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STATEMENT

by

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to the Parliamentary Conference  
on the problem of industrialization

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I must congratulate the Parliamentary Conference and its Bureau for having placed the problem of industrialization on the agenda of the Tananarive session. The moment is well chosen, on the eve of the negotiations for the renewal of the Yaoundé Convention, for taking stock of this matter, which is so important for the future of the African countries and Madagascar associated with the European Community. At the same time I wish to pay tribute to M. Dewulf, who has provided this Conference with a paper forming an excellent basis for discussion.

I shall not dwell here on the arguments, often advanced, and confirmed by experience, that see industrialization as one of the main roads to economic growth and, therefore, to social progress. I would rather take this thesis as a starting point for our considerations, except that I shall draw attention to two ideas which should be borne in mind:

1. To present industrial development as an alternative to agricultural development would be to create a false dilemma: the one conditions the other and there is no doubt, moreover, that agriculture will for a long time yet continue to be the primary activity in the economy of the Associated African States and Madagascar.

2. The development of an industry in order to cut back imports is only one aspect of the general problem of industrialization and does not dispense those responsible from promoting at the same time an export policy for manufactures.

Having said this, my intention is rather to put before you some considerations on the real opportunities that, as I see it, are available for industrialization in the AASM, and at the same time on the obstacles which at present stand in the way of large-scale industrialization. Moreover, I shall place greater stress on the second aspect, not in order to paint a gloomy picture but, on the contrary, to establish some essential conditions which, were they fulfilled, would enable us to make further progress.

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Since it is always a good idea to base general considerations on facts, I shall begin by briefly analysing the industrial operations financed to date in the AASM under the Yaoundé Convention, that is by both the European Development Fund and the European Investment Bank.

The first point that must be made is this: the Community's contribution to the financing of industry in the AASM has not been considerable, although - as one sometimes tends to forget - no predetermined ceiling has limited industrial intervention. These operations as a whole represent some \$60 million, or just under 6% of the total committed up to the present under the two EDFs and, since the Yaoundé Convention, under the EIB.

It is true that these figures are relatively more favourable if we refer exclusively to the period in which the Yaoundé Convention has been implemented, that is to the operations of the second EDF and the EIB. They then amount to \$54 million, which is not far off 10% of the total, thus reflecting a very distinct evolution from the first to the second period of Association.

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It must also be pointed out that we have adopted a rather wide definition of what is to be understood by "industry", including not only mining and quarrying, which others count as the primary sector, but also activities directly connected with industrial investment. By the latter class of operations we mean surveys and investigations prior to investment, infrastructure directly linked with industrial production schemes, and training programmes for industrial workers.

I do not believe that our conception of the notion of "industry" is an artificial one, for a number of specific conditions must be fulfilled, especially in an undeveloped setting, for an industrial operation to be able to take off. Helping to fulfil these conditions amounts to making a direct contribution to industrialization, or even simply making it possible. I shall go further, by saying that the role of public aid seems to me to consist even more in creating the specific setting for industrialization than in directly financing industrial schemes. But naturally the one does not exclude the other, and indeed we have financed both, ranging from surveys such as the one for the Bangui slaughterhouse and cold store in the Central African Republic and mineral exploration to the co-financing, by EIB ordinary loan or by EDF loan on special terms, of industrial schemes such as the working of copper seams in Mauritania or the textile mill at Fort Archambault in Chad, via the financing of such specific infrastructure investments as the electricity power station supplying the Garoua textile mill in Cameroon or the Kigali industrial estate in Rwanda.

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If we can quote quite a wide range of schemes that have already been financed, how is it that the total volume of such

operations is still relatively modest? Is there a lack of funds? I have already answered this question in the negative: there is no ceiling limiting the application to industry of the financial resources available at present. Are there gaps in the financial techniques authorized by our terms of reference? These techniques seem to be relatively comprehensive but they could be improved. Are there then more fundamental obstacles curbing industrialization? Yes, I think there are. But let us examine the different aspects in turn.

Financial techniques: I would emphasize that the key to a spectacular improvement does not lie - as certain statements might lead one to think - in a change in financial techniques. In other words, the fact that the results we have achieved with industrial schemes have been modest is not to be attributed mainly to the deficiency of the instruments currently at our disposal. Indeed we possess quite a wide range of means for providing aid: EDF subsidies, EDF loans on special terms, EIB ordinary loans, these latter sometimes with interest rebates financed by the EDF. The list of industrial schemes already financed shows by its diversity that ever since the Yaoundé Convention came into being, Community aid has been able to cope with a wide range of needs and situations.

This said, improvements are possible and desirable. The Commission has summarized its views on the matter in its communication of April 1968 to the Council of Ministers and, in greater detail, in a supplementary memorandum which it recently forwarded to the Council. I do not think I am giving away a secret in telling you that, for its part, the Commission has arrived at the conclusion that, in the framework of the financing techniques already being used, certain practices should be rendered more flexible and explicit provisions made for the use of financing methods which, though not expressly authorized, have already been tried or are on the point of being tried.

Let me explain what I mean. When we speak of rendering certain existing financial techniques more flexible, we are thinking mainly of two approaches:

1. There may be industrial projects, which are completely viable but which cannot be carried out because of one obstacle, namely the capacity of the State in question to assume further debts in foreign exchange. In such cases a new solution could take the form of allowing repayments of an EDF loan on special terms in local currency. Special measures would then have to be taken to re-utilize the funds thus created in local currency.

2. Although the formula of interest rebates on ordinary EIB loans has not so far been applied in practice for lack of suitable opportunities, it would be a good idea to maintain this possibility while making it more flexible. Because, in particular, of the increased cost of borrowing, it would be useful to widen the margin of rebate authorized in order to facilitate recourse to EIB ordinary loans.

And, as I said a moment ago, the "legality" of two of the financing methods should be recognized explicitly:

1. Firstly, the technique of the "two-stage" loan, which consists, because of the limited capacity of the State concerned to bear further indebtedness, of lending to that State on very advantageous terms and requiring it to relend the same money on less generous terms, that is at a rate more in keeping with the profitability of the scheme to be financed. In practice this formula has already been applied under the present Convention.

2. There is another sphere where, in my view, all the possibilities have not yet been exhausted. I am thinking of the financing of small industrial schemes, which may constitute a valuable springboard for further, larger-scale industrialization

of the AASM, but which it would be difficult from the practical angle of the staff involved to examine and manage from Brussels. In order to remedy this deficiency, without however overloading the staff in Brussels, the National Development Banks or similar bodies should be used as financial links between Community aid and small industrial firms.

These are, in my view, the main improvements which are desirable from the angle of financing technique. I know that other approaches have been proposed, in particular **direct participation in industrial schemes**. We have examined them carefully, but have come to the conclusion that they scarcely offer real opportunities for further action in the industrial sector. Why therefore raise false hopes?

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The most fundamental obstacles to industrialization are to be found elsewhere, for they are of a different nature. I do not wish to analyse them here exhaustively, but I think it is necessary to point out those that seem to me the most important.

The first fundamental obstacle - this point was stressed by M. Dewulf - is the restricted size of the markets, for in the AASM a purely national framework could not provide an adequate and sound basis for larger-scale industrialization. It is true that some industrial projects can be carried out in economic conditions in the context of a single national market. The number, however, will necessarily be limited and there is no doubt that if industrialization takes this course alone it will not go very far. If not earlier, it will come to a stop once the first, or what I call "simple", stage of industrialization is completed and there must be a transition to more technically demanding industries which inevitably constitute a greater

commitment and for which the domestic market will rarely be a sufficient outlet. And even if an industrial project is just feasible on the national plane, its profitability will generally be higher if it is conceived from the outset in relation to a multinational market and therefore corresponds to the requirements of a scale of manufacture imposed by technological progress.

This being so, those responsible in the AASM find themselves faced with a choice of capital importance: whether to push industrialization, even against economic logic, at national level, or to take the course of industrialization concerted on a regional basis.

The first course is politically easier, at least in the short run, but it is economically dangerous and costly. The example of Latin America shows us, better than any theoretical reasoning, the dangers of such a process of industrialization. This is how M. Prebisch explained, a little while ago, the lack of stamina affecting the industrial development of the Latin American countries: "An industrial structure virtually isolated from the rest of the world has therefore been built up in our countries .... The criteria for selecting industries has been based not on economic efficiency, but on quick results whatever the cost of production ... tariffs have been raised to levels which, on the average, are without any doubt the highest in the world.... The proliferation of all sorts of industries in box-like domestic markets has deprived the Latin American countries of the advantages of specialization and economy of scale and, as a result of excessive customs duties and restrictions on imports, a vigorous form of competition at home has not developed, to the detriment of efficiency in production."

The lesson to be drawn by the AASM is clear: it is vitally necessary for them to organize their industrial development on a multinational scale otherwise bad investment and duplication of



effort will be more and more frequent and the subsequent stages of industrialization, which are more decisive for growth, will be jeopardized. It is the only way of avoiding excessive protection and of subjecting industries to the pressure of some external competition, an essential condition for the dynamism and continuity of the industrialization process.

I know that this is asking in a few words something that represents an enormous task for the leaders of the AASM. I know how difficult it is politically to induce a country to abstain deliberately, for the benefit of a neighbouring country, from setting up an industry, even if objectively the operation in question can be shown to be of greater interest from the economic angle for a group of countries collectively. A country cannot reasonably be required to make such a sacrifice unless the group to which it belongs has decided to see to it that in the medium term the "sacrifices" are distributed fairly.

Here we arrive at the heart of the matter. In order to get out of the vicious circle - which is likely to have the effect that, since all the countries wish to industrialize at the same time and in an uncoordinated fashion, none of them can make real progress towards industrialization - the course to adopt is the planning of industry at regional level. In this way "packages" of schemes can be made up, from which each of the countries in question will benefit over a number of years.

Such industrialization agreements at multinational level, of course, would have to be accompanied by precise and lasting commitments concerning the reciprocal opening of the various countries' markets.

For its part, the Commission is determined to do everything in its power to promote this regional approach. For this purpose it has thought out a number of practical incentives that could be written into the new association convention.

But the obstacles deriving from the size of markets and the scale of firms are not the only ones that must be overcome in order to speed up African industrialization.

Contrary to what is often believed, there is an essential difference between the industrialization process as it came about in the industrialized countries and as it is taking shape today in the developing countries, in particular countries like the AASM which are only just entering the industrial age. The essential difference is this: the industrialized countries possessed an entrepreneurial class right from the outset and, what is more, they produced their own capital goods and improved them through their own technological research. Today's developing countries, on the other hand, import their equipment and technical know-how from the advanced countries, and in addition they have to bring in entrepreneurs and technical supervisory staff from abroad, on a greater or lesser scale according to their level of economic and social development.

This dual obstacle will be the most difficult and longest to overcome. Training local entrepreneurs and supervisory staff and creating the conditions for technological research in Africa is a very long-term task. For many a day yet, the AASM will need the help of foreign firms, while taking care - by applying the right criteria - that the contribution made by these firms in capital, technical organization and supervisory staff helps to prepare Africans to take over from them and to set up local technological research centres. For their part, the industrialized countries, and Europe in particular, should resolutely encourage this process. But this supposes that they overcome an excessively conservative mentality and really accept the idea that industrial structure in the developed countries must be transformed to fit in with the opportunities of industrialization in the developing countries. This is a trend which corresponds to

economic logic itself, for if the industrialized countries wish to obtain maximum productivity per worker, they will be obliged to concentrate their productive resources more and more on highly technical industries, which are beyond the competitive possibilities of countries only at the dawn of the industrialization process. What, therefore, is more normal than to promote the establishment in the developing countries of productive capacity in those industries which are most within their reach? The corollary of such a policy of structural transformation is, naturally, the opening of the developed countries' markets to finished and semi-finished products from the developing countries.

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I come to my final conclusion. Industrialization offers the AASM real opportunities for speeding up their economic growth. But one must not ignore the fact that the obstacles ahead are numerous and complex. There are some that are relatively easy to analyse but for which it is well nigh impossible to suggest precise remedies. In all cases it is a difficult process, for which the conditions will be created only if there is a firm political will on the part of the statesmen responsible for the economic destiny of the AASM, audacity and farsightedness on the part of foreign investors and, above all, a more and more concerted policy between industrialized countries and countries in process of industrialization. Let us therefore be realists. Let us beware of the "industrialization myth" and let us avoid creating the illusion that this is the "Open Sesame" to development. What is important, on the contrary, is for us to endeavour to overcome progressively the difficulties which slow down the process of industrialization and to put to full use all the instruments at our disposal - though we must improve them further - in order to make real and lasting, rather than spectacular, progress towards this goal.