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# BACKGROUND INFORMATION

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## EC PROPOSES WAYS FOR AFRICAN ASSOCIATES TO STRENGTHEN ECONOMIES

WASHINGTON, D.C., March 20 -- The Commission of the European Communities has just released a report that suggests how the 18 Associated African and Malagasy States (EAMA)<sup>1</sup> might increase their industrial exports and thereby strengthen their economies.

With the approval of the EAMA, the Commission undertook the study in late 1970.<sup>2</sup> Its purpose was to determine and analyze ways by which industries could best utilize available natural resources in the EAMA, while producing goods in great demand among the industrialized nations, particularly the Community.

Industrialization and more diverse economies for the African states have been the preoccupation of Africans and the Community alike in the context of their special trade relationship established by the Yaoundé Conventions of 1964 and 1971.

From 1964 to 1969 the emphasis in the African states was placed on local production of consumer goods which otherwise would have

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<sup>1</sup> The 18 member states are: Burundi, Cameroon, Central African Republic, Chad, Republic of the Congo, Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo, Upper Volta, and Zaire.

<sup>2</sup> "Pre-selection of Industries Considered Viable for Export Promotion in the EAMA," Report by the Directorate-General for Aid to the Developing Countries, 198 pages.

been imported, draining reserves needed for development.<sup>3</sup>

The second Yaounde Convention, which covers from 1971 to 1975, calls for a greater diversity of industrial production. The Commission recognized that export industries were necessary (in order to help stimulate the economy by foreign exchange earnings) and were not detrimental to locally-oriented industries. In fact, far from being "alternative solutions, export and locally-oriented industries are complementary paths, each as necessary as the other (for economic development)," the Community declared.

The first stage of the Commission study sought to eliminate production of those goods which did not afford the African states a comparative advantage over industrialized producers. Industries with commercial potential were categorized in terms of their projected profitability and viability.

The second phase of the study, not yet complete, will explore in greater detail the feasibility of promoting the export capacity of those industries which the first study found to be basically viable.

#### Methodology of the Report

The study examined the following questions:

- 1) What are the products actually imported from the developing countries by the industrialized nations?
- 2) Which of those products could the developing countries export in a truly competitive fashion?

Three lists were compiled in response to the second question. First were those industries which were not currently exporting but could be re-oriented to do so in a profitable manner. Second were natural resources-oriented industries which could be effectively utilized for export activity, and third were those industrial activities where huge pools of unskilled

<sup>3</sup> For details of the EC import substitution suggestions, see "Possibilities of Industrialization in the African States Associated with the EEC," Directorate-General for Aid to the Developing Countries, 1967.

labor could be extensively used.

The study delineated a set of criteria for judging whether an industry was feasible in terms of cost and competition with already established producers and could efficiently exploit easily accessible resources.

The Commission noted that these lists were not final but should only be considered as a point of departure for further marketing studies.

#### Analysis of External Demand

The pre-selection of products begins with an analysis of the developing countries' imports of manufactured goods to the EC, the United States, and the United Kingdom.

The analysis was concluded with the compilation of a list of 328 manufactured goods which were in considerable (i.e. over \$0.5 million of imports per annum) demand in the industrialized countries.

Exports originating in the EAMA constitute only 6 per cent of the total manufactured exports from all developing countries. About 93 per cent of the EAMA's share is exported to the EC and is mostly derived from the exploitation of local natural resources (52 per cent mineral, 43 per cent vegetable, and 5 per cent animal).

Of the 187 manufactured products the EC imports from developing countries, 13 products dominate the list.

#### Analysis of Supply Conditions in the EAMA

Three lists were compiled of industrial activities which could convert to large scale export operations either by:

- reorienting existing industries toward export manufacturing;
- exploiting local natural resources more fully;
- using unskilled labor on a massive scale.

The study eliminated those products in which the EAMA would have no competitive advantage with other producers of the article, those which utilized import factors (e.g. foreign capital) at a low rate of return,

and those whose unit-value was too small to support the costs (such as transportation) of export marketing.

A. Existing but non-exporting industries have an advantage over those which must be built from scratch because of:

- a reduction in the required initial investment;
- the existence of technical knowledge about the product;
- a complementary domestic market.

The Commission report cited about 50 industrial activities in the EAMA which could be considered for conversion to export production.

B. Exploiting local natural resources hinges on the abundance of the particular resource, its availability for development at a competitive cost in relation to the industrialized countries, and advantageous conditions for its transformation within the country.

C. Industries requiring a large labor input have been the key to industrialization in many developing countries, but until now the EAMA has not effectively utilized this resource.

#### Final Classification for Pre-selected Industries

About 200 distinct products were deemed feasible for export promotion because of favorable supply conditions in the EAMA.

Then began the process of rating them, based on certain optimal viability criteria. These criteria take into account:

- the demand for a certain product in the industrialized countries;
- the volume of exports in that product from the developing countries;
- the rate of growth of those exports;
- the abundance and competitiveness of the domestic natural resources;
- the industrial techniques used;
- the intrinsic qualities of the final product;
- the existence of a complementary domestic market; and

- the degree of utilization of unskilled labor.

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N.B. Lists of the recommended industries and products can be obtained upon request from: The European Community Information Service, 2100 M Street, N.W., Washington, D.C. 20037. Tel: (202) 296-5131.