and those which can from certain points of view be considered to be autonomous. This report, obviously, is concerned with investigating the latter.

4.12 <u>Narrowness of the market</u>

Two thirds (45 countries) of the ACP Group, including all the countries of the Caribbean and the Pacific, have populations of less than 5 million. Thirty ACP countries have populations of less than 1 million. In absolute terms, that is to say, independently of the national income of these States, the potential markets in the ACP Group tend to be very limited.

All the surveys run in the industrialized countries confirm the fact that by far the biggest motive of firms investing abroad is to maintain, expand or seek new commercial outlets for their products (Annexes X, XI, XII, XIII and XIV). This makes it easier to understand their lack of enthusiasm when it comes to the ACP countries. Only a dozen or so of the ACP Group reach the critical mass of 10 million plus inhabitants — whose purchasing power is still very modest. Only Nigeria (with its 80-100 million inhabitants) and Zaire (27 million) stand out as offering really important domestic markets. This analysis is taken further in § 4.5 below.

So the narrowness of the market is a genuine constraint, a fundamental one which is very common in the ACP countries. But it is not always obvious to foreign investors, who often realize all too late that the outlets are inadequate to ensure the economic viability of their projects. This is because a narrow market is often due to a number of factors which may not be apparent to the unwary investor. The notion of market, in the countries of Africa especially, must be seen from various angles:

- Size proper, measured in number of inhabitants and in purchasing power. In many cases, even the most elementary of statistica data are lacking and those that are available may not be reliable. Population, income and consumption are all key items of data for which we have no precise figures. Estimates of Nigeria's population, for example, range from 60 million to 100 million inhabitants.

- Permeability of the market. This is something which official statistics tend to ignore and the authorities tend to be very careful not to mention contraband — which is, in fact, an economic reality of considerable importance in many countries, particularly in Africa. But, by definition, it is difficult, if not impossible to get the size of it. At best, the prudent investor can ask the host country for protection from official imports, but the risk of clandestine imports remains. Africa has more frontiers per km^2 than any other region and these frontiers are very easy to get across. An example of the problems such a situation can cause a local firm is given in Case N° 26. The absence of any proper customs protection is referred to in Cases N°s 9 and 17.

- Fragility. Southern markets have often been developed artificially on the basis of exotic consumer habits. This is why consumption can often drop in an unexpectedly spectacular manner if the economic situation alters — as happened in Ivory Coast, for example, where beer consumption dropped by 30% in a couple of years.

- Inconsistency of the regional market. One of the main arguments of ACP industrial promotion is that the investors have the possibility of expanding their outlets by capitalizing on a considerable regional market. The ECOWAS market, for example, is commonly presented as a "market of 200 million inhabitants" that would be available to any firms in, say, Senegal or Benin. But all investors agree that, although the regional market is there, it is very difficult to penetrate. Practically speaking, trade between the countries of Africa (and South-South trade in general) comes up against countless non-tariff barriers — disguised protection, absence of transport facilities, currency fluctuation between different zones and so on — that are often impossible to get round. And the risk of these economic groupings collapsing are not negligeable either — look at the East African Community, which left over-sized firms in each of the member countries once it broke up (Case N° 18).
- The power of the importers. The commercial structures of most of the ACP countries were inherited from the colonial era and therefore import-oriented — hence the economic (and political) power of the importers, whose influence is felt at many levels. More than one investment project has foundered due to pressure from the importers (Cases N°s 17, 29 and 33). Note also that the import profit margins are far higher than the usual industrial margins.
- Atomization of the market. This again is a sitution found especially in the large but under-populated countries of Africa. In Mauritania, for example, there is not just one market, but several — Nouakchott/Rosso, Nouadhibou/Zouerate, Kaedi and Nema — with no communication between them. The "national" market is therefore all the smaller.

To sum up, the constraint due to narrowness of the market is a fundamental one. It explains the failure or non-completion of a very large number of projects (see Case N° 12). Some of them, indeed, are offered to investors year after year, with no chance of success when the outlets are confined to the domestic markets alone.

4.13 Costs

After a market, firms interested in industrial cooperation are seeking lower production costs than in Europe. This is something all surveys — those which the IFO ran of German firms (Annexe XI) — show.

In the case of what we call industrial redeployment or resettlement (the transfer of productive units from the industrialized to the developing countries), production costs are a key element in the decision.

But in many cases, and contrary to accepted ideas, production costs in the developing countries are often high and may be even higher than in the industrialized countries. There are two reasons for this:

- The low putput of the labour force, which loses the investor the benefit of far lower hourly rates of pay than in Europe. And there are considerable differences between the developing countries here, the ACPs (particularly those in Africa) being particularly badly off. Take Senegal, where labour costs are 2.5 times what they are on Mauritius and industrial producivity is lower (Table X):

TABLE X - MINIMUM MONTHLY WAGES, 1 APRIL 1982

FRANC ZONE	MINIMUM WAGE		
	Net	Plus contributions	
	CFAF	CFAF	Index
DAKAR	39 040 (2)	48 800	100
TUNISIA	42 328	53 816	110
MAURITIUS	19 140	20 288	42

Source: P.Queyrane - ZFID - Bilan et analyse de la requête de financement, November 1982.

- The size of extra-contractual costs, which becomes a key factor in investment decisions. These costs, which are, by definition, difficult to put a figure on, are to a large extent due to the series of constraints described in the rest of this study. Clearly, any delay, extra procedure or new demand by the host country results in what can often be very considerable — and non-recuperable — extra expenditure for the foreign firm.

In addition to these two **sets of expenditure**, there are the costs of transport (of goods and staff), which penalize some countries, although this is not a deciding factor (see the success of Mauritius and certain countries of Asia with European investors). Case N° 8 is an example of this.

4.14 Shortage of foreign exchange

This brings us in to the field of constraints due to under-development itself, but nonetheless a basic obstacle to industrial cooperation. Few developing countries do not have a more or less structural deficit in their trade balance. This applies to even the most dynamic of them. The ACPs are not exempt — with the notable exception of the countries in the Franc Zone, which are relatively well-off when it comes to availability of foreign exchange.

There are two main consequences:

- Import restrictions, which often paralyze local firms by depriving them of input or equipment vital to their operation.

  These restrictions may be of many kinds:

  . import bans pure and simple;

  . deposits required;

  . particularly high customs duties;

  . obligation to use local input etc.

The IFO study already mentioned in fact shows that German firms put this type of constraint, which can result in anything from a simple cost increase to a complete breakdown in production, in third place. See Case Nº 23.

- The implementation of export-oriented projects that are of no interest to the local market. Investors who take this attitude restrict the possibilities of industrial cooperation considerably, as there is clearly only a restricted number of schemes solely devoted to exports. And they assume that the exporting firms have all the requisite facilities and flexibility required in the management of the foreign exchange they need.

  Experience has shown that these conditions are not always met — even where there is no deliberate Government policy. Take Mauritius, where even firms with free zone status have to go through exchange control. This is leading the international financing organizations increasingly to demand that an external account (foreign currency) be opened to ensure servicing of the loan and avoid any interference by the host governments — but see Cases N°s 46 and 47.

4. 15 Absence of competent local businessmen

Industrial cooperation is using direct investment — i.e. large if not majority capital holdings plus effective control over management — less and less. The formula is usually replaced by co-investment (joint venture), which means, by definition, that there are at least two partners, one from North and one from South.

But industrial partners in the ACP countries are rare. In most cases, the local project promoters are investors interested in placing their capital in the hopes of making a quick profit at low risk. A spirit of industry, however, calls for short- or even medium-term sacrifices, a constant effort and high risk. So many ideas for projects founder for lack of promoters with real industrial motivation.

And many projects put forward by the goverments of the host countries are never even studied because there is no local partner.

This lack of local businessmen (and even industrial representatives) becomes very apparent at industrial meetings like the one in Dakar. Many European participants (heads of firms) deplore the fact that they did not meet any counterparts there, only civil servants. And often when a local agent is found, applications and proposals get no answer for lack of motivation. Cases N°s 37, 42 and 43 illustrate this.

In other cases, a European businessman finds a local partner who does not have the relevant industrial skills but expects to have considerable powers of decision (note here that some African legal systems give these powers to the holders of a particular title, particularly that of Managing Director).

4.16 Lack of financial means

This constraint covers all the problems an investor (and his local partners) may meet when trying to mobilize funds to set up and operate the projected business. The unfavourable economic situation in almost all countries is resulting, in the ACP Group particularly, in a tight credit squeeze at all levels.

Most financers think that there has never been a shortage of means for a good firms cooperation project. The problem arises with the definition of "good project". Does this mean:

- a project that is bound to be profitable?
- a project that gets enough funds of its own?
- a project involving credible or influential partners (the Government, for example)?

Although the first of these criteria seems adequate to the businessmen, bankers are more concerned with the others and many economically viable projects fail to meet them and so never see the light of day for lack of financing.

In most cases, the Governments of the host countries frown upon local banks giving loans, particularly long-term credit, to foreign firms. Such credit is very often only granted in return for what are sometimes deemed to be exorbitant guarantees involving the foreign investor's goods and perhaps going beyond his capital holding (Case N° 7).

If we add to these restrictions the high cost of credit in most of the ACP countries (except those in the Franc Zone, perhaps), the size of the problems that may face firms seeking to set up there can be gauged.

There are two other constraints linked to project financing that are frequently mentioned. They are:

- The inadequacy of funds for project studies

  There is an important link missing in the chain between identification of an investment opportunity and project financing and that is financing for feasibility or pre-feasibility studies. None of the three partners usually involved can provide this:

  . The ACP promoter generally does not have the means and hesitates to take the risk.

  . Any European partner who is approached will only agree to finance studies (and carry them out himself) if he is very sure about the project.

  . The financial institution does not have the funds for this type of study. At best, there may be a study credit to be reimbursed from the project financing — but if the project is not run, then there are problems of repayment.

As things stand, the CID, the UNDP and one or two development banks (African ones, in particular) have study funds, but the procedures and conditions that go with them considerably limit their effectiveness:

.. <u>CID</u>

- only 50% of the study financed;
- ceiling of around 25 000 ECU (average in 1983 = 15 600 ECU);
- daily rates of consultancies restricted;
- lengthy approval procedures.

On the plus side, the CID always makes it possible for an ACP national to submit an application without going through the Government.

.. <u>UNDP</u>

- financing reserved for the least developed countries (LDCs);
- long and complex procedures;
- applications as a matter of priority from financial institutions.

- <u>The inadequacy of the development banks' project evaluation facilities</u>

The case of the African Development Bank (ADB), which concerns 43 ACP countries, illustrates this point. Between its creation (in 1974) and 1983, the ADB approved credits for an amount that was almost three times the size of the loans actually granted ($ 4.8 billion, as against $ 1.65 billion). This is not a shortage of funds. It is a failure to identify and evaluate viable projects and promoters capable of making a success of them.

4.17 Absence of any industrial fabric

One of the structural constraints still to be mentioned is the lack of any industrial support prior to final production.

This industrial fabric, which businessmen find as a matter of course in the developed countries, comprises a whole set of facilities which tend to be missing in the developing world. They are, in particular:

- basic infrastructure such as adequate water and energy supplies and suitable communications and telecommunications;
- maintenance and repair services for industrial equipment;
- sub-contractors who can supply a factory with components or semi-finished products (domestic taxation often penalizes sub-contractors);
- industrial supplies of all kinds (tools, spare parts etc);
- industrial information about sources of supply, standards, prices etc.

Many of these activities, which are considered to be semi-industry or even craft, get very little encouragement in the ACP countries. Investment codes often only exempt important projects (of more than CFAF 60 million in Mauritania, for example).

All the investors agree on this shortage of industrial backing — which is also linked, to a very large extent, to the state of under-development. It strikes particularly hard in that the import restrictions mentioned earlier (§ 4.14) often make it very difficult to purchase the requisite input abroad.

4.2 Political constraints

4.21 The domestic debate on the role of foreign investments

One of the fundamental obstacles to industrial cooperation is of a political kind. It has to do with the very nature of the debate in a large number of developing countries in which, consciously or not, the partisans and the adversaries of a foreign economic presence are on opposite sides. The problem is rarely stated in such unambiguous terms, but it is clear that, in these countries, most of which (and virtually all the ACPs) have only been independent for a short while, these two diverging tendencies occur at all levels of political discussion.

We know that the economies that emerged from the colonial system have left the dominated countries of the South in a state of dependence on the ex-metropolis and generated a feeling of rejection in the early years of these nations' political independence. Conversely, excessive economic nationalism, often committed in the name of a temporarily dominant political ideology, has led to the opposite reaction and a certain economic liberalism. Whenever there is a change of direction, the State's attitude to its foreign industrial partners also changes, which is why — with the exception of a small number of countries which clearly opted for a given system (liberalism in Ivory Coast and a state system in Mozambique, for example) on independence and have stuck to it ever since — the vast majority of the ACP Group is developing between these two extremes, giving the potential investor the impression of duplicity. Even in countries which seem to have firmly gone in for one system or another, some trends along opposite lines appear under economic pressure (in Tanzania or Congo, for example, which are gradually opening up to the private sector).

This discussion is even taken up by the authorities and reflected in contradictory measures often taken against foreign investors and even in a certain lack of coherence in laws and attitudes (see Case N° 30). But it is interesting to see that these defensive measures introduced in relation to foreign investments have usually been brought in to deal with major multinationals whose activity is frequently the subject of political discussion. They rarely take account of the situation of the SMEs which, often with the aim of promoting foreign investment, find themselves faced with a series of rules destined to control the big trans-national groups. This is perhaps less the case with direct investments than with the transfer of technology.

This ideological debate is behind many other political constraints.

4.22 Low priority on industry

The policies of the developing countries, those in the ACP Group in particular, put very low priority on industry. These countries' prime concerns are, essentially, reliable food supplies (agriculture therefore), their economic infrastructure (roads and dams) and their social infrastructure (schools and hospitals). These priorities come across clearly in their development plans, in which industry is very much the poor relation.

In Africa, for example, four out of every five people work in agriculture, which represents between 30% and 60% of GNP and even more when it is properly assessed at national level. So it should come as no surprise that the rare resources of these countries are not channelled into industrial cooperation — which gets only marginal attention from the Governments, at best.

For the majority of ACP countries, the real priorities are outside industry. Only 5.7% of the nearly $ 1 billon credits that the African Development Bank approved in 1983 went to industry (Annexe XV).

So some observers think the Lomé Convention gives too much room (a whole chapter) to industrial cooperation.

From a more technical point of view, the secondary importance of industry is illustrated by certain of the administrative structures in the ACP countries. Very often the Ministry of Industry will also be responsible for trade, but the two are rarely of equal weight. The opinion of the tradesmen, particularly the importers (see § 4.12) is important in government decisions. Sometimes the investors are even represented on the investment approval committees and this results in a number of dossiers being blocked (Cases N°s 17, 18 and 29).

4.23 <u>Failure to respect contractual commitments</u>

European industrial cooperation partners often complain that the host countries fail to meet their commitments to the investors. A firm can cope with strict rules provided they do not change in mid-stream. Many albeit economically viable projects have failed because the Governments in the host countries were unwilling to meet their formal commitments to the foreign firm. There are two series of reasons to explain why Governments adopt such attitudes:

- <u>The importance of internal political pressure</u>.

  In extreme cases, this can result in escalation of the debate referred to in § 4.21, although the usual outcome is short-term or structural economic and social difficulties. A classic example of this is the question of price approval (Cases N°s 21 and 26).

  This is a problem which occurs frequently in Africa where the domestic prices of everyday consumer goods have to be approved by the authorities. But although the authorities are committed to respecting the firms' financial balance, they sometimes, under pressure of public opinion, postpone or turn down price rises that rising costs have made inevitable. One variation on this problem — which also endangers the firms in the end — is the suppression of government subsidies without an accompanying authorization to increase sales prices (Case N° 49).

- Under-estimating the effect of these decisions

  The host Governments often under-estimate the effect of failing to respect contractual commitments. The decisions are taken by authorities which are not really au fait with industry and its constraints and their consquences — which are badly assessed or not assessed at all.

  In the most benign cases, there are (always expensive) delays in the implementation of projects if the host country adopts this kind of attitude. But the firm's equilibrium can be upset for a long time (Cases N°s 19 and 20) or the project may fail entirely (Cases N°s 13 and 24).

  In the end, the most serious effect of failing to respect commitments is, obviously (individual cases apart), that investors lose confidence in the word of the host country. This attitude makes a bigger contribution than others to deteriorating the climate of investment to which the businessmen attach so much importance.

4.2 4 Restrictions on employing expatriate staff

The political chapter should include one of the main practical consequences of nationalism — a restriction on the number of expatriate staff the foreign firm may employ. This is a vital issue for many investors and the host countries also under-estimate its importance. The Union of Industries of the European Community (UNICE) even made this one of the subjects of the negotiations for renewal of the Lomé Convention. Restrictions and constraints on expatriate staff are of varying type:

- quantitative restrictions laid down in absolute terms for each firm (as in Nigeria) or as a percentage of the total number of employees;
- restrictions on salary transfers, one of the many consequences of the foreign exchange shortage (§4.14);
- complex exit visa procedures — there are 28 formalities to complete if an expatriate wishes to leave Cameroon, even on a temporary basis (for a business trip, holidays or sick leave);

- the assimilation of heads of firms to social representatives, with the result that they can be used as "hostages" in cases of dispute with the Government and where there are any special difficulties (delayed payment, bankruptcy etc);

In almost all cases (Zaire, Nigeria, Kenya etc), firms complain about the extremely long time it takes to obtain the requisite authorizations. They think these procedures (or policies) are particularly ill-conceived as they already keep their expatriate staff to a minimum because of the very high costs involved.

Although needs seem to be catered for overall, there are many individual cases that pose insurmountable problems for small and medium-sized businesses (Case N° 15).

4.25 Restrictions on returns on foreign capital

The political discussion about the foreign economic presence crops up again when it comes to paying earnings on foreign capital.

Although foreign capital is welcome, the developing countries obviously try to contain outgoing foreign exchange, with a whole series of restrictive measures as a result:

- Maximum rates

  Some groups of developing countries have taken a deliberate stand here — the Andean Pact, for example, whose members limited the payment of returns on foreign capital to 14% (leading to the withdrawal of Chile, which wanted to attracted investors at all costs).

  Measures of this kind are seen as particularly restrictive by the firms, which are unwilling to run the risk of investing in a developing country unless they can hope to make proportionally high profits. The developing countries thus seem to be giving themselves the right to inspect what they consider to be "fair" capital repayments, using criteria that have nothing to do with any industrial logic.

- Progressive tax on transfers

  These transfers are equated with personal income.

- Manipulation of the exchange rate

  This leads to (sometimes heavy) penalization of repatriated profits.

- Blockage of total transfers

  — beyond the amount of capital invested plus a dividend fixed by the Government.

  The officially authorized transfers are also blocked, de facto, by the lack of foreign exchange. The ACP countries, particularly those in Africa, are often mentioned in this connection. It is, for example, more than 10 years since any dividends have been able to be transferred out of Zaire.

  The IFO study mentioned earlier puts the constraints linked to the transfer of dividends in third place in 12 countries of Africa (including 10 ACP countries).These same constraints only get into 7th place in Latin America and 15th place in Asia Annexe XVI).

4.26 Protectionist measures

The presence (or absence) of such measures may work against productive local firms. The problems linked to the absence of adequate protectionist measures or to a failure to apply them properly have already been investigated (§ 4.12). Politically speaking, certain protectionist measures are intended to encourage local production by limiting imports of foreign equipment or raw materials. The aim of the policy is laudable, but it is not always applied with the requisite flexibility and often penalizes local industry as a result.

One classic measure is to ban imports of products that are "similar" to those made locally (as in, for example, Kenya). The interpretation of such a text is often subject to debate between the businessman and the Government and it is not easy to furnish proof one way or the other. Generally speaking, investors complain about the poor quality of local input and equipment that people try to force on them — or about their unsuitability for production demands (Annexe XVII).

Clearly, the firms' degree of sensitivity to this problem will depend on the particular specifications of their area of activity. But this type of constraint still comes in fourth, especially in Africa and Asia (and only in 10th place in Latin America — Annexe XVI).

4.27 Restrictions due to economic policy

This type of restriction can take various forms of unequal importance as far as the firm is concerned. It is nonetheless seen as an obstacle to industrial cooperation by potential investors in that it considerably restricts the foreign firm's potential field of intervention.

The main restrictions under this heading are the limits which the national development plan places on the activity of foreign firms. They may be of two kinds:

- geographical, in which case foreign investors are channelled into certain regions which the Government, for purely political reasons, considers to have priority, although, economically speaking, they offer only mediocre opportunities for development. This is a fairly common situation in the countries of black Africa where the President's village and the surrounding area are often privileged in defiance of any economic logic and foreign firms are sent regardless of any preference for another zone. In other cases, the opposite policy obtains and whole regions are virtually out of bounds to foreign firms (usually when they offer particularly attractive development prospects).

  Free zones are worth particular attention here. The many material advantages — tax concessions, exemption from customs duties, credit facilities, infrastructure and so on — offered to investors in these zones constitute a real, but not decisive, attraction. But they often force investors to set up in what is a geographically rather unfavourable area that may be a long way from agricultural or mining zones (the Dakar free industrial zone, for example), or short on infrastructure (as in Sous, in Tunisia, where the land agency wanted to force an investor to set up before the requisite facilities were available);

- sectoral. Economic policy, generally the Development Plan or the Investment Code, can also help encourage foreign firms take an interest in certain areas — or at least ban entry to certain sectors (heavy industry, for example, the arms trade or external trade). In some cases, the ban will apply to the only sectors that are really a profitable proposition as far as foreign investors are concerned (as with uranium in Niger). It should come as no surprise in this situation (which may be politically justified) to see that the area left free for industrial cooperation is considerably reduced.

Whatever the type of restriction, the result is usually the same — the constraints lead to foreign capital being channelled to sectors and regions where its social producivity is thought to be the greatest. For the investor, on the other hand, the marginal effectiveness of capital in these places is deemed to be below the acceptable minimum.

4.28 Enforced assignment of capital

Some developing countries — but not, apparently, the ACPs — have adopted laws whereby all or part of the foreign capital has to be assigned to nationals (or the Government) after a certain period has elapsed. This is the policy of the Andean Pact and some countries of Asia and the Middle East.

Such measures have two different kinds of consequences for industrial cooperation:

- Implementation of the policy

  Foreign investors are often faced with many problems:

  - assignent prices fixed arbitrarily by the Government, generally to the detriment of the seller;
  - bans on selling capital on the free market;
  - impossibility of finding a taker, in which case a firm which had planned its financial affairs in the light of a sale (enforced by the investment code) will be in difficulties.

- Attitude of the investors

  This policy often conflicts with the aims of healthy industrial cooperation, as it forces the foreign firms to think in terms of short-term profits rather than long-term growth. One business summed up the effect of these measures as follows: "They force an investor with a policy that is favourable to the host country to adopt an attitude that is unfavourable to it".

4.29 Bans on firms assisting each other

There are often penalties for and sometimes bans on foreign firms already in existence taking shares in other foreign or national firms in the same host country.

Restrictions of this type frequently prevent (national or foreign) firms expanding (see Case N° 6) or or put them out of business.

4.291 Nationalization/expropriation

Contrary to what one might expect, the risk of a foreign firm in a developing country being expropriated or nationalized is in fact rather small — and it is seen as such by the firms. It comes in last (17th) on the list of constraints to industrial cooperation which the IFO drew up for Africa and Asia and in 13th place for Latin America (Annexe XVI). After the wave of nationalizations that followed the independence of many of the developing countries in the 60s, most of which concerned mining and agriculture (Case N° 1), industry has, generally speaking, been free of such State intervention against private interests.

However, all investors are still very keen on the idea of guaranteeing their capital. The professional organizations (especially UNICE) reflect their members' concern and particularly deplore the fact that Lome I and II did not include any ACP commitment to protect private European investments (Annexe XVIII). Undeniably, the refusal to make such a commitment has had a negative effect on industrial cooperation. UNICE places a great deal of importance on investment protection clauses being included in the new Convention and it is to be hoped that Lomé III will assuage the fears of the European investors on this point.

Note that the Pisani memorandum of 4 October 1983 also proposes that there be agreement on financial and legal provisions to provide backing and guarantees to reassure and encourage the private investor and put the host country in a safer position.

It is also worth noting here that the risk of nationalization, which is already fairly small in the ACP Group, is apparently diminishing even further, with the current trend to privatize public firms that are often in difficulty.

4.3 Cultural constraints

This general term covers a series of constraints attendant on a certain misunderstanding — or under-estimation — of industry on the part of the ACP countries. This difference in approach between North and South may take on a number of forms, all of them constituting constraints on industrial cooperation.

4.31 Confusion between industrial cooperation and technical assistance

Technical assistance is defined here as providing a Government or a firm with advisory staff (generally as part of bilateral or multilateral aid programmes). Seen from the South, this assistance can sometimes be confused with industrial cooperation, with the European businessmen being seen as the secular arm of development aid. The confusion is often maintained by the technical assistance officers themselves, who do not always have the requisite industrial skills or are acting from ideological convictions. Whether consciously or not, many of the authorities of ex-European colonies tend to see industrial cooperation as fair returns — or even a degree of compensation — that rebalances the international economic order. Without wishing to deny the value of this argument, the firms have quite another way of looking at it. Their services depend on stringent management, in line with the demands of the economy rather than ideology. To put it plainly, a firm, even if it is involved in industrial cooperation, must make a profit and it cannot, in the long term, give more than it gets back.

In practice, a foreign firm which succeeds in a developing country is all too often seen as an endless source of tax income or a non-profit-making vocational training institute. In the long run, exaggerated government demands harm the management of the firm. They place an indirect burden on it and they can put it in difficulties and they are always a brake on expansion and can discourage potential investors.

4.32 A short-term view

Industry usually demands short-term sacrifices for long-term benefits, but this is not always obvious to the developing countries, where there is a tendency to look for a quick profit in both public and private sectors.

This attitude is reflected in the criteria for approval of industrial projects at national level. Most of the ACP countries (particularly those in Africa) have established an industrial project approval procedure which decides on the granting of the advantages offered by the investment code. In most cases, approval is given or refused more in the light of a failure to bring in immediate earnings (particularly in the shape of customs duties) than of any long-term benefits to the economy.

In the private sector, all European operators regret that partners in the host countries tend to be investors (usually from the import trade) who are seeking quick profits with no risk and no effort — which is at variance with a proper industrial approach.

4.33 Misunderstanding of what industry means

This section on cultural constraints should include the local authorities' minsunderstanding of what an industrial project is. Formally speaking, maintenance and repairs are services and not the subject of particular incentives, but they are vital to any industry and the key to survival in many cases. Some development banks (the CCCE and DEG, for example) insist that the industrialists are the only people who can make a proper job of maintenance in industry. So certain investors have spent months on costly manoeuvres and negotiations trying to convince certain Governments that their project is an industrial one and therefore eligible for the advantages of the investment code (Case N°s 29 and 30).

Although it is not possible to put a figure on the attendant loss of earnings, it is clear that a large number of projects have not been implemented because they were not recognized as industrial ones. Free zone status is refused (in Tunisia, for example) to repair and maintenance firms, although the activity is an essential one which helps build up the industrial fabric.

4.34 Wariness about non-tangible contributions from the foreign partner

The development of what is usually called the transfer of technology — in the broadest sense of the term — over the past year or two has aroused (sometimes well-founded) suspicions in the developing countries as to the real value of what is being transferred. As a result, there is a fairly general wariness about paying for any "invisible" contribution from foreign firms, whether it be holdings in a joint venture or services provided as part of industrial cooperation. This is aimed at dues for licences and franchises in particular, but the cost of studies and management and payment for industrial know-how are also included.

This wariness is reflected in a whole battery of laws and regulation ranging from very strict control of the dues (as in Mexico) to taxing of the cost of assistance and studies billed by foreign companies (in Cameroon, the tax is 15%).

Even the private sector in the host countries does not escape and Northern firms often find it difficult to get their Southern partners to admit the value of these non-tangible contributions (Case N° 14).

This is a fundamental constraint, for SMEs especially, for they depend more than the big firms on technology and know-how they have spent a long time perfecting and which is often their main worth, if not their substance. Many of them hesitate to set up in countries which contest the value of this technology and fear that they will not be properly paid and lose their control as well. The possibility of making up for any losses by overcharging for equipment is not very satisfactory and does not solve the basic problem (study costs are commonly incorporated in the cost of equipment).

4.35 <u>Preference for prestige investments</u>

The developing countries' view of industry is often distorted by the best-known examples — i.e. the very big companies. In both national and private sectors, there is a strong temptation to go through the various stages of industrialization with ambitious ideas — while the market is small (see § 4.12) and there is often a lack of infrastructure and human resources. Workshops and small factories, which play an essential part in the industrialized countries, are rather looked down on in the developing countries and their importance is certainly under-estimated.

When it was set up and for seven years after that, the Dakar industrial free zone lay down employment thresholds (200 and then 100 jobs for Senegalese) and minimum investment figures (CFAF 200 million and then CFAF 100 million) for people wanting authorization. In spite of the disastrous record of firms settling in the zone, it was difficult to convince the Government to do away with the thresholds because it did not want Senegal to become an industrial "flag of convenience". In many of the ACP countries, European investors have been led to build bigger factories than they needed under pressure from their partners or the Government of the host country. In Mauritania, for example, the investment code stipulates a minimum of FF 1.3 million, which often forces investors to over-estimate their projects (and penalizes small projecss too).

As well as going in for over-large industrial projects, the developing countries also tend to privilege jobs in administration and management (offices) rather than in production (workshops). This is another example of a misunderstanding of industrial realities due to cultural factors — but it results, very practically, in decisions that are often costly if not fatal for the industrial project.

4.4. Institutional constraints

4.41 Inadequate transparency

Northern firms seeking to cooperate with partners in the South often find it difficult to get a clear picture of which institutions will make worthwhile contacts. Unless they already have a thorough knowledge of the host country, businessmen can easily feel lost when faced with a large number of institutions with ill-defined functions and sometimes speaking a different language. There may be, for example:

- a foreign investment promotion body;
- a Ministry of Industry;
- a promotion body for small industries;
- a Development Bank;
- industrial free zones;
- etc.

It is even fairly common for there to be a certain amount of competition between these organizations.

At best, the businessman will find his way about at the expense of a great deal of time and energy. At worst, he will give up, discouraged by the difficulty of getting the requisite information and the vital support of the local authorities.

This situation is not just a manifestation of economic under-development. Contrary to what one might think, it is not the least developed countries that display this lack of institutional transparency. This is something that crops up more in intermediate countries like Egypt. Countries which have realized they have a problem have brought in what is called the "single window", i.e. a body that centralizes all the formalities a foreign investor has to complete and serves as a focus. The best example of this is no doubt API, the Tunisian investment promotion agency. European investors often mention API and say they would like other countries to set up something along the same lines.

4.42 <u>Instability</u>

The developing countries are young states and, generally speaking, their institutions are changeable. This instability is not without its consequences for industrial cooperation — which demands a certain continuity (particularly as far as legislation and taxation are concerned), which is often lacking. This instability is felt at two levels:

- <u>General policy</u>

  Legislative insecurity, largely due to institutional changes, came second on the list of constraints for German businessmen in the IFO survey (Annexe XVI). European firms are unanimous in saying that, although they are willing to accept investment restrictions (provided they are clearly laid down in advance), they find it very difficult to cope with changes after their project has been implemented.

The firms' main complaints here are about taxation. It is by no means rare to see the rate of tax in force when the firm sets up suddenly shoot up a few years later (Case N° 38). When the profitability of many industrial cooperation projects is only marginal, few firms can cope with tax increases of this kind without endangering their financial balance.

This instability also occurs with customs duties, exchange rate regulations, recruitment and the employment of expatriates and salaries. In extreme cases, it leads to the non-fulfilment of government commitments (see § 4.23) or the dropping of certain projects (Case N° 10). At the limit, local legislation may prohibit a firm from pleading against the Government (as in Somalia).

- <u>The projects</u>

  Instability is reflected in the industrial projects themselves by one-off measures, such as:

  . changes in status;

  . approval of a competitive project, in spite of assurances to the contrary;

  . refusal to approve prices;

  . a failure to respect contractual commitments;

  . constraints on the employment of local or expatriate staff;

  . etc.

  These are discussed in various sections of this report.

4.5 Administrative constraints

4.51 Slow and arbitrary decision-making

No country has a monopoly on bureaucracy, but the developing countries have far more red tape than the rest. In industrial cooperation, this results in extra costs for the firms, not to mention administrative problems.

In the IFO survey mentioned earlier, the constraints linked to relations with the authorities are put in first place in all the regions of the South (Annexe XVI). There seem to be two reasons for this:

- the relative inexperience of authorities that are still in their infancy and subject to considerable political pressure;
- a failure to grasp the nature of industry, for cultural reasons (see § 4.3).

As time goes by, the problems encountered with the authorities seem to increase. During the negotiating period, the talks, which are at a fairly high level, take place in good conditions, but the further people go into detail — and down the hierarchy — the harder the decisions are and the longer they take. The firms complain about the time the attendant procedure takes, as two or three years may often be needed to negotiate with different departments to get approval.

These delays are often due to nothing more than organizational problems. In Cameroon, for example, the approvals committee should, in theory, meet twice a year to look at applications from foreign investors — which is not much. But in fact, as it is difficult to get the many members of this committee together, it only meets once a year, so a project may have to wait a year for an approval decision. This country also requires applicants to submit 70 copies of their approval dossier — which increases the danger of information being leaked to competitors.

During the operational phase of the project, administrative delays are particularly common with:

- input import authorizations;
- price approval (see § 4.23);
- the employment of expatriate staff.

Cases N°s 1, 34 and 44 illustrate some of these constraints.

4.52 Lack of coordination

The authorities in the developing countries sometimes seem to implement contradictory policies. This is the result of the political debate between the partisans and adversaries of foreign investment (see § 4.21) and of a certain lack of organization as well.

The Ministry of Industry's authorization may well be refused by the Ministry of Finance when it comes to importing equipment, for example. Two ministries may disagree as to the form an investment should take (Case N° 45). The Government may even agree to two competitive projects when the market can only handle one (Case N° 12). In other cases, the Goverment may deem unacceptable something it in fact asked for previously (Case N° 39). Industrial promotion organizations often encourage projects that capitalize on natural resources without bothering about whether these resources are available (Cases N°s 3,4 and 50).

4.53 Interference in the firms

Civil servants in the developing countries sometimes interfere in the management of a firm set up locally, against its wishes. They may do this because they are over-zealous, because they are unfamiliar with the realities of industry or because of political considerations.

This attitude, called real interference, is entirely unwelcome to foreign investors, who find it unaceptable and dangerous for the life of their firms.

Interference may be of many kinds. For example:

- demands as to the composition of the board (in Kenya, for example, the State is a minority shareholder, with 20% of the shares, but demands to chair the board);
- untimely approaches to the management to criticize the way the firm is being run (Case N° 41);
- restrictions on the director's powers (Case N° 31);
- "advice" to take on unskilled staff;
- barriers to the controls requested by the foreign partner (access to information, meetings of the board).

The management of any firm must be the firm's affair alone and can in no case be shared. Any outside intervention (particularly of an administrative nature) is roundly condemned and it loses the host country a great deal of its international credit.

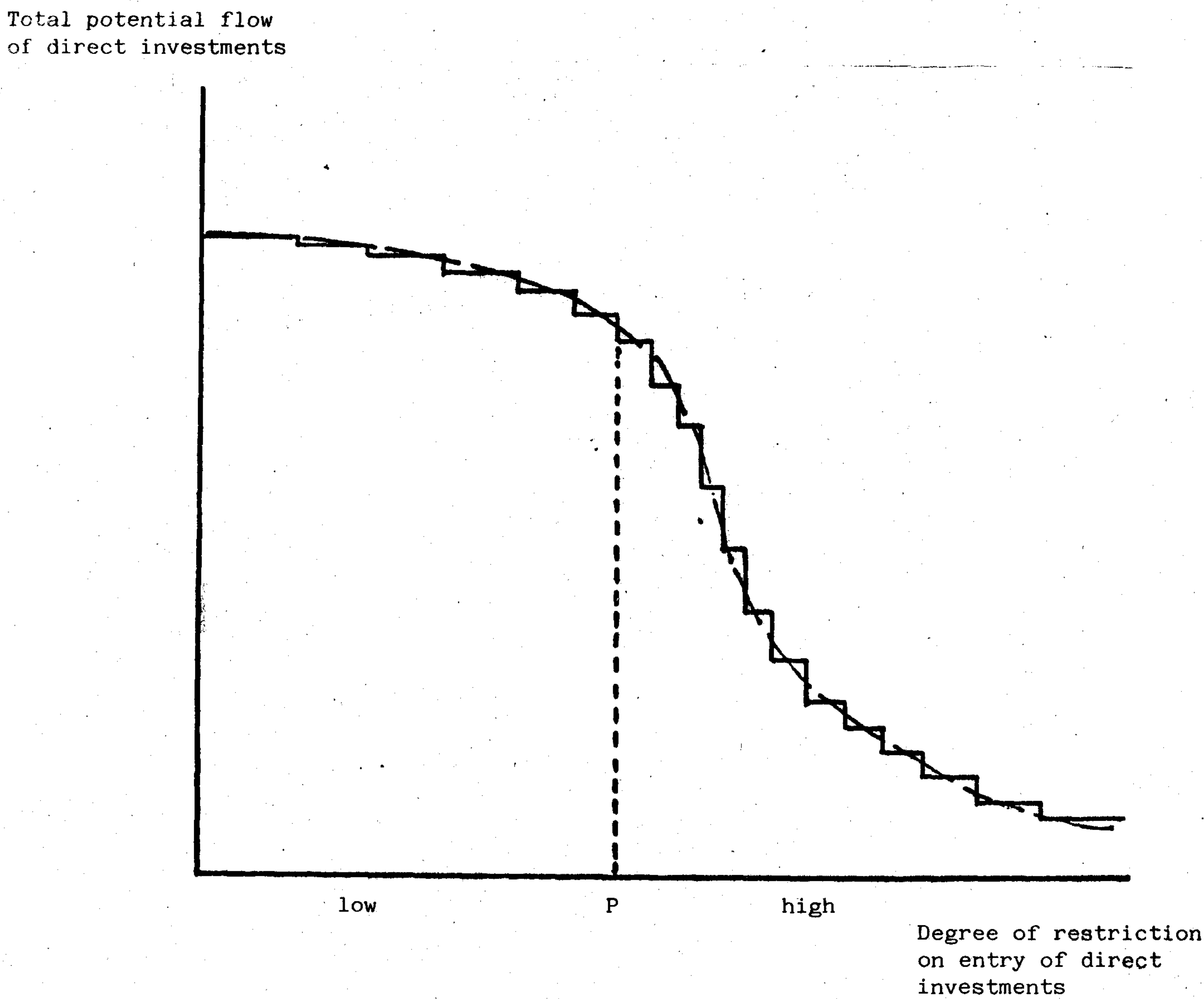
4.54 Corruption

Corruption, in the broadest sense of the term, is not confined to the developing countries, but they, more than others, have the conditions for it to develop — and at all levels.

Because of all the red tape mentioned earlier (§ 4.51), many decisions and authorizations cannot be obtained without "compensation", particularly since the civil service pay is often so poor. These illicit payments ultimately become the oil that is vital to the workings of any firm. While they are acceptable and able to be coped with on a small scale, they become a real millstone when failure to pay causes a firm to seize up, because they have become, in a way, institutionalized.

Corruption also opens the way for all sorts of interventions from (foreign and local) competitors, as Case N° 33 shows.

FIGURE II - TOTAL FLOW OF DIRECT INVESTMENTS TO HOST COUNTRY BY DEGREE OF RESTRICTION ON ENTRY



P = Point beyond which potential investors begin to see other investment opportunities in a more favourable light.

Source: José De La Torre - Foreign Investment and Economic Development: Conflict and Negotiation - 1981.

4.6 Legal constraints

4.61 Unsuitable legislation

In many cases, the laws of the developing countries do not seem to fit in with the context of industrial cooperation. Investment incentives and restrictions are often too legal in nature and do not always meet the needs of an industrial firm.

The SMEs, in particular, complain that this legislation has been brought in to contain the power of the transnationals and that it is unsuitable for small and medium-sized businesses.

From another point of view, as we saw earlier (§ 4.33), investment codes often ignore industrial services. The same goes for used equipment, which is often refused the usual exemption, in spite of the fact that it can be perfectly suitable for conditions in the host country.

Generally speaking, it is true to say that the more the Government restricts the freedom of the foreign investor, the less that investor will be attracted by the country in question. His degree of interest in a given country will depend on the balance between constraint and attraction (Figure II). The more comparative advantages a country has, the readier the foreign firms will be to accept restrictions. The ACP countries as a whole have to be seen as not very attractive here, so the degree of constraints and restrictions ought by rights to be fairly small. But in many cases, it is, in the eyes of the businessmen themselves, out of all proportion with the interest of an industrial cooperation project.

4.62 Inadequate protection for property

In spite of the low risk of nationalization or expropriation (§ 4.29), there are still attacks on land and buildings and industrial property in many of the developing countries.

The attacks on land and buildings may be made in a number of ways, but they usually involve the price of what is provided being fixed in a manner that is both arbitrary and a disadvantage to the firm. This problem is particularly acute in that in most cases there are no properly equipped industrial plots.

When a firm is attracted by the free zone status, it often has a plot forced upon it at a price which does not always bear any relation to its actual value. In other cases, it may be a question of disguised expropriation, with the Government putting the buying price so high that the firm wanting to take it cannot accept it (Case N° 5).

When it comes to industrial property, dialogue can be hard for the firms, for which it is veritable capital, and the Governments, which contest its value (see also § 4.34). The SMEs, in particular, are very attached to their know-how, which in most cases cannot be patented, but which is their real asset.

This fear which firms have of seeing their industrial property poorly protected or not protected at all is a strong brake on the transfer of technology. Many firms, even very big ones, prefer to lose a market than lose control over their product (Coca-Cola preferred to lose the vast Indian market rather than give its manufacturing secrets to a local firm).

4.63 Excessive legalism

Because they very often lack the relevant technical knowledge, the authorities in the developing countries deliberately hide behind a veritable barrage of laws and regulations destined to protect the host country from any abuse from the foreign firms.

This attitude often leads to excessive legalism, resulting in a pointless obscuring of the texts or, in many cases, to a restrictive interpretation of them (Case N° 17).

Texts that are lacking in precision or difficult to understand are certainly open to any interpretation — which is fine for the authorities, which are calling the tune, but not for the firms.

Without wishing to criticize the developing countries here, the texts are interpreted generously and favourably for the firms while the project is being promoted (so as to attract the investor) and restrictively once the investment decision has been taken. European firms involved in industrial cooperation thus often get the impression that they have been caught in a trap. The negative effects (counter publicity and a loss of goodwill) of this attitude are, clearly, sizeable and lasting.

4.64 Refusal of foreign arbitration

The question of arbitration is not a fundamental one, but it signals a certain difference in the conception of industrial cooperation between North and South.

In practice, it can be said that, if an industrial cooperation scheme gets to the arbitration stage, then it has had its day. It is unthinkable for partners who have stood on opposite sides of the court to collaborate again. So the aim of arbitration can only be to share out what remains and to obtain recognition for each party's rights.

Psychologically speaking, however, arbitration clauses have their importance for Northern firms during the run up to and negotiations for an industrial cooperation project. But many investors are shocked at the attitude of many developing countries, which is to refuse foreign arbitration(as in Algeria), to refuse membership of the International Convention on the settlement of investment differences (as in the countries of Latin America) or to refuse to include investment protection clauses (as with the ACP countries and the Conventions of Lomé I and II).

There is a symbolic but important value attached to the countries of the South agreeing to international arbitration and the investors take notice of it, even if it is not their prime concern.

4.7 Technical constraints

4.71 Shortage of skilled labour

Most of the firms asked about industrial cooperation with the developing countries mention the shortage of workers who are qualified or meet their particular specifications. This is a problems that occurs in both production and management.

In production, the biggest shortage is of foremen and skilled workers. The ACP countries, particularly those in Africa, seem to be far less productive than the countries of Asia and Latin America in this respect. Generally speaking, a firm which sets up in a developing country has to count with the sort of productivity that is far lower than in Europe — which means there has to be a considerable difference in wage levels to compensate.

Take Tunisia, where productivity is among the highest in Africa. In comparison with the parent firms in Europe, the productivity of 44 firms there was an average 66% in textiles, 81% in electronics and 61% elsewhere in 1982.

The difficulty is that this low productivity is not just a question of qualifications. It also has to do with the cultural and social environment. One firm trained Senegalese workers in France and obtained very satsifactory results (about 80-90% of the output of a European worker) by the end of the course, but six months after the trainees returned to Dakar, their output was down to about 30%.

It is also common to see workers trained by a firm abroad thinking they are over-qualified for their jobs and refusing to accept the post for which they were trained (Case N° 24). Lastly, absenteeism is a major constraint in management in the developing countries.

4.72 Inadequate quality of local input

The fact that firms are often forced to get their supplies locally was mentioned earlier (§ 4.26). This poses what can be very serious problems with production, as input (raw materials, semi-finished products, tools and other equipment) bought locally does not always meet the firms' specifications.

Using this input may lead to poorer quality and more expensive products. This situation is particularly serious when it is destined for export.

4.73 Communications problems

Major communications problems at different levels cause extra-contractual costs for industrial cooperation schemes. They are:

- Transport

  Distance and even access to the host country may be problematical if that country is a long way away and poorly served. This is the case, obviously, of the countries of the Pacific, which are a long way from Europe, but it also applies to some of the countries of Africa too.

- Post and telecommunications

  Postal services and even the telephone and telex do not always work reliably in the developing countries.

  In both these cases, there is often a high risk of delay, loss and theft in addition to the other problems already mentioned.

5. TYPOLOGY OF CONSTRAINTS ON INDUSTRIAL COOPERATION

5.1 By importance of constraint

5.11 Relative importance

The analysis of the 35 constraints set out in the basic typology (§ 4 above) can be classified initially according to relative importance. They seem to fall into two categories — major and secondary.

- Major constraints

This group contains slightly more than half the constraints detected. 2o of them can in fact be considered as serious obstacles to industrial cooperation and some of them are even totally disuasive (see 5.12). These 20 main constraints can only be classified in an approximate manner. Table XI below gives a rough list (in decreasing order of importance) — which is not absolute and which may vary from one country, period or date to another.

Three constraints, which are important because they are fundamental, do not appear on the list because of the difficulty of quantifying their effect on the foreign investors' decision-making. These constraints are:

. weak international activity, which is both the cause and effect of the small flow of investment to the biggest number of developing countries, particularly the ACP nations;

. the internal debate on the role of foreign investors and on the attitude to be adopted towards them;

. the low priority on industry.

TABLE XI - INDUSTRIAL COOPERATION BETWEEN FIRMS - MAJOR CONSTRAINTS

CONSTRAINTS
- narrowness of the market - cost of input - institutional instability - shortage of foreign exchange - lack of local businessmen - shortage of skilled labour - failure to respect contractual commitments - shortage of means for financing - protectionist measures - absence of any industrial fabric - slow, arbitrary decision-making - inadequately transparent institutions - inadequate quality of local input - employment restrictions - restrictions due to economic policy - wariness about non-tangible contributions - interference in the life of the firms - unsuitable legislation - inadequate protection of property - communication problems

The effects of these last two political constraints may have a great deal of, little or no influence on the climate of investment in any given country.

Overall — and this is no surprise — it emerges that the main obstacles to industrial cooperation are structural and economic and the administrative, legal and, to a certain extent, technical constraints are secondary. This analysis is, generally speaking, confirmed by the IFO survey (Annexe XVI).

- Secondary constraints

More surprising are some of the other 15 constraints not listed in the previous category and which are of far less importance in the eyes of the investors. But they are there, nonetheless, and in some cases they have been the main cause of failure or considerable difficulties for European firms in certain countries (Cases N°s 1, 3, 4, 29, 30 and 45). But they are still far less important than might at first be thought and, in any case, they occur far less often in the businessmen's statement of their concerns. It is more likely that this type of constraint has been typical of one or two countries at a specific time in their political and economic history — but it leads to real trauma for many investors. The main thing is the fear of the nationalization or expropriation that has hit some European firms in sensitive sectors of the economy (energy, mining and agriculture). The fact that operators now mention this type of constraint far less often points to a certain improvement in the industrial sensitivity of the ACP countries, if not in their political proclamations, which often lag behind economic reality.

Table XII gives the secondary constraints, although it has not been possible to put them in order of priority.

The table omits two sorts of constraints which are difficult to classify because of their very nature. They are:

- the confusion between industrial cooperation and technical assistance;
- the host countries' short-term view of things.

The cultural nature of these obstacles clearly makes them difficult to assess and their respective influence on investment patterns is impossible to measure.

TABLE XII - INDUSTRIAL COOPERATION BETWEEN FIRMS - SECONDARY CONSTRAINTS

- ignorance of what industry involves - restrictions on returns on foreign capital - forced assignment of capital - bans on take-overs - nationalization/expropriation - preference for prestige investments - poor coordination between different authorities - corruption - excessive legalism - refusal of foreign arbitration

5.12 Degree of obstruction

The different constraints on industrial cooperation seem to be able to be divided into three categories according to effect on the attitude of foreign investors.

The degree to which they obstruct the cooperation process varies on a scale of 3-1 (considerable, average or small, in decreasing order - Table XIII). This classification cannot be absolute and some constraints may figure in one, two or even all three categories, according to their importance in the eyes of the investor.

- 3rd degree - prohibitive constraints

  This group contains obstacles of different types, but mainly structural ones. The absence of a big enough (domestic or regional) market is clearly a cause of total blockage of a project of any sort, regardless of the climate of investment. And the same may go for the cost of input, particularly with export schemes. Institutionally speaking, instability (be it political, administraive or legal) will, if it is a constant, have a similar sort of effect.

- 2nd degree - dissuasive constraints

  A greater number of obstacles can be considered to be dissuasive or discouraging. They are mainly structural and political in kind. Shortages of foreign exchange or local businessmen are typical of these constraints, which obstruct cooperation to an average degree. One or two technical problems (connected with local labour and input) are fairly typical of this category.

- 1st degree - limiting constraints

  This group contains all the other constraints recorded — the majority of them, in fact. Their effect on the investor's decision will depend on his particular

TABLE XIII - INDUSTRIAL COOPERATION BETWEEN FIRMS - CONSTRAINTS, BY DEGREE OF OBSTRUCTION IN THE INVESTMENT DECISION
(3 = considerable, 2 = average, 1 = small)

CONSTRAINTS	DEGREE OF OBSTRUCTION 3	2	1
1. STRUCTURAL			
1.1 minimal international attraction	x		
1.2 narrowness of the market	x		
1.3 cost of input	x		
1.4 shortage of foreign exchange		x	
1.5 shortage of local businessmen		x	
1.6 shortage of project financing means			x
1.7 no industrial fabric			x
2. POLITICAL			
2.1 internal debate on foreign investments	x		
2.2 low priority on industry			x
2.3 failure to respect commitments		x	
2.4 restrictions on employment		x	
2.5 restrictions on returns on capital		x	
2.6 protectionist measures		x	
2.7 restrictions due to economic policy		x	
2.8 enforced assignment of capital			x
2.9 ban on take-overs		x	
2.91 nationalization/expropriation		x	
3. CULTURAL			
3.1 confusion between industrial cooperation and technical assistance			x
3.2 Short-term views			x
3.3 ignorance of what industry involves			x
3.4 wariness about non-tangible contributions		x	
3.5 preference for prestige investments			x
4. INSTITUTIONAL			
4.1 inadequate transparency			x
4.2 instability		x	
5. ADMINISTRATIVE			
5.1 slow, arbitrary decision-making			x
5.2 lack of coordination			x
5.3 interference in the firms			x
5.4 corruption			x
6. LEGAL			
6.1 unsuitable legislation			x
6.2 inadequate protection of property			x
6.3 excessive legalism			x
6.4 refusal of foreign arbitration			x
7. TECHNICAL			
7.1 shortage of skilled labour		x	
7.2 poor quality of local input		x	
7.3 difficult communications			x

Source: P.Queyrane (estimate).

criteria and partly on the sector of activity in question (§ 5.4) or the host country (§ 5.5). Contrary to what one might expect at first, although legal, administrative and even political constraints do a great deal to deteriorate the climate of investment, they are rarely such as to obstruct a project entirely if the basic conditions (economic ones mainly) are right.

The above typology reveals another classification, making it possible to affect certain obstacles (whether or not they seem insurmountable) in the long run.

5.13 Possibility of negotiating

Seen from another angle, the above-mentioned constraints on industrial cooperation can also be divided into two categories in the light of whether they are negotiable or not — i.e. whether or not they depend on the will of individuals in the host country.

Before going into this classification in detail, its relative nature must be emphasized:

- A problem may be negotiable in some cases and non-negotiable in others. For example, a market may be too narrow for an automobile factory but not for a brewery.
- A constraint which, on the face of it, is negotiable may cease to be so if it is combined with a number of other constraints (shortage of qualified labour plus employment restriction, for example).

- Non-negotiable constraints

  This group contains all the obstacles that people can do nothing about and that pertain to basic data that cannot really be altered by any incentive policy. These obstacles are, essentially, of two kinds:

  - structural constraints (all structural constraints in the basic typology except the shortage of means of financing — Table XIV). The key constraint in this category is, of

TABLE XIV - INDUSTRIAL COOPERATION BETWEEN FIRMS - NEGOTIABLE AND NON-NEGOTIABLE CONSTRAINTS

NON-NEGOTIABLE CONSTRAINTS	NEGOTIABLE CONSTRAINTS
1. STRUCTURAL 1.1 small international attraction 1.2 narrowness of the market 1.3 cost of input 1.4 shortage of foreign exchange 1.5 shortage of local businessmen 1.7 no industrial fabric	1. STRUCTURAL 1.6 shortage of project financing means
	2. POLITICAL 2.1 internal debat on foreign investments 2.2 low priority on industry 2.3 failure to respect commitments 2.4 restrictions on employment 2.5 restrictions on capital returns 2.6 protectionist measures 2.7 restrictions due to economic policy 2.8 enforced assignment of capital 2.9 ban on take-overs 2.91 nationalization/expropriation 3. CULTURAL 3.1 confusion between industrial cooperation & technical assistance 3.2 short-term views 3.3 ignorance of what industry involves 3.4 wariness about non-tangible contributions 3.5 preference for prestige investments 4. INSTITUTIONAL 4.1 inadequate transparency 4.2 instability 5. ADMINISTRATIVE 5.1 slow, arbitrary decision-making 5.2 lack of coordination 5.3 interference in the firms 5.4 corruption 6. LEGAL 6.1 unsuitable legislation 6.2 inadequate protection of property 6.3 excessive legalism 6.4 refusal of foreign arbitration
7. TECHNICAL 7.1 shortage of skilled labour 7.2 poor quality of local input 7.3 difficult communications	

Source: P.Queyrane (estimate).

course, the narrowness of the market, which, as we have seen (§ 4.12), on the face of it cuts a large number of ACP countries out of the international fight to host foreign investments. The fact that there are no adequate domestic markets is in itself enough to put an investor off a given country. The search for more commercial outlets is still in fact priority number one for practically all the firms.

This is also true, but to a lesser extent, of the cost of the factors of production (low productivity). This may have a definitive effect when the industrial cooperation scheme in question is export-oriented and the producing country has, of necessity, to be competitive with other potential host countries.

A study of a certain number of cases has also shown the importance of local businessmen and how their absence can put off the investor seeking an industrial partner (Case N° 42).

The main conclusion to be drawn from this analysis is that these obstacles, which cannot (because of their nature and their importance) be negotiated, are all factors of absolute blockage of industrial cooperation between firms. No ACP country can hope to alter this type of constraint in the short term, however much it may want to.

- Negotiable constraints

It is more interesting to note that the majority of the constraints recorded seem to be surmountable, some in the short term and others in the longer term (Table XIV).

. In the (relatively) short term, most of the constraints in the:
.. institutional;
.. administrative;
.. legal
categories could be overcome provided leaders in the host country made it clear they wanted to do so. The industrial

successes of countries like Taiwan, Singapore and Malaysia are largely due to a deliberate policy of encouraging free enterprise and foreign investments.

. In the long term. Because of the nature of the political and cultural constraints, there can be no hope of altering them in the short term or, indeed, the foreseeable future. Once again, it will take a thoroughgoing, voluntarist approach if the ACPs are to achieve any industrial sensitivity. But the path is clear for those who are really anxious to do so (see § 6.1).

5.2 <u>By type of agreement between the firms</u>

It is usual now to make a distinction between two major groups of industrial cooperation agreements — those involving a Northern firm holding shares and those involving other forms of cooperation. This distinction is a proper reflection of the real situation, to the extent that the constraints fall fairly neatly either side of the line between agreements with and without capital holdings.

Generally speaking, the more the European firm wants a holding (majority or not) in the Southern firm, the more strongly the constraints will be felt. The risk is obviously greater. The new forms of investment, as the OECD has it, i.e. without any capital holdings, are less susceptible to the different constraints (Table XV).

TABLE XV - CONSTRAINTS ON INDUSTRIAL COOPERATION, BY TYPE OF AGREEMENT BETWEEN FIRMS
(1 = strong, 0 = average, − = weak)

CONSTRAINTS	TYPE OF AGREEMENT BETWEEN FIRMS: WITH SHARE-HOLDING		TYPE OF AGREEMENT BETWEEN FIRMS: WITHOUT SHARE-HOLDING			
	DI	CE	MC	PIH	LC	ISC
I. STRUCTURAL						
1.1 small international attraction	+	+	−	−	−	o
1.2 narrowness of the market	+	+	o	o	+	−
1.3 cost of input	+	+	o	−	−	+
1.4 shortage of foreign exchange	+	+	o	+	+	−
1.5 shortage of local businessment	−	+	−	−	+	+
1.6 shortage of project financing means	o	o	o	o	−	−
1.7 no industrial fabric	o	o	o	+	−	o
2. POLITICAL						
2.1 internal debate on foreign investments	+	+	−	−	−	−
2.2 low priority on industry	o	o	o	−	−	−
2.3. failure to respect commitments	+	+	o	+	+	o
2.4 restrictions on employment	+	+	+	+	−	o
2.5 restrictions on capital returns	+	+	−	−	−	−
2.6 protectionist measures	o	o	o	−	+	−
2.7 restrictions due to economic policy	+	+	−	−	−	o
2.8 enforced assignment of capital	+	o	−	−	−	−
2.9 ban on take-overs	o	o	o	−	−	−
2.91 nationalization/expropriation	+	−	−	−	−	−
3. CULTURAL						
3.1 confusion between industrial cooperation and technical assistance	+	o	−	−	−	−
3.2 short-term views	+	+	+	+	o	−
3.3 ignorance of what industry involves	o	+	−	−	o	−
3.4 wariness about non-tangible contributions	−	+	−	+	+	−
3.5 preference for prestige investments	o	+	−	+	−	−
4. INSTITUTIONAL						
4.1 inadequate transparency	o	o	o	o	o	o
4.2 instability	+	o	−	−	−	−
5. ADMINISTRATIVE						
5.1 slow, arbitrary decision-making	+	+	+	o	−	o
5.2 lack of coordination	o	o	o	o	−	o
5.3 interference in the firm	−	+	+	o	−	−
5.4 corruption	o	o	o	+	−	−
6. LEGAL						
6.1 unsuitable legislation	+	+	−	−	+	o
6.2 inadequate protection of property	+	o	−	−	+	−
6.3 excessive legalism	−	−	o	+	+	o
6.4 refusal of foreign arbitration	+	+	+	+	+	−
7. TECHNICAL						
7.1 shortage of skilled labour	+	+	+	+	−	+
7.2 poor quality of local input	+	o	o	+	−	+
7.3 difficult communications	+	o	o	+	−	+

DI = direct investment   MC = management contract   LC = licence contract
CE = co-enterprise   PIH = product in hand   ISC = international sub-contracting

Source: P.Queyrane (estimate).

5.21 Agreements involving share-holding

There are two things to note about this type of agreement:

- Sensitivity to the constraints increases with the size of the European firm's capital holding

  This is a logical consquence of what was said earlier. It is fairly clear that a direct investment (i.e. one in which the investor holds 100% of the subsidiary or owned company) involves greater risk than a joint venture — first of all, since the capital is shared, the Northern investor is less involved in the host country and, second, since he is associated with a national of the host country, he expects to get a certain amount of protection. Table XV clearly shows that the majority of constraints which the foreign investor sees as strong are in the first two columns (direct investment and joint ventures).

- The main constraints are structural and political

  Investors place their capital with the strategic aim of industrial or commercial diversification or of spreading their risks geographically, so it is natural for them to be worried about the structural and political constraints first and foremost. They attach far more importance than firms involved in new forms of investment to such things as:

  . the internal debate on the role of foreign investments;
  . the low priority which the Government puts on industry;
  . the restrictions attendant on the economic policy;
  . institutional instability.

And, of course, they are the only ones to be sensitive to the risks of nationalization and expropriation.

5.22 <u>Agreements not involving share-holding</u>

Three findings have been made here:

- <u>Agreements that do not involve share-holding are less sensitive than direct investments and joint ventures</u> to the constraints emanating from the host countries. This is in line with the analysis made under § 5.21. However, there are one or two differences in the degree of sensitivity to the constraints in the four new forms of investment under investigation here. They seem to be (in decreasing order of sensitivity):

  (a) product-in-hand contracts;

  (b) management contracts;

  (c) licence contracts;

  (d) international sub-contracting.

  This last form of agreement involves by far the smallest risk for the Northern partner (some specialists in fact fail to include it as a form of industrial cooperation).

- <u>The main constraints are technical and legal ones</u>.

  The "new" investor is less concerned with strategic considerations and concentrates more on the barriers to the everyday running of the scheme he has devised. There are two main types of obstacle affecting non-share-holding agreements:

  . technical constraints, mainly involving:
    .. management contracts;
    .. product-in-hand contracts;
    .. international sub-contracting.

Although the first two are mainly hampered by red tape and restrictions on the employment of expatriate staff, international sub-contracting is often at threat from:

.. poor quality work;
.. high input costs;
.. irregular deliveries;

- legal constraints, affecting, in particular, licence concessions. This is due to the importance of the (obviously complex) legal framework in which the licence to manufacture is issued. But licence-holders' fears in this respect are also due to the increasingly restrictive legislation (limiting dues, questioning the value of technology, banning commercial restrictions etc) being adopted in the developing countries.

- <u>The SMEs are more sensitive than the bigger companies to the constraints</u> This emerges, in particular, from an IFO study (Annexe XIX). Almost 75% of firms with less than 200 staff which were interviewed during a survey in Federal Germany said that, when making their investment decisions, they were to some extent affected by measures which the developing countries took to promote non-share-holding cooperation to the detriment of direct investments or joint ventures. The corresponding figure for firms with 1000-5000 staff was 54% and, for firms of 5000+, 66%. Experience suggests that, although this is true overall, the SMEs are often more flexible than the big companies.

What has just been said — particularly the correlation between degree of constraint and share-holding as it is perceived by European firms — is confirmed by these firms' preference for:

- minority rather than equal or majority holdings;

- cooperation without rather than with share-holding

when the host country is a developing country. However, when it comes to the newly industrialized countries and, to an even greater extent, the industrialized countries, the majority of these same investors hold some (and preferably all) of the capital of the new firm (Table XVI). Even European transnationals have an increasing preference for minority holdings in their own subsidiaries in the developing countries (Annexe XX). Note that, although Japanese transnationals seem to be adopting the same policy, American companies do not.

A UNIDO study (Annexe XII) clearly shows the French firms' preferences as being (in order):

(1) the supply of equipment;
(2) the sale of technology;
(3) sub-contracting;
(4) key-in-hand projects;
(5) licence concessions;
(6) joint ventures;
(7) direct investment.

However, Ch.A.Michalet's survey already mentioned (§ 4.12) shows that there are more majority-holding operations in black Africa — unlike what happens in the other regions.

It would still appear that preference is in inverse proportion to the financial risk.

TABLE XVI - STRUCTURE OF THE CAPITAL OF FOREIGN SUBSIDIARIES OF GERMAN FIRMS
(n = number of firms interviewed)

PERCENTAGE OF CAPITAL HELD BY PARENT COMPANY	TOTAL		FIRMS					
			DCs		NICs		ICs	
	n	%	n	%	n	%	n	%
100%	349	56.5	19	21.6	128	51.8	202	71.4
majority	137	22.2	24	27.3	65	26.3	48	17.0
equal (50:50)	36	5.8	4	5.5	16	6.5	16	5.7
minority	80	12.9	38	43.2	33	13.4	9	3.2
no reply	16	2.6	3	3.4	5	2.0	8	2.8
Total	618	100.0	88	100.0	247	100.0	283	100.0

DCs = diveloping countries
NICs = new industrial countries
ICs = industrialized countries

Source: Deutscher Industrie- und Handelstag, 1981.

5.3 By phase of implementation of the project

There are four phases in the running of an industrial cooperation scheme:

- the study;
- the negotiations;
- the construction;
- the exploitation.

There is a certain number of obstacles at each of these phases and it will rise, overall, as the project develops.

5.31 The study

There are two main constraints hampering the running of studies of investments in the developing countries. They are:

- the shortage of financing for the studies themselves. None of the three main agents involved in an industrial cooperation scheme is in fact prepared to risk its funds on studies whose results are deemed — rightly or wrongly — to be not very promising at the outset (in view of the minimal attraction of the ACP countries described under § 3.1):

- the ACP promoter often lacks the means and enough motivation;
- the European businessman often fails to consider himself as an applicant;
- the banker thinks he need not replace the industrial partners.

Only official bilateral and multilateral aid funds can bridge the gap between finding and implementing an investment project — by financing the relevant studies;

- the shortage of information, often a key problem during the study phase. However, it is worth noting that the vast majority of European firms seems, on the face of it, to prefer information to come direct from the Governments of the host countries (88% of firms interviewed during a survey in 1976).

However, as Table XVII shows, and unlike the other phases of the projects, studies are very little affected by the various constraints listed earlier (§ 4) Only one or two general political (lack of clarity in guidelines) and administrative (lack of coordination and efficiency) constraints related to the local industrial promotion bodies are felt at this stage.

5.32 Negotiations

When a potential investor starts negotiating with a partner in the host country and with its Government, his main obstacles are political, cultural and administrative ones (Table XVII). But the key constraint at this stage is, undeniably, the shortage of local businessmen (§4.15).

TABLE XVII - SENSITIVITY OF INDUSTRIAL COOPERATION AGREEMENTS TO CONSTRAINTS, BY DEGREE OF COMPLETION OF PROJECT

(Degree of sensitivity: + = high, o = weak, – = none)

CONSTRAINTS	PHASE			
	STUDY	NEGOTIATION	CONSTRUCTON	EXPLOITATION
1. STRUCTURAL				
1.1. small international attraction	o	–	–	–
1.2 narrowness of themarket	+	–	–	+
1.3 cost of input	–	–	+	+
1.4 shortage of foreign exchange	–	+	+	+
1.5 shortage of local businessment	–	+	+	o
1.6 shortage of project financing means	+	+	+	+
1.7 no industrial fabric	–	o	+	+
2. POLITICAL				
2.1 internal debate on foreign investments	+	+	o	o
2.2 low priority on industry	+	+	o	o
2.3 failure to respect commitments	–	+	+	+
2.4 restrictions on employment	–	o	+	+
2.5 restrictions on capital returns	–	–	–	+
2.6 protectionist measures	–	–	o	+
2.7 restrictions due to economic policy	–	o	o	+
2.8 enforced assignment of capital	–	–	–	+
2.9 ban on take-overs	–	–	–	+
2.91 nationalization/expropriation	–	–	–	+
3. CULTURAL				
3.1 confusion between industrial coop- eration & technical assistance	–	o	–	o
3.2 short-term views	–	–	–	+
3.3 ignorance of what industry involves	–	+	+	+
3.4 wariness about non-tangible contributions	–	+	–	+
3.5 preference for prestige investments	–	+	+	–
4. INSTITUTIONAL				
4.1 inadequate transparency	o	+	o	o
4.2 instability	o	+	o	+
5. ADMINISTRATIVE				
5.1 slow, arbitrary decision-making	o	+	+	+
5.2 lack of coordination	+	+	+	+
5.3 interference in the firms	–	–	o	+
5.4 corruption	–	+	+	o
6. LEGAL				
6.1 unsuitable legislation	o	+	–	o
6.2 inadequate protection of property	–	–	–	+
6.3 excessive legalism	–	+	–	o
6.4 refusal of foreign arbitration	–	–	o	+
7. TECHNICAL				
7.1 shortage of skilled labour	o	–	+	+
7.2 poor quality of local input	–	–	+	+
7.3 difficult communications	o	+	+	o

Source: P.Queyrane (estimate).

5.33 Construction

In the first phase of project implementation, i.e. while the factory is being built, there are a number of constraints on progress. They are structural (to do with the lack of industrial fabric, in particular) above all, but there are technical (shortage of skilled labour) and administrative ones (slow decision-making) too.

As far as the German firms are concerned, the main problems encountered during the construction phase are, in order of importance (Table XVII and Annexe XVI):

- red tape;
- customs and currency problems;
- protectionism and xenophobia;
- legal constraints and instability.

TABLE XVIII - GERMAN FIRMS THAT HAD PROBLEMS WITH AVAILABILITY OF SKILLED LOCAL STAFF DURING THE CONSTRUCTION PHASE OF AN INDUSTRIAL PROJECT IN A DEVELOPING COUNTRY (% of firms contacted)

COUNTRY N° employees in the firm		TECHNICAL STAFF	COMMERCIAL STAFF
BRAZIL	1000	61	13.5
	1000		
INDIA	1000	50	----
	1000	12.5	----
INDONESIA	1000	33	27
	1000	100	100
COLOMBIA	1000	25	17
	1000	25	17
MEXICO	1000	39	25
	1000	100	67
TUNISIA	1000	36	12

Source: Deutsche Auslandinvestitionen in Enwicklungsländern, G.Kayser et al. - Band 3 Forschungsberichte des Bundesministeriums für Wirtschaftliche Zusammenarbeit, 1981.

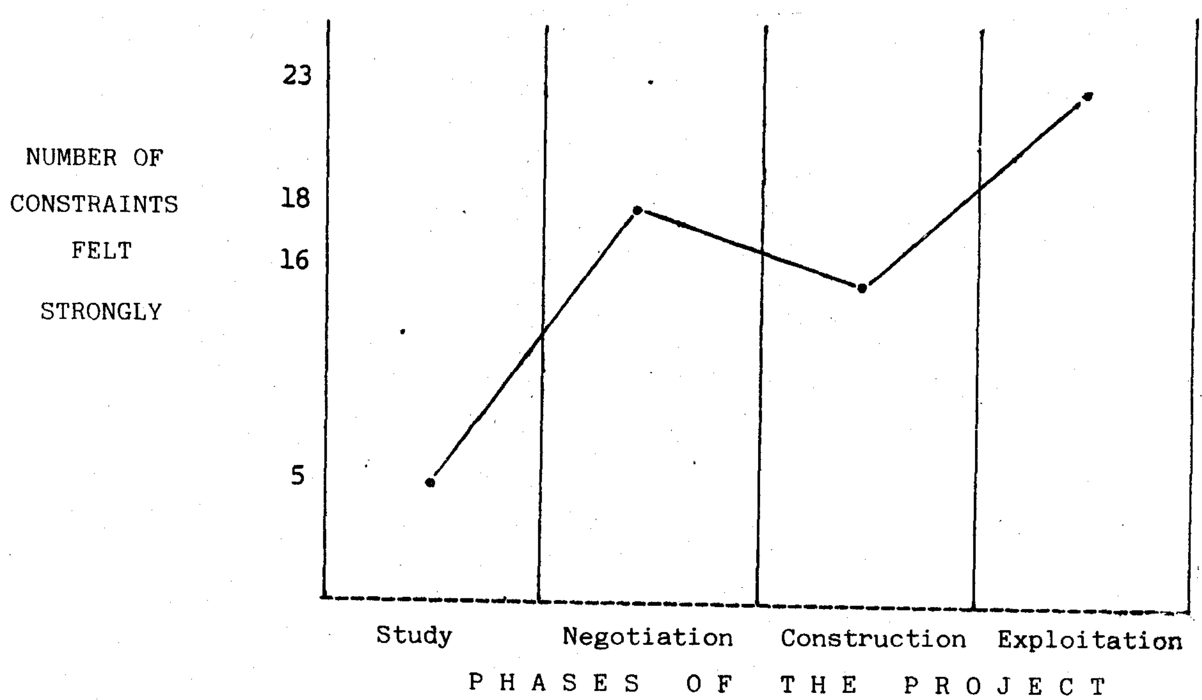
* A survey of industrial redeployment opportunities in Switzerland - P.Queyrane & B.Simma - ICME - 1976.

5.34 Exploitation

Practically all the constraints identified in the basic typology (§ 4) clearly recur, to varying degrees, in the operational phase of the industrial project. It is not until this stage that the project is fully exposed and, when he moves on to the exploitation stage, the investor often discovers many obstacles that were hidden or only vague before .

Table XVII shows that 23 of the 35 constraints are felt strongly during exploitation (as against 18 during negotiations, 16 during construction and five during the study period - Figure III).

FIGURE III - INTENSITY OF CONSTRAINTS, BY PHASE OF THE PROJECT



Source: P.Queyrane (estimate).

5.4 <u>By sector of activity</u>

In view of the shortage of precise data on the wide range of individual situations, it seems difficult to make any definite conclusions about the relative sensitivity of the different sectors of industry to any given constraint. However, one or two indications can be given for certain specific sectors.

5.41 <u>No specific trend</u>

- <u>Pattern of investment by sector</u>

  Look at the general patterns of investment from the industrialized countries to the Third World and it emerges that the chemical industries (petro-chemical, in the main) are clearly in the lead, closely followed by mechanical construction, the food and agricultural industries, the car industry and electricals (Table XVIII). But the volume of investments required for these sectors of industry mean that they tend to be the province of the big transnationals rather than the SMEs. International statistics are inadequate to show the effect the constraints on industrial production have on the flow of investments to the developing countries, particularly since each firm follows a strategy all of its own.

- <u>Company strategies</u>

  The potential investor will react differently to the obstacles facing him in the developing countries according to whether he is pursuing a short- or a longer-term strategy, whether he is interested in the domestic market of the host country or in exports and what sort of firm-to-firm agreement he wants.

There is no doubt that, in industry in general — and particularly in those sectors most susceptible to political risk, for example — the development of new forms of investment (§ 5.2) is a protection. The OECD[1] says, <u>ceteris paribus</u>,

[1] New forms of international investment in developing countries - Charles Oman - OECD - 1982.

that the new forms of investment seem to be more important in firms and industries mainly geared to the domestic market in the host country (particularly when the technology involved has reached maturity) than in industries working for the export market or concerned with advanced technology.

Although the degree of technological development influences the degree of sensitivity to constraints, one or two hypotheses can be advanced for certain specific branches of industry.

TABLE XIX - PATTERN OF DIRECT INVESTMENT TO THE DEVELOPING COUNTRIES, 1978
(as % of investments in the secondary sector)

INDUSTRY	INVESTMENTS FROM ...			
	USA[1]	Germany[2]	UK[3]	Netherlands[4]
Chemicals	27	23	27	40[5]
Mechanical construction	23	10	11	36[6]
Food & agriculture	10	1	32	20
Electrics & electronics	-	16	-	-
Automobile	11	12	3	-
Sub-total	71	62	73	96
Other industries	29	38	27	4
Total	100	100	100	100

Sources:
1 United States Department of Commerce, Survey of Current Business
2 Bundesanzeiger
3 (1977) Business Monitor
4 De Nederlandsche Bank N.V., quarterly statistics

5 including mineral and petroleum exploitation
6 including electrical industries

5.42 Constraints specific to certain industries

- Politically sensitive products

  Most essential products (staple foods above all) are politically very sensitive, particularly in the developing countries. So selling prices (and often the manufacturer's margins too)are regulated. Delays, whether deliberate or not, in implementing price rises attendant on increases in production costs often put firms in dramatic situations (Cases N°s 21 and 26). The following products are particularly sensitive:

  . food products: bread, sugar, flour and oil;

  . other products: soap, fertilizer, textiles (pagnes in Africa) and energy.

  These products are sensitive as far as prices and the national economy are concerned. Many governments find foreign presence, or even foreign domination, in the food and agriculture sector politically unacceptable. Hence the (considerable, in the long term) risk of pressure to increase national (or State) holdings in the firm or even of nationalization.

  At the moment, there are signs of a certain industrial maturity in the ACP countries, as there is a move to privatize State firms (in Guinea, Tanzania and Congo, for example).

- Mining industries

  The risk of nationalization or expropriation is greater here than in any other sector of industry. A study run in 1977 shows that manufacturing is far less threatened than mining by nationalization (Annexe XXI).

- Chemicals

  Because of the large number of technology transfer contracts in the chemicals industry, the legal constraints imposed by the Governments of the host countries constitute a major obstacle for investors. The industry is also affected by environmental protection measures.

- Textiles

  The ACPs only account for a tiny part of world textile production (Africa, 1.4%, as against 1.3% in 1974). This is mainly because of poor productivity and the high cost of input, which rule out the export market (unlike what happens in Asia) and threaten local producers on their own market. This sector is more sensitive than others to high production costs, which is why, in spite of the advantages which the ACP countries get under the Lomé Convention, they have been unable to capitalize on their privileged access to the European market.

5.5 By host country

A systematic typology of the constraints on industrial cooperation by host developing country would represent an enormous task of doubtful usefulness. A synthesis of these constraints according to four main criteria is perhaps more helpful. These criteria are the:

- commercial outlets;
- geographical situation;
- level of development;
- economic system

of the host countries. We have only considered the ACP countries here.

5.51 By outlet

The importance of the "market" factor in the mind of the cooperating European firm was analyzed earlier (§4.12). This is even a fundamental criterion which may have a definitive influence on the investment decision, so it is to be expected that there will be a profound gap between two groups of host countries — those with adequate domestic markets or access to a bigger regional market and those which are too small to offer any economic justification for an industrial scheme.

- Inadequate domestic or regional market

  . Domestic market

  One or two figures suffice to sum up the situation of the domestic markets. Only nine of the 64 ACP countries have populations of more than 10 million. They are:

  .. in West Africa:

Nigeria	80 million
Ghana	11 million

  .. in Western Africa:

Zaire	28 million

  .. in East Africa:

Ethiopia	30 million
Kenya	15 million
Madagascar	9 million
Uganda	13 million
Sudan	17 million
Tanzania	17 million

There are populations of less than 5 million in 44 ACP countries, for an average per capita GNP of around $ 300 p.a. And 21 of the Group (including almost all the islands of the Caribbean and the Pacific) have populations of even less than 1 million.

The figures for per capita GNP are no less eloquent — 12 of the ACP Group go past the $ 1000 p.a. mark and only six past $ 1500 (Annexe I).

To put this data in perspective, remember that the GNP of Nigeria (with 80 million inhabitants, by far the biggest market in the ACP Group) is much the same as that of Austria (with less than 8 million), Zaire's (27 million) is the same as that of towns like Munich and Cologne (which have about 2 million inhabitants)and Senegal's to Poitiers (350 000).

The whole of West Africa (200 million people) has a GNP the size of that of the Netherlands (14 million). So roughly, the ratio of European to ACP GNP is between 1:10 and 1:30. Those markets which allow for the economies of scale that an industrial unit must have are thus rare in the ACP countries.

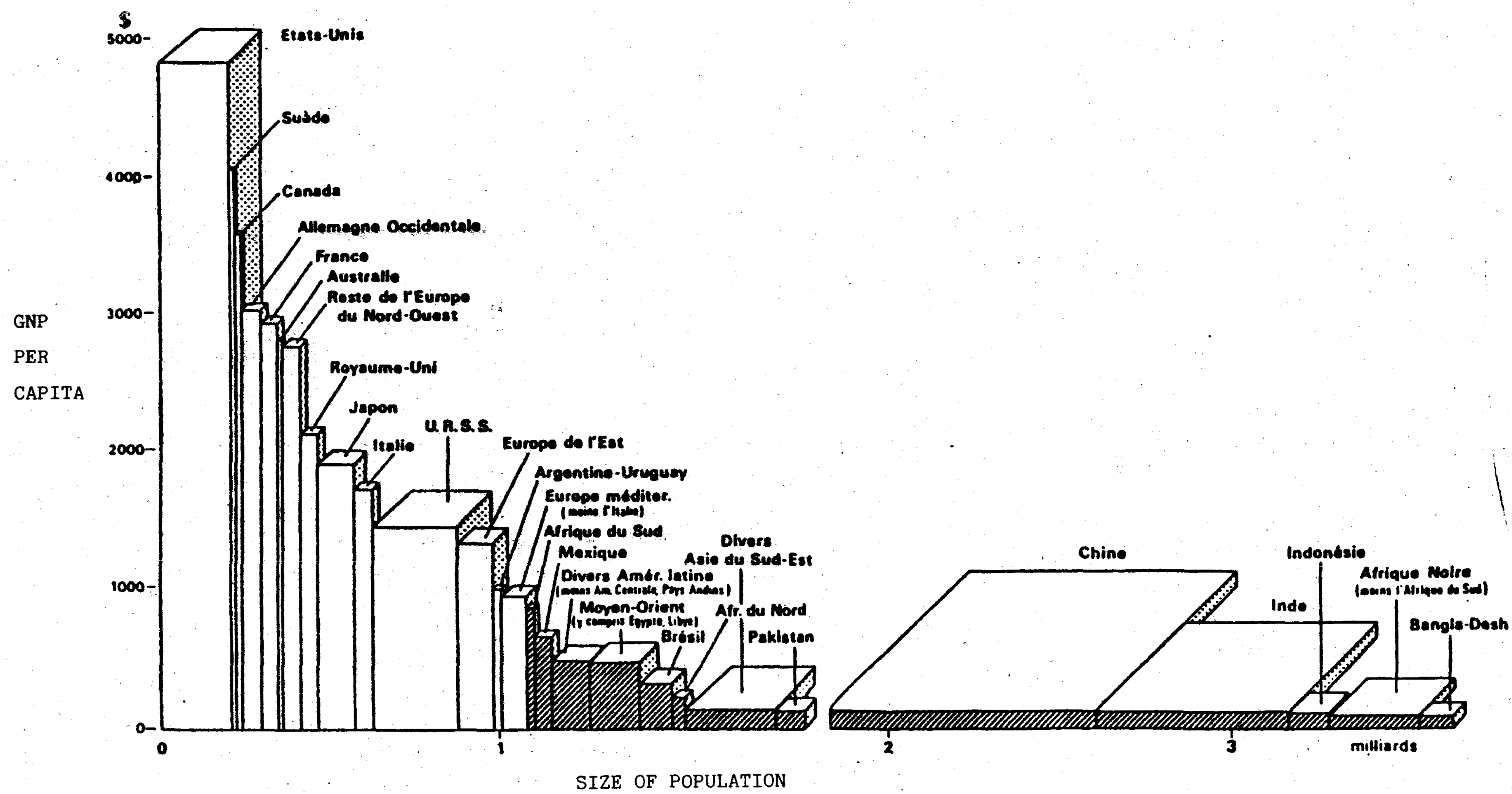
To sum up, only the nine countries mentioned above (all of them in Africa and six of them in Eastern Africa) reach the right critical mass for many industries. Seven countries with populations of 5-10 million (Mali, Ivory Coast, Guinea, Senegal, Malawi, Zambia and Cameroon) are suitable for selective industrialization. Lastly, the 48 remaining countries have practically no domestic markets to offer and even import substitution is carried out in economically debatable conditions.

Figure IV illustrates the unfavourable relationship between population and GNP in Black Africa.

. Regional market

Several regional economic units aimed at creating customs unions (the CEAO, ECOWAS, UDEAC, CARICOM, SPEC etc) have been set up by the ACP countries. Unfortunately, access to the regional markets is still an uncertain business and integration is going very slowly in these economic communities. Although the regional markets exist in theory, they are very limited in practice and only accessible to firms

FIGURE IV - POPULATION AND PER CAPITA GNP



Source: "Les marchés du Tiers Monde et l'expansion industrielle belge" - P.Wyffels, Ecole de Commerce Solvay - 1978-1979.

already familiar with the ground. Experience has shown that a European firm which is already present, through its exports (from its country of origin), in a given region has a good chance of keeping its markets if it opens a branch in a country of this region and makes that country an exporter to the neighbouring states (whether or not they are members of an economic community). Without this prior knowledge of the regional markets, a firm will come up against many obstacles (to do with transport, getting the product accepted, non-tariff barriers and safeguard clauses).

- Small countries

As we saw earlier, three quarters (47 out of 64) of the ACP countries can be considered as having markets that are smaller than the basic minimum required to set up a viable industry. They fall into two sub-groups:

. Exporting countries

These are countries where the cost of the factors of production (wages especially) are lowest and productivity highest. There are in fact very few such countries in the ACP Group. Only Mauritius fulfils the requisite conditions and enjoys a certain amount of success in international sub-contracting (particularly textiles and toys). Barbados also looks as though it could do the same, as do one or two other islands in the Caribbean, although international sub-contracting has not been developed very much in the ACP countries of this region yet.

. Other countries

This group comprises more or less all the 47 "small" ACP countries — practically all the countries of the Pacific, more or less all the Caribbean and the 27 countries of Africa not mentioned above. All we can say here is that the prospects for industrial cooperation seem very small in countries of this sort and that it can only be done on a very selective basis.

5.52 By geographical situation

If the three regions involved in the Lomé Convention are taken separately, a number of characteristics specific to their geographical situation emerges:

- Africa

  . The region in general

  It is agreed that Africa is the continent which is having the greatest difficulty overcoming its under-development, as any analysis — or ordinary observation — will show. The ICF says that, when there was inflation and recession in the world economy in the mid-70s, nowhere did the crisis hit harder than in sub-Saharan Africa[1]. And the World Bank said that, between 1960 and 1979, the per capita income in 19 (African) countries rose by less than 1% p.a., while, over the past decade, 15 countries have seen their per capita income decrease... Per capita production increased more slowly in sub-Saharan Africa than anywhere else in the world, particularly in the 70s, and it increased slower in the 70s than in the 60s[2]. The World Bank also points out that even countries which had an average growth of 2.7% between 1960 and 1979 (Kenya, Malawi and Ivory Coast) had to reorganize their economies because of the crisis.

  Furthermore, there are many constraints on industrialization in Black Africa. In addition to the size of the markets mentioned above, the World Bank lists the following obstacles:

  .. inadequate population density preventing amortization of the requisite infrastructure. A cement works, for example, only serves an area of 300-500 km round about. And heavy transport costs protect some industries, but restrict economies of scale;

  .. high wages and low productivity. African wages are high in comparison with those in Asia. An ILO study shows

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[1] IFC's five-year program FY 84-88, October 1982.

[2] Accelerated Development in Sub-Saharan Africa: An Agenda for Action, World Bank, August 1981.

[3] ILO Bulletin of Labour Statistics, 2nd quarter 1980.

the average wage of workers in the textile industries of 10 African countries is 50% higher than in Pakistan and more than double what it is in Bangladesh. Productivity is also lower in Africa than elsewhere. A comparison of six African spinning mills and four South-American spinning mills financed by the IFC shows that the average number of workers per loom was twice as large in Africa;

.. management costs. African industry is far more dependent on expatriate managers and technicians than other regions[1]. According to the World Bank, the wages of expatriate staff in Ivory Coast represent 25% of the added value. Middle managers and technicians cost twice or three times higher in Africa than in Europe. In the example of the spinning mills mentioned above, the IFC says that the South American factories had no expatriates on their staff, while expatriates pushed up the African wage bill by 25-50%;

.. cost of equipment and infrastructure. The World Bank says that an industrial investment in Europe costs around 25% more than it would in a developed country and in some countries it may go as high as 60%. This is because of the transport costs and delays in construction and to what is generally inadequate infrastructure which, moreover, is not as good as infrastructure in Asia and Latin America.

. West Africa and Central Africa

The majority of the least-developed countries of the continent are in Western and Central Africa, particularly in the Sahel. There are two categories of country in this heterogeneous group:

.. land-locked countries (Burkina, Burundi, Mali, Niger, CAR, Rwanda and Chad). These seven countries are unfavourably placed — because of their geographical situation and in some cases because of their low population density — when it comes to industrialization. The obstacles listed earlier, which are

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1 Accelerated Development in Sub-Saharan Africa - op.cit.

characteristic of Africa in general, appear more strongly in this type of country, particularly as regards infrastructure (transport) and domestic and regional outlets. These countries are also relatively short of natural resources (except mineral ones, which do not generate much industry). Three countries — Senegal, Mauritania and Cape Verde — which have climatic and economic conditions more like Sahelian than coastal states, should be added to the seven landlocked countries;

.. <u>coastal states</u> (Nigeria, Benin, Togo, Ivory Coast, Ghana, Guinea, Liberia, Sierra Leone, Guinea Bissau, Gambia, Cameroon, Gabon, Equatorial Guinea, Congo, Zaire and Sao Tomé & Principe). These 16 countries are all in very different situations, but as they have a certain amount of homogeneity as far as natural resources (tropical products essentially) are concerned, the differences centre on two factors from which only six of the group benefit:

... <u>large countries</u> (Nigeria, Zaire and Ghana — see § 5.51);

... <u>oil-producing countries</u> (Nigeria, Gabon, Cameroon and Congo). By considerably boosting the incomes of both the State and the private sector, this manna, oil, has created, in these four countries, conditions that are more favourable to industrialization and encouraged foreign investments. The importance of oil earnings is such that even a market of 80 million people, as Nigeria has, loses much of its attraction once the price of black gold drops.

The prospects of industrialization in the 11 coastal countries remain modest — although they are better than those of the landlocked nations.

- Eastern and Southern Africa

  There are three sub-groups in the equally heterogeneous group of countries of Eastern and Southern Africa:

  . medium-sized and large countries (Ethiopia, Sudan, Tanzania, Kenya, Uganda, Madagascar, Zimbabwe and Zambia). These eight countries offer a certain potential market, either because of their size, albeit with poor purchasing power (Ethiopia, Sudan, Tanzania and Madagascar), or because an intermediate level of development makes them relatively attractive (Kenya, Uganda, Zimbabwe and Zambia);

  . small and least developed countries (Djibouti, Somalia, Seychelles and Comoros) which have practically no industrialization potential;

  . exporting countries, which divide into two groups:

    .. Mauritius, which is the only African ACP to want to export industrial products outside the region and to do so with a certain amount of success (§5.51);

    .. the satellites of South Africa (Malawi, Botswana, Lesotho and Swaziland), where industrialization can only be envisaged within the framework of the South African market. The last three countries are, with South Africa, indeed members of a customs union which is the only thing that keeps the economies of these three landlocked countries alive.

    Note also that there is a large difference when it comes to transferring income between countries of the franc zone and elsewhere. The former enjoy the relative confidence of foreign investors because their currency is convertible, but few of them have anything else to recommend them. This goes for countries in the rand zone and, to a certain extent, to Liberia (in the dollar zone) too.

To sum up, then, and in order to give a global picture of industrial cooperation in Africa — without reflecting any individual situations — only 19 countries* out of the 43 members of the ACP Group on the continent offer any serious prospects.

- The Caribbean

Two main constraints in the region itself hold back industrial cooperation between the EEC and the Caribbean ACPs. They are:

. The narrowness of the domestic markets

The total population of the islands is about 6 million and 40% lives on Jamaica alone. There is an obvious problem of outlets and there is no point in seeking to industrialize unless with a view to export or unless proper regional integration can be achieved.

. Distance from Europe

Although the Caribbean has certain potential as far as international sub-contracting is concerned (see the success of Porto-Rico, Haïti and Central America on the American market), European firms have made very few investments in this part of the world. Of the 59 foreign industrial units which the OECD listed in the whole Caribbean region, only 13 (22%) are of European origin — all British (Table XX).

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* Botswana	Ivory Coast	Mauritius	Uganda
Cameroon	Kenya	Nigeria	Zaire
Congo	Lesotho	Sudan	Zambia
Ethiopia	Madagascar	Swaziland	Zimbabwe
Gabon	Mali	Tanzania	

TABLE XX - PLACE OF ORIGIN OF FOREIGN COMPANIES IN THE CARIBBEAN

HEADQUARTERS OF PARENT COMPANY	branches	subsidiaries	joint ventures	national companies	foreign companies	total
United Kingdom	1	3	5	3	1	13
Canada	3	2	5	-	-	10
United States	15	2	1	4	-	22
Other countries of the Caribbean	1	1	3	-	1	6
Japan	-	2	2	-	-	4
Hong Kong	-	-	1	-	-	1
New Zealand	-	-	1	-	-	1
Unspecified	-	-	1	-	-	1
Total	20	10	20	7	2	59

Source: OECD (Sub-contracting, a new form of investment).

This disenchantment of European firms with the Caribbean can only be put down to distance (and the attendant ignorance of the environment), since North American firms (from the USA and Canada) make up more than half the region's foreign industrial units.

However, the Caribbean seems generally to be more open to foreign firms than do African countries, for example, as there are no restrictions on employing expatriate staff, there is less tendency towards nationalism, foreign share-holders are encouraged and so on.

The importance of the Caribbean Basin Recovery Act, an American initiative that took effect in August 1983 and is better known as the Caribbean

Basin Initiative (CBI), should also be emphasized here. This law provides for all duties on imports to the USA of almost all the products with at least 35% value added in the beneficiary countries (15 points may be constituted by components of American origin) to be done away with for 12 years. All the Caribbean signatories of the Lomé Convention are covered by this system — which is of undoubted interest. Only the Bahamas, Guyana and Suriname remained to be formally designated in May 1984. The CBI could mean a real industrial take-off in the countries concerned.

- The Pacific

  What applies to the Caribbean also applies, even more strongly, to the Pacific members of the Lomé Convention.

  - Narrowness of the markets

    The Pacific countries offer extreme examples of this. The total population of the eight ACPs in the region is no more than 4 million — and 3 million of those live in Papua-New Guinea. The natural resources are also very limited.

  - High cost of input

    Hourly wages in the Pacific are, the ILO suggests[1], 50-360% higher than those in South-East Asia.

  - Shortage of local businessmen

    This is particularly acute.

  - Distance from Europe

    This is extreme. The Pacific islands are on the opposite side of the world and they are split up (Fiji, which totals 20 000 km^2, is made up of 844 islands) and spread over thousands of km. The only regional markets are those of Australia and New Zealand, which are far from offering the same potential as the USA offers the Caribbean. There are considerable communications problems (lines are rare and services are held up when there are cyclones etc).

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[1] ILO Yearbook.

In 1976, New Zealand in fact set up a preferential system for the countries of the Pacific, with a view to promoting their industrialization. It is called the Pacific Islands Industrial Development Scheme (PIIDS) and all the Pacific signatories of the Lomé Convention are covered by it. The Scheme provides:

- incentives for New Zealand industrialists to set up in the Pacific countries;
- help to enable the recipient countries to develop their exports;
- privileged access to the New Zealand market for firms set up under the Scheme.

By December 1983, 44 projects had already been run with PIIDS help in seven countries, thus creating 800 jobs. Of these, 31 were in five ACP countries (12 projects in Fiji, eight in Western Samoa, seven in Tonga, three in the Solomon Islands and one in Vanuatu). These results seem to be of more importance than those obtained from cooperation with firms from Europe.

So the Caribbean and the Pacific are, overall, in a particularly unfavourable position when it comes to industrial cooperation with Europe, as they are both geared to other,nearer continents. They also have coordination problems because of the large number of small States which make them up. Some industrial projects financed by a European development bank were held up by the abnormally long delays in implementing inter-state transport agreements (the purchasing of planes for a regional airline in the Caribbean and the formation of a navigation company by seven States in the Pacific).

5.53 By level of development

The typology of constraints on industrial development by level of development of the host country is given here simply as a token, as it is obvious that, the more economically advanced a country is, the more it will attract foreign investors.

The classification of developing countries by flow of investment from the OECD countries in 1981 is as follows[1]:

	%
1. New industrial countries (NIC)	44
2. Intermediate-income countries	27[2]
3. OPEC countries	25
4. Low-income countries	4
Total	

[1] Investing in the Third World, OECD, 1983.

[2] including 15% for the off-shore centres.

As annexes I and VII show, more than 60% of the ACP Group (40 of the 64 members) are in the low-income category (with GNPs below $ 600, according to the OECD definition). That leaves 24 countries (two members of OPEC plus Nigeria and Gabon) which are developed enough to be attractive to the foreign investor. And 13 of these countries are in the Pacific or the Caribbean, which, as we have seen, get very few private investments from Europe. So we are left with 11 African countries in the low-income category, six of which are on the list of countries with industrial potential given in § 5.52, i.e. Nigeria, Gabon, Botswana, Swaziland, Mauritius and Zimbabwe.

The firms' choice of forms of industrial cooperation confirms this analysis. Although the above data are for direct investments (the only ones that can be measured properly as things stand), all the analyses show that European firms go systematically for new forms of investment, i.e. those involving no capital holdings, in the poorly developed countries (§ 5.2). Clearly, firms will seek to minimize a risk that is deemed to be inversely proportional to the level of development in the host country. Overall, it is reasonable to say that under-development is a deteriorating factor with all the constraints to industrial cooperation recorded under §4.

5.54 <u>By economic and social system</u>

There seems to have been no formal study of the foreign investors' attitude to the developing countries according to their political system — or, more generally, according to their economic and social system. Although this is not a decisive criterion for the ACP countries, certain comments are not without interest. There are two main categories of country:

- <u>Countries with market economies</u>

  This is by far the biggest group and it is apparently increasing. About 58 ACPs fit into it categorically and there is a certain move towards liberalization of the economy in the others (Ghana, Guinea, Ethiopia, Tanzania, Congo and Mali). The ACP countries should, in theory, be more open to private enterprise, be it national or foreign, but, in practice, there are many legal and political constraints there to protect local (industrial and commercial too) interests, to the detriment of the foreign investor. So a market economy is by no means synonymous with an actual welcome to foreign firms.

- <u>Countries with planned economies</u>

  These, in the true meaning of the term, are rare in the ACP Group and six (Ghana, Guinea, Ethiopia, Tanzania, Congo and Mali) at most can be classified here. And, over the past few years, there has been a change of direction in these countries under the pressure of domestic economic problems and foreign debts. Mali and, more recently, Guinea has seemed to want to privatize its economy, as has Tanzania. There is no doubt that investors are put off by this type of economy. However, this judgement should be refined in that the State's authority means it can grant exaggerated advantages to a foreign firm if it wants to, without having to cope with opposition from a private sector that has been reduced to craft and small business concerns. To sum up, industrial cooperation with countries with planned economies is limited, but it can be particularly fruitful when the host Government is in favour.

6. RECOMMENDATIONS

There can be no question in this study of making exhaustive recommendations to solve all the problems facing industrial cooperation between firms. At best we can make one or two highly practical proposals for action.

They bear essentially — and quite naturally — on the constraints we called negotiable in the classification in § 4. There is not, on the face of it, any immediate solution for any other type of constraint.

Some recommendations are general and others more precise, according to the nature of the obstacle in question, and they are intended, first and foremost, for the host countries covered in this study. One or two provisional remarks are also put forward for consideration by the European partners in industrial cooperation, pending a specific study on them. Lastly, there are proposals for action in respect of ACP industrial promotion.

6.1 For the host countries

6.11 Remove or reduce political constraints

Of all the negotiable constraints, it is the political ones that the ACP countries should deal with as a matter of priority. Their removal is a simple question of someone's will and the recommendations can be summed up in a single sentence — give the foreign investors more freedom. More precisely, the following proposals can be made to the ACP countries:

- Clarify the options taken in relation to foreign investments

  Creating a climate that is favourable to foreign investments should be a priority in any ACP country that is really anxious to develop industrial cooperation between firms. If this is really what they want, then they have to say so clearly — more through practical action than statements of intention or rules and regulations that may be unreliably applied. If, on the other hand, foreign investments are not looked upon as a priority, this must be obvious from official attitudes and texts. Equivocalness will not serve the cause of industrial cooperation.

- <u>Give industry it's proper place</u>

  The ACP countries often place excessive importance on industry in comparison with their real priorities (i.e. agriculture, public health, education and communications). It would be better, in many cases, to abandon the requisite panoply of aids to industrial promotion (investment codes, promotion organizations, lists of ambitious projects etc) and to provide one or two specific projects with the means of implementation. Industrial policy should be harmonized with economic policy.

- <u>Fulfil commitments</u>

  This means not making a foreign investor commitments (in the matter of the repatriation of profits, imported raw materials and spare parts, government subsidies or infrastructure) that cannot be fulfilled. A more realistic assessment of the country's situation and awareness of the disastrous effect of failing to meet commitments would greatly improve the climate of investment in many ACP countries. The damage done by unilateral, unjustified breach of contract with a foreign firm for purely political reasons is considerable and takes years to repair. The authorities in the host countries have to realize the importance of the effect their decisions have on the life of the firms and on the attendant loss of goodwill.

- <u>Do away with gratuitous constraints</u>

  This means constraints which give no obvious advantage to the host country. The category includes obstacles involving:

  - employment (restrictions on the recruitment of expatriate staff;
  - paying returns on capital invested (ceilings on repatriable profits);
  - economic policy (prohibited sectors);
  - attacks on material property (nationalization and expropriation) and on intellectual property (taxation of non-tangibles, refusal to recognize patents and licences).

- <u>Give greater freedom to industrial sub-sectors</u>

  Economic dirigisme may be justified in basic industries and infrastructure, but not in the light industries that are concerned in the vast majority of SME cooperation projects. The Governments of certain ACP countries have to realize that a little more liberalism can only be a stimulus to the industrial sector as a whole and that most regulations, ultimately, are more of a discouragement than an incentive.

- <u>Put regional cooperation into practice by applying customs and economic integration agreements</u>

  These are all too often dead letters, although they are usually the only way of creating the sort of market that will justify an industrial investment. It is only regional political will that can overcome the inevitable protectionist tendencies.

6.12 <u>Alter the institutional and administrative framework</u>

Other constraints also depend on will and they can, therefore, be considered as negotiable — which means they can be overcome. What we have here are institutional and administrative obstacles which the European SMEs complain about particularly. One or two recommendations — some fairly general and others more precise — can be made here:

- Stabilize the institutions

  The ACP Governments have to realize that a minimum of stability in their institutions is vital to a sound climate of investment. There has to be continuity as far as the organizations and, as far as possible, the people are concerned. A foreign investor will always be more sensitive to structural changes than nationals who are, on the face of it, better informed. Just a change in the name of an institution (this happens a lot in the ACP countries) can put the European investor on his guard if he does not know what the new title involves. Leaving experienced staff in their posts is also a major asset when it comes to establishing a climate of confidence between the host country and the foreign investors.

- Create the right structures

  On a more practical level, ACP countries seeking to promote industrial cooperation should be encouraged to look to structures that have proved their worth in some countries. Here are three examples:

  . Single windows

    These are organizations that combine all the departments a foreign investor has to deal with if he wants to implement his project. The commonest example of this is API, the Agence tunisienne de promotion des investissements. Not only does this body promote Tunisia as a host country for foreign investors — it is also empowered to issue the relevant authorizations. And it may help the potential investor complete the necessary formalities (set up a company, obtain land, get a building permit, connect to services, obtain an import licence and so on). This means the foreign businessman needs only one contact — the API. Things move much faster as a result and the average time between making an application and receiving the authorization is no more than eight weeks. The law even says the authorities must reply within 30 days and, if the promoter does not receive a reply, he is authorized to implement his project anyway.

This formula has proved efficient and it could well be used by the ACP countries — which have nothing like it. A first important step could be made by enabling the promotion bodies to grant authorization (which is usually the work of the Ministry for Industry, which is badly placed when it comes to promotion).

What the investors want is to talk to civil servants who have the power to take decisions as well as provide information.

. Shelter plans

These (generally private) structures, also called shelter programmes, have been formed in Mexico (Nogales) and Haïti. They get a general authorization from the Government to manufacture certain groups of products (textiles or electricals, say) and they can then accept any foreign company interested in international sub-contracting and offer them workshops, equipment, administrative and technical services and labour at an all-in price (usually based on an hourly rate).

The foreign company brings in its technicians to train the workers and has to take care of quality control (some units even offer contracts that guarantee quality).

If necessary, it can import the relevant equipment and/or raw materials under flexible temporary import arrangements.

This system has many advantages:

.. Manufacturing can get under way very quickly, as no authorizations are necessary (a few hours' notice may be enough if the equipment and raw materials are already there).

.. The risk to the foreign partner is minimal.

.. Operation is very flexible.

.. It is a step towards the foreign firm setting up if it is successful.

This approach to industrial cooperation obviously concerns the exporting industries above all — which means that the cost of input and productivity must be competitive from the word go. But some ACP countries could in fact develop an export industry from these shelter plans. However, it is worth mentioning the fact that the effectiveness of these systems depends on the way the industrial units are managed. It would be a good idea, in some cases, to hand the management of such units in the ACP countries to foreign specialists working in association with nationals — in the early stages at least.

. Proper incentive measures for foreign investors

Almost all the ACP countries have investment codes providing many incentives, most of them to do with tax. But they only help when the firm is making a profit, i.e. once all the conditions for proper operation and development have been met. Few units set up through joint ventures — or even direct investment — in the ACP countries are yet profitable enough to reap any benefit from an investment code. What the foreign businessmen want is more general conditions — a climate, that is to say — that will make it possible to produce, sell and earn money with as few snags as possible. The ACPs have to find a reasonable compromise between a risky laisser-faire attitude and an intolerable straight jacket.

6.13 Encourage the development of industrial awareness

There are a number of recommendations to be made to the ACP authorities and to the ACP businessmen in connexion with the cultural constraints (most of which are due to the ACPs not being used to industry) mentioned earlier. They are:

- For the ACP authorities

  . Adopt a more selective approach to industrialization

  Projects must be approached, first of all, with realism, i.e. in the light of the material and human resources that are available. It is generally true to say that cooperation between firms has a good chance of success when the projects are small and the technology involved is relatively simple. Size and sophistication are pitfalls to be avoided in the ACP countries where material constraints are considerable and resources rare. This means that civil servants must have a better grasp of what industry involves and forget some of their grandiose but unrealistic ideas. In other words, projects should:

  .. be studied properly;

  .. reflect a genuine need of the local or export market;

  .. be the right size for the market and the resources;

.. be put in the hands of (local and/or foreign) businessmen who are capable of making a success of them.

- <u>Admit the need for the foreign businessmen to make a profit</u>

  This is the only real reason for their commitment to industrial cooperation. ACP officials should make a clear distinction between socio-economic projects of national and often long-term interest that are not necessarily expected to be profitable and cooperation between firms, which demands stringent management and concrete financial results. In reality, any profit-making industrial firm set up in an ACP country of necessity gives something to the host country, even if it is only jobs and tax earnings.

- <u>Understand that industry depends more on men than means</u>

  All too often, the ACP authorities insist on their shortage of financial and material means when what they are really short of is businessmen. It will take time and a training drive to produce them. Industry, ultimately, is a question of people. But until there are enough of them to take over from the foreign partners, those who know how to run thriving businesses must be allowed to set them up and obstacles should not be put in their path.

  Similarly, it would be as well to recommend that the ACP countries be more flexible in the matter of non-tangible contributions (patents, licences and know-how) which are often as important to industry as machinery and capital.

- <u>Do not interfere</u>

  The authorities must ensure that the firms can operate freely and avoid interfering in their internal affairs. Firms are very keen on this and the civil servants should learn the difference between control and interference.

- For national businessmen

  The industrial awareness of ACP businessmen will take time to develop. The Governments could concentrate on two sorts of scheme — training and information — to help:

  . develop a long-term view by making national businessmen realize that industry involves short-term sacrifices for long-term profits — unlike what happens in trade. A campaign to get this across could well bring home to the businessmen what industry really is;

  . train managers, putting particular emphasis on turning out competent industrial managers who can take over from the foreign partners in the long run. Cooperation between firms will leap forward the day there are real ACP businessmen to associate with the European ones. This means making a real effort in secondary teaching and offering the theory and practice of company management in higher education.

6.14 Adapt the legal framework

The emergence of genuine industrial awareness should also result, practically speaking, in the legal framework of industrial cooperation between firms being harmonized with the actual situation in industry. There are three recommendations here:

- Make the laws generally more flexible

  This means allowing them to adapt to the conditions of cooperation between firms, which often change with the economic situation or technological progress. Allowing imports of second-hand equipment (often warranted), extending the advantages of the investment code to para-industrial activities and maybe even services and authorizing foreign currency accounts are examples of what can often be vital flexibility.

- Protect foreign property

  It is vital for the ACP countries to realize the importance of protecting investments for the foreign firms. ACP Governments can only be encouraged to adopt clear provisions along these lines laying down fair procedures for the settling of differences and agreeing to the principle of indemnification of the injured parties. ACP acceptance of a European investment protection clause in the next Lomé Convention would be a great step forward and calm a lot of the European SMEs' fears.

- Agree to foreign arbitration

  The ACP Governments should be invited to recognize the competence of foreign tribunals and arbitrators in the field of industrial cooperation. The fact that some of them refuse to do so can only lead to a certain wariness on the part of the investors. A Government that is sure of its rights cannot fear the judgement of an arbitrator, even if he is beyond the frontiers of the country in question. Firms, and SMEs especially, are very sensitive on this issue.

6.2 For the European partners

This study only deals with the constraints to industrial cooperation between firms that have been found in the ACP countries themselves — so it is up to them to take the necessary steps to eliminate them. However, here are one or two suggested lines of conduct for the European partners.

6.21 The European Community

- Continue with and expand what is already being done

  . The Centre for Industrial Development (CID)

  The CID is a sign of the EEC's desire to make a practical contribution to the industrial development of the ACP Group. Its achievements are undeniable. The common complaints are about a certain administrative unwieldiness due to joint ACP-EEC management. It might be a good idea to see what can be done to make the CID more operational and cut down on the red tape.

One practical step would be to enable a (private or public) European organization to apply to the CID for financing for a feasibility study (as is already the case for the ACPs).

The CID study fund should also be easier to mobilize and the ceilings on advances substantially raised (to, say, 50 000 ECU from around 25 000 ECU as it is at present).

. <u>Financing for industrial promotion offices in Europe</u>

This aid should be maintained and increased if possible. The absence of reception structures for industrial projects in the ACP countries makes the European promotion organizations to which the businessmen can apply essential. As things stand, they are irreplaceable and assistance from public national or international funds is the only thing that will ensure they are there.

. <u>Financing for one-off schemes,</u> such as promotional forums. Many operators criticize the way such events are run at the moment, although they do recognize the usefulness of the idea. Changes will no doubt have to be made to make these meetings (particularly the Dakar forum) more operational — i.e. geared more to practical results. This means:

.. better selection of participants, and the ACP representatives in particular, so there are fewer civil servants and more businessmen;

.. at least as big an effort after the forum as before. The lack of continuity tends to be deplored by the European businessmen whose proposals are usually left without an answer.

- Set up a study fund

The need for financing for studies was clearly expressed earlier (§ 4.16), as existing funds are inadequate or subject to too many restrictions. So the Community is recommended to set up a fund to finance the pre-feasibility and feasibility studies that are vital to the flourishing of industrial cooperation projects. This fund should be:

- autonomous, i.e. independent of existing organizations (the CID, the EIB, the EDF and so on) so it can play its part fully, freely and with greater efficiency. It should be managed flexibly and non-bureaucratically by a small but experienced staff and it could receive applications from official and private organizations in both the ACP Group and the EEC;
- large, i.e. around 2 million ECU (at least) so as to be able to finance 20 or 30 studies a year once functioning normally;
- renewable, i.e. the financing would be reimbursable where a project was actually implemented. The Member States could also undertake to replenish 10-20% of the total initial amount every year to make up for any advances that were not paid back.

- Work more closely with the financial institutions

This means the EIB first and foremost, but it also means the development banks in the Member States (i.e. the DEG, CCCE, CDC, IFU and FMO). Collaboration between the EEC and the financial institutions in the matter of industrial cooperation should make for substantial developments with:

- . project identification, using, among other things, the fund mentioned above;
- . study financing in collaboration with this fund;
- . project financing, sometimes using criteria other than solvency of the promoter — his management ability or the potential of the market, say.

6.22 The Member States

This study, which is confined to the constraints found in the ACP countries themselves, is not the place for many recommendations on the Member States of the EEC. However, it would be reasonable to recommend that these States consolidate Community action, in three areas in particular:

- Industrial promotion organizations working for the ACP countries should be set up in any Member State of the Community which has none at present. France set the example by opening CEPIA (the centre for industrial promotion in Africa) back in 1972. This organization has certainly developed a veritable technology of industrial promotion and has quite outstanding experience in the field. The CEPIA formula is particularly interesting in that it combines the private sector (with the support of its employers' organization), the French Government and the Community, which gives it study and promotion contracts. The idea could be adapted and extended to other EEC countries which are currently using private consultancies and development banks to do this job.

- Study and participation funds, which are already partly in existence but could be boosted, particularly as regards the financing of studies (DEG, PROPARCO, CCCE, CDC, IFU, FMO and SBI).

- Technical assistance for Governments and firms in the ACP countries to help identify projects and ensure the continuity of promotion schemes.

6.23 The firms

An important conference under Professor A.Huybrechts* in Brussels in 1982 was an opportunity for some hard thinking about what attitude European firms ought to adopt to the problems of setting up in the developing countries. The main recommendations from this conference can be repeated here. Firms should:

- set up a structure that is suited to their action. This does not necessarily mean a distinct unit, although it should have:
  - . at least one person in charge;
  - . a budget to allow for a minimum of training, information, contacts and travel abroad;
- be aware of the vast effort involved in obtaining information, particularly about the socio-political environment in the host countries. The possibility of grouping the firms involved together in a joint organization that would cut costs should be investigated;
- call on expert advice to draw up the cooperation contract. This person may be an outside adviser or a banker;
- keep up regular, personal contact with the partners and Government of the host country;
- send the best staff available to the developing countries, as the job is a hard one;
- provide financial structures that are both resistant and flexible so as to be able to cope with teething troubles. This means adequate capital and plenty of funds;
- decentralize management and keep it closely under control — which also means having reliable, experienced staff who are properly integrated in the host country.

* A conference on Belgian firms in the Third World ("Au delà de l'exportation, la présence des entreprises belges dans le Tiers Monde") run by the International economics department of the Institut Catholique des hautes études commerciales (ICHEC), June 1982.

6.3 For the promotion schemes

Recommendations under this heading can be more precise. There are five lines of action.

6.31 Discard bad projects

Industrial promotion often gives the impression that the bad projects are hiding or replacing the good ones. Practically all the industrial promotion organizations get old, oft-rejected dossiers on projects that have no chance of implementation from time to time. It would be useful to list them, by country — and by sector — and to send the list to the relevant authorities and organizations. This would save a lot of time and money, to the benefit of viable projects. This means, once again, proper pre-feasibility and feasibility studies and, in particular, a serious assessment of the market — which is often overlooked.

The idea of a good project should, however, be seen in perspective, according to the criterion (market, standard of the promoter, bank guarantees, host country). A project that is good in one respect may be bad in another.

6.32 Develop project continuity

Experience shows that industrial promotion demands a continuous effort, usually over a long period, if projects are to be completed successfully. Because of all the constraints listed in this study, promotion also means many, repeated interventions to go into details which may appear superfluous in an industrialized country.

All commercial, financial, technical, legal and administrative aspects of projects should be the subject of precise information and what can easily be long and difficult negotiations.

Ideally, the follow-up should go beyond the setting-up of the industrial unit, bearing in mind the number of problems that crop up during exploitation. What is needed in reality is a continuous assistance service for firms, particularly SMEs, attracted by industrial cooperation.

6.33 Go for rehabilitation rather than promotion

Most of the ACP countries have completed their import substitution programmes. Export, as we have seen, is the concern of only a very small number of them. Few new projects can be introduced and there are many industrial wrecks, particularly in Africa, so the time has come to rehabilitate old projects rather than seek new ones.

The World Bank recently opened a department which specializes in rehabilitating public companies in Western Africa. The EEC could follow this example and stress the rehabilitation of defective industrial units. Intervention brigades of experienced specialists could be envisaged. They could contain at least:

- one industrial economist;
- one technician from the relevant branch;
- one representative from a financial institution.

Ideally, the technician should represent an industrial partner potentially interested in taking over the unit to be rehabilitated in a way to be determined once the diagnosis has been made (management contract, share-holding etc).

6.34 Keep up with technological changes

Technical progress can someti es alter North-South investment patterns unexpectedly. While developing countries, low wages and repetitive production with low added value seem to be inseparably linked, what looks like the opposite phenomenon is apparent today, as two sectors of industry show. The arrival of the laser beam in the textile industry means that products at the bottom of the range can be cut more cheaply than in the most competitive of the developing countries. And industrial robots are bringing the spinning mills back to the developed countries. As things stand, it is the textile products at the top end of the range that are being produced in the low-income countries. A similar trend is apparent in electronics — highly mechanized production is now going back to California and the more elaborate products are being sub-contracted in the developing countries.

Although it is generally agreed that capital intensive industries stay in the countries of the North and the labour-intensive ones in the South, technical progress can upset certain accepted ideas of the South-equals-textiles kind.

6.35 Devize new promotion strategies

Industrial promotion is still in its infancy. Necessity and not deliberate desire was the mother of this invention — which is still seeking its way. New promotion tactics have still to be defined and should be the subject of thoroughgoing reflexion over the coming years. An interesting starting-point might be the recommendations of the ICHEC conference mentioned above (§ 6.23). These proposals would no doubt need to be expanded to include the ACP countries and their industrial promoters.

In fact, a proper industrial cooperation technology has still to be invented and applied. This could be the ambition of Lomé III.

* * * *

COOPERATION BETWEEN FIRMS - CASE N° 1

COUNTRY	ACTIVITY
Zaire	Diamond mining

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Direct investment

OBSTACLES OR CONSTRAINTS ENCOUNTERED		
- Nationalization	- Employment of expatriates	- Red tape
- Transport blockage	- Tax	- Corruption

SUMMARY

- Nationalization, followed by re-assignment of 40% but loss of 60% without compensation.
- Impossible to pay for transfers of technology.
- Very difficult to obtain work permits for the expatriates. Pressure to take on nationals who, in spite of having the qualifications, were not experienced.
- Heavy taxation. All benefits (which were in fact compulsory) to staff — food aid, payment in kind etc — were taxed.
- Administrative delays.
- Large-scale corruption.
- Heavy losses due to clandestine mining concerns established on the concession with a certain amount of connivance on the part of the authorities. The investor puts clandestine production on his own concession at 3 million carats, as against official production of 5.6 million (1982/83). It is only the difficult deposits (which call for, say, rivers to be dragged), that are safe from clandestine operators.

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COOPERATION BETWEEN FIRMS - CASE N° 2

COUNTRY	ACTIVITY
Brazil	Diamond mining

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Direct investment

OBSTACLES OR CONSTRAINTS ENCOUNTERED
See summary

SUMMARY

- Transfers blocked.
- Protectionist measures preventing equipment from being imported, in spite of the fact that local equipment does not meet the demands of the European partner.
- Considerable losses due to clandestine mining on the concession.

COOPERATION BETWEEN FIRMS - CASE N° 3

COUNTRY	ACTIVITY
Cameroon	The cocoa industry

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Lack of coordination between the different authorities

SUMMARY

The Ministry of Industry is promoting a cocoa bean processing project, but the Marketing Office has already disposed of the beans. The project has therefore been unable to get off the ground for lack of raw materials.

COOPERATION BETWEEN FIRMS - CASE N° 4

COUNTRY	ACTIVITY
Rwanda	Quinquina extraction

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Lack of coordination between the different authorities

SUMMARY

The Government presented UNIDO and the CID with a quinquina extraction project, while a Dutch firm (AMF), which has been in Rwanda for years, has had to stop this activity because the trees are diseased.

COOPERATION BETWEEN FIRMS - CASE N° 5

COUNTRY	ACTIVITY
Chile	Forestry

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture, followed by direct investment

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Attack on property

SUMMARY

The European partner rented a forestry concession from the Chilean authorities and developed the infrastructure (at the Government's request) before making an offer to purchase. The foreign investor did work (installing roads, bridges, a sawmill, offices, housing, machinery, telecommunications and vehicles) worth $ 5 million and 140 staff work on the concession. He then suggested buying the concession (27 000 ha) at $ 10 per ha, a far larger figure than the one the authorities used ($ 4 per ha) to assess the rent in the first place.

The authorities then valued the concession at $ 40 per ha, in view of the investments the tenant had made, and expected him to pay the cost of them (in spite of the fact that he had already paid for them once). As the tenant could not afford this, the concession was auctioned off at $ 50 per ha, only $ 10 of which was in fact paid as the purchaser was arrested shortly afterwards for fraudulent bankruptcy. No indemnity has been paid to the European investors.

COOPERATION BETWEEN FIRMS - CASE N° 6

COUNTRY	ACTIVITY
Tunisia	Electricals

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Restrictions on foreign share-holding

SUMMARY

The expansion of a local firm was held back by a Tunisian Government decision to make the percentage of foreign-held shares in a company outside the free zone no greater than the percentage of the production exported.

The European partner was therefore unable to buy out a Tunisian firm.

COOPERATION BETWEEN FIRMS - CASE N° 7

COUNTRY	ACTIVITY
Cameroon	Oil mill

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Unacceptable demands from the bank

SUMMARY

The local banks wanted a total guarantee from the European partner — i.e. a sum covering more than his own holding and including buyer credits. The investor was unable to give guarantees in excess of the amount of his holding.

COOPERATION BETWEEN FIRMS - CASE N° 8

COUNTRY	ACTIVITY
Gabon	Broom handles & clothes pegs

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Cost of input

SUMMARY

A feasibility study of a factory turning out small household articles (broom handles and clothes pegs) made from off-cuts of wood showed that prices would be two and a half times those of imported articles. For example, broom handles would cost CFAF 125, as against CFAF 50 for imports from Brazil, largely because transport and labour are cheaper in that country and because taxes are higher in Gabon.

COOPERATION BETWEEN FIRMS - CASE N° 9

COUNTRY	ACTIVITY
Gabon	Metal drums

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
No protection for local industry

SUMMARY
A project to manufacture metal oil drums failed because local production could not compete with exports.

COOPERATION BETWEEN FIRMS - CASE N° 10

COUNTRY	ACTIVITY
Jamaica	Pre-fabricated panels for building trade

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
-

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Instability of institutions

SUMMARY

A German firm, together with the CID, studied a project to manufacture panels for construction. After a positive study, long-term financing of DM 15 million was obtained and the local partner was to be a State company.

The change of policy that occurred after the elections led the Government to get rid of its industrial holdings — which put an end to the project.

COOPERATION BETWEEN FIRMS - CASE N° 11

COUNTRY	ACTIVITY
Gabon	Pre-fabricated buildings

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Narrowness of the market

SUMMARY

The factory that has been built can turn out 1000 units of accommodation per year, which is the size of the Gabonese market. Sales in fact reached 500 units in 1976 and 700 in 1977. But the scheme cannot get proper returns on an investment of some CFAF 1 billion with such a small market. It would take a market 10 times the size to make this kind of investment viable.

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COOPERATION BETWEEN FIRMS - CASE N° 12

COUNTRY	ACTIVITY
Gabon	Dairy

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Incoherent administrative decisions

SUMMARY

Authorization was given for a dairy project in the form of a joint venture between two Gabonese individuals (60%) and a French company (40%). Shortly after the authorization was issued, a competing project, this one 100% Gabonese, also obtained an authorization from the authorities. But the market is too small to support two industrial dairies.

The authorities refused to make any decision and dismissed both sets of investors non-suited.

COOPERATION BETWEEN FIRMS - CASE N° 13

COUNTRY	ACTIVITY
Ivory Coast	Pig raising

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Government's failure to respect commitments

SUMMARY

A protocol was signed between the company .... and four Ivorian Ministers (of Economic Affairs, Planning, Animal Production and Agriculture) on running a pig raising project (150 sows). The four Ministers undertook, in particular, to detax imported genetic capital and special elements and agreed not to authorize any competing projects for two years.

None of these commitments was respected. The imports were taxed and a competitor authorized to set up. The first company was unable to carry on and wound up the business and the competitor also failed. The genetic capital (which was extremely valuable) was ultimately sold to the pork butchery trade.

COOPERATION BETWEEN FIRMS - CASE N° 14

COUNTRY	ACTIVITY
Ivory Coast	Printing

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Management contract

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Value of industrial/intellectual property not recognized

SUMMARY

An Ivorian promoter wanted to set up a specialized printing works (producing labels to substitute for imports) and asked for help from the French company which has 80% of the market. The French company found it impossible to make its partner understand that it had to buy the market it (the French company) had. However, the Ivorian partner was willing to pay for technical assistance.

COOPERATION BETWEEN FIRMS - CASE N° 15

COUNTRY	ACTIVITY
Cameroon	Children's furniture

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Restrictions on the employment of expatriate staff

SUMMARY

This project was refused authorization because the French partner wanted the firm's accountant to be European (as it happened, the wife of the General Director).

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COOPERATION BETWEEN FIRMS - CASE N°16

COUNTRY	ACTIVITY
Ivory Coast	Chocolate

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Regular supplies of raw materials

SUMMARY

Supply of the locally-produced cocoa beans depends on the rates on the international market. If they are high, the factory can no longer get its supplies in Ivory Coast, as the whole yield is exported. So the factory works in a very irregular manner and the volume of production is unpredictable.

COOPERATION BETWEEN FIRMS - CASE N° 17

COUNTRY	ACTIVITY
Gabon	Sack-making

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
- No protection for national production - Refusal to extehd investment code to second-hand equipment

SUMMARY

A European investor was planning to manufacture cement sacks, mainly for Ciments du Gabon, but there was nothing in the agreement setting up the company (which had links with France's Ciments Lafarge) to say that he had to buy his supplies locally. Since Lafarge had a subsidiary making packaging, the free market was non-existent, but the Gabonese Government had let it be understood that an answer to this problem might be found.

Hence an application for authorization from the investor — which was refused because he was planning to import second-hand equipment (which is not prohibited by the Investment Code) as being the only way he felt he could make the project a paying proposition. The European partner also guaranteed maintenance of this equipment and held shares in the Gabonese company. The project (20 jobs planned, rising ultimately to 30-40, only three of them for expatriates) is currently blocked.

COOPERATION BETWEEN FIRMS - CASE N° 18

COUNTRY	ACTIVITY
Gabon & Cameroon	Tarred felt

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
No regional integration

SUMMARY

A businessman wanted to make tarred felt roofing sheets in Gabon from by-products of the Société Gabonaise de Raffinage. If this was to be a profitable proposition, the production unit had to be able to turn out at least a million sheets p.a., for a market of 600 000 sheets.

A study showed that Gabonese sheets could compete with Japanese corrugated iron on the Cameroonian market, in view of a certain regional preference (CFAF 550 per sheet to Douala, as against CFAF 440). Aluminium sheets made in Cameroon by Alucam were being sold at CFAF 1340.

But Alucam stopped the project by objecting to a competitor entering the market.

The project (25 jobs and an investment of FF 35 million) had to be dropped.

COOPERATION BETWEEN FIRMS - CASE N° 19

COUNTRY	ACTIVITY
Mali	Hotel

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Management contract

OBSTACLES OR CONSTRAINTS ENCOUNTERED
None of the accompanying investments due to be made by the Government

SUMMARY

In spite of making written commitments, the Government failed to provide the air, river and road infrastructure that would ensure the project was a profitable one.

The rate of occupation of the hotel is extremely low and there are no prospects of improvements in the short term.

COOPERATION BETWEEN FIRMS - CASE N°20

COUNTRY	ACTIVITY
Western Africa	Textiles

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
No accompanying infrastructure

SUMMARY
In the absence of any electricity supplies, the factory is only turning over at 10-20% capacity.

COOPERATION BETWEEN FIRMS - CASE N° 21

COUNTRY	ACTIVITY
West Africa	Sugar industry

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED

OBSTACLES OR CONSTRAINTS ENCOUNTERED
- Government's failure to respect its commitments - Delay in approving the selling price

SUMMARY

Governments have undertaken to ensure the financial balance of firms, in three cases, by approving domestic prices of an adequate level. These commitments were made vis-à-vis the financing organization (an international development bank) and they were guaranteed by a contract between the firms and their respective Governments.

In spite of these undertakings, there has been no reply to the approval dossiers and the firms' losses are mounting.

COOPERATION BETWEEN FIRMS - CASE N° 22

COUNTRY	ACTIVITY
Kenya	Tyres

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Direct investment

OBSTACLES OR CONSTRAINTS ENCOUNTERED
No transitional period after the establishment agreement

SUMMARY

The foreign company had a monopoly on tyre manufacturing in Kenya. At the end of the period in which the company was protected, a competitor was authorized to set up in the country and the sudden change to a competitive market caused the first company problems of adaptation.

COOPERATION BETWEEN FIRMS - CASE N° 23

COUNTRY	ACTIVITY
Nigeria	Accumulators

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Refusal of import licences

SUMMARY

As lead import licences stopped being issued, production had to cease. This brought a 40-man firm to a halt, in spite of the fact that the imported lead in question cost no more than DM 20 000.

COOPERATION BETWEEN FIRMS - CASE N° 24

COUNTRY	ACTIVITY
Nigeria	Tiles

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
- Failure to respect Government commitments - Labour problems

SUMMARY

A European firm signed establishment contracts with eight Nigerian states whereby they guaranteed to buy his production. Each production unit employed about 120 people — giving 1000 in all, with only 50 expatriates.

Not all the State commitments were fulfilled and the private market (as the feasibility study suggested) proved too narrow because of competition from craft-made tiles. The production had to be sold at a loss.

The technical partner had also trained 20 workers in Germany. When they went back to Nigeria, only two stayed with the firm and the other 18 refused to do the work for which they had been trained.

COOPERATION BETWEEN FIRMS - CASE N° 25

COUNTRY	ACTIVITY
Nigeria	Refrigerators

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Import restrictions

SUMMARY

Import licences for pre-fabricated parts and basic equipment not available locally were refused and these parts have to be brought in under other names to get round the customs regulations. Hence pointless complications and a permanent risk of these things getting blocked at the frontier.

COOPERATION BETWEEN FIRMS - CASE N° 26

COUNTRY	ACTIVITY
CAR	Food and agriculture

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture (with the State)

OBSTACLES OR CONSTRAINTS ENCOUNTERED
State's failure to respect commitments Delays with price approval

SUMMARY

After rehabilitation of the company in 1980 (by boosting the capital and investing CFAF 300 million), the Secretary of State for Financial Affairs undertook, in June 1981, to:

- protect production from imports;
- approve the prices the firm suggested.

In September 1981, the company ran into difficulties, as the Government failed to respect its previous commitments about protection. A parallel trade in soap, oil and flour was developed on the basis of the neighbouring countries and the requested prices were not approved. The company gives the following figures:

(CFAF)	market price	ex-works price
soap (kg)	317 - 507	478
oil (litre)	750 - 760	590 - 691
	approved price	cost price
flour (50 kg)	9 190	11 440
oil (litre)	5000	557

COOPERATION BETWEEN FIRMS - CASE N° 27

COUNTRY	ACTIVITY
Mali	Brewing

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
- Infrastructure not provided by the Government - Red tape

SUMMARY

This important project for Mali (the first brewery to make beer locally) was approved in early 1980, but has not been implemented because the Government has failed to supply a site that meets all the brewer's requirements (particularly in the matter of water supplies).

Meanwhile, the three-year period which the Government laid down for implementation has expired and the investor has to make a further application for approval.

The European investors have had to delay their COFACE (French credit insurance) guarantee, for which reactualization of the project is necessary, three times.

COOPERATION BETWEEN FIRMS - CASE N° 28

COUNTRY	ACTIVITY
Morocco	Sugar plant

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture with guaranteed purchase of the foreign holding

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Government's failure to respect its commitments

SUMMARY

In order to reduce the global offer made to Morocco without altering the price of the equipment, an agreement was concluded with the Government. This involved the Moroccan Government undertaking to buy almost all the foreign-held shares after 26 months at 50% of the subscribed price (20 million Dirhams instead of 40 million).

After two requests to purchase, Morocco made the first two payments in September 1982, but, in spite of many reminders, no further payments have been received since.

COOPERATION BETWEEN FIRMS - CASE N° 29

COUNTRY	ACTIVITY
Gabon	Industrial pork butchery

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
- Preconceived ideas about the nature of an industrial project - Pressure from local importers

SUMMARY

1. Lengthy negotiations were needed to convince the Gabonese Government that pork butchery could be carried out on an industrial scale.

2. Once this was done, the European promoter had to cope with opposition from a powerful expatriate importing group and it took high-level intervention to get the project moving at the level of the authorization from the Ministry.

COOPERATION BETWEEN FIRMS - CASE N° 30

COUNTRY	ACTIVITY
Cameroon	Pre-stressed concrete

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Pre-conceived ideas as to the nature of an industrial project

SUMMARY

It took six months of negotiating to persuade the Cameroon Government that pre-fabrication (pre-stressed concrete in this case) was in fact industry. This recognition of the industrial nature of the project is vital if it is to obtain the advantages of the Investment Code — without which it cannot go ahead.

COOPERATION BETWEEN FIRMS - CASE N° 31

COUNTRY	ACTIVITY
Cameroon	Soap making

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Restrictions on management powers

SUMMARY

This Cameroonian company, which is very sound, makes an annual profit of CFAF 1 billion, but it is still forced to get the authorization of its local (minority) shareholders to reinvest and modernize its installations.

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COOPERATION BETWEEN FIRMS - CASE N° 32

COUNTRY	ACTIVITY
Cameroon	Wooden furniture

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
State demands that are incompatible with profitability

SUMMARY

A major French furniture manufacturer wanted to set up in Cameroon. The local partner selected was SNI, a State company, and authorization was applied for.

But when the timber supply contract was being drawn up, SNI tried to insist on small foresters, who were unacceptable to the French partner because he felt the risk was too great.

In face of the intransigeance of SNI, the French company pulled out and went to set up in Canada.

COOPERATION BETWEEN FIRMS - CASE N° 33

COUNTRY	ACTIVITY
Kenya	Textiles

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint investment

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Pressure from local importers Corruption

SUMMARY

A poplin shirt manufacturer obtained assurances as to customs protection from the Kenyan authorities. However, the local importers got the customs administration to classify their imported shirts in a different category, on the grounds that they were no competition for the poplin ones. The Kenyan manufacturer is now in difficulties because of these imports.

COOPERATION BETWEEN FIRMS - CASE N°34

COUNTRY	ACTIVITY
Burundi	Tanning

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Red tape Wariness towards foreign investor

SUMMARY
The Government of Burundi wants to sell a tanning plant to a private group. The studies have already been run by the European investor, but the Government is demanding they be done again, as a check, and this will involve extra cost and a considerable delay.

COOPERATION BETWEEN FIRMS - CASE N° 35

COUNTRY	ACTIVITY
Kenya	Tanning

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Opposition from the local tradesmen

SUMMARY

In spite of assurances from the Government, the tannery has not been properly supplied with skins. Under pressure from local tradesmen interested in exporting untreated skins, the slaughterhouse staff, who are supposed to keep the tannery supplied, are still selling the skins to them.

The tannery has had to close because it has no skins.

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COOPERATION BETWEEN FIRMS - CASE N° 36

COUNTRY	ACTIVITY
Burundi	Electric batteries

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Nationalistic attitude on the part of the Government

SUMMARY

A French company wanted to set up an electric battery manufacturing unit, in association with a local partner of Asian origins, who, because of his nationality, got no support from either the Government or the local banks.

Tha project had to be dropped.

COOPERATION BETWEEN FIRMS - CASE N° 37

COUNTRY	ACTIVITY
Cameroon	Oil mill

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
No follow-up by local partners

SUMMARY
The European company wanted to set up a palm oil processing unit to serve the domestic market and produce margarine for export. As SNI failed to react, the foreign investor decided to set up in Malaysia instead.

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COOPERATION BETWEEN FIRMS - CASE N° 38

COUNTRY	ACTIVITY
Sudan	Salt refinery

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Unstable taxation

SUMMARY
Customs duties and taxes suddenly soared to 35% from less than 15%. This was due, in particular, to the introduction of the national defence tax in 1982 and it put the firm in difficulty.

COOPERATION BETWEEN FIRMS - CASE N° 39

COUNTRY	ACTIVITY
Congo	Sawmill

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Management contract

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Incoherent industrial policy

SUMMARY

A sawmill, which also produced veneer, was nationalized. The firm was forced to buy its logs at the Congolese timber board at a high price and so was no longer competitive. A rehabilitation project was launched by a German company with good standing in Congo. It agreed to manage the sawmill, provided it had its own forestry concession to ensure regular supplies at competitive prices. In spite of a positive study on the chances of success of a sawing-veneer producing unit, the Government replied (after a year of silence) that the proposals (made by the Centre for Industrial Development) were unacceptable. However, these proposals exactly matched Congo's original request.

COOPERATION BETWEEN FIRMS - CASE N° 40

COUNTRY	ACTIVITY
Papua-New Guinea	Furniture

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Direct investment

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Unacceptable demands from the host Government

SUMMARY

A French company was willing to take over a forestry concern that had gone bankrupt because it was under-capitalized, there were no access roads and operation was very difficult as a result. A thoroughgoing study by the CID showed that the business would be viable if a 20km road were built. Then the Government asked the investor to take over the bankrupt company's liabilities, in exchange for an authorization.

As this condition was unacceptable, the project was abandoned.

COOPERATION BETWEEN FIRMS - CASE N° 41

COUNTRY	ACTIVITY
Gabon	Plastic injection

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Management contract

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Interference by the authorities

SUMMARY

The management of a Gabonese company in difficulty (on the point of going bankrupt, in fact) was taken over by a European firm at the request of the creditors and banks concerned. Several highly-placed civil servants made an unheralded visit to the directors of the company.

They called for a meeting of the managerial staff and strongly criticized the European firm's financial and technical management.

This worried the banks and the creditors, who strongly denounced it, particularly since, in case of a difference between the staff and the company chairman, the management contract provided for the banks to arbitrate.

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COOPERATION BETWEEN FIRMS - CASE N° 42

COUNTRY	ACTIVITY
Nigeria	Agricultural machinery

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED	
- No industrial partner - No financing	- No technical structures

SUMMARY
This firm tried to set up in Nigeria in vain. It had to abandon the idea because of the obstacles listed above.

COOPERATION BETWEEN FIRMS - CASE N° 43

COUNTRY	ACTIVITY
Mali	Agricultural machinery

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture or management contract

OBSTACLES OR CONSTRAINTS ENCOUNTERED
No reaction from local partners

SUMMARY
Following a request from Mali, which UNIDO transmitted, an offer to cooperate with the manufacture of a rice thresher was made in May 1983. There has not so far been any reply.

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COOPERATION BETWEEN FIRMS - CASE N° 44

COUNTRY	ACTIVITY
Egypt	Tractors

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Bureaucracy and red tape

SUMMARY

This German firm has been making engines in Egypt, in spite of many difficulties, for 30 years now. For the past more than six years, it has been negotiating to extend its industrial activities to include tractor manufacture, but the lengthy procedures and the inefficiency of the authorities have prevented the project from seeing the light of day.

COOPERATION BETWEEN FIRMS - CASE N° 45

COUNTRY	ACTIVITY
Western Africa	-

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
-

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Lack of coordination between the authorities

SUMMARY

Two authorities (the Ministry for Planning and the Ministry for State Companies) have been against an industrial project for the past five years. The former wants an existing project to be extended and the latter a new factory to be built.

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COOPERATION BETWEEN FIRMS - CASE N° 46

COUNTRY	ACTIVITY
Tanzania	Plantation

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Direct investment (100%)

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Shortage of foreign exchange

SUMMARY
Loans by the Tanzanian subsidiary are paid back to the central bank regularly. But the bank blocks the transfers to the parent company and refuses to pay any interest on sums deposited, considering the debt to be settled in this way.

COOPERATION BETWEEN FIRMS - CASE N° 47

COUNTRY	ACTIVITY
Tanzania	Spinning mill

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture (50/50)

OBSTACLES OR CONSTRAINTS ENCOUNTERED
Shortage of foreign exchange

SUMMARY

It has not been possible to repatriate any dividends since 1976. The depreciation of the local currency has made all the assets in Tanzania virtually disappear.

COOPERATION BETWEEN FIRMS - CASE N° 48

COUNTRY	ACTIVITY
Mozambique	Plantation

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Direct investment (100%)

OBSTACLES OR CONSTRAINTS ENCOUNTERED
- instability and lack of transparency of institutions - nationalization

SUMMARY
The Government seems to have nationalized this business, although it is not possible to find out exactly what the situation is. The investor is asking for an indemnity — for which there seems to be no provision.

COOPERATION BETWEEN FIRMS - CASE N° 49

COUNTRY	ACTIVITY
Ivory Coast	Fertilizer

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
Joint venture (minority)

OBSTACLES OR CONSTRAINTS ENCOUNTERED
- Slow, arbitrary decision-making - Failure to respect commitments

SUMMARY

Since 1981, the Government has not paid any of the subsidies it had promised to ensure the firm's books balanced (CFAF 6.6 billion have not been paid). The firm has considerable financial problems to cope with and could be forced to stop production.

The lack of any Government agricultural policy (incentives, fertilizer etc) also prevents the firm from making a proper assessment of the market.

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COOPERATION BETWEEN FIRMS - CASE N° 50

COUNTRY	ACTIVITY
West Africa	Oil mill

TYPE OF INDUSTRIAL COOPERATION PROJECTED OR IMPLEMENTED
–

OBSTACLES OR CONSTRAINTS ENCOUNTERED
No basic information

SUMMARY

The Government agency that promotes investments and jointventures invited European producers of things derived from vegetable oils and fats to join in a local project to make ghee from local groundnuts.

Previous studies by bilateral and multilateral technical assistance experts (FAO) had in fact warned the Government that the locally-produced groundnuts were not of the right quality for this purpose.

So a study was run on producing ghee from the much more expensive imported soya. When this study was well under way, it was realized that there was already a small local producer who was forced to work with imported soya, as the national market is narrow and the high cost rules export out. The authorities seem not to know about this producer.

Four man/months of expert input have thus been wasted.

ACP COUNTRIES - POPULATION AND GNP, 1982

COUNTRY	POPULATION '000	GNP $ million	Per capita GNP $
Antigua & Barbuda	-	-	-
Bahamas	220	780	3 620
Barbados	270	880	3 500
Belize	-	-	-
Benin	3 620	1 140	320
Botswana	860	940	1 010
Burkina	6 360	1 500	240
Burundi	4 460	990	230
Cameroon	8 870	7 630	880
Cape Verde	340	100	340
CAR	2 410	770	320
Comoros	380	110	320
Congo	1 620	1 840	1 100
Ivory Coast	8 570	10 190	1 200
Djibouti	110	180	480
Dominica	90	60	750
Ethiopia	32 780	4 530	140
Fiji	660	1 290	2 000
Gabon	560	2 550	3 800
Gambia	640	220	370
Ghana	12 240	4 790	410
Grenada	110	100	850
Guinea	5 290	1 660	300
Guinea Bissau	590	148	190
Equatorial Guinea	380	118	341
Guyana	920	580	720
Jamaica	2 250	2 600	1 180
Kenya	17 860	7 280	420
Kiribati & Tuvalu	60	30	420
Lesotho	1 410	740	540
Liberia	2 110	1 010	520
Madagascar	9 230	2 970	330
Malawi	6 270	1 390	200
Mali	7 340	1 340	200
Mauritius	950	1 230	1 270
Mauritania	1 730	710	1 270
Niger	5 650	1 890	330
Nigeria	82 390	76 170	870
Uganda	14 060	3 750	220
Papua-New Guinea	3 090	2 580	840

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COUNTRY	POPULATION '000	GNP $ million	Per capita GNP $
Rwanda	5 280	1 340	250
St Christopher & Nevis	-	-	-
Saint Lucia	120	120	970
St Vincent & Grenadines	100	70	630
Solomon Islands	250	150	640
Western Samoa	160	56	359
Sao Tomé & Principe	90	40	370
Senegal	5 970	2 530	430
Seychelles	60	110	1 800
Sierra Leone	3 670	1 140	320
Somalia	5 120	1 240	280
Sudan	19 250	7 390	380
Suriname	410	3 030	1 070
Swaziland	590	480	760
Tanzania	19 110	5 260	280
Chad	4 640	490	110
Togo	2 250	1 010	380
Tonga	100	50	530
Trinidad & Tobago	1 200	6 720	5 670
Vanuatu	130	42	350
Zaire	27 400	6 280	210
Zambia	6 160	3 490	600
Zimababwe	7 540	6 260	870

Source: Eurostat

ANNEXE II

STUDY OF THE CONSTRAINTS ON INDUSTRIAL COOPERATION BETWEEN FIRMS

EXPERTS' MEETINGS - ATTENDANCE

Mr Pierre Berthe, Directeur général
Société belge d'investissement international (SBI), Bruxelles.

Professor Dr. Hans-Gert Braun, Director
Deutsche Finanzierungsgesellschaft für Beteiligungen in Entwicklungsländern (DEG), Cologne.

Mr Daldrup, Directeur,
Daldrup B.V., Vaals.

Mr Gérard Egnell, Directeur général SIASS, Paris.

Mr André Huybrechts, Chef de Division a.i.
Commission des Communautées européennes (CEE), Bruxelles.

Mr Emmanuel Jahan, Directeur du Centre Nord-Sud
Institut de l' Entreprise, Paris.

Mr Claude Jeantils, Secrétaire général - Centre français de Promotion industrielle en Afrique (CEPIA), Paris.

Mr Patrick Sevaistre, Chargé de mission - Centre français de Promotion industrielle en Afrique (CEPIA), Paris.

Mr Philippe Queyrane, Directeur, Bureau d'Etudes Philippe Queyrane (BEPQ), France.

Mr Christian Pollak, Institut für Wirtschaftsforschung, (IFO), Münich.

Mr Patrick Thomas, Banque européenne d'investissement (BEI), Luxembourg.

Mr Jean Tilot, Conseiller principal, Organisation des nations unies pour le développement industriel (ONUDI), Bruxelles.

Mr John Leech, Director of external relations, Commonwealth Development Corporation (CDC), Londres.

SHARE OF WORLD MANUFACTURING VALUE ADDED (EXCLUDING CHINA) FOR ALL DEVELOPING COUNTRIES, LEAST DEVELOPED COUNTRIES AND DEVELOPING REGIONS, AT CONSTANT (1975) PRICES, SELECTED INDUSTRIAL BRANCHES, 1970 AND 1979.

(Percentage)

Branch	ISIC	All developing countries		Of which: least developed countries		Developing regions: Africa		West Asia		South and East Asia		Latin America	
		1970	1979	1970	1979	1970	1979	1970	1979	1970	1979	1970	1979
Food products	311/2	13.92	14.73	0.70	0.44	1.89	1.72	0.56	0.73	3.43	4.03	8.01	8.25
Beverages	313	12.79	17.66	0.38	0.40	1.86	2.56	0.60	1.12	1.92	3.58	8.41	10.40
Tobacco	314	27.10	30.76	1.14	1.18	2.92	3.33	3.37	4.39	12.04	13.79	8.78	9.24
Textiles	321	17.07	18.63	0.82	0.69	2.18	2.13	1.27	1.19	5.87	7.06	7.76	8.25
Footwear	324	9.35	10.94	0.28	b/	1.46	1.67	0.45	b/	1.74	2.13	5.69	6.49
Wood and cork products	331	9.69	11.54	0.26	b/	1.29	1.32	0.41	0.42	3.50	4.73	4.49	b/
Paper	341	6.56	7.86	0.04	b/	0.66	0.75	0.26	0.31	1.34	1.84	4.31	4.96
Printing and publishing	342	6.35	6.14	0.06	b/	0.54	b/	0.12	b/	1.30	b/	4.39	3.64
Industrial chemicals	351	6.32	7.45	0.05	b/	0.40	0.35	0.42	0.74	1.49	2.22	4.01	4.15
Other chemicals	352	14.11	17.56	0.18	0.19	0.98	1.32	0.44	0.62	3.37	3.96	9.32	11.65
Petroleum refineries	353	39.97	39.74	0.22	0.10	1.11	1.89	11.66	10.67	11.74	11.89	15.45	15.25
Miscellaneous products of petroleum and coal	354	10.25	14.12	-	-	1.50	b/	1.06	1.02	2.51	4.50	5.19	6.29
Rubber products	355	10.83	13.22	0.03	b/	0.94	b/	0.39	0.27	2.82	4.03	6.57	7.85
Pottery, china and earthenware	361	11.95	13.00	b/	b/	0.53	b/	0.81	b/	2.23	2.19	8.39	9.53
Glass	362	8.19	10.02	0.13	b/	0.52	b/	0.54	0.62	2.01	b/	5.11	5.36
Other non-metallic mineral products	369	8.67	11.58	0.14	0.12	0.91	0.92	0.48	0.79	2.28	3.48	5.00	6.38
Iron and steel	371	6.38	9.54	0.05	0.06	0.37	0.40	0.49	0.60	1.28	2.06	4.24	6.43
Metal products, excluding machinery	381 a/	5.95	7.07	0.08	b/	0.57	0.61	0.35	b/	1.21	1.50	3.83	4.67
Non-electrical machinery	382 a/	2.97	4.83	0.01	b/	0.10	0.12	0.10	0.20	0.70	0.98	2.07	3.53
Electrical machinery	383 a/	5.08	6.65	0.01	b/	0.22	0.27	0.12	0.19	1.25	2.34	3.50	3.85
Transport equipment	384 a/	5.51	7.18	0.02	b/	0.25	0.36	0.10	0.22	1.03	1.33	4.13	5.26

Source: UNIDO data base; information supplied by the United Nations Statistical Office, with estimates by the UNIDO secretariat.

a) Shares for branches within ISIC 38 may be somewhat distorted, due to variations in the national reporting practices of several important producers of fabricated metal products, machinery, and transport equipment.

b) Figures are not shown separately because the underlying data from which they would have been derived do not meet minimum standards of quality.

ANNEXE IV

TRENDS IN THE WORLD TEXTILE TRADE, 1974-1980

('000 t)

	WEST AFRICA		SOUTH-EAST ASIA		EEC	
	1974	1980	1974	1980	1974	1980
Imports of finished & semi-finished products	105.0	116.3	412.9	691.6	1 987.3	2 798.2
Imports of industrial products	127.46	165.6	1 153.3	2 098.0	4 192.1	4 244.0
Exports of finished & semi-finished products	11.9	17.8	802.5	L 692.1	2 371.1	2 709.1
Local consumption	220.53	24.1	263.7	1 097.5	3 808.0	4 333.1

Source: Analysis of West African textile sectors, BOAD

AVERAGE MANUFACTURING CAPACITY UTILIZATION IN SELECTED COUNTRIES
(Percentage)

Country	1967-1968	1970-1972	1972-1973	1974-1975	1976	1978	1979	1980	1982-1983	Share of subsectors with rise/fall in utilization a/: Early to mid-1970s: Rise	Early to mid-1970s: Fall	Mid-70s to 1980s: Rise	Mid-70s to 1980s: Fall
Zambia			43	70					52	100	0	0	75
Ghana	40 b/	54			44 c/	40	33	26		29	57	0	100
(parastatals)						(31)	(46)	(26)				(14)	(64)
Tanzania					63			53				27	60
(private)				(53)			(54)					(33)	(44)
(parastatal)				(38)			(68)					(100)	(0)

Note: Unweighted averages of branches of industry averages, except 1978-80 figures for Ghana.

a/ The difference between 100 percent and the sum of the shares for "rise" and "fall" represents the share of subsectors that showed no appreciable changes in capacity utilization.
b/ Refers to one shift.
c/ 1975-77.

Source: Wangwe (1983), Table 7; Killick (1978), p. 211; World Bank, internal documents.

DIRECT FOREIGN INVESTEMNTS (DFI) AS A PERCENTAGE OF GNP IN THE DEVELOPING WORLD, 1978

REGION & country	GNP ($ 10^9)	DFI ($ 10^9)	DFI as % of total	DFI as % of GNP
AFRICA				
ACP				
Benin	740	34	0.0	4.6
Botswana	490	57	0.1	11.6
Burkina-Faso (Upper Volta)	880	20	0.0	3.3
Burundi	650	26	0.0	4.0
Cameroon	3 950	370	0.4	2.4
Cape Verde	–	–	–	–
CAR	510	70	0.1	13.7
Comoros	–	–	–	–
Congo	850	170	0.2	20.0
Ivory Coast	7 450	530	0.5	7.1
Djibouti	120	10	0.0	8.3
Ethiopia	3 470	100	0.1	2.9
Gabon	2 130	780	0.8	36.6
Gambia	100	15	0.0	15.0
Ghana	4 160	280	0.3	6.7
Guinea	1 350	200	0.2	14.8
Guinea Bissau	–	–	–	–
Equatorial Guinea	–	20	0.0	–
Kenya	5 180	520	0.5	10.0
Lesotho	390	4	0.0	1.0
Liberia	790	1 230	1.3	115.7
Madgascar	2 100	190	0.2	9.0
Malawi	1 040	100	0.1	9.6

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Mali	810	10	0.0	1.2
Mauritius	850	24	0.0	2.8
Mauritania	420	25	0.0	6.0
Niger	1 180	100	0.1	8.5
Nigeria	48 100	1 130	1.2	2.3
Uganda	3 470	10	0.0	0.3
Rwanda	870	25	0.0	2.9
Sao Tomé & Principe	-	-	-	-
Senegal	1 930	340	0.3	17.6
Seychelles	80	12	0.0	15.0
Sierra Leone	740	82	0.1	11.1
Somalia	-	100	0.1	-
Sudan	5 900	60	0.1	1.0
Swaziland	310	50	0.1	16.1
Tanzania	4 130	170	0.2	4.1
Chad	650	26	0.0	4.0
Togo	770	100	0.1	13.0
Zaire	6 480	1 250	1.3	19.3
Zambia	2 720	330	0.3	12.1
Zimbabwe	3 330	100	0.1	3.0
TOTAL ACP	119 090	8 670	7.8	7.3
OTHER COUNTRIES	86 540	2 420	3.7	2.8
TOTAL AFRICA	205 630	11 090	11.5	5.4

AMERICA

ACP

Antigua & Barbuda	-	-	-	-
Bahamas	520	2 060	2.1	396.2
Barbados	520	180	0.2	34.6
Belize	120	75	0.1	62.5
Dominica	-	-	-	-
Grenada	-	-	-	-
Guyana	460	230	0.2	50.0
Jamaica	2 540	900	0.9	35.4
St Christopher & Nevis	-	-	-	-
St Lucia	-	-	-	-
St Vincent & Grenadines	-	-	-	-
Suriname	850	420	0.4	49.4
Trinidad & Tobago	3 410	1 300	1.3	38.1
TOTAL ACP	8 420	5 165	5.2	61.3
OTHER COUNTRIES	459 830	45 385	47.2	9.9
TOTAL AMERICA	468 250	50 550	52.4	10.8

PACIFIC

ACP

Fiji	900	220	0.2	24.4
Kiribati				
Papua-New Guinea	1 820	860	0.9	47.3
Solomon Islands	–	–	–	
Western Samoa	–	–	–	
Tonga	–	–	–	
Tuvalu	–	–	–	
Vanuatu	50	40	0.0	80.0
TOTAL ACP	2 770	1 120	1.1	40.4
OTHER COUNTRIES	1 590	190	0.3	11.9
TOTAL PACIFIC	4 360	1 310	1.4	30.0
ALL ACP	130 280	14 955	14.1	11.5
OTHER DEVELOPING COUNTRIES	547 960	47 995	85.9	8.8
TOTAL DEVELOPING COUNTRIES *	1 454 580	96 430	100.0	6.6

* Including Europe and Asia;

Source: Weltwirtschaftsinstitut, Hamburg, 1982.

DEVELOPING COUNTRIES BY LEVEL OF INCOME[1]

LOW-INCOME COUNTRIES (61)[2]

* * Afghanistan
* Angola
* * Bangladesh
* * Benin
* * Butan
* Bolivia
* Burma
* * Burundi
* * Cape Verde
* * CAR
* * Chad
* * Comoros
* Djibouti
* Egypt
* El Salvador
* Equatorial Guinea
* * Ethiopia
* * Gambia
* Ghana
* * Guinea
* * Guinea Bissau
* * Haiti
* Honduras
* India
* Kampuchea
* Kenya
* * Laos
* * Lesotho
* Liberia
* Madagascar
* * Malawi
* * Maldives
* * Mali
* Mauritania
* Mayotte
* Mozambique
* * Nepal
* * Niger
* Pakistan
* * Rwanda
* St Helena
* Sao Tome & Principe
* Senegal
* Sierra Leone
* Solomon Islands
* * Somalia
* Sri Lanka
* * Sudan
* * Tanzania
* Togo
* Tokelau Islands
* Tonga
* Tuvalu
* * Uganda
* * Upper Volta
* Vanuatu
* Vietnam
* * Yemen
* * Dem. Yemen
* Zaire
* Zambia

INTERMEDIATE-INCOME COUNTRIES (63)

* Bahamas
* Bahrain
* Barbados
* Belize
* Bermuda
* * Botswana
* Brunei
* Cameroon
* Chile
* Colombia
* Congo
* Cook Islands
* Costa Rica
* Cuba
* Cyprus
* Dominican Republic
* Falkland Islands
* Fiji
* Gibraltar
* Guadeloupe
* Guatemala
* French Guyana
* Guyana
* Israel
* Ivory Coast
* Jamaica
* Jordan
* Kiribati
* Lebanon
* Macao
* Malaysia
* Malta
* Martinique
* Maldives
* Morocco
* Nauru
* Netherlands Antilles
* New Caledonia
* Nicaragua
* Niue
* Oman
* Pacific Islands(USA)
* Panama
* Papua-New Guinea
* Paraguay
* Peru
* Philippines
* Polynesia (Fr)
* Reunion
* St Pierre & Miquelon
* Seychelles
* Suriname
* Swaziland
* Syria
* Thailand
* Trinidad & Tobago
* Tunisia
* Turkey
* Uruguay
* Wallis & Futuna
* * Western Samoa
* West Indies[3]
* Zimbabwe

New industrial countries(11)

* Argentine
* Brazil
* Greece
* Hong Kong
* South Korea
* Mexico
* Portugal
* Singapore
* Spain
* Taiwan
* Yugoslavia

OPEC (Organization of petroleum-exporting countries)(1

* Algeria
* Ecuador
* Gabon
* Indonesia (low-income country)
* Iran
* Iraq
* Kuweit
* Libya
* Nigeria (intermediate-income country)
* Quatar
* Saudi Arabia
* United Arab Emirates
* Venezuela

* LDCs = least-developed countries

[1] DAC list. The People's Republic of China is not included.

[2] The low-income countries are those with a per capita GNP of less than $ 600 in 1980.

[3] The West Indies include Anguilla, Antigua, the Cayman Islands, Dominica, Montserrat, Nevis & St Kitts, St Lucia, St Vincent, The Turks & Caicos Islands and the British Virgin Islands.

Source: OECD

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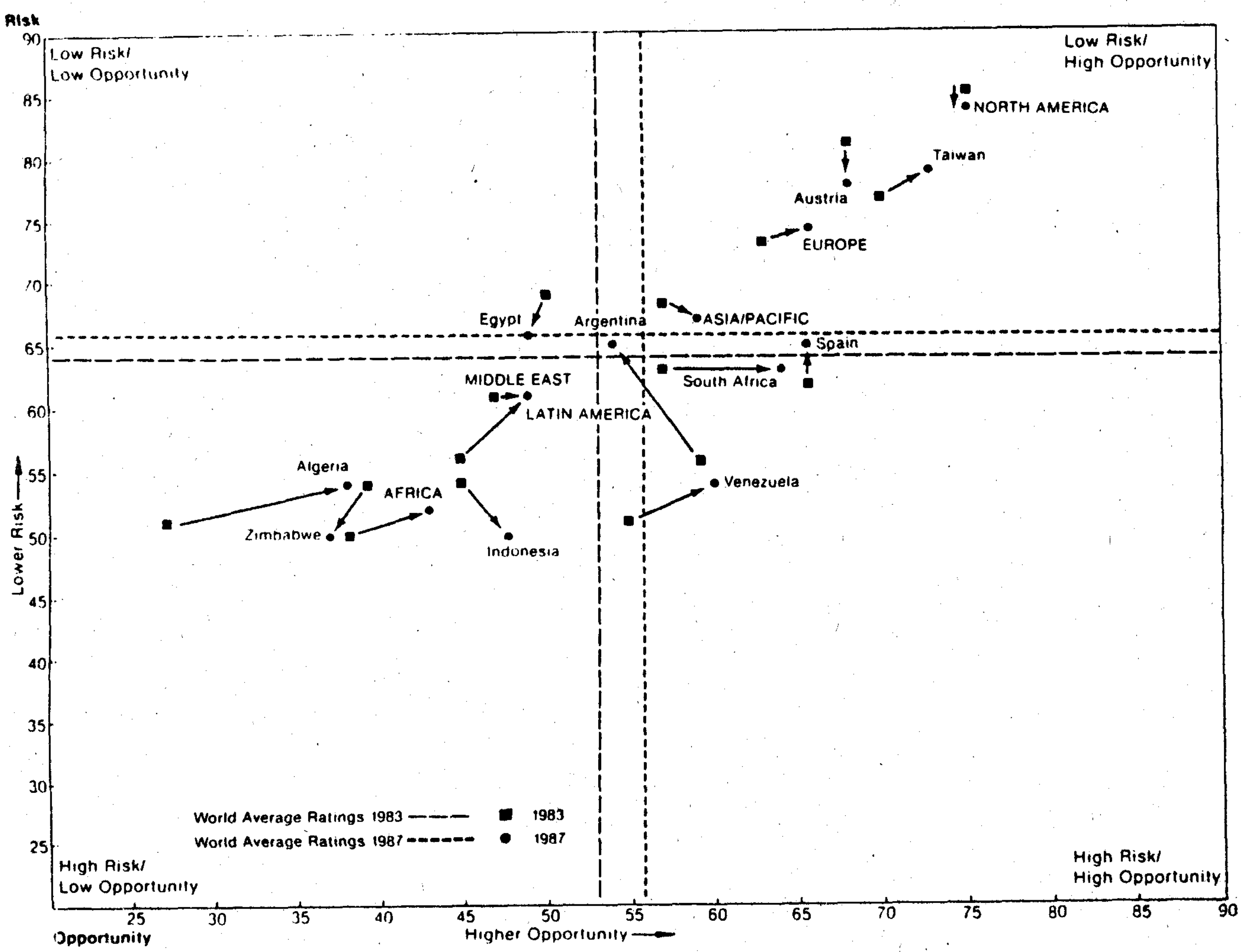
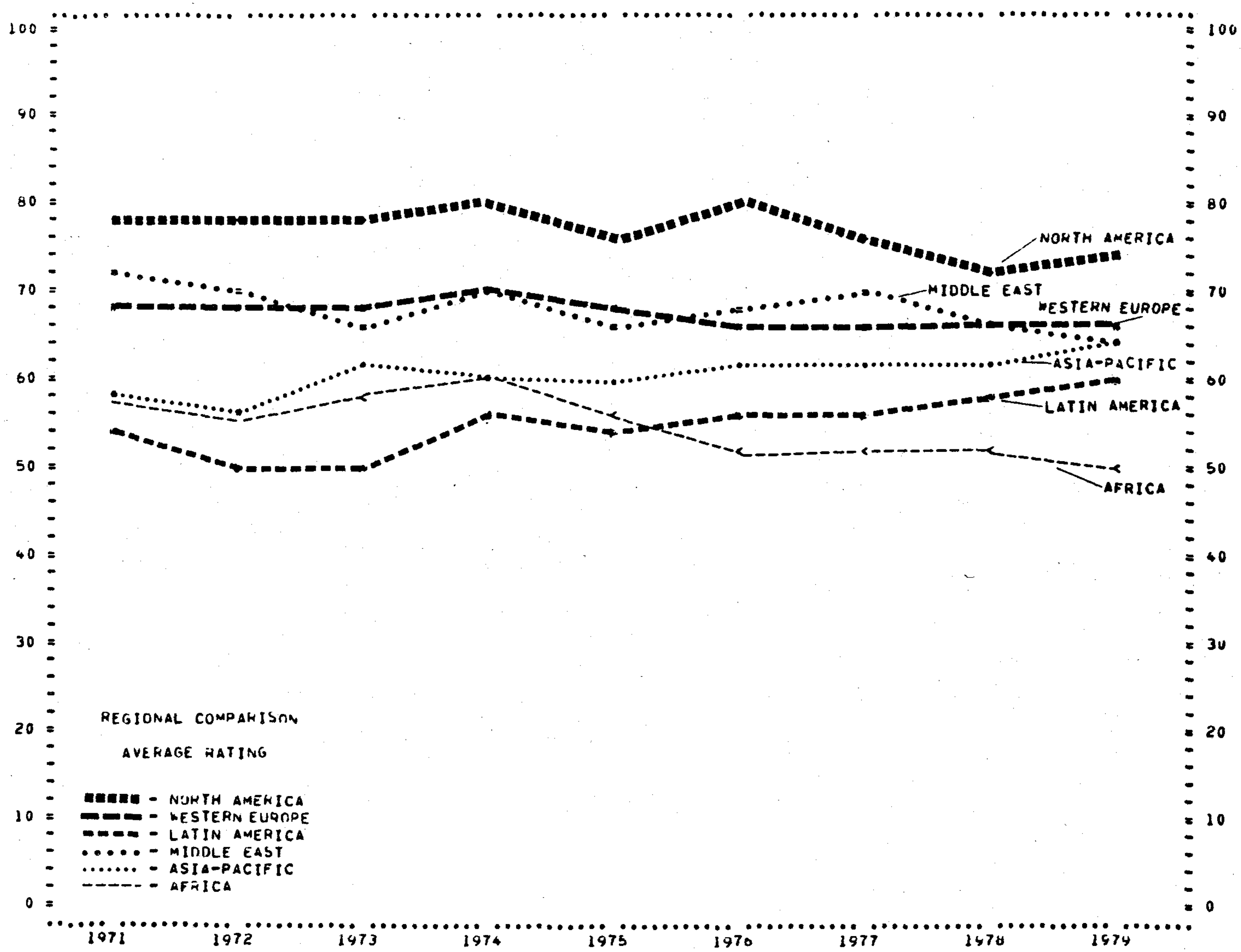
Risk vs Opportunity, 1983–87



Source: B.I.

RISK IN THE DIFFERENT COUNTRIES, COMPARISON BY REGION, 1971-1979



Source: B.I.

RISKS AND OPPORTUNITIES FOR INVESTORS AND EXPORTERS FROM GERMANY
How 225 experts rate the 53 most important foreign markets

Country	Total rating (max 300)	Political stability (max 100)	Domestic trade rating (max 100)	External trade rating (max 100)
1. Japan	266	97	90	80
2. Norway	265	94	77	94
3. Netherlands	264	98	84	82
4. Saudi Arabia	263	92	85	86
5. Hong Kong	263	96	86	81
6. Switzerland	261	97	76	88
7. USA	260	95	86	79
8. Singapore	258	92	83	83
9. Austria	258	96	81	80
10. Canada	253	88	80	84
11. Belgium	252	87	83	82
12. France	251	89	81	81
13. Denmark	251	96	78	77
14. Australia	249	88	80	81
15. UK	246	81	79	86
16. Malaysia	246	82	75	88
17. Taiwan	244	89	80	75
18. Finland	242	93	78	71
19. Ireland	241	85	75	81
20. Sweden	240	87	75	78
21. New Zealand	237	92	75	70
22. Chile	232	86	72	75
23. Tunisia	231	78	72	80
24. Argentina	229	78	69	82
25. Italy	228	76	78	74
26. Ecuador	228	81	71	77
27. South Africa	223	67	73	83
28. Mexico	222	81	68	73
29. Algeria	222	81	69	72
30. Ivory Coast	220	77	73	69
31. Portugal	219	78	72	68
32. Venezuela	218	68	70	80
33 South Korea	217	82	76	60
Columbia	214	76	67	70
35. Brazil	209	77	70	62
36. Nigeria	208	65	69	74
37. Greece	203	76	71	56
38. Kenya	201	76	61	64
39. Spain	200	67	70	63
40. Indonesia	200	63	64	73
41. Libya	198	64	69	65
42. Egypt	197	70	69	57
43. Morocco	195	69	67	58
44. Zimbabwe	191	64	66	61
45. Philippines	190	68	66	56
46. Thailand	190	64	65	61
47. Yugoslavia	187	78	62	47
48. Peru	185	70	56	59
49. India	180	62	59	59
50. Liberia	157	47	54	57
51. Iran	154	37	59	58
52. Turkey	139	42	51	46
53. Zaire	136	49	44	43

Round figures

Source: „manager magazin"-Ländertest 1980

DAZZLING GROWTH PROSPECTS IN JAPAN
The economically most attractive countries

Country	Total rating (max 55)	Pop-ulation (max 8)	Purchasing power (max 10)	Growth so far (max 7)	Growth prospects (max 10)	Import potential (max 10)	Export potential (max 10)
Japan	50	8	10	5	8	9	10
Saudi Arabia	48	5	10	5	9	9	10
Hong Kong	47	4	8	7	8	10	10
USA	46	8	10	3	5	9	10
Taiwan	46	5	6	7	9	9	10
South Korea	44	6	6	7	7	8	10
France	44	7	10	3	5	9	10
Singapore	44	4	8	5	8	9	10

Round figures
Source: „manager magazin"-Ländertest 1980

GLOOMY PROSPECTS FOR BLACK AFRICA
The economically least attractive countries

Country	Total rating (max 10)	Pop-ulation (max 8)	Purchasing power (max 10)	Growth so far (max 7)	Growth prospects (max 10)	Import potential (max 10)	Export potential (max 10)
Liberia	25	4	4	2	3	6	6
Zaire	26	6	4	2	4	5	6
Zimbabwe	28	5	4	2	6	6	5
Iran	29	6	8	3	3	5	4
Turkey	31	6	6	5	4	4	5
Kenya	31	5	4	5	6	6	5

Lower figures = less attraction
Round figures
Source: „manager magazin"-Ländertest 1980

ADMINISTRATIVE PROBLEMS IN ZAIRE
Bureaucratic and non-bureaucratic countries

Bureaucratic	Rating	Non-bureaucratic	Rating
Zaire	3	Australia	12
Turkey	3	Denmark	12
Indonesia	4	Japan	12
Liberia	4	Canada	12
Nigeria	4	New Zealand	12
Philippines	4	Netherlands	12
Libya	5	Switzerland	12

Quelle: „manager magazin"-Ländertest 1980

PERMANENT LABOUR CONFLICTS IN LIBERIA
Relations between employers and employees

Problematic	Rating	Non-problematic	Rating
Liberia	3	Hong Kong	15
Turkey	3	Libya	15
Italy	4	Austria	15
UK	4	Saudi Arabia	15
Spain	8		15
Iran	8	Switzerland	15
Ireland	8	Singapore	14

Quelle: „manager magazin"-Ländertest 1980

Source: MM Ländertest

GERMAN CRITERIA FOR SELECTING A HOST COUNTRY, BY SECTOR OF ACTIVITY

Reasons (1)	Individual rating 1 (2)	2 (3)	3 (4)	Collective rating(1,2,3) (5)	Number of contacts (6)	Place (7)
Developing country market	62,9	21,8	15,3	73,8	426	1
Exports from DCs	2o,3	26,6	53,o	33,6	394	7
Supply of raw materials	6,3	1o,8	82,9	11,7	381	9
Production costs	34,3	44,4	21,3	56,5	399	2
Infrastructure	16,5	49,6	33,9	41,3	381	6
Political stability	26,9	53,4	19,7	53,6	386	4
Policy towards investors	21,6	48,2	3o,2	45,7	388	5
Policy towards imports	38,8	33,9	27,3	55,8	392	3
Incentive policy	8,5	23,2	68,3	2o,1	388	8

(a) 1 = very important, 2 = significant, 3 = negligeable.

Source: IFO Institut

ANNEXE XII

FRENCH FIRMS' INDUSTRIAL COOPERATION PREFERENCES
(Number of firms contacted)

TYPE OF COOPERATION \ SIZE	- 50	50 - 100	100 - 500	500+	Total	% of total
Direct investment	63	43	39	69	214	9.16
Joint venture	122	77	117	110	426	18.23
Sub-contracting	383	154	230	121	888	38.01
Licence	191	109	178	186	664	28.42
Sale of technology	299	168	253	203	923	39.51
Key-in-hand projects	248	109	185	149	691	29.58
Supply of equipment	648	244	325	193	1410	60.35

Source: French firms and industrial cooperation with the developing countries, UNIDO (Paris), 1982.

ANNEXE XIII

IC = industrialized country
DC = developing country

Relocation of Industrial Capacity from Selected European Countries to Developing Countries

	Common Features	Additional Features Special to: Switzerland	Sweden	Belgium	Federal Republic of Germany
Number of Responding Companies		67	65	43	241
Industrial Sector	Textiles and clothing	Food, beverage and tobacco; footwear; petroleum, chemicals and pharmaceutical products; light industry and consumer goods; machinery and heavy equipment; precision engineering.	Rubber, chemicals and plastics; paper and pulp; machine components; small-scale industry; transport equipment and systems; construction.	Food; footwear; leather and leather products; chemicals; paper and paper products; woodworking; metal products; construction materials; engineering services.	Food; footwear; leather products pottery and china; plastics; furniture; fabricated metal products; machinery; electrical machinery and appliances; electronic equipment; photographic and optical products; toys.
Motivation	Market in DC; Lower labour costs; Indigenous raw material.	Appreciation of Swiss franc; geopolitical considerations; shortage and high cost of Swiss labour; get round import restrictions in DC; high transportation costs; diversification policy; saturation of Swiss market; lower corporate taxation	Access to adjacent markets; get round import restrictions in DC; secure larger market for specialized technology and know-how.	Re-export of products to Belgium; technology is usually sold by large companies who are able to provide finance, equipment, etc, to overseas subsidiary and who receive support of Belgian Government.	Re-export of products to FRG; attractive incentives offered by DC's; assistance given by FRG to invest abroad; access to adjacent markets; decrease production capacity in FRG.
Contribution to Restructuring	Supply of technology; Training of personnel; Provision of key management staff;	Licensing arrangements; marketing services; subcontracting; (reluctance to capital transfer).	In the case of joint-ventures, preference is for minority shareholding coupled with management agreement, production and quality control; (low interest for capital transfer)	Supply of machinery and technical services. Engineering companies selling technology can subcontract parts of project. Sale of technology has lower financial and political risks than investments such as joint ventures; (most firms unable to invest financially).	Establishment of own plant; formation of joint ventures; increasing interest in transfer of patents and licences.
Criteria for Country Selection	Size of local market; Political stability; Export possibilities in vicinity.	Development potential; protected market; cost and availability of labour; developed infrastructure.	Development potential; developed infrastructure; availability of raw materials.	Cost of labour; economic stability; repatriation of profits; availability of raw materials.	Low production costs; vicinity to FRG.
Obstacles: in DC's	Lack of local finance; customs and import restrictions; political instability; *difficulty in finding suitable joint-venture partner; *repatriation of earnings; lack of skilled labour; social reasons (described variously as bureaucracy, corruption, political interference, lack of ethics etc.)	Local market sometimes limited; local quality not up to Swiss standards; different consumer tastes; communication between parent company and subsidiary difficult; trade union problems;	Lack of discipline in labour; low quality of production; tendency to nationalize; infrastructural shortcomings.	Lack of elementary inputs.	Delivery and transportation difficulties between parent company and subsidiary; infrastructural shortcomings; technical problems; low productivity in DC's.
in IC's	* Resistance of trade unions to possible loss of jobs; lack of information on advantages and incentives offered by developing countries; * ignorance of facilities offered by UNIDO.	High productivity in Switzerland compensates for high labour costs; relocation of certain sensitive industries would have adverse effect on economy; economy still slow; temporary over-capacity.	Swedish firms uninformed about need for restructuring industry; costs in Sweden so high that comparative advantage may still be obtained by investing in lower cost industrialized, not developing, countries.	Relocation of certain sensitive industries would have adverse effect on economy; possibilities exist within Belgium itself for restructuring; lack of Belgians willing to work in DC's	(Firms were not questioned specifically on this point in FRG survey).

* Not included in choice of answers in FRG questionnaire

Source: ONUDI

ANNEXE XIV

SURVEY OF 154 FRENCH FIRMS - REASONS FOR INVESTING

Total sample			Minority investments			Majority investments		
Place	% of replies	Reasons	Place	% of replies	Reasons	Place	% of replies	Reasons
1st	40	Size of local market	1st	38	Local market	1st	44	Local market
2nd	23	Demand or incentives from local authorities	2nd	25	Demand from local partners	2nd	25	Demand or incentives from local authorities
3rd	18	Demand from local partners	3rd	21	Demand or incentives from local authorities	3rd	19	Boost presence in area
4th	12	Customs barriers						
4th	12	Boost presence in area	4th	16	Customs barriers	4th	12	Platform for export to third countries
5th	10	Local competition from foreign firms	5th	14	Local competition from foreign firms	5th	9	. Geographical diversification . Labour costs . Obtain a platform for export to France

Source: Charles-Albert Michalet & Michel Delapierre - "Les nouvelles formes d'investissement dans les pays en voie de développement: le cas français - A preliminary study produced for the OECD as part of a research project on the new forms of investment in the developing countries.

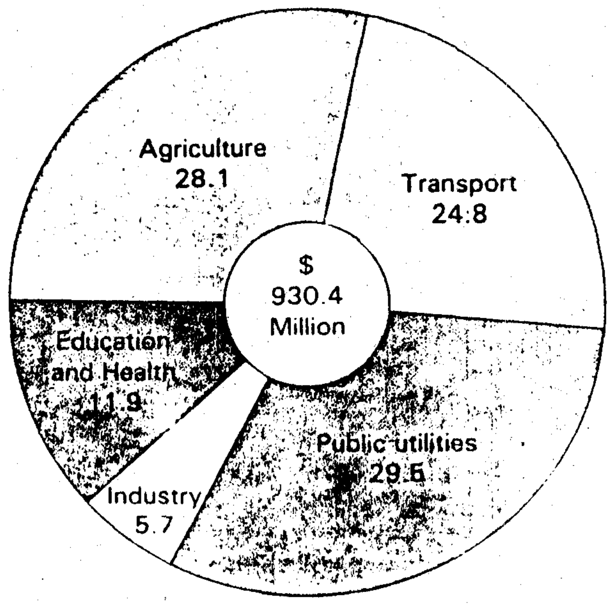
ANNEXE XV

AFRICAN DEVELOPMENT BANK LENDING BY SECTOR, 1967-1983

Bank Group Lending by Sector[a]
(in millions of $)

Sector	1967–80	% Share	1981	% Share	1982	% Share	1983	% Share	Total	Number of Loans	% Cum. Lending Share
Agriculture, including agric. lines of credit	656.946	26.59	207.311	32.62	252.881	33.02	261.945	28.16	1,379.083	(191)	28.71
Transport	641.215	25.95	131.279	20.66	146.006	19.07	230.269	24.75	1,148.769	(171)	23.92
Public utilities	649.958	26.30	132.044	20.78	212.164	27.70	274.201	29.47	1,268.367	(181)	26.41
Industry, including industrial lines of credit	344.042	13.92	95.795	15.07	51.185	6.68	53.415	5.74	544.437	(86)	11.34
Education and health	178.904	7.24	69.103	10.87	103.583	13.53	110.537	11.88	462.127	(63)	9.62
Total	2,471.065	100.00	635.532	100.00	765.819	100.00	930.367	100.00	4,802.783	(692)[b]	100.00

[a] All the figures in this table refer to approved loans. At the end of 1983 the total amount of cancellations was $98.76 million.
[b] This figure includes 12 cancelled loans amounting to $57.97 million.
Note: Data on industry and lines of credit were reclassified as follows: ADB, 1982 and 1983; ADF, 1977–83; and NTF 1977–83.



Source: African Development Bank.

CONSTRAINTS ENCOUNTERED BY GERMAN FIRMS INVESTING IN AFRICA*
(in decreasing order of importance)

1.	Relations with the authorities.
2.	Legal instability.
3.	Transfer of earnings.
4.	Supplies of raw materials.
5.	Price fixing.
6.	Labour laws.
7.	Local share-holding.
8.	Financing.
9.	Outlets & export.
10.	Taxation.
11.	Wage policy.
12.	General restrictions.
13.	Risk of nationalization.
14.	Regulation of products.
15.	Choice of manufacturing process.
16.	Choice of site.
17.	Environmental constraints.

* 26 firms interviewed in 12 countries, including nine from the ACP Group (Nigeria, Zaire, Ivory Coast, Cameroon, Kenya, Senegal, Tanzania, Togo and Uganda) plus Egypt, Tunisia and Morocco.

Source: IFO, Munich.

CONSTRAINTS ON OPERATION IMPOSED BY THE DEVELOPING COUNTRIES AND AFFECTING TRADE

COUNTRY	ACTIVITY	TYPE OF CONSTRAINT	DESCRIPTION
BARBADOS	All	Local product content	The requirements as regards local product content are fixed on a case-by-case basis.
IVORY COAST	Manufacturing	Local product content	Machine parts made in Ivory Coast must be used in preference to imported products, except where the Ministry for Trade makes a special derogation or local products are not up to standard.
GHANA	All	Local product content Investment authorizations	The investment authorization criteria are that: (a) existing firms and raw materials be used; (b) it contribute to the balance of payments; (c) it be set up outside the urban areas; (d) it increase employment; (e) it supply new technologies and specialized training for Ghanaian workers. For further details, consult the 1981 Investment Code (Law N° 437).

NIGERIA	All	Incentives linked to local product content	A high local product content usually entitles the firm to assistance with excise duties.
ZAMBIA	All	Incentives linked to local product content	Obligations as to local product content may be laid down prior to the granting of investment incentives and they may also be taken into account in the decision to authorize a proposed investment.
	All	Incentives linked to export requirements	Export obligations may be laid down in return for investment incentives and they may also be taken into account in the authorization of an investment.
	All	Incentives linked to import substitution	Import substitution obligations may be laid down in return for investment incentives. They may also be taken into account in the authorization of an investment.
	Manufacturing	Incentives linked to local product content	Although there are no formal requirements, the Government encourages the inclusion of products of local origin (particularly in the manufacture of motor vehicles). Local product content may be a prior condition for firms wishing to get the benefit of the Investment Code (particularly if they are considered as "priority" firms).

Source: OECD.

ANNEXE XVIII

UNICE PROPOSALS ON INVESTMENT PROTECTION FOR LOME III

Each contracting party asserts the need to promote and protect investments which nationals or companies of the other contracting party make, directly or through subsidiaries, on its territory.

Each contracting party recognizes the need to ensure that investments which nationals or companies of the other contracting party make on its territory receive treatment that is no less favourable than that applied to its own nationals and companies or to investments by nationals and companies of third countries, if the latter is more advantageous.

Each contracting party recognizes the need to respect any special agreements concluded or to be concluded with nationals or companies from the other contracting party or with any local subsidiary with which they are involved. These agreements shall provide for the settling of any disputes by means of international arbitration machinery, such as the Convention on the Settlement of Investment Disputes.

Source: Union of Industries of the European Communities (UNICE).

FEDERAL REPUBLIC OF GERMANY -

Firms' attitudes to developing countries' policy favouring forms of co-operation without equity, broken down according to size of firm (N°. of replies).

Such a policy hinders the firm's investment planning:

Size category	very much absolute	(a)	(b)	to nome extend absolute	%	%	not much absolute	%	%	total absolute	%	%
N° of employees												
under 200	5	15.6	26.3	9	14.1	47.4	5	6.5	26.3	19	11.0	100
200 to 999	14	43.8	21.2	17	26.6	25.8	35	45.5	53.0	66	38.2	100
1.000 to 4999	8	25.0	14.0	23	35.9	40.4	26	33.8	45.6	57	32.9	100
5.000 and over	5	15.6	16.1	15	23.4	48.4	11	14.3	35.5	31	17.9	100
	32	100	18.5	64	100	37.0	77	100	44.5	173	100	100
Turnover (DM millions)												
under 10	3	9.4	33.3	3	4.7	33.3	3	3.9	33.3	9	5.2	100
10 to 99	16	50.0	22.5	21	32.8	29.6	34	44.2	47.9	71	41.0	100
100 to 499	8	25.0	12.9	22	34.4	35.5	32	41.6	51.6	62	35.8	100
500 and over	5	15.6	16.1	18	28.1	58.1	8	10.4	25.8	31	17.9	100
TOTAL	32	100	18.5	64	100	37.0	77	100	44.5	173	100	100

(a) vertical breakdown
(b) horizontal breakdown

Source: Ifo-Institute's survey in: A. J. Halbach, R. Osterkamp, J. Riedel, Investitionspolitik der Entwicklungsländer und deren Auswirkungen auf das Investitionsverhalten deutscher Unternehmen, Forschungsauftrag des Bundesministeriums für Wirtschaft, München 1980.

Distribution of Ownership Patterns[a] of 1,276 Manufacturing Affiliates[b] of 391 Transnational Corporations Established in Developing Countries, by Period of Establishment, 1951 to 1975 (percent)

Home Country and Type of Ownership	Number Established as Percent of Total				
	Before 1951	*1951–1960*	*1961–1965*	*1966–1970*	*1971–1975*
Affiliates of 180 U.S.-based corporations					
Wholly owned	58.4	44.5	37.4	46.2	43.7
Majority owned	12.2	21.4	19.2	17.8	17.3
Co-owned	5.6	7.9	11.4	11.2	10.4
Minority owned	11.2	18.8	21.7	21.5	28.1
Unknown	12.6	7.4	10.3	3.3	0.4
Total	100.0	100.0	100.0	100.0	100.0
Affiliates of 135 European- and U.K.-based corporations					
Wholly owned	39.1	31.6	20.9	18.9	—
Majority owned	15.4	20.1	15.6	16.4	—
Co-owned	5.3	6.6	11.1	6.6	—
Minority owned	9.8	27.9	35.8	42.1	—
Unknown	30.5	13.9	16.6	16.0	—
Total	100.0	100.0	100.0	100.0	—
Affiliates of 76 other transnational corporations[c]					
Wholly owned	27.4	16.7	10.7	6.1	—
Majority owned	8.2	26.2	12.6	8.2	—
Co-owned	12.3	7.1	6.3	7.5	—
Minority owned	16.4	42.9	66.7	74.2	—
Unknown	35.6	7.1	3.8	3.9	—
Total	100.0	100.0	100.0	100.0	—

SOURCES United Nations, *Transnational Corporations in World Development: A Reexamination* (New York: United Nations, 1978), Table III-25, p. 229, and data supplied by the Harvard Multinational Enterprise Project.

[a] Affiliates of which the parent firm of the system owns 95 percent or more are classified as wholly owned; over 50 percent, as majority owned; equal percentages, as co-owned; 5 to under 50 percent, as minority owned.

[b] The affiliates of U.S.-based corporations are those in which the U.S.-based parent of the multinational enterprise held a direct equity interest; the affiliates of corporations based in the United Kingdom, Western Europe, and Japan include those in which parent companies held equity interest indirectly through other affiliates.

[c] Of these 76 corporations, 61 are based in Japan.

ANNEXE XXI

EXPROPRIATIONS OF AMERICAN COMPANIES, BY SECTOR, 1960-1974

Exhibit III
Expropriation by industry group, 1960-1974

Industry	Number of expropriations	Percent of total
Oil	84	12.0%
Extraction	38	18.0
Utilities and transportation	17	4.0
Insurance and banking	33	4.0
Manufacturing	30	1.2
Agriculture	19	*
Sales and service	16	*
Land, property, and construction	23	*

*Data unavailable.

Source: Harvard Business Review, July-August 1977.