

Reports n° 10

**PROMOTION OF INDUSTRIALIZATION IN
THE DEVELOPING COUNTRIES ;
IMPLICATIONS FOR COMMUNITY INDUSTRY**

Rapporteurs

**P. Moussa
H.O. Vetter
J. Tinbergen**

CONFERENCE
"INDUSTRY AND SOCIETY IN THE
EUROPEAN COMMUNITY"

REPORT N° 10

PROMOTION OF INDUSTRIALIZATION IN

THE DEVELOPING COUNTRIES ;

IMPLICATIONS FOR COMMUNITY INDUSTRY

by
P. MOUSSA

COMMISSION OF THE EUROPEAN COMMUNITIES

VENICE - 1972

Europe and the Industrialization of the Third World

by Pierre MOUSSA

Administrateur- Directeur Général de la Compagnie Financière
de Paris et des Pays-Bas, Président-Directeur Général de la
Compagnie Financière pour l'Outre- Mer (Cofimer).

I - Introductory Remarks

A few remarks about the aims pursued in industrializing the Third World may not be amiss. It is so true that industry is one of the least-developed sectors in the Third World that to say under-developed is as much as to say under-industrialized. For one hundred and fifty years industry has been expanding longitudinally in the world until now it has spread to practically the whole of the Northern hemisphere, but there has been very little latitudinal expansion. Of the world's industrial production, 90 % is in the hands of the most advanced fifth of mankind (1). Per capita power consumption, which is a fairly good yardstick of the level of industrialization, is the equivalent of 10.6 tons of coal in North America, 3.5 tons in Western Europe, 0.7 in South America, 0.4 in Asia and 0.3 in Africa.

The above figures, which show the scale of the industrialization effort to be made, should not cause us to forget that industrial development is only one of the means available to an under-developed country that wishes to increase its national income and raise its people's standard of living (2).

-
- (1) Of all industries, that which is to the greatest extent in the hands of the developing countries is the cotton industry (40 %), followed by the cement industry (20 %).
 - (2) It should be remembered that investment in industry may have no effect, or an adverse effect, on national income or the standard of living.

In many cases, industrial development is perhaps not the most important of those means. Action to increase agricultural productivity is often able to contribute much more to raising the per capita income. Moreover, the improvement of productivity in agriculture is often a decisive factor in industrial development, inasmuch as it frees people for industry where they are needed, feeds them without upsetting the balance of trade and creates surpluses with which to buy abroad the equipment needed for industrialization (provided, of course, they are saleable and do not go, as so often, to swell the volume of world surpluses).

Side by side with the subsisting preponderance of the pre-industrial economy we should not overlook the dawning importance of the post-industrial economy. Since the value of a commodity depends on its relative scarcity, it is natural that as the prices of manufactured goods fall, those of space, pure air, clean water, untouched landscapes, solitude and silence should be rising. This wealth, which the Third World has in abundance, is destined to be used, in forms which we today may find it difficult to imagine, but which find their justification in overcrowding, technological pollution and the extraordinary expansion that can be foreseen in the industries of leisure. The Third World as a reserve - not in the common sense of a reserve of living species, but as a nature reserve in the real sense : it is not impossible that, by the XXIst century, this may weigh more for many of today's poorest countries than the number and turnover of their industries.

The foregoing considerations, designed to situate industrialization in the framework of development as a whole, do not seek by any means, to minimise its importance, especially at the present stage. It is indeed thanks to industrialization that the Third World has seen its production grow at the rate of 5 % per annum in the last decade. Statistics for all the developing countries show that the average growth of the value added by agriculture in the years 1960 - 1970 did not exceed 2 %, whereas the value added by industry grew at a rate of more than 7 %.

Although it is only one means, industrialization does at least make it possible to increase production capacity, relieve under-employment and diversify the economy, making it thereby less vulnerable to short-term trends and less dependent on the goodwill of the advanced countries.

Do not let us forget, either, the human aspects of the question. The mentality of the under-developed countries is definitely directed towards industrialization. The existence of factories reflects for the inhabitants of these countries, and especially for the élites in the broad sense, the success of a nation, its standing in the modern world. The absence of industrial development creates in them a sense of frustration, the lack of factory chimneys gives them a castration complex. As the black American writer Richard Wright says in "White man,listen!", at a certain moment a new religion replaced the old, mutilated one. The Asians and Africans saw that the technology and industrialization had given the whites a footing in their countries and, hoping to recover their freedom, they thought that the only way out for them was to rely on technology and industrialization. (1).

If it is desirable to speed up the industrialization of the Third World, then the EEC and its member countries must give their closest attention to the matter,

- in the first place, because the EEC countries have a great responsibility in this respect deriving from their importance in world industry;
- in the second place, because the EEC countries have a special duty towards a certain number of countries for reasons at once geographical and historical and this, already true for the Six, has become much more so now that Great Britain is virtually a member of the Community;
- lastly, because it is in the interests of the Community countries to see that the industrialization of the Third World is carried out rationally and that no economic ventures are launched which would result in the disorganization of the market.

(1) "White man, listen," Calman-Lévy 1959, Paris - p. 59

II - How should the Third World be industrialized ?

A. THE SUBSTITUTION INDUSTRIES

This is the name given to industries whose production takes the place of previous imports. There was a time when many economists regarded them as the best approach to industrialization; the import lists were the reference works of planners and investment advisers.

Indeed it was with industries of this type that manufacturing began in most of the under-developed countries. In numerous cases the process was launched with the last stage of the manufacture of a product : assembly of cars and bicycles, packing of pharmaceuticals, hydration and bottling of concentrates ... This transfer is often advantageous from a strictly technical standpoint since the last stage often entails a considerable increase in weight or volume and the technical processes involved are simple ones. Moreover, it usually implies a small investment for a fairly high added value, since often, at this stage, mechanization plays a fairly small part.

Industrial groups see an advantage in transferring the last stages of manufacture to the consumer countries for, although the parent firm loses in this way an outlet for its finished products, it consolidates its outlet for the semi-finished products of the second-last stage. Moreover, to the extent that the local factory fails to meet the whole of local demand, the remainder will be more sure of being ordered from the parent company. Generally speaking, the local authorities would be unwise to oppose the setting up of factories

of this type, since the opening of a factory for the last stage often prepares the way, whether the parent company intended it at the outset or not, for the setting up of plant for more stages by a process of ascending integration.

The ease with which substitution industries can be set up depends on a number of factors. Among the most important, one is common to all industries in any country, namely the cost and productivity of manpower. Others vary from branch to branch : they are concerned with the weight and volume of the finished product as compared with the weight and volume of the raw product or semi-raw product of the previous stage.

In any case, substitution industries were the first to be widespread in the developing countries. In Latin America and a part of South-East Asia most consumer goods, almost half the semi-manufactured goods and one quarter of the capital equipment goods are already produced locally. In Africa the process of industrialization began in the same way but so far it has not reached nearly the same proportions.

Economists today are much more alive than ten years ago to the disadvantages of this pattern of industrial development :

- they stress the limits of industrial development begun on this basis since, by definition, it will go hand in hand with the expansion of internal demand, which will grow slowly in these still predominantly rural economies;
- from the point of view of the balance of payments, if it be true that non-importation is in itself as advantageous as exportation, stress is laid on the unfavourable effects of the setting up of

such industries owing to the indirect needs they create : importing of semi-finished products, of parts for assembly and also of more and more varied consumer goods to meet the demand of the relatively high-income group that forms around the new factories;

lastly and above all, they are alive to the risk to the economy of sclerosis stemming from the irrational development of industries of this type. Very often the launching of a project of this nature calls for customs protection or taxation measures in favour of the new industry which would not in themselves be blameworthy if they were provisional and moderate but which on the contrary are often excessive and permanent, the more so the less economically viable and the more artificial the scheme itself. This leads to far too high production costs which burden the whole economy and slow down development, including, of course, industrial development. The generalization of strongly protectionist measures in favour of a large proportion of national industry has the same effect on the development of the economy as a whole as an over-valuation of the currency.

In Latin America, notably, because of the protection enjoyed by certain local industries, the production costs of the substitution industries have often risen so high that they have constituted an obstacle to any rise in real income while at the same time they have made any new orientation very difficult.

For example, in the field of car assembly, both in Chile and in Venezuela there are some ten different makes for a production that does not exceed 20,000 to 30,000 vehicles for any one of them. The sales prices to the customer are three times as high as would be those of cars imported in normal conditions. To encourage the incorporation of locally-made parts, the Venezuelan authorities had devised the imposition of a minimum by weight of local production. The most advantageous solution found by one

maker was to equip all his vehicles with a very heavy roof-rack and a reinforced chassis.

In Brazil, where the market is larger, since 400,000 vehicles are produced, the cost of production is still 50 % higher than on the international market but 95 % of the parts are manufactured locally. However, the existence of this industry is preserved by customs duties of 70 to 105 % calculated on a fixed minimum CAF which, in the case of a 2 CV is set at 4000 dollars, or three times its real value.

A report by the World Bank shows that in 1965 the under-developed countries as a whole spent 2,100 million dollars to produce cars and car-parts whose value on the world market could be estimated at 800 million dollars.

It is such extreme aberrations which explain the reversal of economic thinking on the subject. But care must be taken not to go from one extreme to another. Substitution industries still remain the least hazardous solution in most cases inasmuch as the sectors concerned have markets and they can even be measured. But the under-developed countries must beware, in their enthusiasm, lest they fall into errors and excesses like those cited above. The advanced countries can help them in this and certain suggestions on this point will be made below (Part III B.1/).

One of the most effective means of obviating recourse to excessive protection is to ensure that the industries concerned have an adequate market which, all other things being equal, will bring down their production costs. For small countries regional agreements can play an important part :

- either in the form of regional economic unions embodying a free trade area, or at least reciprocal trade preferences, such as the Central African Customs and Economic Union (UDEAC) (1), the West African Customs Union (UDAO) recently converted into the Economic Community of West Africa (CEAO) (2), the Conseil de l'Entente (3), the Common Market of East Africa (4), the Latin-American Free Trade Association (LAFTA) (5), and the Andean Group (6), which is a sub-group of LAFTA, the Central American Common Market (CACM) (7), and the Caribbean Free Trade Area (CARIFTA) (8);

- or in the more flexible form of ad hoc agreements between two or more States according reciprocal advantages in respect of specific industries on each side (e.g. the Chad - Cameroun Agreement of 3 April 1963 concerning the harmonization of industrial development in the two countries in the textile and cement industries : sharing of the various branches of the textile industry between the two countries, reciprocal State shares in the two textile firms set up in the two countries, same Franco-German group with interests in both industries and an extra advantage to the Camaroun authorizing the export of Cameroun cement to Chad).

.../...

-
- (1) Cameroun, Central African Republic, Congo-Brazzaville and Gabon. Chad withdrew from the Union with effect from 1 January 1969.
 - (2) Ivory Coast, Dahomey, Upper Volta, Mali, Mauritania, Niger and Senegal.
 - (3) Ivory Coast, Niger, Upper Volta, Dahomey and Togo.
 - (4) Kenya, Tanzania, Uganda.
 - (5) Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.
 - (6) Chile, Bolivia, Peru, Ecuador, Colombia and Venezuela (with a separate status).
 - (7) Costa-Rica, Salvador, Guatemala, Honduras, Nicaragua.
 - (8) Jamaica, Trinidad, Tobago, Guiana and a few West Indian islands.

B. THE VALUE-ADDING INDUSTRIES

These industries, which consist in processing animal, vegetable and mineral raw materials on the spot, are also among those, like the substitution industries, to which the developing countries are attracted most spontaneously. This is because in the first place the idea is a simple one and also gives them moral satisfaction in so far as the Third World bears a sort of grudge at having to export raw materials which they regard as an inferior class of trade and a manifest form of exploitation (although it should not be forgotten that the United States grew rich precisely in this way and the wealth so acquired enabled them to equip themselves faster than any other nation). The feeling that raw materials should not be allowed to leave the country without some value being added to them is very deeply rooted in the minds of the poor countries and it is reinforced when they see the terms of trade deteriorating for the sellers of raw materials, who are at the same time buyers of manufactured goods.

Broadly speaking, the essential condition for setting up a value-adding industry is that the transport of the processed product should cost less than that of the same product before processing. Here a distinction may be drawn between :

- what one might call inevitable value-adding, such as is often found in the first stage of processing, when the raw materials themselves are physically or economically untransportable. Thus it is with the ginning of cotton, the shelling of ground-nuts, the concentration of ores These are relatively simple actions which consist in separating the useful part of the raw product from the useless part, the two being sufficiently distinct to make their separation a simple matter.

Among these cases of inevitable value-adding we must also count the cases of industries grafted on to the production of cheap hydro-electric power : when in the cost price of a product the share of the cost of the power used is high, of the same order as the

cost of the raw materials used and sometimes even higher (electrolysis of aluminium, isotopic separation of uranium, etc) it is exactly as though, economically speaking, hydro-electric power were a sort of non-material raw material and indeed a very heavy one, transportable only at great cost and with great waste. The industries using it have to set up their works near the dam; this is accordingly another case of inevitable value-adding and hydro-electric power plays the same part in fixing industries on the spot as do certain raw materials produced in the country.

In addition to the limited field of inevitable value-adding, there is the much wider one of theoretically possible value-adding. Where stages later than the first stage of processing referred to above are concerned, the actions involved are more complex and, on the other hand, the lightening effect is much less (1) : for these two reasons the advantage of performing these subsequent stages of the process on the spot is much less evident. Of course, the situation varies from branch to branch and from country to country. All told, however, the prospects

(1) In many cases the lightening effect is nil : there is no difference, from the transport point of view between carrying woven material or the fibres that are used to make it or even the raw textile from which the fibres are made, the soaps or oils of which they are composed.

On the other hand, it is more economical to transport sugar than sugar cane, oil than seeds, sawn timber and hardboard than unbarked timber, steel than iron, alumin than bauxite, aluminium than alumin.

Besides these considerations of weight, the space occupied plays a part, chiefly at the stage nearest the consumption end; for example, to make wooden or metal articles near the place where the raw materials are obtained may encounter an obstacle in the cost of transport of the finished goods.

of the value-adding industries do not seem very extensive when one excludes the cases of inevitable value-adding. The range of possibilities widens when other favourable circumstances are present in addition to the existence of the raw material on the spot. Among them, the primary factor is the existence near at hand of manpower that is relatively cheap in relation to its productivity. But at this level the value-adding industries merge into the wider category of manufacturing industries founded on advantageous labour.

C. INDUSTRIES FOUNDED ON ADVANTAGEOUS LABOUR CONDITIONS

Here we have a different approach to the industrialization process: the aim is no longer to satisfy local demand, nor to process local raw materials, but to make use of manpower that is abundant and costs less than in the more advanced countries, even having regard to the correction that has to be made for the difference in productivity. It is quite possible for such industries to grow up on the basis of imported raw materials and an external market. This phenomenon is encountered especially where an industry required a large labour force, like certain branches of the textile industry, the clothing industry, the leather industry, electronic assembly and numerous small mechanical industries.

This is certainly not a new thing. We have long been seeing the textile and clothing industries moving from the North to the South of the United States before emigrating to Porto Rico and the Far East. Japan has long been the typical example of a country which, without raw materials, and solely thanks to its abundant supply of high-quality manpower, has been able to develop a vast industrial sector. More recently, the movement has spread from Japan to Taiwan, Korea, Hong-Kong and Singapore. It is significant that in 1967 manufactured goods accounted for 57 % of the total exports of Taiwan and 67 % of those of Korea.

In the sixties this movement grew (1), and it seems destined to grow still more in the present decade. This type of industrialization is already widespread in Mexico, Central America, Brazil, Argentina, Yugoslavia - all of them countries which had long centred their industrialization on substitution industries. Now clothing manufacturers from Hong-Kong are setting up in Mauritius and the African Continent is beginning to be tapped in its turn. Thus, in Cameroun, the textile industry, designed first and foremost to meet local and regional needs, is expanding in order to supply certain articles to Europe (sheets, for example).

It is a noteworthy situation where, in our present world economy, American firms often have things produced in Europe while, with the enlargement of the Common Market, Great Britain is thinking of having goods manufactured on the Continent and at the same time Northern European firms are turning to the Mediterranean and industry is beginning to move towards Central Africa.

The movement has the more chance of growing since population movements seem destined to encounter more and more obstacles in the future. In the last quarter century, European industry imported a considerable labour force from under-developed or less developed countries, to satisfy needs both in quantity and quality and to take the place of national manpower for work that nationals considered too heavy or unpleasant. But it is clear that in many cases this trend has exceeded what is reasonable and race problems are seen to be arising in various European countries, including those which seemed permanently spared from anti-racial aberrations. If one can no longer bring suitable manpower to the spot, or not enough of it, the temptation is great to go where the manpower is and make it work there. If unable to move manpower which is economically desirable but against which there is considerable feeling, one must needs move industries in the opposite direction.

(1) This redistribution of industrial functions is probably more widespread today than is realized, since heads of firms rarely have any advantage in advertizing too much something that may cause concern in the industrialized countries. Nowadays many articles thought to be manufactured in the West are made - or a great part of the value is added - in the East or the South.

Unlike the tendency to be observed some ten to fifteen years ago, development experts are inclined today distinctly to prefer industrialization of this third type. It is certain that not having outlets restricted to a small internal market gives hope of a much more rapid sales growth. Moreover, the risk of seeing a young industry become a burden on the country's traditional economy because of the protection and subsidies it enjoys no longer exists where factories are built by definition to supply an outside market. Mr. Robert McNamara, President of the World Bank, illustrated the advantages of this policy to the Board of Governors on 27 September last when he explained that the results achieved by countries which had directed their industrial production towards export were more promising than those of countries whose industry was directed entirely towards substitute products for imports. In the first group of countries the growth rate of industry - which had sometimes reached 10 to 15 % - was higher than in the second and the growth in the demand for manpower had been distinctly more rapid.

This type of industrialization nevertheless carries a specific risk : the growth of the industries concerned depends largely on the possibility of absorption by the world market of the new goods produced. It is important that the new industrial revolution which seems to be on the way should not increase production capacity to disastrous excess. Here the industrial countries and the developing countries alike should be encouraged to act with great caution when they remember the consequences in another sphere of a blind policy of diversification of agricultural produce which is causing new countries each year to add to the surpluses of cotton and oil-bearing crops.

Without advocating economic dirigism on a world scale, ought not the industrial countries for their part restrict their interests on the Third World to setting up firms for whose goods outlets are assured ? In this respect multinational companies and in general the major industrial firms in the developed countries can play a particularly important part in ensuring outlets for the products of industries in

the developing countries.

It is in the interests of multinational enterprises to produce in the best conditions with regard to cost price and consequently to spread their different production units by taking account of this factor. Furthermore they ought to obtain to the extent possible, raw materials from the countries to which they intend to sell their finished products.

This is why a conglomerate such as I.B.M. has spread its production throughout the world. For example, the main categories of manufactured products exported by Brazil or the Argentine to France are components used in the assembly of calculators and typewriters. Industrial groups, without necessarily investing on the spot like IBM could be interested on obtaining parts from foreign sources and in gaining at the same time part of the market in finished products, since these contribute more than other products to improving the financial and employment position of developing countries.

The firm of Peugeot is conducting an interesting experiment in Tunisia which consists in offsetting all (or almost all) the car parts assembled in its assembly works at Sousse by purchases of Tunisian manufactured goods (leather, cloth, batteries, semi-worked products for its forges in France, screws, nuts, bolts, etc.). This idea of a balance of trade in industrial goods - since the goods bought by Peugeot are not designed for assembly on the spot but for use at home in France - is particularly profitable to the developing countries, since it furthers the export industries at the same time as it enables an assembly industry to be set up which creates new employment and is in addition competitive, since the cars are assembled using imported parts which are guaranteed authentic and cost no more than in France.

When we analyse industrial projects of this kind it is sometimes difficult to distinguish what is due to the advantageous local manpower situation and what depends on the determination to win over or consolidate a local clientele. Both factors play their part in many cases. Reflecting on the international redistribution of industry, Malaussena de Perno (1) points to the existing tendency to site the most modern and largest production units in countries which, for the product concerned, are on the upward logistic curve (2) whereas for the more advanced countries the curve in respect of the same product has already flattened out. The large modern production units thus set up accordingly supply simultaneously an expending local market and the market in more advanced countries, which gradually give up their share in the manufacture of the goods concerned. Here Malaussena considers that world statistics clearly point to a redistribution of industry among four categories of nation : the United States in the first place, which is leaving the manufacture of certain goods to the other categories; then Western Europe minus Italy, which is giving up certain industries and leaving them to the other two categories; then countries like Italy and Japan, which are allowing certain industries to move to the Third World (Japan and Italy have both recently become importers of cotton cloth), and lastly the Third World.

(1) "Stratégie des grandes firmes et conditions de la croissance généralisée - Premiers éléments pour une théorie de l'oligopole international", in "Economie et Société", June 1971.

(2) The demand for all goods in a given country goes through three stages : slowly rising, then sharply rising, then almost flat once more (which gives a curve that mathematicians call logistic). The extraordinary industrial expansion of Italy just after the war was due to the fact, lagging behind the neighbouring countries, she was in the sharply rising phase for many important products (semi-durable consumer goods, household electrical goods, etc.). Italy is now past that stage but other countries are entering on it in their turn.

III - Role of the industrialized countries

It is useless for the industrialized countries to give aid to the developing countries for artificial purposes but as soon as a natural move towards industrialization can be discerned in the Third World countries (and we have seen that this is the case) they can strengthen it and speed it up as well as seeing that the new trend produces rational results, even if only to prevent a subsequent swing in the opposite direction.

To this end, the advanced countries, and notably those of Europe, can give three types of aid : financial, intellectual and commercial.

A. FINANCIAL AID

1. Private export credits (1)

Private export credits represent an increasing part of the aid given to the developing countries. The amount of credits of this kind accorded by the member countries of D.A.C. was 2174 million dollars in 1970 as against 3406 million dollars in the form of direct investments. In 1961 the figures were respectively 493 million dollars in export credits and 1851 million dollars in direct investments. These credits account in 1970 for more than 32 % of total private capital contributions as compared with less than 16 % in 1961.

(1) To describe the credits in question as "private" is only partially correct because of the part played by the issuing institutions in their rediscounting and because the risks attaching to them are frequently covered by establishments in the public sector.

Credits to export have rendered considerable services to the industrialization of the developing countries but they nevertheless hold three serious dangers :

- Being inevitably tied to the price of money on the markets of the industrialized countries, they are perforce dear and for this reason contribute in a very large degree to increasing the debt load carried by the countries of the Third World, which is today one of the most serious threats to their economy. It will be recalled that the debt of the Third World countries, from being almost nil in 1950 had risen to 9000 million dollars by 1955, 35,000 million by 1965 and in 1971 reached 66,000 million dollars. The total servicing of the debt (repayments and interest) costs today 6000 million dollars per annum, or two-thirds of the amount of public aid to the under-developed countries. True, not all the debt stems from export credits and not all the export credits are designed to further industrialization, but the fact remains that this way of financing the setting up of new industries adds seriously to the load of debt carried by the under-developed countries.

- In addition, the credits to export are accorded by industrialists and bankers who, while careful about immobilizing funds and risking losses, pay less attention to the profitability of the industrial plant being set up, to the probable skill of its management and to the existence of adequate outlets for its production. To speak frankly, the combination of ignorance and vanity on the part of the buyer and greed on the part of the seller sometimes leads to the building of factories which any expert would have advised against and denounced as a means, not of enriching the under-developed country concerned but of impoverishing it. That is the grave disadvantage of financing by

credits to export as compared with financing by private investment, since the private investor has a personal interest in seeing that the production unit being set up is a good one, knowing as he does that he himself will have to run it and he personally stands to gain or lose according to the profit or loss shown by the new factory.

The first-mentioned disadvantage, namely the increased indebtedness, can be palliated to some extent by combining this mode of financing with others which do not present the same disadvantages, such as private investments or public financing (subsidies or low-interest loans). The private investments and the public funds may both in theory be of local origin instead of coming from the industrialized countries. However, since we are looking at the subject from the angle of the industrialized countries and the aid they can give, it is clear that the European countries and the EEC should on the one hand encourage private investment by Europeans (see (2) below) and on the other assign a portion of their public aid to financing industrial schemes (cf. (3) below), provided always that this does not distort the production costs of competitive industries.

The second danger, namely indifference to profitability, can be attenuated in various ways:

- once again by combining credits to export with private investment;
- failing this, by means of technical assistance contracts with the industrial supplier, wherever possible;
- by urging the E.E.C. public financing bodies (EDF, European Investment Bank) to exert their influence to the utmost to

prevent the setting up of unprofitable industries and to address serious warnings to any under-developed countries envisaging setting up such industries (1). It is recalled that the World Bank has sometimes resorted cautiously, in cases of this sort, to sanctions in the shape of going back on certain other projects or deferring their execution.

2. Private investment

The advantage of this mode of financing is, as pointed out in the foregoing paragraphs, that it is inseparable from a contribution by the foreign firm which has taken the initiative to the technical and business management of the new firm and the marketing of its products. This does not mean, needless to say, that any industrial project relying on private investment is necessarily good. In some cases it can kill a thriving local craft, replacing its products by others that may be better, equal or poorer in quality but which, for an equal cost, give much less employment. Moreover, such investments may be accompanied and conditioned by unhealthy protection for an indefinite time.

This means that the authorities in Europe and the E.E.C. must not support private investment schemes without discernment.

With this reservation, what are the means at their disposal for supporting private investment in cases where it appears desirable ?

.../...

(1) True, it would seem more logical to ask the credit institutions to investigate more strictly the justification for the credits sought by the developing countries, but for the most part they consider that their chief duty is to support national exporters and not to further the sound industrialization of the Third World. One could certainly ask them to pay more attention to considerations of this kind. National credit-insurance institutions could be asked to concert their action at Community level so that security would not be given for sales of equipment goods that were economically unjustified. But it is wise to provide in addition for a measure of external supervision, although of course it needs to be informal and discreet.

- One form of encouragement consists in adding public subsidies or loans to the capital provided by private investors (see (3) below).
- With regard to taxation, considering the greater risk run by the investor, an effort should be made to achieve at least tax neutrality in respect of investments in the Third World and if possible to accord facilities in the initial stage.

To that end it is essential to generalize the conclusion of agreements to obviate the double taxation of dividends, interest on loans and sums owed, while taking care that any sacrifices made by under-developed countries in the form of reduced taxation do not in the end go to swell the tax revenue of the investor's country. When, in order to attract investment, a country decides to reduce its tax, this reduction benefits the taxation revenue of the investor's country if the latter merely sets off the amount of the reduced tax against the amount due to it. The matching credit or tax-sparing credit system removes this disadvantage by making it possible to credit an investor with tax at the normal rate prevailing in the country in which he has invested, in which case it is the investor who feels the benefit of the reduced taxation. Sometimes the amount of tax credited is higher than the tax calculated at the normal rate and so acts as an incentive.

- The role, in this field, of the insurance of capital invested against the risks of spoliation is a decisive one. It seems that most European countries now have, or shortly will have, machinery for this kind of insurance. These systems, unequal in their scope, are usually founded on establishment agreements concluded between the investor's country and the recipient country. These agreements differ considerably from one another : those concluded by the Federal Republic of Germany and by Switzerland seem to give the investor the most real protection.

It would nevertheless be desirable to supplement or replace this national insurance machinery by international insurance or reinsurance schemes. Internationalization presents three advantages :

- . it would help to standardize procedures and protection, making conditions fairer for investors from different countries and encouraging joint investments envisaged by nationals of countries whose protection systems are at present too different;
- . all other things being equal, it would spread the risks better;
- . it would not only spread the risks but help to lessen them, since it is clear that acts of spoliation, by bringing into play the payment of compensation by the insurer, provoke an unfavourable reaction in the country or countries who have to bear the cost; the more countries are involved, the greater the deterrent effect is likely to be.

Unfortunately the scheme sponsored by the World Bank for the setting up of an International Investments Insurance Agency (III A) is making very slow headway. Pending the introduction of a world system, it would be desirable for the E.E.C. to set up a Community guarantee system. If caution is preferred at the beginning, the system could be confined to investments in the associated States or to investments made jointly by nationals of two or more member countries. This machinery should be modelled as far as possible on the schemes offering the best protection to the investor. Only a guarantee covering the real value of the investment for a long enough time would be likely

to change the behaviour of investors. The fear of total or partial spoliation often leads them, indeed, to write off their investments too soon and carefully avoid reinvesting on the spot, to the detriment of the long-term interests of the recipient country.

3. Public capital

The role of public aid is for the most part lateral to industry, but it is no less decisive for industrial expansion.

It is public aid in particular which enables the necessary infrastructure - roads, port installations, telephone networks - to be set up, without which an industrial project has much less chance of being profitable.

Similarly, public aid devoted to increasing agricultural productivity (teaching correct methods of crop-growing, research to produce species that are specially productive or well-suited to the market, etc.) prepare the ground for an industrial effort directed towards local consumers made more solvent thereby and consequently promotes industrialization indirectly but powerfully.

Apart from this, can public aid serve to cover the capital cost of industrial projects? That is quite possible and very often desirable, either by financing the taking up of shares in the company by the national development bank or any other public body or by granting subordinate loans or taking up bonds convertible into shares. Such procedures, while facilitating the finding of the capital required to set up the firm, have the additional advantage of associating private individuals or corporate bodies in the developing country with the project in question.

It has sometimes been claimed that public aid could be used more systematically for interest bonuses which would reduce the cost to the borrower countries of financing their projects. But in the first place interest bonuses present a serious difficulty for the bodies giving aid, since the undertaking to keep on paying them over a long period means that the institution itself must be assured of sufficient funds for just as long a period, unless it devotes once and for all to the financing operation a capital sum calculated on the basis of the amounts it will be required to pay out during the period in question. On the other hand, since we are speaking here of financing industrialization, it may be open to criticism to finance the setting up of industries in competitive sectors on terms too different from the price at which rival firms can get capital. True, there are cases where the heavy handicaps under which industry labours in one or other developing country (distance from the coast, need to resort in a large measure to costly aid from outside the country ...) may justify such action, but care must be taken to remain extremely cautious and moderate, especially when it is a matter of financing investments with a high capital component.

In the foregoing paragraphs we have looked at the influence public aid can exert on industrialization by reason of the purpose to which it is devoted. But it should be added here that whatever the purpose to which it is put the granting of public aid can be the subject of negotiations favourable to industrialization. Since industrialization is held considerably in check by the small population of many of the developing countries, every effort must be made to encourage them to form customs unions or free trade associations. One might envisage according certain advantages in the matter of public aid to the countries which made the most determined effort in that direction.

INTELLECTUAL AID

1. Intellectual work prior to industrial investment

- a) Information about the prospects by the under-developed countries for the siting of industries could well be assembled systematically both by such countries themselves, as far as their means allow, but above all by national or international organizations responsible for development aid.

UNIDO, whose function is precisely to promote industrialization, organizes meetings where representatives of the developing countries come face to face with investors from the industrialized countries to debate with them the projects the former hope to see set on foot. Meetings of that kind have already been held twice in Asia and twice in Africa but the experiment is still too recent to allow a definitive judgment to be passed on it. It would seem that the system is improving. Unfortunately, too many of the schemes put forward are inadequately worked out and the risk is that investors will grow tired of travelling to take part in such meetings.

- b) More interesting are the specific studies of the possibility of setting up industry in a given country of the Third World. In this sphere, over-simplifying somewhat one might say that most of the intellectual aid given falls into two categories : on the one hand vast pieces of rather academic research which show the possibilities but without the precision and detail required as a basis for the investment of capital and on the other hand over-concrete studies by a private foreign firm or group, carried out in support of an already settled intention in line with its general policy. Between these two categories a third is insufficiently represented, namely that of studies at once concrete and precise but carried out before (and not after) the emergence of any settled intention on the part of a private firm.

In other words, it can be seen that in non-industrial spheres (infrastructure, agriculture, etc. ...) the institutions giving aid have understood in recent years the need to take part in the working out of projects which they are subsequently to finance, but this good tendency is not to be observed to nearly the same extent in connection with industrial development. Thus the World Bank, which had the fruitful idea of setting up teams in Africa to detect possibilities and work out schemes has practically never done this in regard to industrial development. This state of affairs is clearly due to the recognition of the priority of the private sector in industry. That priority, wherever it is recognized by the political philosophy of the under-developed countries concerned, is quite legitimate but it should not result in an inadequate effort on the part of the bodies giving aid to contribute to the working out of satisfactory industrial projects.

One of the ways of sidestepping the difficulty just described is to resort more generally to a procedure sometimes followed which consists in an aid organization financing a feasibility study but having it carried out by an industrial group in the sector concerned (on the Ivory Coast the Aid and Co-operation Fund adopted this plan in order to work out a rubber-planting scheme, and passed a contract for the purpose with a large European rubber group). It is preferable that the financing effort of the aid organization should cover the greater part but not all of the cost of the study. It is suggested that the E.E.C. envisage developing this kind of action.

Wherever the under-developed country is a small one, this action should be multinational rather than national in character. However, it is often illusory to envisage permanent groups of very large dimensions. It would be more practical to suggest

the formation of ad hoc groups of two or three countries concentrating on a small number of branches of industry for each of which one of them would be primarily responsible (see Part II, A above, in fine, for remarks on the Chad-Cameroun agreements). One of the most fruitful aspects of the technical assistance provided thanks to European aid might consist, precisely, in promoting agreements of this latter kind.

Here three recommendations may be made :

- Before devoting studies of this kind to new branches of industry, it is often worthwhile to begin by studying the possibility of expanding existing industries : if a certain regional agreement were signed, for example, what industry already existing in one of the countries concerned could increase its capacity and so reduce its production costs and become much more competitive - perhaps even capable of exporting outside the region itself ? Another advantage of expanding industries in this way is that the management problems, always so difficult to solve in under-developed countries, are solved in this case from the start.
- If an agreement of this kind allocates industry X to country A and industry Y to country B, it does not seem advisable to ask A to give up permanently the idea of allowing any plant in branch Y to be set up in its territory (or vice-versa). Such a permanent undertaking would savour of malthusianism. The undertaking to be asked of country A should rather be that, in the event of a plant in branch Y being set up in its territory, it will be accorded no discriminatory aid and no protection vis-a-vis goods imported from country B.
- Lastly, the exchange of favours between the two countries need not necessarily be concerned with industry on both sides. Favourable terms accorded to an industry in country A to export its products to country B might very well be offset by facilities given to country B to export agricultural or stock-rearing produce to country A.

Thanks to these factors making for flexibility, it is probable that the studies in question will have more chance of leading to realistic proposals.

c) The industrial technologies of the Western world have generally speaking been developed with a view to :

- using the natural produce of the temperate zones, or else tropical products when they can be transported without too great expense, but always to supply the needs of countries in the temperate zone;
- reducing the cost of manpower at the price of expensive equipment, seeing that in the most advanced countries it is usually more economical to resort to manufacturing processes with a high capital component.

It follows that the transfer of Western technologies to the Third World often results in an economic nonsense. One of the best purposes to which Western technical assistance might be put is precisely research to develop techniques more suited to the under-developed countries, whether it be a matter of using tropical products not used today, in order to satisfy a demand for industrial goods which are not necessarily the same as those wanted by the Western countries, or of developing manufacturing processes to achieve the best result possible on the basis of a process with a high labour component. Here there is too great a tendency, under the influence of the West, to think that industrial progress is inevitably bound up with evolution in the direction of a more capitalistic industry. On the contrary, progress consists in improving the quality of the product or lowering its price, or, if possible, both at once. Depending on demographic, economic and social conditions, this result can be achieved either by techniques relying heavily on capital or by techniques with a low capital component. One can imagine a modern technique calling for an abundant supply of manpower, provided that an effort were made

to perfect it and to develop the necessary equipment, which would not normally be found in the more industrialized countries.

2. Supply to the under-developed countries of the "grey matter" necessary for the proper functioning of industrial investment

- a) We have seen that private investments alone already imply a considerable amount of technical assistance to the new industry.
- b) In certain sectors of industries such as the public services, or because of political options of a general nature, certain developing countries refuse to call on private investments, especially from abroad. They desire, however, in order to develop their industry, the help of private techniques and capital and, for lack of sufficient experience, they want not only the capital equipment but also full-scale technical assistance. Thus it comes about that a maître d'oeuvre from an industrial country is asked to work out a whole project, to choose and install the equipment, to get production under way and to assist for a variable period with the administrative and commercial management of the new firm. This is a new complex type of contract which safeguards the receiving country's wish for independence, while enabling it to make sure of the firm's sound economic management by calling in a capitalist from abroad.

The number of such operations to date is limited because it is chiefly the countries of the East, and more recently Algeria, which are interested in this system. The lead was taken, nevertheless, by certain Far-Eastern countries, notably Indonesia which, anxious to further their industrialization and at the same time promote their exports, proposed to foreign investors a similar manner of financing new industries, to be paid for by the purchase of part of the production by the entrepreneur who had set the factory up (known as the "production sharing" system).

The investors, apart from the consideration that this system enables them to make sure of a supply of goods they need (raw materials, semi-finished goods, more rarely machine parts) are fairly hesitant as to the possibility of introducing this system more generally. The control of the firm set up passes indeed fairly rapidly into the hands of the recipient country and the firm which has thus concluded a monitoring agreement runs the risk of being faced with a competitor over which it has no hold and which may reduce its future prospects of expansion. Without needing to be rejected outright, this system requires special precautions to be taken to prolong over some time a form of co-operation that is advantageous to both sides.

3. Training the personnel needed in the under-developed countries

It is clear that one of the major obstacles to the industrialization of the less-developed countries is the shortage of qualified people at all levels. This forces industrialists (foreign or local) to recruit a large part of their highgrade and even middle-grade personnel abroad, whence, on the one hand an increase in production costs and on the other the creation of psychological problems among the local population. This shows the decisive importance of aid for training purposes.

The first kind of aid that the developed countries could give the Third World countries in this respect would be to avoid receiving aid from them. Here we are referring to the "brain-drain", whereby all the best and most highly-trained elements in the under-developed countries are caught up by the attraction of richer countries which offer them much better salaries and conditions. The Inter-American Economic and Social Council of the Organization

of American States has just published the 1969 figures for university graduates in each Latin-American country as well as for those having emigrated from each country to the United States. Among the Central American countries, for example, the proportion reaches 7.1 % for Panama, 9.3 % for Costa Rica, 15.3 % for Honduras, 21.7 % for Guatemala, 25 % for Nicaragua and 33.8 % for Salvador. When one remembers the great cost of higher education, one could say that technical assistance, contrary to all reason, is being given to the industrialized countries by the Third World. It is true to say that it would often be inhuman on the part of the advanced countries to close their doors to graduates from the Third World whose only prospects at home are unemployment if not imprisonment. But at least it would be fitting that the rich countries should refrain from systematically recruiting graduates from the under-developed countries and leading them astray.

But let us turn now to positive aid. Just as, with reference to financial aid, we could say that gifts and loans for the development of infrastructure or non-industrial sectors helped to further industrialization, so we can say that any aid given to education in an under-developed country promotes industrialization, even though it be basic, primary, secondary or higher education.

However, the emphasis should be laid here primarily on aid for occupational training, whether for executive staff on the one hand or for high-grade technicians, managerial staff and heads of firms on the other.

Executive staff cannot be trained according to methods approaching those of the industrial countries except in countries where industrialization is no longer an isolated phenomenon in economic development. In such cases, wherever employment opportunities in a specific branch exist on the spot it can be envisaged setting up technical training centres, which mean heavy expenditure on the

purchase of equipment and teaching materials as well as on installing and paying instructors. Here again the under-developed countries are often too small to justify centres of this kind for one country only.

Where the basic education is very inadequate and industrialization has scarcely begun, it is more sensible to keep to empirical solutions, that is to say action to meet specific cases bound up with industrialization programmes already launched or shortly to be so. The aim here is to train on the spot the skilled personnel required to implement and run the projects in question, that is to say, upstream from the investment, personnel to start the project and operate the infrastructure involved, at the level of the investment, personnel qualified to make the best use of it and downstream from the investment, personnel qualified to derive the greatest profit from the production (sales, servicing, etc.). As regards the two latter categories, it is usually the investor who takes charge of the training. But even so, since the cost, as we have seen, is so high, it would be desirable for the E.E.C., thanks to a further diversification of the operations of the European Development Fund, to assume more systematically the cost of the training on which the success of the projects it supports depends.

The problem of training higher-grade technicians and managerial staff presents itself differently, too, according to the level of economic development of the countries concerned. For the countries that are less advanced industrially it does not seem very realistic to envisage setting up higher technical schools or higher schools of commerce and business management. There would not be enough students to allow high-quality training to be provided at a reasonable cost. It is accordingly in-service training that should

be promoted. A course spread over several years in the form of evening classes and seminars run by employers' organizations or local Chambers of Commerce and Industry, calling on the experience of foreign industrialists, businessmen and bankers living in the country, would seem likely to be able to meet a large part of the supervisory and managerial staff requirements. It is also the best way of building up a local "head of firm" class on the basis of existing small industrial firms and businesses.

In addition, it would of course be advisable to continue offering scholarships to people from the developing countries to enable them either to take a higher education course in an industrial country of Europe or to spent time working in a European firm.

C. COMMERCIAL AID

As the exports of the under-developed countries consist chiefly of raw materials, the commercial aid given by the industrialized countries to the Third World must consist in the first place in assisting them to market their produce at prices stable and high enough and in sufficiently large and regular quantities. This is one of the most important ways of helping the developing countries. Even from the point of view of their industrialization it is a decisive factor, both because assistance in marketing the raw materials produced increases local prosperity and hence the demand for manufactured goods, thus encouraging the setting up of industries, and because, by giving States a larger and more reliable income, it enables them to finance the investment budgets without which industrialization is impossible.

Increasingly, however, commercial aid to the Third World must come to consist in marketing assistance for the industrial production of the developing countries. The substitution industries have by definition a practically sure internal market, but the other kinds of industry (value-adding industries, industries founded on a favourable manpower situation) need markets in the industrialized countries. Even the substitution industries, when they expand, have to seek outlets for part of their production on the world market.

What can the Western countries do in this respect ?

1. Marketing aid

A certain number of moves have been made in the matter of marketing aid, notably the setting up of the International Commerce Centre, depending on G.A.T.T. and U.N.C.T.E.D., which conducts market surveys, studies export marketing techniques and organizes training courses and consultations on marketing promotion. The E.E.C. is also proposing to introduce a medium-term action programme to promote African and Malgasy products on its market; the programme should be extended to manufactured goods. Mention should also be made of the German move in both the public and private sectors to increase imports from the under-developed countries. It is desirable that national and international efforts of this kind should be constantly reinforced.

2. "Generalized preferences" for Third World countries

A more substantial, and in some respects more revolutionary, form of action consists in introducing legislation and tariff and other regulations designed to support artificially the partial conquest of Western markets by industrial goods from the under-developed countries. Here the E.E.C. has just taken the lead in the direction of a preferential system in favour of the Third World

by introducing a measure in 1971 whereby 96 countries recognized as under-developed and belonging to the group known as the group of the 77, enjoy for their industrial products a duty-free quota whose size is calculated having regard, for each product or group of products, to E.E.C. imports from the Third World and to a percentage of total E.E.C. imports from other countries. In spite of the precautions taken to restrict the effects of this measure in certain cases, the principle remains extremely important : the E.E.C. has taken the first step in the direction of generalized preferences in favour of the new industries growing up in the Third World. For certain sectors of European industry this represents a sacrifice which should not be underestimated. In any case, it is unlikely that Europe will be able to go any further in this direction unless the other industrialized countries follow suit. Accordingly it is recommended seizing the opportunity afforded by the world trade negotiations in 1972-73 to urge the Western world as a whole to follow the lead given (for the present only Norway and Japan have done so).

3. Relaxation of quotas

The quotas that the E.E.C. has not done away with concern for the most part products which primarily interest the under-developed countries. It would certainly be unrealistic to contemplate the pure and simple liberalization of trade with the Third World. The possibilities in each case have to be studied by the authorities in collaboration with the branches of the economy concerned. This at least must be done, but it must go hand in hand with an adaptation of European industry. We shall return to this in Part IV below.

Let us merely mention here the Geneva Agreement on import quotas in the industrialized countries of the West for woven cotton from various under-developed countries, namely India, Pakistan, Korea, Hong-Kong and Egypt, together with Japan. This Agreement was renewed in 1970 for another three years.

4. Marketing aid for the industrial production of certain under-developed countries

A small fraction of the Third World receives more substantial aid from the Community than results from the generalized preferences. Some countries enjoy the intra-Community regime for their industrial exports which, as a result, enter E.E.C. territory duty-free and without any quota restrictions. They are the following :

- the countries associated with the Community under the Yaoundé Conventions, i.e. the former French territories South of the Sahara (except Guinea) and Madagascar, Zaïre, Ruanda, Burundi (former Belgian territories) and Somali (for the most part former Italian territory);
- the three States of East Africa - Kenya, Uganda, Tanzania;
- Morocco and Tunisia.

The relaxation of the principle, more frequent in the case of the two last-mentioned categories than for the parties to the Yaoundé Conventions, chiefly concern agricultural commodities.

This privileged situation, which dates back to far earlier than the granting of generalized preferences, has sometimes been attacked, but it must not be forgotten :

- that it would be over-simplifying to act as though there were only two kinds of country - industrialized and under-developed. Africa is in many respects more under-privileged than the rest of the Third World, since it is there that education and training are on the whole most backward. Furthermore, the political patch-

work for which Europe bears a share of responsibility (although it would be wrong to blame Europe for everything) is a handicap to economic development in general and to industrialization in particular. The vast land mass makes access to a large part of the African Continent very costly and this is a highly disadvantageous factor. Inasmuch as we admit that there are significant inequalities among the developing countries, the same arguments which justify commercial aid to the group of 77, as it is called, doubtless also justifies extra aid to some of them.

- that Europe has very special historical and geographical ties with the countries receiving special aid. We are not living in an abstract world. Europeans may be ready to make exceptional sacrifices for countries with which they have, or have had in the past, very special relations; to force them to forgo that effort is not likely to incite them to any additional effort in favour of other countries.

There is no doubt that considerable benefit to the industrialization of an under-developed country may result from its incorporation into an advanced economy. In the history of the rapid development of Canada, Empire preference played no small part, since United States firms setting up in Canada were penetrating a zone which included the British market (whose relative importance was much greater then than now).

It is true that the incorporation of an under-developed country into a highly-industrialized economy may sometimes nip certain industrial possibilities in the bud unless the under-developed country in question is able to protect, at least reasonably and temporarily, its infant industry. This has been well understood by the European countries and notably by the Community which, in the association agreements just referred to, allows the associated countries to protect their budding industries against exports from Europe.

True, the terms of the Common Market association treaties will have to be reviewed in the months ahead, both because of the entry of new members, particularly Great Britain, who brings in a whole new network of special relations, and because of the trade negotiations planned, at the request of the United States, between the large industrial countries of the world, but it seems desirable to preserve the main features of the present provisions in favour of industry in the associated countries.

IV - Consequences for Europe

The policy of aid to the Third World for its industrialization has for the industrialized countries, and notably for Europe, certain consequences which need in conclusion to be underlined.

Considered as a whole, the industrial growth of the Third World constitutes a favourable factor for economic expansion and especially for the industrial expansion of the advanced countries. This growth implies the purchase of equipment, hence outlets for the capital goods industries of the industrialized world. Furthermore, the diversification of production in the developing countries and the rise in the employment rate and the standard of living are reflected in an expansion of international trade; experience never ceases to confirm the truth of the "Balfour law" according to which trade between countries expands in direct ratio to their industrialization. It may be that, together with the expansion of trade relations with the Communist countries, trade with the Third World will constitute one of the decisive factors, in the decades ahead, making for Western industrial expansion. This rapid increase in sales to the East and South, thanks to the quick growth of solvent demand in those two parts of the world, could well play in the second half of the XXth century the same part as the growth of the working-class consumption has played in the past. It is a matter in both cases of vast dormant markets, founded on an enormous non-solvent demand, being awakened by economic growth and a rise in individual incomes.

But while, seen as a whole, the industrialization of the Third World is beneficial to Western industry, seen in detail, on the contrary, it can imply severe blows to the interests of certain sectors of industry or certain regions in Europe. These ill-effects, apart from the direct harm they do in Europe, can in the long run be harmful to the Third World, inasmuch as they may provoke irrational

defence reactions and protectionist reflexes. There is a great risk, if care is not taken, of seeing the least advanced sectors of industry in the industrialized countries rise up against the policy of aid to the Third World with as much vehemence on the part of the workers as of the employers.

The contemplation of this risk calls forth three suggestions :

1. Aid to the under-developed countries can no longer be regarded as a sort of almsgiving to the poor countries, chargeable of course to the receipts of the Western industrial economy, but having no real effect on either its structure or its operation.

Already the stage reached by industry in the Third World is such that we can no longer discuss the industrialization of the under-developed countries without certain thoughts about it affecting our planning of European industrial development. National development plans must take account, in their sector guidelines, of the effects of the industrial growth of the Third World. Two parallel lines of action must be followed - one consisting in gradually opening up the European market to industrial goods from the Third World and the other in adapting European industry to the situation thus created. We must neither be careless enough to say "I shall open my doors wide to the products of the Third World and afterwards see to adapting my economy", nor selfish and hypocritical enough to say "I shall adapt my economy first and open my markets afterwards". The two must go cautiously hand in hand along a path mapped out by the countries of Europe in consultation with their national industries and with one another.

From such consultations and the studies they would necessitate a sound international division of labour might emerge. It could not result from any over-simplified sharing of functions; there is no question, for example, of saying "here we will have manufacturing and there primary production", but neither can it be a

question of distinguishing arbitrarily, among the manufacturing industries, two broad kinds, one of which should more or less speedily be handed over to the Third World. The possibilities of specialization have to be looked into for each branch, having regard to all the facts. The Third World will sometimes seem suited to undertaking, by sub-contracting or other means, a part of the manufacturing process which is not necessarily either the first or the last stage. Or again, the Third World may prove particularly qualified to produce certain grades of a given article, the other grades being produced in Europe - and here again it is not self-evident that the most refined processes will always be reserved for Europe. Thus the Bata group, for example, has ceased the production of cheap shoes in India and started it up in the United States by highly automated processes, while India has taken over the production of more expensive footwear which cannot be entirely mechanized.

2. It remains, nevertheless, that in many cases this policy can lead to a sharp drop in the growth rate of European production capacity in certain sectors of industry and to the Third World benefiting from a large proportion of the growth in demand in the same sectors. (On the other hand, care must be taken not to run the risk, by an incautious import policy, of lowering the present level of European production).

On these grounds, everything that can be done in the countries of Europe to increase the mobility of manpower from sector to sector and region to region and to lessen the opposition to structural changes acts in favour of the redistribution of industry in the world and of the industrial development of the under-developed countries. Today the opening of markets to industrial imports from the Third World is only one of the causes, and not the most important, of the Structural changes necessitated in Europe. It is probable that it will gradually become one of the most significant causes.

3. For various reasons, it would seem advisable to undertake in the years ahead a radical review of the principles governing world trade :

- The United States are calling for world trade negotiations in which the problem of the opening of frontiers to the industrial products of the Third World are deeply implicated.
- Great Britain's international ties, both with the under-developed countries and with the rich countries, mean that her entry into the Common Market will inevitably be accompanied by a recasting of the present E.E.C. system of agreements and association.
- Certain basic provisions of G.A.T.T. have received a buffeting in recent years. President Carlos Besa, at the opening of the last session of G.A.T.T. (16 November 1971) announced that in the eighteen preceding months the G.A.T.T. Council had been called upon for a decision on ten new preferential agreements and that the process was far from being over. If the most-favoured-nation clause was constantly circumvented in this way one might ask whether it would not be worthwhile to make an effort to work out and draw up a new set of rather more flexible principles, since to keep a rule which it had become natural and customary to disregard amounted in the end to having no rule at all.

When thinking out these new principles, the under-developed countries should be allowed a fair amount of latitude in their trade relations with one another and the privileged treatment they see fit to accord each other on a reciprocal basis. We have seen (Part II, A in fine and Part III, B, 1 b) that ad hoc agreements in respect of a small number of industrial products on each side and perhaps conferring mutual tariff benefits and discriminatory treatment in the matter of quotas can be of decisive importance for the industrial growth of countries whose national market is too small. More generally, indeed, and even outside the regional framework, encouragement should be given

to trade in industrial goods between the countries of the Third World. Experience seems to show, contrary to what reason suggests, that it is among countries which have reached the same stage of development and have comparable economic and social structures that, even if their production extends over roughly the same sectors, trade develops most intensively. No obstacles should be raised but, on the contrary, every encouragement should be given to the introduction of mutual preferences among newly industrialized countries.

But perhaps we should conclude on a more general note. A quarter of a century after Havana and Bretton Woods, the coming year, or perhaps rather the coming years, will see the discussion of the new world trade and monetary system. It is essential to arrive at solutions which, although different from the earlier ones, fulfil the same function in a different context, namely that of preserving a climate of expansion in international trade, which requires precautions to be taken in the first place to see that individual States do not abruptly introduce unilateral protection measures. By doing its share to devise these new solutions and have them adopted, Europe will be doing the greatest possible service to the Third World - in the first place because in the world of tomorrow industrial protection measures are likely to be directed first and foremost against new industries and in the second place because, among all the conditions of the speedy industrialization of the Third World that can be enumerated, by far the most important is the maintenance, in the world as a whole, of the expansionist trend which mankind has been enjoying since the end of the last war and which must be made at all costs to continue.

CONFERENCE
"INDUSTRY AND SOCIETY IN THE
EUROPEAN COMMUNITY"

REPORT N° 10

PROMOTION OF INDUSTRIALIZATION IN
THE DEVELOPING COUNTRIES;
IMPLICATIONS FOR COMMUNITY INDUSTRY

by

H. VETTER

COMMISSION OF THE EUROPEAN COMMUNITIES
VENICE - 1972

THE INDUSTRIALIZATION OF DEVELOPING COUNTRIES
ITS REPERCUSSIONS ON THE COMMUNITY

On the Problems of Industrialization

At the beginning of the second Development Decade the General Assembly of the United Nations made a proclamation calling upon the governments of all countries to adopt measures for promoting a **rational** system for the international division of labour.

This proclamation was referring to a situation which is regarded as one of the main causes of the economic underdevelopment of the Third World countries; namely, the fact that in today's system of international division of labour the developing countries supply the world market primarily with agricultural goods and raw materials, while the production of industrial goods remains a near monopoly of the developed countries.

For a host of reasons the developing countries feel that this state of affairs is intolerable. First of all, they look upon it as a perpetuation of colonial dependency.

If one recalls the time when the colonial powers, in order to safeguard raw material and markets

for their growing industry, claimed for themselves a trade monopoly with their overseas "possessions" and prohibited the setting up of factories in these areas, it is understandable that the developing countries, amid today's market structure, get the impression that outside of formal political independence nothing has changed in their relations with the industrial countries.

It is not only supposed or actual dependence of developing countries on industrial nations that provokes a demand for changing today's world market structure. A second reason stems from the fact that the developing countries see the market disposal of their products endangered. Due to the little elasticity in the demand for agricultural products restraints are put on efforts to expand these goods. Conversely, the replacement of certain raw materials with synthetic industrial products by the industrial countries to help to reduce their dependency on their suppliers constitutes a grave threat to the developing countries who export these particular raw materials.

Finally, in this connection, the much discussed problem of the deterioration in the terms of trade must be mentioned. It is not the place here to give a definitive answer to the question whether the trend of prices for industrial goods and raw materials really denotes an ever-widening rift or whether still more criteria must be assessed. As I see it, however, it can be claimed that trade today between the industrial nations and the Third World countries represents an unequal and moreover adverse exchange for the latter.

From this appraisal of the impaired position of the developing countries in the world market arose the concept that their situation must be improved by diversifying the products they supply; through intensive industrialization these countries should be enabled to export industrial projects. Industrialization thus became one of the focal points of every development programme; in fact, many governments pushed industrialization so much that in other economic sectors, especially agriculture, it caused greater detriment.

For us, industrialization cannot be the ultimate goal of development policy. On a previous occasion, I have stressed that from the trade unionist standpoint the development in the Third World emerges as the process of emancipating mankind from the natural, economic and cultural constraints as well as the dependence on social policy. If we approve of the industrialization of the developing countries, then it is above all because we can see via industrialization and its consequent creation of new employment a possible solution to a problem which the ICFTU has repeatedly indicated as a top priority: the problem of unemployment.

The Development Policy of the European Community

The six countries of the EEC have declared that, beside the aid which they are granting as individuals to certain developing countries, they are ready as a Community to contribute to the development of the Third World. This readiness takes practical shape in a series of Conventions:

- The Yaounde Convention with the Associated African States and Madagascar (AASM)
- The Arusha Convention with the three East African States - Kenya, Uganda and Tanzania.
- The Association Convention with Nigeria and several countries in the Mediterranean area: Morocco, Tunisia, Lebanon, etc.

The Commission of the EEC, however, had to state in its Memorandum of 27 July 1971, that a Community policy had not as yet been formulated. The Commission mentioned the risks of confusion over cooperation in development policy, because the Community trade policy is established while technical and financial cooperation are still under the jurisdiction of individual Member States.

The Association of the AASM

If one examines the development of cooperation by the Community with the developing countries, these shortcomings become understandable.

Certainly the first Association Treaty in 1958 was born of the need to find a special regulation for the then colonies of EEC Members (France and Belgium). In accordance with Part IV of the Treaty of Rome, these territories were associated with the newly founded Economic Community. On gaining independence the new states, with few exceptions (Guinea) expressed the wish to remain associated with the Community; so in 1963, on expiry of the first Treaty, the Yaounde Convention was signed (Yaounde I) and again on expiry in 1969 the second Yaounde Convention.

The aim of the Association Policy follows from Article 131 of the EEC Treaty: "Aim of Association is the promotion of economic and social development in the (overseas) countries and territories...Association is primarily to serve the interests of the inhabitants of these countries and territories and promote their well-being, in order to meet their aspirations for economic, social and cultural development." In the first Yaounde Convention, the allusion to industrialization is much more direct. It speaks of the "diversification of the economy and industrialization of the associated states with regard to consolidating their economic balance and economic independence."

The EEC co-operation on development policy turns on two pivot points:

- Organization of an immense trading area with maximum freedom of movement to ensure markets for the Associated Countries.
- Grants of financial aid for the urgently-needed investments.

Expansion of the Markets

The Yaounde Convention moreover favours the further development of trade between the EEC and the Associated African States and Madagascar (AASM), but also conforms with the intentions of the contracted parties towards promoting trade relations with Inner Africa and international co-operation. So the EASM countries can maintain or set up customs unions or free-trade areas and negotiate treaties for economic co-operation, both between one another and with third countries. Moreover, for the promotion of Inner African trade relations, the most-favoured-nation clause was restricted insofar as the Associated States, in setting up customs unions or free-trade areas, are not bound to extend to the EEC the advantages which they grant to other developing countries.

The European Development Fund

The financial policy instrument of the Association is the European Development Fund (EDF). The means earmarked will be given as non-repayable grants to economic and social investments, if these projects serve the development of infrastructure in the Associated Countries. The amount of the non-repayable grants was:

For the 1st Fund for 5 years up to 581 million Dollars
(1958-1963) (Rome Treaty)

For the 2nd Fund for 5 years up to 730 million Dollars
(1964-1969) (Yaounde I)

For the 3rd Fund for 4 years up to 900 million Dollars
(from 1.1.1971) (Yaounde II)

With these means projects are financed, which are submitted by the relevant government and which as far as possible can be interpolated within a global development programme. But in the event relatively few industrialization plans have been put forward. Therefore, the EDF has managed to intervene directly in production structure only in agriculture and the social sphere. Industrialization on the contrary remains in future primarily in the hands of the private economy - a point I will investigate further.

The European Investment Bank

The European Investment Bank (EIB) came into being with the Treaty of Rome in order to assist the balanced and smooth development of the Common Market in the interests of the Community: In the early years of its life from 1958 to 1962 the Bank concentrated its whole activity on the granting of loans to the Member States of the EEC. It is quoted in Article 18 of the Bank's charter that: "The Bank can...also grant loans for investment schemes, which are to be implemented wholly or partly outside the European territories." This definition is applied within the framework of the Association Conventions, which provide for financial aid from the Community. Within the first Yaounde Convention the EIB were able to grant standard loans up to an amount of 70 million Dollars; with the second Yaounde Convention the sum was raised to 100 million Dollars.

Co-operation with Developing Countries

The conclusion of the Treaty of Rome provoked criticism throughout the world. The remaining countries trading with the Six were afraid of losing this big market. There was talk, especially in the U. S. A., of protectionism.

But criticism from the developing countries was also loud. In particular, the Latin American States protested against the preference shown to the African Associated Countries. So the Community was faced with the task of striking a balance between its policies towards the EASM countries and the rest of the developing nations.

Initially, this came to pass through further Association Treaties, as for instance with the three East African countries Kenya, Uganda and Tanzania, within the Arusha Treaty 1968; and with a series of countries in the Mediterranean area: Morocco, Tunisia, Lebanon, Turkey and Greece.

Customs Preferences

As a supplement to its policy of co-operation with individual countries or groups of nations within conventions, which did have a rather exclusive character, the Community was anxious to promote worldwide measures which would be generally equitable with the interests of the Third World. This happened particularly within the function of UNCTAD, where two problems stand out:

- The stabilization of raw material prices
- The facilitation of imports of semi and fully-finished industrial products from the developing countries.

But the solution of both these problems points up different degrees of difficulty; for while in the first case a re-organization of the raw material world market involving the assent of all raw material buyers (primarily the industrial countries) is necessary, it is still left to each nation to open her market to imports if she has no fear of endangering her own industry.

First among the industrial countries the six members of the EEC decided early last year to grant the developing countries customs preferences on their semi and fully-finished goods. These were applied from 1 July 1971. Except for the AASM group, who with reason feared these overall preferences, since they must now reckon with keener competition for the European market, the developing countries reacted positively to this decision. The Latin American States particularly welcomed this step, all the more when in August 1971 the President of the U. S. A. announced the introduction of a 10% import tax.

The Secretary General of UNCTAD also expressed his approval and the wish that other industrial countries would follow this example.

Despite these positive echoes, the granting of customs preferences must not be overvalued; for it cannot be claimed that the Community countries have altogether selflessly considered the interests of the developing countries. The import of semi and finished products from the Third World is certainly not possible on an unlimited scale and the restrictions are aimed at limiting the preferences in areas where some of the developing countries have reached a certain competitive level or where serious disturbance of the home industry is imminent.

The Problems of Foreign Investments

In connection with the question of customs preferences, we must investigate a problem which in the discussions on the development policies of certain countries of the Third World has become very controversial; namely, the investments by foreign private entrepreneurs. I have already mentioned that the means provided by the EDF are primarily applied to projects serving the development of infrastructure,

While the build-up of industry itself is primarily left to the private economy. If we speak of private economy here, it must be understood that due to the lack of capital in the developing countries, we are dealing here first of all with private foreign entrepreneurs. This means therefore that granting customs preferences to the semi and finished industrial products from the Third World countries often falls to the advantage of the industrial entrepreneurs from the industrial countries who have invested in the developing countries. A similar case occurs, if a group of developing countries create a joint regional market, as for instance, in the five nations of the Central American Common Market, and then foreign entrepreneurs - in this case North Americans and Mexicans as well - invest in one of these countries, so that they not only get round the tariff walls but even enjoy protection by tariffs and the advantages which were anticipated for the new investments.

Such remarks bring up the question as to how the investments of private, foreign entrepreneurs are to be judged from the viewpoint of aid to the Third World countries.

From the angle of the industrial countries, these private investments are mostly regarded as a form of aid to development. But many developing countries think otherwise; they see a two-fold danger here in that through the domination of the economy by the big international undertakings the government loses control of the country's economic development and is no longer able to carry out its own development policy. Secondly, in the free transfer of profits to the home state of the foreign entrepreneur they see a heavy loss for their own economy.

It is interesting to note that the private investors rather shared the opinion of the developing countries. In the 1970 hearing session of the Bundestag, the entrepreneurial camp emphatically declared that economic activity abroad and thus also in the developing countries had originally absolutely nothing to do with development aid. Entrepreneurial motivation is clearly and distinctly commercial and the future role of the economy is seen in the intention of the enterprises to make profits even in the developing countries.

The positive effects of foreign investments and their commercial and profit-oriented motivation were in no way contradictory in themselves. Although they are indicated in the statistics on private contributions to developing countries solely by the amount of the transferred capital, their special worth lay in the bringing over of values not directly expressed in terms of money; namely, production and management experience, assistance in training and spurs to research and development.

With this qualification of the importance of capital transfers into Third World countries, the importance of their re-transfer is also certainly qualified. This takes the wind out of the sails of the developing countries' argument that transfer of profits would represent a sacrifice for them.

Many governments today are trying to limit the transfer of profits and want to oblige the foreign entrepreneurs to reinvest a proportion of their profits. These measures are provoking loud protests both from the entrepreneurs and the governments of the industrial countries in sympathy with them.

Up to now the five members of the so-called Andes Pact (Columbia, Ecuador, Peru, Bolivia and Chile) have formulated the most logical and systematic policy towards foreign entrepreneurs. In the charter for the joint treatment of foreign capital, which they ratified early last year, the conditions for investment by foreigners in their countries are laid down. In the preamble the importance of foreign capital for development is recognized and welcomed insofar as it conforms with the adopted rules attuned to the economic goals of the countries and so observes their real interests. Then the conditions are stated. They cover three all-important points:

- the sectors where investments may be made
- to what extent the national investors must participate
- the proportion of the profits that must be re-invested

These measures were very sharply criticized at the outset: the governments of the developing countries should be allowed so much autonomy that they can implement the policies which they see as right for the development of their country and should not have forced on them any models which may have proved themselves elsewhere.

Summary

In trying to summarize, we can note that from its foundation the EEC was faced with problems in its co-operation with the Third World countries. For historical and geographical reasons the crucial items in the EEC's activities on development policy (the Associations) cover a relatively narrow field. But the EEC is anxious to adopt (customs preferences) or promote (raw material agreements) measures which generally match up with the interests of the Third World.

The need for formulating a real Community policy and better co-ordination of the development policies of the Community and Member States was becoming clearer all the time. The prospective entry of four West European nations into the Community will certainly make co-ordination even more urgent.

With the enlargement of the Community, the Member States will be obliged not only to harmonize their concepts of development policy but also to reconsider the forms of co-operation with the developing countries.

For when Great Britain enters, the dialogue between the Community and the Associated States must be extended to include the Commonwealth Members. It could also provide an opportunity to answer the fundamental question whether the Community is to retain the regional focus of its development policy or expand its activity to the entire Third World without discrimination or preferences.

The harmonizing of co-operation on development policy is also to occur among the individual governments of the developing countries. I said previously that the industrial countries should not try to foist particular models onto the Third World but must respect their avowed objectives. This is not to mean that all decisions must be accepted.

From a certain South American country one hears proud reports on the speedy development of her economic growth. These results seem, however, to have been attained at the expense of investments in social infrastructure.

As I see it, this is where the criterium of co-operation should be apparent. For us, development policy is a policy which has as its goal the emancipation of mankind. If the priority question arises of economic growth versus improvement of living conditions, then we take the second choice. If a government neglects such important problems as improvements in income distribution and the employment picture or the expansion of social provisions in favour of economic growth, then its decision is to be respected, but in such circumstances there can be no question of co-operation. However active private entrepreneurs may be, if they see the possibility of reaching the goal of maximizing profits, the policy of the public authorities is to be guided solely by social criteria.

The Role of the Trade Unions

My comments up to now applied to overall problems involved in the co-operation of the EEC with the Third World relative to the industrialization of these countries. These thoughts would be incomplete if we did not touch on a theme especially close to our hearts; namely, the contribution by the free Trade Unions to social progress in the developing countries.

That we should contribute is, as I see it, beyond question; for as I have said earlier, the development in the Third World from the trade union viewpoint appears in parallel with the struggle for free movement of labour movement in the "first world." The question which we must therefore examine is: how can we contribute to the solution of the twentieth century social problem?

It seems to me that this problem must be looked at from two angles: the activity of the trade unions in the developing countries and their activity in the industrial nations.

Trade union action in the developing countries is to aim at an equitable sharing of the burdens of development. To attain this objective the union organizations must strive to wield as much influence as possible on the preparation and execution of development plans so that in the choice of priorities over economic growth or betterment of living conditions, the second option obtains the same valuation as the first. Practically speaking, this means that they must see to it that a just balance is struck between investments aimed at economic growth and those for social infrastructure. In particular, it means investigating at the planning stage the effects of the project on social structures and matching the implementation of the projects with appropriate action in the social sphere.

A further task for the trade unions is to foster the participation of the people in formulating development strategy. The contribution by the trade unions to the working out of an overall development plan or the preparation of a single project should not be exhausted by trade union officials simply attending the sessions of the planning authorities and getting a hearing. The trade unions must achieve within their own organization such a level of democratization that individual members are enabled to evolve their own concepts and have their spokesmen advocate these concepts to the appropriate bodies of experts.

So not only is the primary goal of the trade union reached; namely, that the interests of the employee are listened to at the planning stage, but the trade unions also make a solid contribution to the democratization of society in the Third World. The functioning of democracy within the workers' organizations is to serve as a prototype for the structure of other organizations and society as a whole.

In this way, the trade unions can bring it about that the development process will mean a real emancipation of mankind and both as regards the satisfaction of primary needs and the extension of the individual's scope for freedom.

I am quite convinced that from now on very difficult tasks will devolve on the trade unions of the Third World. The difficulties blocking the solution to these problems stem primarily from two characteristic features of society in the developing countries. The first is the very low educational level of these countries where the population still shows a high proportion of illiteracy. The second is the still relatively young and weak industrial sector and consequently the small and inexperienced labour force.

Owing to both these social structure characteristics, it is difficult for the individual worker to formulate and give voice to his own ideas.

The low level of education as well as the lack of scope for comparison aggravates the process of discovering the real causes behind the situation and of finding possible remedies. The choice of the right method for finding an audience for individual wishes is also complicated by inexperience in organization as well as ignorance of social processes.

Against the background of these problems, the question facing the free Trade Unions is how can they best help their colleagues in the development countries. If we try to boil down the tasks of the trade unions to a simple formula, then we can say that it is all important for them to formulate and express specific concepts and furthermore at all levels of the labour organizations and society as a whole.

It certainly cannot be our aim to take one of these tasks away from them. We cannot force any concepts upon them for apart from the fact that they would probably not be readily accepted, these concepts which we developed in our own context can assume quite different values in another society. In the same way, we cannot rob them of expression; this would be an intrusion in the affairs of an organization or state which violates our principles and which would not be accepted anyway.

I should like to describe the activity of the free Trade Unions with the regrettably worn out jingle of "aid to aid oneself." I see this activity in particular as applying to two areas - education structures and in purely trade union work.

With the help of well-chosen measures in the sphere of education and training - and I mean especially adult training -

we can, by imparting technical knowledge, enable the individual worker to better his own situation. By means of general knowledge, we can also bring within his reach a better grasp of social contexts and so facilitate the formulation of his own concepts.

By posting trade union consultants to friendly disposed organizations, we can assist them in building up democratic labour organizations without pushing them into accepting any particular models.

The experience which the DGB⁽¹⁾ has gained up to now in implementing these projects testifies that this is the right way.

(1) Deutsche Gewerkschaftsbund:
The German Confederation of Trade Unions

The contribution to development policy of the free Trade Unions is not exhausted by assistance to the partner organizations of the developing countries. We have to accomplish a further task and what is more, at home. We must note with regret that development aid meets with disapproval in some circles of the population. Through lack of information these critics claim that the contributions spent in the form of aid for the Third World could be better applied to solving problems at home. Here it must be our task to draw attention to the pressing problems of the Third World countries and by appealing to everyone's sense of fellowship awaken an understanding of this important task.

The Structural Changes in the Industrial Countries

I would not like to close this commentary without mentioning a particular matter. The industrialization of the developing countries and the opening up of markets in the industrial nations for these young industries will entail a keener competition in these markets and the economic structure of the industrial states will have to adapt itself to the new division of labour at the world economy level.

The economy of the industrialized countries was already in the past and still is today marked by structural changes. The first one was the industrial revolution which brought with it a massive migration of labour from the agricultural economy. Later the evolution of technology likewise caused movements in labour forces; namely, from the agricultural economy and industry into the field of services, and also within the industrial sectors between branches of different technological levels.

The new World division of labour will also entail mobility and it will be the task of those responsible for social policy in our countries to plan the necessary measures in good time.

First of all, the question should be answered - which branches of industry in the industrial countries are exposed to the strongest competition? The following thoughts could give initial leads:

- 1) Since the substitution of imports was always a starting point of industrialization in the developing lands, we may reckon that the consumer goods industry will develop the fastest.
- 2) Lack of capital and low wages will probably cause the developing countries to prefer initially labour intensive industries rather than capital intensive industries.
- 3) Conversely, in a first stage their low level of technology will handicap the growth of the highly technical industries.

This would mean that through competition from the developing countries initially the enterprises in the consumer industry and the labour intensive, poorly capitalized, scarcely technicalized enterprises are hit. As regards the last group we can say that sooner or later technical progress would have forced the disappearance of these labour intensive, poorly capitalized and scarcely technicalized concerns; to this extent the effects towards industrialization of the Third World on the industry of the highly developed countries can be seen as the speeding up of a process already underway.

This entire evolution, however, must be closely scrutinized and the results of this analysis will serve as a basis for planning the appropriate adjustment measures. In this second phase we will demand the participation of the trade unions for labour is certainly the hardest hit by these processes.

As already mentioned, structural changes bring about labour force mobility which can be considered under different aspects.

The first would be called migration from sector of the economy to another. These currents already occurring fairly frequently will get stronger. For the worker they bring the necessity of reorientation. To this end measures must be adopted to facilitate an intensive re-education of workers. Re-education will be eased by broader planning of the basic training. Finally, the level of the basic training must be raised so that workers can meet the ever-growing demands of modern industry resulting from technological advance.

Alongside training policy measures, others on social policy are to be anticipated. Mobility of labour can also entail geographical mobility involving whole families. For this reason, not only must a suitable infrastructure be created which will allow for the increasing

geographical movement, but by reforming the Social Fund means must be made available which are necessary to alleviate social needs. Finally, we shall have to reckon with an increase in the early retirement of older workers, a fact that social policy decisions will also necessitate.

The industrialization of the Third World is not simply a question of economic growth in underdeveloped countries. The new division of labour brought about by industrialization entails a change of social structures, both in the industrial nations and the development countries, a change which raises a whole series of social problems.

I am convinced that the trade union organizations must see here an enlargement of their task area and that they must do all in their power working together with entrepreneurs and the State to parry the negative effects of this social evolution.

CONFERENCE
"INDUSTRY AND SOCIETY IN THE
EUROPEAN COMMUNITY"

REPORT N° 10

PROMOTION OF INDUSTRIALIZATION IN
THE DEVELOPING COUNTRIES;
IMPLICATIONS FOR COMMUNITY INDUSTRY

by

J. TINBERGEN

COMMISSION OF THE EUROPEAN COMMUNITIES
VENICE - 1972

EEC

Conference on "Industry and Society
in the Community"

III. THE COMMUNITY IN THE WORLD

REPORT No. 10

PROMOTION OF INDUSTRIALIZATION IN DEVELOPING COUNTRIES; IMPLICATIONS
FOR THE COMMUNITY'S INDUSTRIES *)

by J. Tinbergen, Professor at the Netherlands
Economic Institute, Rotterdam

1. The development the world needs most

1.1. An economically strong region may pursue a commercial policy which, though running counter to the interests of the rest of the world, brings prosperity to that region. The theory of international trade uses the concept of "optimum tariff" to indicate the tariff level which such a region would have to maintain in order to maximize its own prosperity. However, so far no one has attempted to calculate this optimum tariff, and it is indeed preferable not to use the concept as a basis for the commercial policy of the EEC, for, if we did, critics arguing that the Community's policy merely favours its own interests, really would be proved right.

It is better to gear our commercial policy to the promotion of world interests. In pursuing this principle, we shall make the Community acceptable to the rest of the world. According to welfare theory, we would then have to try to abolish all restrictions on imports. Only two exceptions would be made under such a policy : 1. Trade rationing under goods agreements for unstable markets; 2. Temporary trade barriers to absorb shocks, also referred to as temporization of the effects of these shocks.

*) Table of contents at the end of the report.

The aim of the optimum development of the world as a whole should be to increase world prosperity to the highest possible level that can be achieved in view of existing natural and technological limitations. Since by far the largest part of the world population is poor by our standards, it may be argued that our objective for the next few decades should be to increase production to its maximum level. In order to avoid a complex discussion on the pros and cons of production increase as against increase of spare time, we will assume that the number of working hours for most people has been fixed, say, at eight working hours per day.

There are other good reasons for aiming at maximum production in the short term : it allows maximum investment and, consequently, maximum growth [4]. In this report, we shall not try to answer the question what rate of development should be chosen because it is still a purely academic question [7]. In defence of our preference for a short-term policy of maximizing production, we may add that the structural changes proposed below will redound to the benefit of developed as well as developing countries.

1.2. Given the limitations imposed by nature and technology, the maximum production level may be reached when all factors of production are fully utilized. Economists usually recognize three factors of production : nature, labour and capital. "Nature" is considered to comprise mainly land and its mineral resources, as well as the climate and location of a country, including natural waterways. In the present report, "labour" will refer to unskilled labour. Persons who have acquired a certain skill, training or experience will be considered as a combination of labour and "human capital", in which the latter term indicates the value of efforts made in the past to acquire training or schooling. The other component of "capital" as a factor of production consists of stocks of man-made products that may be used for future production. Both types of capital will normally be expressed in the form of an amount of money, e.g. in dollars, with the purchasing power which that amount represented in a arbitrarily chosen period and country.

With the aid of the factors of production a large number of production processes may be carried out; each country will have to select a certain number from all these processes. To this end, part of the available "capital" and "labour" will have to be moved; "nature" cannot be moved. For our purpose, we will assume that the necessary mobility of labour and capital is bounded by certain limits, not too different from existing limits but possibly twice these. In the case of capital, this means that we do not exclude the possibility of a flow of capital (of both kinds) twice the size of the present flow, if this helps to avoid a situation whereby part of the labour available would remain unused. For the same reason, we shall also assume that the number of foreign workers may be twice the present number. "Foreign workers" will also include experts and volunteers.

1.3. As regards the production processes that are possible, we shall make the following assumptions. Certain dissimilar production processes lead to identical products. All processes which produce one category of products will be considered as alternative production methods of one and the same branch of industry. A number of branches of activity will be designated as national or immobile and the others as international or mobile.

Immobile branches have one of the three following characteristics :

- (a) they use natural resources as one of the factors of production;
- (b) their products cannot be imported or exported by a country because the costs of transport or communications are too high for it or
- (c) because the costs of transport or communications are too high for the consumers of the products.

Branches of activity coming under (a) are primary branches (agriculture and mining), but only in the very first stage, excluding the processing stage. In principle, processing may take place elsewhere, that is to say as long as the primary product, per unit of output, is not too heavy.

Branches of activity coming under (b) include the building industry and the production of goods which are very heavy per unit of output referred to under (a).

Category (c) includes a large number of services, e.g. those supplied by the retail trade, primary and secondary education, and a large part of further education. This category also comprises services supplied by the government and lower public authorities and a number of personal services such as those supplied by barbers, domestic servants, etc. For cultural and political reasons, these services are often supplied by citizens of one's own country.

The exploitation of branches coming under (b) and (c) should, for the developing countries, be as labour-intensive as possible. Since there is no international competition in this case, it is not necessary to increase labour productivity by mechanization.

The national branches of activity mentioned under (a) can only survive if they can compete on the world market. Their ability to compete depends primarily on natural factors and only to a small extent on the producer's income. Besides, many of the branches mentioned are characterized by unstable markets; for this reason, it is advisable for them to conclude commodity agreements for their products.

1.4. As regards international branches of activity, a distinction must be made between branches with production methods with varying degrees of labour intensity and branches with only one process. For the former, it is advisable, in view of the wide spread unemployment in the world at large, to use only their most labour-intensive processes. These processes, and those of activities that have no alternatives, may be eligible for international division of labour. The total quantities of capital available to the countries of the world must, in the short term, be considered as a fixed datum, with due regard to the transfer of part of the capital from relatively wealthy countries to poor ones. With the aid of these fixed quantities of capital, maximum production will be achieved if they are combined in the selected production processes with as large a quantity of the available labour as possible. This means that, generally

speaking, labour-intensive international industries will have to be established in poor countries and capital-intensive industries in more prosperous countries. In order to get a first general view of the problem, B. Herman, in conjunction with the author of the present report, has made an estimate of the distribution of industries over the countries of the world [6]. Account was taken of the fact that a certain degree of diversification in the production pattern of each country is desirable. This principle has been worked out in the above study by dividing countries and branches of activity into categories, eleven altogether, ranging from the countries with the smallest quantity of capital per head of the population to those with the largest quantities, and from the highly labour-intensive to the most capital-intensive branches of industry. In addition, each group of countries could choose from a number of branches so as to accomplish a sufficient degree of diversification. It should be clear, however, that the usefulness of diversification should not be overrated. Indeed, if the principle of diversification is carried out to such an extent that each country possesses all branches of industry, the advantages of international trade will no longer apply.

In the study mentioned above, the data on labour-intensity in the branches examined were normally based on Swedish production statistics (for 69 branches), and on German or Japanese statistics (19 branches) if the branch in question proved to be more labour-intensive in Germany or Japan than in Sweden. The calculation of human capital took the form of a rough estimate : a distinction was made only between qualified and less qualified labour in which qualified labour was defined, for the industries under discussion, as managers, technicians and other specialists. The representation of qualified labour in the population of various countries was defined in accordance with major groups 0 and 1 of the International Standard Classification of Occupations, which contains almost identical definitions. The group of less qualified workers consisted, for the branches discussed, of office personnel and manual workers (white-collar and blue-collar workers) and, as regards their representation in the national population, of groups 2, 3, 7 and X of the Standard Classification.

The study was to provide a first general view and was intended as a challenge to others doing research in this field to try and compile more exact figures? More specific data are at the moment being worked out by the Netherlands Institute for Economics. On the basis of available statistics on trade, for instance, the mobility of all products marketed has been calculated. The findings confirmed the assumptions that had served as the basis for the subdivision into mobile and immobile branches of industry [5]. At the same time, a more exact method is being designed to calculate the amount of human capital used by each branch per unit of value of the product. Further improvements in calculation methods will cover the following aspects. The pattern of the demand for finished products, which in the study referred to above was assumed to be congruent with the pattern of Swedish demand, is calculated according to a different method. Account is also taken of the fact that an international industry cannot function properly without a parallel production increase of a number of national industries such as energy and transport. The method applied here is known as the "semi-input-output method" [3].

A more exact method of calculating human capital has been worked out by the Institute of International Economics of the University of Kiel [8], though for more aggregate branches of industry (29 branches). In addition, in this report the value added per person employed has been calculated for 12 different countries. All estimates mentioned agree that clothing, footwear and textiles are produced under more labour-intensive conditions than the average for all branches, whereas the chemical and the major part of metal industries are above the average level of capital intensity. The conclusions from the figures calculated in the above report are practically identical with those of the report compiled by B. Herman. They also show that the income elasticities of clothing and footwear in countries with an annual income level of less than \$ 1.000 per person are greater than 1, involving therefore a relatively rapid increase of domestic demand.

One of the implications of these findings is that world prosperity will benefit from a further transfer of labour-intensive branches to developing countries. In other words, if poor countries were enabled to export larger quantities of their labour-intensive products, they would earn more foreign currency; they would undoubtedly use the money to buy chemical and metal products from developed countries and this would then create more jobs in those sectors. This shift would probably lead to an overall decrease in opportunities for employment in the rich countries, but the income per person employed would go up and make it possible to reduce working hours which, in turn, would make it possible to spread opportunities for employment. Consumers would also benefit by such measures (see section 3.3).

1.5. It is often argued that the industries suitable for developing countries should include those in which their own natural products are processed. This is partly true, but not for all cases. If the operation of such processing industries requires large quantities of capital, it may be wondered whether these branches ensure an optimum use of the scarce capital available. Each case will have to be considered separately with the aid of more detailed calculations. An important factor here is the level of transport costs of raw materials, and of transport costs of semi-finished products and finished products that can be manufactured from these raw materials. In general it is true to say that, the more far-reaching the processing, the lower the level of capital intensity of the necessary production processes. This is one of the reasons why it may sometimes be better for a developing country to replace the import of finished products by its own production of the same product rather than continue the partial processing of natural products obtained from local resources.

The processing by developing countries of their own raw materials is hampered, for instance, by the structure of rich countries' import duties; these duties are higher for semi-finished products than for raw materials and higher for finished products than for semi-finished products ("anti-processing structure of import duties"). This structure will have to be modified. Incidentally, the replacement of imports is more important for big countries than for small countries because in

the latter the market is often too limited to justify the establishment of an undertaking of optimum size. A solution may be found in subregional cooperation (see section 2.2.).

1.6. In general, new industries in developing countries need to be protected in the first few years; this rule is now generally recognized. As we have already argued (1.1.), it cannot be applied to prosperous countries. Protection may also be replaced by subsidies. A system of subsidies can be defended on economic grounds as long as market prices of unskilled labour in developing countries exceed the "real prices" reflecting the actual abundance of unskilled labour. Subsidies equal to the difference between the two prices are economically healthy because they lead to more realistic price levels consonant with the principle of real costs.

In the interests of all those involved, protective measures should be degressive. This would encourage certain groups of entrepreneurs in developing countries who are now "sitting pretty" to make greater efforts at modernizing the structure of their enterprises.

It is likewise important that all states should maintain a realistic rate of exchange. In the case of many countries, this would mean devaluation, which would strengthen their competitive position.

2. Barriers to the industrial development of developing countries

2.1. Before proceeding to discuss the barriers to the industrial development of developing countries, it should be pointed out that, despite the existence of such barriers, there are trends pointing constantly in the direction we have described. Enterprises in developing countries are often commissioned by western undertakings to carry out certain parts of a production process because the poorer countries can do this labour-intensive work more cheaply. Puerto Rico, Hong Kong and some other countries are already benefiting by such arrangements. More and more firms are moving their establishments bodily to a developing country, to start production there, sometimes in a "joint venture" with

a local enterprise of that country. In carrying out their industrialization programmes, developing countries often rightly make a distinction, within one and the same branch of industry, between processes that may be performed in developing countries and others that should be performed elsewhere. The first group includes labour-intensive processes in as far as the market for them is insufficiently large to absorb the optimum quantity, i.e. at minimum costs. The second group includes processes of a complex nature, which therefore require a great deal of skilled labour and for which the demand is too limited to justify the production of the optimum quantity, thus making costs too high for developing countries to bear.

Like a speeded-up film showing the possibilities of development under favourable circumstances, Japan has roughly followed the stages which Chenery [2] derived from comparative studies between countries at various income levels. Some forty years ago, when it could still be considered as an underdeveloped country, Japan started, to the dismay of the older countries, to pursue a powerful exports offensive of textile goods. It has since considerably expanded its industrial pattern, and chances for employment in Japan's textile industry are actually diminishing (see Kroese [10]). Japan has already superseded Britain as the world's most important shipbuilding nation. And, over the last few years, India has been increasing its exports of certain types of machine tools.

2.2. Nevertheless, it is a fact that there are many obstacles to more rapid industrialization in developing countries. First of all, there is a shortage of capital because the low income level does not allow of much private or public saving. The flow of public and private capital to developing countries is countered by a flow in the opposite direction of dividends, interest and repayments. In a number of Latin American countries, the flow leaving the country exceeds that entering

the country, partly as a consequence of earlier loans which have to be repaid and partly resulting from the flight of the capital of the rich.

Another obstacle to industrialization in developing countries is the lack of technical know-how and the shortage of production managers, reflecting the low quantitative and qualitative levels of education. Nevertheless, various attempts are being made to improve and extend education, e.g. by providing management training courses in western countries, organized by western governments or industries. Some western firms established in developing countries are obliged by the governments of those countries to recruit their supervisory staff partly from the local population, while other firms have found it sensible to pursue such a policy on their own initiative.

A number of developing countries are taking measures tending to make it less attractive, or indeed even very unattractive, for foreign enterprises to establish themselves there. Such measures include nationalization with very low or no compensation, refusal to work in shifts, the introduction of complicated regulations on the import of indispensable components or semi-finished products, and a reduction of the part of the profits that may be transferred abroad. These and similar measures have created what is sometimes referred to as a "bad climate for investment".

Although a certain feeling of irritation towards foreign companies is understandable, and sometimes even justified, it is not in the interest of developing countries to deter such enterprises from making investments. The principle that it is better to go it alone may be all fine, but it means that the population has to make more sacrifices by cutting down on consumption. To improve the "climate", it would be very useful if the governments of developing countries with a mixed socialist and private economic system were clearly to define the sectors which they intend to keep open to foreign investment.

The inefficiency of government administration is partly due to a shortage of well-trained civil servants and the consequent overcentralization of the decision-making machinery. On the other hand, however, there is often much unnecessary duplication of work; some concrete examples of this are found in the Turkish Government's First Five-Year Plan [15].

Another difficulty in the industrialization process, finally, is that the domestic market in developing countries is often too small. This problem may be solved by cooperation between neighbouring countries, for instance by the establishment of a limited customs union under which investments are distributed evenly among the member states. But, it is a well-known fact that such forms of cooperation take a long time to prepare and consequently develop only very slowly.

All these problems are considered in the Development Strategy for the Second Development Decade [16], adopted by the General Assembly of the United Nations. Evaluation studies for this are now in preparation and will no doubt help in finding adequate solutions.

2.3. The obstacles to industrial development, however, are in part caused by the developed countries. Since the developed countries have more and better means at their disposal to remove the causes, it is in their own long-term interest to make serious efforts to eliminate or reduce these obstacles.

The most serious obstacle is certainly to be found in the rich countries' import policy. A number of industrial branches in which developing countries could produce more are wrongfully protected by developed countries.

In judging the extent of protection, one must calculate the "effective protection", i.e. calculate the import duties on a certain product not as a percentage of the total value but as a percentage of the value added by the industry in question. A number of figures concerning this effective protection are given in Table I.

Table I. Effective protection, when this amounts to over 10 %, of industry by the Federal Republic of Germany vis-à-vis countries other than EEC Member States

Non-ferrous metal castings	34,1
Mechanical wood pulp and paper	33,3
Non-ferrous metals and intermediates	25,2
Paper and board articles	23,4
Clothing	21,5
Textiles	21,2
Iron and steel	20,2
Fine ceramic products	16,4
Cast iron and steel	15,7
Leather goods	15,5
Wooden articles	15,0
Glass and glassware	14,9
Rubber and asbestos products	13,6
Chemical products	13,2
Shoes	13,2
Wooden articles, processed	11,1
Structural steel work	10,9
Leather	10,1

Source [8], Table 4 b* (p. 8*).

This protection is applied in the knowledge that without it the branches in question would not be able to survive. Lary [11] has pointed out that it is primarily in the labour-intensive branches of industry that most protection is given. The return from the branches is often insufficient despite such protection. This is illustrated in Table II, which shows some relevant data for the Netherlands [1].

Table II. Average percentage yield in the Netherlands from some branches of activity (1964/8 and 1968 data) :

	<u>1964/8</u>	<u>1968</u>
Agriculture, forestry and fishery	6	5
Food industries :		
livestock products	7	6,5
other products	6	5
Beverages and tobacco articles	15,5	14
Textile industry	4	4
Footwear and clothing industry	4	4,5
Paper industry	11,5	10
Chemical industry	} 17,5	(16,5
Oil refineries		(11,5
Metal industries	14	11,5
Metalworking and mechanical engineering	10	9
Electrotechnical industry	31,5	29
Transport industry	2	2
Trade	15,5	12,5
Ocean shipping and aviation	3,5	2,5

Source : [1].

It is clear from the above table that the yields from, for instance, the textile, footwear and clothing industries are small. It is somewhat surprising to find that the yield from the transport industry, unlike that from the other metal engineering industries, is also small. This presumably includes shipbuilding, which is also labour-intensive. The preservation of these branches, or at least of large parts of them, is therefore not only a disadvantage for the Netherlands but also prevents the expansion of the branches, or at least of parts of them, in developing countries. Data for the United States lead to similar conclusions (Table III).

Table III. United States. Percentages of profits from equities

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
All industry	9,8	10,3	11,6	13,0	13,5	11,7	12,1	11,5
Textile industry	6,2	6,1	8,5	10,8	10,1	7,6	8,8	7,9

Source : [10].

It is noticeable that OECD forecasts [12] show little sign of a change in the make-up of industrial production, either because of future changes in the division of labour between developed and developing countries, or because of pollution of the environment.

The protection referred to above also springs from the fear of a reduction in the opportunities for employment which, according to Table IV, does occur continuously.

Table IV. Opportunities for employment in the textile industry
(in million persons)

	<u>1950</u>	<u>1960</u>	<u>1968-1969</u>
EEC	2,13	1,88	1,57 (1969)
EFTA	1,29	1,14	0,98 (1969)
Finland and Spain	0,33	0,27	0,25 (1968)
United States	1,26	0,92	1,00 (1969)

The slowness with which the necessary changes are implemented could also be ascribed to a lack of interest among private investors in investments in developing countries.

According to the data of the OECD Development Assistance Committee [14], the total net flow of capital invested in developing countries by private individuals amounts to about \$ 6.000 million or 0,34 % of the GNP of developing countries. If we assume that, on the average, about 15 % of the GNP is used for investment, the capital flow to developing countries amounts to only 2 % of investments and possibly 4 % of private investments. This situation is probably largely due to the developing countries' less favourable climate for foreign investment. On the other hand, there is also a lack of information and of encouragement by the governments of the wealthy countries.

3. How could the obstacles be overcome?

3.1. First of all, active or direct measures may be taken to stimulate industrialization in developing countries. These include all measures taken by governments of developed countries to make investments in developing countries more attractive, such as granting guarantees for certain risks, tax concessions for investments in developing countries, especially for joint ventures, and the transfer of firms to these countries. In recent years, the International Chamber of Commerce has made a number of concrete proposals [9], for example concerning bilateral treaties to promote international private investments, tax concessions in developing countries, and taxation treaties between developed and developing countries. Although the proposals are naturally made from the standpoint of the business world, they represent a modern, broad outlook.

3.2. In addition, a number of important national measures are being implemented at the moment in the rich countries which could have a considerable indirect effect. The aim of these measures is to facilitate imports of industrial semi-finished and finished products from developing countries while at the same time encouraging the reorganization of the national economies of developed countries in order to adapt them to the new system of international division of activities.

On 1 July 1971 a system of special preferences for such imports from developing countries came into effect. In order to temporize the increase of imports and facilitate internal adjustment to the new situation, the quantities that may be freely imported are subject to a quota system. For a number of products, imports are exempt from duty up to an amount equal to the 1968 import figures plus 5 % of total imports of the products involved from third countries. These quotas should be extended more rapidly than the present arrangements allow. A desire to temporize an increase of imports should not become a pretext for actually continuing protection. Temporizing

measures should be spread out over the minimum period in which adjustment is possible. Hardly any well-founded figures are available on this minimum period. They should be based on the time it takes to adjust the existing machinery to its justified size, i.e. the size which enables the industries to continue competition without protection according to the rules mentioned in section 1.6. One such rule is the recommendation that each product should be manufactured in the most labour-intensive way that competition allows.

The changeover of American industry after the Second World War may provide us with an indication of the length of the necessary adjustment period. Contrary to expectations, this changeover was effected relatively smoothly.

For entrepreneurs, the most recommendable changeover procedure consists in (a) the transfer of a production process which is no longer competitive to a country with better opportunities for competition (e.g. lower wages) or (b) investing money that has become available from depreciation in other, profitable production processes. Investments in shares of firms with strong competitive capacity could also be considered, even if they specialize in an entirely different form of production.

For employees, apart from normal staff turnover, the best method would be to provide vocational training courses for other occupations in profitable branches of industry or national branches as meant in section 1.3. above. An examination of the nature of the vacancies and the skills required for them in the form of job classification will help to determine the nature of the training courses. In this respect, the encouragement of geographical mobility will also play an important role. For a small country like the Netherlands, for instance, it has been pointed out that unemployment in the north exceeds the number of jobs available whereas in the west the number of jobs available exceeds unemployment figures (see W.J. van de Woestijne's article in *Economisch-Statistische Berichten* [17]).

Various public services, such as, for instance, public transport and the police force, still have a shortage of personnel.

The objective of government measures to adjust existing industrial structures to the new commercial policy will have to be the encouragement of the establishment and expansion of companies suitable to the EEC because of their capital-intensive nature rather than the provision of aid to branches of industry which, because of their proportionate use of labour and capital, do not fit in the structure planned for the future. There is a certain range of capital intensity corresponding to the quantities of labour and capital available in the EEC; the industries to be encouraged should fall within this range or be national branches of industry ¹⁾. As has already been pointed out, strong diversification is not the ideal solution.

Measures to encourage those branches of industry found to be suitable may consist in : information; credit and tax concessions over a limited period; a government purchase policy; and a restriction of the regional subsidies policy to the branches coming within the above range.

Steps will have to be taken to ensure that this policy is pursued equally by the various EEC Member States. According to certain business circles there is often a lack of uniformity in the policies of EEC Member States.

-
- 1) According to the, very provisional, study [6] compiled by B. Herman and the author of the present report, the following international branches of activity would be most suitable for Western Europe :
- the production of
 - machines for the textile industry
 - equipment for the building and mining industries
 - cars
 - tractors and wheeled vehicles
 - internal combustion engines
 - pig iron, iron castings, hot-rolled plate
 - alcoholic beverages
 - castings and wire
 - general purpose lathes
 - accumulators and batteries
 - certain special textile goods
 - washing and sewing machines.

3.3. It is a well known fact that many producer groups exert pressure on their governments to preserve their branches even if this is not in the real interests of the country as a whole. These interests also include those of the consumers, who have an interest in low prices and, consequently, in a reduction or elimination of import duties and other restrictions. A better approach to matters in the public interest would be possible if consumer organizations were stronger and provided clear information on possibilities of price reductions concomitant with the abolition of import duties. At its congress in The Hague on 25-27 October 1971, the Society for International Development appealed to the International Organization of Consumers' Unions, also in The Hague, to devote attention to this aspect of consumer interests as well.

It may be added that consumer interests are still insufficiently defended by organizations and institutions claiming to promote them : cooperatives fail to do so because they represent only a small section of the consumer population; the trade unions because they have to watch over producer interests at the same time; and governments because contacts with organizations of consumers and housewives are maintained only by small sections of the government machinery which, because of the predominance of producer interests represented in various government departments, lack sufficient influence.

1) of p. 17 cont.

ball bearings, transmission belts
animal and vegetable oils
refrigerators, etc.
water and steam turbines
radio sets and components.

In judging these suggestions it should be borne in mind that, according to the above study, the division of labour in the whole world should be intensified, which, in principle, means that the world's needs for the products mentioned would be satisfied by Western Europe. This obviously depends on the willingness of governments in other parts of the world to abolish import duties on these products.

3.4. The countries associated with the EEC may be divided into countries which will ultimately become full members of the Community (Greece and Turkey) and the former colonies of EEC Member States. The first group of countries will in the near future be exempt from paying import duties in the EEC Member States and will therefore be able to benefit fully from the advantages of an international division of labour. For Greece and Turkey this will undoubtedly create new good opportunities for the development of their labour-intensive products such as clothing and shoes.

Most of the former colonies, the Associated States, are situated in Africa, and many of them also belong to the group of least developed countries. Their exports of industrial products are very small and will hardly be affected by the EEC's industrial policy. Their main problem is to improve agricultural production, and the best way of solving it is to provide them with technical assistance. An increase in the export of their products will not involve any difficulties because they are exempt from import duties.

3.5. Future prospects for all countries have been uncertain ever since research work carried out by the Massachusetts Institute of Technology has drawn attention to the threats of a rapidly deteriorating environment and a rapid exhaustion of natural resources. This could place the problems we have been discussing concerning the world's development in quite a different light. It is possible that the chemical industry in Europe cannot, for environmental reasons, be expanded beyond a certain limit. Motor vehicle traffic may have to be subjected to drastic restriction. We do not yet know exactly to what extent the most probable restrictions should be implemented. It is certain, however, that the train of thought pursued here concerning the development of the rich and poor countries may be affected by the need for such restrictions. A great deal of research will therefore have to be done in order to give us, as soon as possible, a deeper insight into these aspects of development. On the one hand, research

is necessary because it may result in providing harmless substitutes for activities which are dangerous. On the other hand, research should help us to ascertain the real range of the technical and demographic possibilities of modern technology and enable us to take these possibilities into account when carrying out existing development plans for Europe and other parts of the world. Research priorities, therefore, will become quite different from what they are today. Inventions that may help to reduce human fertility, and others that may lead to a reduction of the pollution or exhaustion of natural resources will occupy a very high place on the new list of priorities. In contrast, lower priority should be given to research projects concerning space travel and projects for the further development of dangerous substances and their raw materials.

Contrary to the research results which have so far been provided by Forrester and Meadows [12], the new objective should be to find the possible development, free from cyclical movement, of a new trend, taking account of existing natural circumstances, and a transition towards that trend with a minimum of sudden rises or falls.

3.6 Recommendations. The following major recommendations may be derived from the previous considerations. The EEC should set itself the following objectives :

A. A further reduction of import duties on products from developing countries by a gradual but rapid abolition of quotas imposed under the unilateral preferences granted on 1 July 1971;

B. In those cases where import duties will not yet be abolished, the elimination of the "anti-processing structure" of import duties;

C. Increased and more positive cooperation in establishing agreements on products, first of all on sugar and cocoa beans;

D. The encouragement of branches of industry fitting in the range of capital-intensiveness suitable for Western Europe;

E. The EEC should not encourage activities which can compete on the world market because of their more capital-intensive processes but which could be replaced by labour-intensive production units capable of manufacturing the same product in developing countries;

F. Granting high priority to scientific research projects that form an extension of the research work undertaken by Forrester and Meadows of the MIT on the initiative of the Group of Ten;

G. Also granting high priority to improved research on : (a) the branches of industry most suitable for Western Europe, and (b) the minimum period within which the present structures may be adapted to effect the changeover thus envisaged.

3.7. References

- [1] Centraal Planbureau van Nederland (Central Bureau for Economic Planning of the Netherlands). Nederland in 1973. The Hague 1970.
- [2] Chenery, H.B., "Patterns of Industrial Growth", The Amer. Economic Review L (1960), p. 624 ff. and several later contributions, including Chenery, H.B. and Hughes, H., "The International Division of Labor : the Case of Industry", paper read at the 5th European Conference of the Society for International Development, The Hague, October 24-27, 1971.
- [3] Cornelisse, P.A. and Versluis, H., "The semi-input-output method under upper bounds", in : H.C. Bos, ed., Towards Balanced International Growth, Amsterdam 1969.
- [4] Herman, B., "On the Choice of the Optimal Industry. A Check of a Controversy", Netherlands Economic Institute, Division Balanced International Growth, No. 11, Rotterdam 1971.
- [5] ----, A Commodities' Classification by Mobility, Netherlands Economic Institute, Division Balanced International Growth, Paper no. 12, Rotterdam, February 1971.
- [6] ---- and Tinbergen, J., "Planning of International Development", Acta Oeconomica Academiae Scientiarum Hungaricae, 1971.
- [7] Inagaki, M., Optimal Economic Growth, Amsterdam 1970.
- [8] Institut für Weltwirtschaft, "Probleme der Arbeitsteilung zwischen Industrie- und Entwicklungsländern", Die Weltwirtschaft 1971, Vol. 1, pp. 19-199, Kiel 1971.
- [9] International Chamber of Commerce, Statements and Resolutions, 1969-1971, Paris 1971.
- [10] Korese, W.T., "De textielindustrie op de drempel van DD II", ("The textile industry on the threshold of DD II"), Economisch Instituut voor de Textielindustrie te Rotterdam en Vereniging Nederl. Katoen-, Rayon-, Linnen- en Juteindustrie te Velp, annex to Economisch-Statistische Berichten, 3 November 1971.
- [11] Lary, H.B., Imports of manufactures from less developed countries, New York 1968.
- [12] Meadows, D.L., "The predicament of Mankind", The Futurist V (1971), p. 137, in which Forrester's book "World Dynamics" is quoted.

- 〔13〕 OECD, The Growth of Output, 1960-1980, Paris 1970.
- 〔14〕 ----, Development Assistance, 1970 Review, Paris 1970.
- 〔15〕 Turkey, Government of, The First Five Year Plan (English edition), Ankara 1963.
- 〔16〕 United Nations, International Development Strategy, Sales No. : E.71.II.A.2, New York 1970.
- 〔17〕 Woestijne, W.J. van de, "Enkele structurele aspecten van de huidige situatie", ("Some structural aspects of the present situation"), Economisch-Statistische Berichten 56 (1971), p. 1000.

C O N T E N T S

Report No. 10

1. The development the world needs most
 - 1.1. The EEC should base its commercial policy on world interests
 - 1.2. The need to make full use of all factors of production
 - 1.3. Immobile, or national, and mobile, or international, branches of activity
 - 1.4. Distinction between branches with more than one and branches with only one production process
 - 1.5. Poor countries' processing of their own natural products
 - 1.6. Protection or subsidization of branches of activity in poor countries

2. Barriers to the industrial development of developing countries
 - 2.1. Present development
 - 2.2. Lack of capital, technical know-how and management; bad climate for investment
 - 2.3. Import policy of developed countries; effective protection; low yield from protected branches of activity

3. How could the obstacles be overcome ?
 - 3.1. Direct measures (in developing countries)
 - 3.2. Indirect measures (in developed countries) : preferences; structural adjustment
 - 3.3. Possible pressure from consumer groups
 - 3.4. Associated countries
 - 3.5. Uncertainties about the effects of pollution on the most desirable future structure
 - 3.6. Recommendations
 - 3.7. References

