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I N F O R M A T I O N (Development Aid)

ASSOCIATED AFRICAN STATES AND MADAGASCAR

"PROMOTION AND INDUSTRIALIZATION"¹

(Yaoundé Convention)

The principal objective of the Association of the Associated African States and Madagascar (AASM) with the European Economic Community is to foster the economic and social development of the associated countries, diversify their economies and, in particular promote their industrialization.

The aim of industrialization has acquired a growing importance with time and with the development of the Association. While during the first period of association (1958-1962), efforts were directed mainly towards improvement of economic and social infrastructure, as required by the Treaty of Rome, the second Association, embodied in the first Yaoundé Convention (1964-1969), placed more emphasis on directly productive investments, and an increasing number of industrial projects were financed. The third Association (1971-1975), in which industrialization is considered one of the priority objectives in accordance with the second Yaoundé Convention, will certainly encourage this tendency since the European Development Fund (EDF) and the European Investment Bank (EIB) possess increased financial means for this purpose and also a range of instruments which are more diversified and better adapted to the needs of industrialization.

Under the first Yaoundé Convention, the EEC Commission had already taken the step of exploring one of the possible ways of industrializing the AASM, namely by setting up regionally-based industries intended to replace imported consumer products and supplies by locally manufactured products.² It was stressed at the time that this limitation of the scope .../...

1 Summary of the report on "Pre-selection of export industries that could be set up in the AASM" - 198 pages and five annexes (Directorate-General for Development Aid).

2 Industrialization schemes for the African States and Madagascar associated with the EEC, 1967, a summary in 1 volume and 16 volumes of reports.

of the investigations was based exclusively on practical reasons and not on any judgement concerning the supposed suitability of one or other particular type of industrialization for the AASM, for the establishment of industries oriented towards the local market and the establishment of export industries are in no way alternative solutions, but two complementary courses of action, and therefore equally necessary.

Therefore both industrialization aimed at exports and industrialization to replace imports must be explored

This has been the Commission's intention since the launching of the first general study. Since then, different regional and national African authorities, and also the Parliamentary Conference of the Association, have expressed their desire to see this second general study undertaken. And so at the end of 1970 the Commission, with the agreement of the AASM, had a study carried out to explore the opportunities for setting up industries in the AASM oriented towards "large-scale exports", i.e. production of articles whose principal outlets would be in the industrialized countries /^{and} especially the Community, to which the AASM have privileged access.¹

The study: subject, methods and experts

1. Subject of the study

Because of the large number of industrial activities which are theoretically feasible, it was found necessary, for reasons of time and economy, to proceed in two stages: in the first the purpose was to eliminate a number of products which would be of no particular relative advantage to the AASM and to establish an order of priority for the products retained as possibly viable; in the second stage, the products considered most interesting on a first general examination will be the subject of more detailed "pre-feasibility" studies.

The study, of which this summary gives a general view, is a pre-selection study corresponding to the first stage. It proposes a list, in order of priority, of manufacturing industries oriented towards exports, which prima facie could be established in the AASM.

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¹ Only the textile sector - all fibres and all stages of production - has been excluded from this general study since it is the subject of a separate detailed study to be published later.

2. Methods

The pre-selection of exporting industries deals successively with the principal points relating to supply and demand:

- (a) Which are the manufactured products at present imported by the industrialized countries from the developing countries? The answer to this question is given in the form of a "demand list".
- (b) Which are the products which the AASM could export to the markets of the developed countries in competition with the present manufacturers in those countries? The answer to this question is given by three "supply lists" naming a number of industrial activities which could be developed in the AASM either by redirecting towards exports existing industries which do not yet export, or by development of natural local resources, or by intensive use of unskilled labour.

The list of activities drawn up at the end of the analysis of supply is then arranged according to priorities in the light of a number of criteria based on the demand for the corresponding products in the industrialized countries and on the supply conditions in the AASM. The purpose of establishing priorities is to decide on the degree of possible success of the various production lines examined, and on the basis of this to select the detailed studies to be undertaken subsequently.

This pragmatic pre-selection, although made with the greatest objectivity and precision possible at this stage, is nevertheless imperfect. Its conclusions obviously cannot outstrip its premises, and the final classification arrived at in the pre-selection process must be considered the basis for further studies in the form of market research, analysis of trade patterns and technical and economic studies of the industries under consideration. These will result in "pre-feasibility" studies if the assumptions of viability are confirmed. This list must therefore not be considered as comprising activities which are all definitely viable, nor must it be thought that any activity not included is necessarily to be rejected out of hand.

The present summary describes step-by-step how the study was carried out and concludes with the list in order of priority of export industries chosen for possible introduction into an AASM country, and which therefore merit consideration in a later phase of detailed studies.

Analysis of external demand

The pre-selection begins with an analysis of imports of manufactured products by the major industrialized countries from the developing countries as a whole. These imports are identified and measured in the import figures of the three principal groups of industrialized countries: the European Economic Community, the United States, and the United Kingdom. Those products have been selected of which imports from the developing countries reached a minimum level of US \$0.5 million for at least one of the years 1966-69. The following are excluded: minerals, even if enriched, unprocessed fishery and agricultural products (including latex and frozen fish), wood in the rough, recovered metal, some re-exports, and any articles resulting from processing of textiles (which are, in any case, excluded from the terms of reference of this study).

Three lists of manufactures imported from developing countries by the major industrialized countries have been drawn up. They comprise 187 products for the EEC, 220 for the United States and 145 for the United Kingdom. These three lists of imports were then merged into a single list of economic activities by switching from foreign trade nomenclature to that of economic activities in the European Communities (NACE) and regrouping products according to the industrial activity from which they normally result. The demand list contains 328 different products regrouped in this way.

When these activities are regrouped according to whether they are based on the development of local resources - animal, vegetable or mineral - or whether they are independent of raw materials produced on the spot, it is found that the utilization of local resources other than labour underlies the bulk of manufactures exported from the developing countries to industrialized countries (84%, of which 37% are mineral products, mainly refined oil and natural gas), the remainder being for most products of the "labour-intensive manufacturing industries".

The AASM account for only 6% of the developing countries' exports of manufactures, far the greater part of what they export goes to the EEC (93%), and almost all their manufactures for export are produced from local raw materials (52% mineral, 43% vegetable, 5% animal).

Although imports of manufactured products from the developing countries to the industrialized countries are tending to become more diversified, they are still concentrated on a small number of dominant products: 13 products out of 187 in the case of the EEC, 4 out of 220 in the case of the United States, and 4 out of 145 in the case of the United Kingdom represent over

half the total imports of manufactured products from the developing countries. All in all, more than two thirds of the imports listed are increasing, and more than a third are increasing rapidly (i.e. have doubled between 1966 and 1969). Expansion is more appreciable for the labour-intensive "manufacturing industries" than for industries utilizing local resources; about thirty products are in clear decline. These data on the trend of imports have been used as one of the criteria for the final establishment of priorities.

Several activities considered in the analysis of the AASM's conditions of supply will be added to the list of industrial activities which already provide exports from the developing countries to the industrialized countries; it seemed appropriate to take them into consideration even though the marketing possibilities in the industrialized countries have not yet been demonstrated.

Analysis of the AASM's conditions of supply

The experts then drew up three lists of activities which might be presumed, with a greater or lesser degree of accuracy, to be potential export industries for the AASM,

- (a) either because the corresponding industries are already in existence there, or are planned in order to supply the domestic market;
- (b) or because these activities involve the utilization of local resources;
- (c) or because they make abundant use of unskilled or slightly skilled labour.

Eliminated from this list are production processes for which the AASM have no special comparative advantage, those which add little value to supplies that have been imported, and products whose specific value is too low to bear export costs.

1. Existing industries which do not yet export

Before advocating completely new industries, it seems logical to direct existing or planned industries towards exports, as this reduces the investment required, to make use of any available technical or commercial know-how, and take advantage of the backing of a complementary domestic market.

An inventory of existing and planned processing industries supplying domestic markets was therefore drawn up. It comprises about a hundred different activities, some sixty of which appear on the "demand list". Then

on the basis of this inventory those industries were selected which have at least a comparative advantage for the AASM (because they make use of local resources which are really advantageous or make considerable use of unskilled labour) and which are not excluded for other reasons (because they add little to the value of imported materials or because they involve export costs which are too high for the value of the product).

The list was thus reduced to fifty activities which it does not seem impossible to direct towards exports, but which cannot export competitively until the dimensions of existing firms, their techniques and their range of products have been adapted.

2. Utilization of local resources

The existence of local raw materials is a real advantage for the possessor country which wishes to exploit them only if the resources are in sufficient quantity, available at a cost which is competitive with those of the industrialized countries against which it wishes to compete, and if it is a business proposition to process them in the country (processing that requires large-scale use of slightly skilled labour or very high consumption of low-cost electricity; lower transport costs after processing; product perishable or fragile before processing; in some cases, dominant position of the AASM on the market concerned, permitting processing on the spot to be imposed).

A selection in the light of the various conditions of competition set out above was made on the basis of a pretty exhaustive inventory of the AASM's farming (including livestock) and mineral resources (about a hundred), and of processing already possible and led to a list of about a hundred activities suitable for further consideration.

Labour-intensive,
3. manufacturing industries

The idea underlying this research is that some developing countries have successfully and profitably developed export manufacturing industries which are based on the utilization of plentiful, inexpensive unskilled labour. The "demand list" shows that the AASM have not yet taken advantage of this trend, their few export industries being almost exclusively based on the exploitation of local resources (other than labour). The developing countries of Eastern Asia and those close to the United States have, by contrast, made use of this asset to become not inconsiderable exporters of certain manufactured products generally high up in the classification of labour-intensive industries.

The initial inventory was taken from the work of an American economist, Hal B. Lary who, on the basis of the most recent industrial statistics in the United States, undertook a systematic classification of the activities under consideration in relation to the labour factor, the size of which is in inverse proportion to the value added per person employed. The list of manufacturing industries taken into consideration therefore comprises, with some adjustments, those activities where the value added per person employed is lowest. After elimination too of those activities which increase the value of imported supplies only slightly or the products of which are too expensive to export in relation to their value, the selection was reduced to some fifty activities in the "labour-intensive manufacturing industries" category which were presumed viable for the AASM.

The final classification

Following the preceding analyses, three "supply lists" were drawn up, comprising a total of some 200 activities, the majority of which also figure in the "demand list".

The experts then worked out an order of priority among these 200 activities in the light of eleven conditions (or criteria of optimum viability) derived from the characteristics of demand in the industrialized countries (such as the present volume of imports of the products concerned from developing countries or the rate of increase) and of supply in the AASM (such as the extent and competitiveness of local natural resources, industrial techniques employed, the intrinsic qualities of the processed product, the existence of a complementary local market, the degree of utilization of semi-skilled labour). Each activity was given points in respect of each of the criteria and a weighting coefficient¹ was applied to the result so as to arrive at an approximate order of priorities for the activities considered viable. Obviously this order of priorities cannot be as rigid as an objective classification expressed in figures, for the manner in which each stage of pre-selection and classification is tackled - definition of conditions of viability, assessment of the importance of a particular activity in relation to the conditions set, choice of a weighting coefficient for the different conditions - is bound to be less than perfect and to a certain extent subjective. The experts' report gives a

¹The four criteria relating to the specific value of the product, to the volume of demand in the industrialized countries, to the trend of demand, and to the low level of skills required of the labour force received double weighting. It has been found, however, from a comparison of the classifications obtained with and without weighting, that the use of a weighting coefficient does not make a substantial difference to the order of priorities of the activities selected.

detailed description of the whole classification procedure followed, enabling those who use the study to draw conclusions from it for their own purposes, modifying the list of conditions, assessment of activities, and weighting coefficients used.

It is clear that considerations relating to the interest of an activity for the community (employment, added value, effect on the balance of payments, tax considerations) could modify this order of priorities, which is based exclusively on assumptions regarding the profitability of the undertakings considered, so as to provide better guidance for decisions by the Governments of the AASM.

Among the 200 activities studied and placed in order of priority, 120 of those considered the most viable were arranged in four successive categories of 30 activities in descending order of viability. The activities selected were also divided into 13 branches of industry (in accordance with NACE nomenclature).

It has been observed that the present export activities of some AASM countries figure in the first half of the list of priorities and that activities not appearing in the demand list are to be found, apart from a few exceptions, in the second half.

Finally, if one sets aside the processing before export which is already carried out in some of the AASM (tropical oleaginous products, sawn, veneered and peeled wood, plywood, preserved tunny, canned pineapple and pineapple juice, cocoa paste and butter) - the opportunities for expanding these should naturally be examined - the final classification contains a number of new ways of processing animal, vegetable or mineral resources in the AASM and a number of labour-intensive 'manufacturing industries'.

Utilization of mineral resources

- (i) Electrical treatment of some minerals, if low-cost energy is available on a large scale
- (ii) Utilization of cobalt, copper and various non-ferrous metals to produce alloys, foundry and drawn products
- (iii) Utilization of phosphates from Togo and Senegal to produce high-grade fertilizers

- (iv) Utilization of marble, dolomite, and various types of decorative stone to produce cut panels, polished or not.
- (v) The ceramic industry: tableware, tiles, insulators, various pottery and ceramic products.

Utilization of vegetable resources

- (i) Treatment of various tropical fruits and vegetables for the production of preserves, jams, marmalades, etc.
- (ii) Processing of wood to make paper pulp; manufacture of flooring, mouldings, furniture, boxes and caskets and miscellaneous goods
- (iii) Production of various plant extracts; essential oils, extracts of coffee, quinquina, and pyrethrum
- (iv) Various products of the agricultural and food industries: milled rice, manioc products, chocolate, preserves
- (v) Manufacture of cigars.

Utilization of animal resources

- (i) Livestock and slaughter products: meat exports, offals and by-products
- (ii) Leatherwork (and like, synthetic products) for the manufacture of gloves, clothing, fancy leather goods and travel goods
- (iii) Slaughter and preparation of certain kinds of poultry
- (iv) Preparation of quick frozen fish fillets
- (v) Preserves and various preparations of crustaceans.

Labour-intensive/
"manufacturing industries"

- (i) Footwear manufacture in leather, canvas, rubber, plastic
- (ii) Electrical and electronic industries: various parts and components, assembly and partial assembly, manufacture of cells and batteries and small electric bulbs
- (iii) Metalwork: chased aluminium articles, cutlery, needles, pins, etc., watchcases

.../...

- (iv) Ancillary clothing industries: buttons and fastenings, umbrellas and parasols, articles of furskin
- (v) Manufacture of games and toys, sports goods
- (vi) Miscellaneous industries: manufacture of matches, brushes, artificial fruits and flowers, certain plastic goods
- (vii) Craft products: jewellery, goldsmiths' and silversmiths' wares.