

# ACP - EEC CONSULTATIVE ASSEMBLY

JOINT COMMITTEE

## AD\_HOC\_WORKING\_PARTY\_ON\_INDUSTRIAL\_COOPERATION

DRAFT REPORT

ON

ACP-EEC INDUSTRIAL COOPERATION  
AND THE IMPACT OF THE LOMÉ CONVENTION

### B. Explanatory statement

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## I. INTRODUCTION

1. When adopting, on 30 September 1981 in Luxembourg, the motion for a resolution contained in the Insanally report on the Fifth Annual Report of the ACP-EEC Council of Ministers, the Consultative Assembly called on the Joint Committee to set up a working party on the impact of the chapter on industrial cooperation in the context of the Lomé I Convention and the prospects for Lomé II. The Joint Committee set up this working party on 3 February 1982 in Harare (Salisbury).
2. The working party met for the first time in Harare on 3 and 4 February 1982, then in Brussels on 28 and 29 June, 21 and 22 and then 27 and 28 September, and 22 and 23 November 1982, and on 20 and 21 January 1983. It decided to draw up a report reviewing ACP-EEC industrial cooperation on the basis of the existing industrial situations and putting forward proposals to remedy the shortcomings which had been identified.
3. This report must aim to serve as a reference document both for the opening of negotiations for the renewal of the Lomé Convention and with a view to deliberations on the continuation of the North-South negotiations.
4. It forms part of a general policy which aims to make ACP-EEC relations exemplary for relations between North and South, rejecting any posture of confrontation and seeking rather to place the machinery of cooperation in the service of social justice, human dignity and peace.

## II. INDUSTRIAL COOPERATION: A NECESSITY BENEFITTING BOTH PARTIES

### (a) The ACP States

5. The development process presupposes that the countries of the Third World will no longer be mere suppliers of mineral and vegetable raw materials but will also become full partners in the international economic system. For this to happen, they must industrialize, a process which may be speeded up through cooperation with the rest of the world.
6. However, this cooperation - with states or groups of states - is feasible only if the concept of strict political equality is recognized. Only in this context can the least-developed partner genuinely increase its freedom to choose the type of development suited to its own situation and traditions.

7. In the case of Africa, the Lagos Plan adopted at the OAU economic summit in April 1980 accordingly states that 'The member countries consider cooperation with the other regions of the world to be essential for the achievement of the objective of industrial development. However, they stress that this cooperation must be of mutual benefit.'
8. The plan proposed by CARICOM reflects the same desire for cooperation with regard to the Caribbean.
9. In more specific terms, industrial cooperation as part of a global development strategy must enable the ACP gradually to meet, from their own resources, an increasing proportion of the needs of their populations, in particular those which they consider to be basic. This will entail an increase in their share of world industrial production.
10. Industrial cooperation must help to create jobs in order to generate wealth and distribute additional purchasing power. It must be designed to help the social integration of the ever-increasing urban population, while at the same time helping to curb the rural exodus by encouraging the existing excess population to remain on the land.
11. Finally, it must promote the creation of a basis for the development of other sectors of the economy and help to promote technological progress with a view to the controlled modernization of society.

(b) The EEC

12. Since the industrialization of the Third World is inevitable, it is in the Community's interest to steer between laissez-faire and protectionist approaches and seek to establish cooperation and contractual relations which will make the necessary changes in its production machinery and hence in the nature of employment in the Member States making both more predictable and therefore more capable of being controlled.
13. Furthermore, an increase in the standard of living of the Third World through industrialization is likely to bring about a recovery in world demand (particularly for capital goods) and could therefore be a decisive factor in reducing the present risks of a recessive spiral and encouraging a lasting solution to the current economic crisis.

14. Any improvement in the standard of living, incomes and social welfare in the developing countries may also, in the longer term, reduce some competitive pressures by aligning manufacturing conditions. Clearly, it is in the interests of the Europeans, and particularly of workers, for conditions to be aligned upwards.
15. As regards trade, ACP-EEC industrial cooperation may also help the Community to retain the large share of the market which it often holds in these countries, and even to increase its exports of capital goods and hence create jobs.
16. Finally, as the era of colonial exploitation is over and as the Community is heavily dependent on imports of the raw materials necessary for its development (75% as against under 25% for the USA and under 10% for the USSR), cooperation with the Third World, notably with the ACP, which have extensive resources in this field, is essential.

### III. THE ACP'S INDUSTRIAL SITUATION AND ITS PROSPECTS IN RELATION TO THE REST OF THE WORLD

#### (a) The situation

17. One point which must be made at the outset is that there are virtually no global statistics which could be used as a basis for assessing the industrial situation of the ACP as a whole. This is undoubtedly attributable in part to the lack of statistics in some ACP countries themselves. However, it would appear that the Community for its part has not yet accorded this problem the importance it deserves.
18. A second point to note is the use of the word 'industry', whose meaning is more or less broad according to the sources using it: sometimes it includes the extractive industries and energy and certain peripheral infrastructures. Unless otherwise stated, the term 'manufactured added value' will be used to cover industry in the strict sense of the word (section 3 of the standard international classification by industry).<sup>1</sup>

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<sup>1</sup>Source: United Nations publication 71, XVII, 8

19. One thing which does emerge from UNIDO statistics is that Africa, where most of the ACP industry is located, accounts for only a very small proportion of world manufactured added value (0.92% in 1981 as against 10.3% for the developing countries as a whole) and its share is increasing only very slowly (0.72% in 1960 as against 8% for the developing countries as a whole).<sup>1</sup>
20. In most of the ACP countries industrial production shows little diversification, being concentrated in three sectors: foodstuffs, beverages and manufactured textiles. In some cases there is also a sizeable extractive industry (oil, phosphates, uranium, various metals).
21. However, the African continent is rich in potential. Mention has already been made of raw materials, but it is also rich as regards energy, particularly the new and renewable energies - biomass, hydro-electricity - which could become available in large quantities at low prices in the near future. Finally, the population structure of Africa, which is often represented as a disadvantage, for instance where food is concerned, offers enormous potential in the longer term (the population of sub-Saharan Africa will undoubtedly increase from 302 to 544 million people between 1975 and the end of the century).<sup>2</sup>

(b) Disparities

22. However, there are major disparities in the above situation. Of the 42 developing countries in sub-Saharan Africa for example: - five (Swaziland, Mauritius, Ivory Coast, Kenya, Zimbabwe) have a manufactured added value of over 15% of GDP (1976 figures); 18 have a manufactured added value of less than 8%; - six (Nigeria, Ivory Coast, Ghana, Zimbabwe, Sudan, Kenya) together account for half the total manufactured added value; and 23 others each have a manufactured added value of under 1%, - in only seven countries (Gabon, Swaziland, Nigeria, Congo, Mauritius, Botswana, Mauritania) was the average annual rate of growth of manufactured added value over 10% (the Lima objective - see below) between 1970 and 1976.

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<sup>1</sup> Source: A statistical review of the world industrial situation 1981 (UNIDO, Feb. 1982)

<sup>2</sup> Source: Facing the Future (OECD 1979)



23. These disparities are only partly due to demographic differences (of the 61 ACP States, 8 have a population of more than 10 million - only Nigeria exceeding 70 million - while 19 have less than 500,000) or geographical differences (21 States are islands and 15 are landlocked, with all that this entails), although these obviously do affect the conditions in which industrialization takes place.
24. Leaving aside other points, which will be dealt with later, these factors alone show that the problem of industrialization in the ACP States certainly takes very different forms depending on the country concerned. The type of industrial cooperation to be introduced must also therefore be fairly flexible to take account of this diversity.

(c) Prospects and margins of manoeuvre

25. The Third World's development prospects between now and the end of the century have been studied by various bodies from three different perspectives. The World Bank has made fairly optimistic projections on the basis of present economic trends. UNIDO has proposed an approach aimed at achieving the objectives laid down at the Lima Conference (1975), namely that the developing countries should account for 25% of the world's industrial production by the year 2000. Finally, as part of its Interfutures project, the OECD carried out a study of possible scenarios, putting forward various economic and political hypotheses. Of course, none of these three studies should be interpreted as a forecast. Each advances a possible or desirable development and calls on the political authorities to steer away from it or towards it on the basis of the specific objectives of their respective countries.
26. The World Bank's projections<sup>1</sup> show that between 1980 and 1990 the rate of growth of per capita GNP for those countries of sub-Saharan Africa which import oil will in all probability be more than one percentage point lower than the average for 1960-1980, while oil exporting countries will only be able to maintain the average rate of growth. Furthermore, the rate of growth in the net flow of funds to the developing countries, which averaged 7.8% between 1970 and 1980, is predicted to be between - 0.2% and 3.2% from 1980 to 1990. Although these projections do not apply to industrial production as such, they clearly outline the prospect of somewhat slower growth in this area.

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<sup>1</sup>Source: Report on development in the world, 1981  
(World Bank, August 1981)

27. In comparison, the voluntary approach advocated by UNIDO<sup>1</sup>, which would mean a 2 per cent share for Africa in world industrial production by the year 2000, presupposes an increase in the rate of growth of production above the average for the period 1960-1980. It also assumes a large increase in the annual flow of direct foreign investment in industry by the year 2000. Although the UNIDO approach is still credible for certain newly industrialized countries in the Third World, it no longer appears to offer realistic prospects for Africa.
28. Finally, of the various scenarios envisaged in Interfutures<sup>2</sup>, the two most extreme - 'A', the most optimistic, entailing optimum cooperation between states, and 'C', involving North-South confrontation - indicate an increase in the proportion of total world manufactured added value accounted for by sub-Saharan Africa from 0.5% in 1970 to 0.8% and 0.7% respectively in the year 2000 (16.4% and 19.1% for the Third World as a whole: the North-South confrontation scenario would thus lead to a greater share for the developing countries in world industry, but the total level of production is far lower in scenario 'C' than in scenario 'A').
29. None of the abovementioned projections would therefore appear to afford bright prospects for the participation of sub-Saharan Africa - and consequently a large number of ACP States - in the world industrial system of the future. However, it should be noted that, even within the context of the Interfutures scenarios, the figures of 0.7% and 0.8% apply to very different levels of world activity but nonetheless reflect variations in industrial production levels which can be as great as 70% or 80%. In terms of the creation of wealth and the satisfaction of needs, the difference is considerable, with the result that the analysis of both the obstacles to industrialization and the means of overcoming these, i.e., the search for an optimum strategy for industrialization and industrial cooperation is fully justified.

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<sup>1</sup>Source: Industry 2000 - New Perspectives (UNIDO, 1981)

<sup>2</sup>Source: Facing the Future (Op. cit.)

#### IV. THE EXTERNAL DIFFICULTIES OBSTRUCTING INDUSTRIALIZATION

30. The first difficulty arises from the low internal wealth accumulation capacity of many Third World countries, which still derive most of their income from the sale of raw materials. The general deterioration in the terms of trade for non-oil products, which has been accentuated in recent years by a slackening of demand in the rich countries, has reduced the real value of these revenues (e.g., copper for Zambia, uranium for Niger). Only progress at international level - initiation of global negotiations, introduction of the Common Fund - can reverse these trends.
31. The above situation is aggravated still further by sharp fluctuations in commodity prices which are sometimes caused by climatic or social changes but often also by speculation on the part of a few large-scale international operators, and this makes it difficult to forecast accurately the inflow of foreign currency and hence to prepare medium and long-term investment programmes. (By way of example, between 1973 and 1982, the price of cocoa fluctuated on a scale of 1 to 10, that of sugar 1 to 7, and that of copper 1 to 2<sup>+</sup>).
32. Another difficulty is that the increase in the potential added value of resources on and below the earth's surface often still accrues to foreign firms even though the latter may no longer own the resources. These firms are more interested in repatriating short-term profits than in participating in the construction of a coherent industrial structure.
33. The most extreme attitude of this kind is that of multinational firms which invest in a country in order to benefit from low wage costs or tax advantages (which often take the form of 'free zones') but produce goods which meet none of the needs of the host country and are virtually all re-exported.

Without wishing systematically to condemn all situations of this kind, which may have positive repercussions in the case of very small or island states in particular, it must be recognized that the 'industrialization' already achieved represents an artificial veneer rather than a basic contribution and that, in this case as in the previous one, the local authorities find it difficult to direct activities over which they have virtually no control.

34. In general, therefore, industrial development is heavily dependent on foreign investment. However, this is now being cut back because of the level of indebtedness, which is already often too high (see Table 1), resulting from a high degree of dependence on imported food and energy to meet what are rightly considered to be priority requirements. The solutions proposed by the international monetary institutions are also far too much dictated by short-term financial considerations and do not take sufficient account of the general problems of development.
35. Another kind of difficulty can emerge when certain foreign countries announce that a given firm, which was due to set up in a Third World country and was intended to export part of its production, on a competitive basis, cannot do so or can do so only on a very reduced scale in that particular locality. Situations of this kind have already arisen even in the context of ACP-EEC relations, for example in the field of textiles, in spite of the letter and spirit of the Lomé Convention. This raises the problem of external markets for certain goods manufactured in the developing countries.
36. Underlying this attitude is a fear which is increasingly felt and expressed by the rich countries in the present crisis, namely that the industrialization of the developing countries could lead to a deterioration in the already serious employment situation. This concern, which is rightly felt by the workers who may lose their jobs and for which there are sometimes good grounds, could have an increasingly serious effect on North-South relations in general and ACP-EEC relations in particular.

37. An analysis of the trade flows between the Community and the developing countries shows, however, that the Community has a strong positive balance of trade in manufactured products (in 1980, 46.2 thousand million ECU with the developing countries as a whole, 9.5 thousand million ECU of this with the ACP countries alone, giving a ratio of exports over imports respectively of 3.3 and 5.4 - see Table II). It is clear from this that in a global if not a regional or sectoral perspective, present trade patterns in industrial goods create considerably more jobs than they destroy in the Community (although a direct correlation cannot be made between trade and employment in view of the varying job content involved in the production of the goods traded).
38. In addition, it must be remembered that the ACP still account for only a small proportion of Community imports (1% of textile imports in 1980 and 1981) in the case of the most sensitive sectors and products (textiles, electronics), and are therefore no threat to Community employment.
39. Basically, the problem is one of acceptance by the North - notably the Community - of a different international division of labour which would give more weight in the long term to industry in the developing countries and particularly in the ACP. A medium- and long-term approach is necessary if the possibility of such a development without which any discussion on development will be meaningless, is to be considered. If it is to be approved by everyone, this approach must be worked out not only among states enjoying equal rights but also with the involvement of all the social partners, and particularly the workers.

#### V. THE INTERNAL DIFFICULTIES OBSTRUCTING INDUSTRIALIZATION

40. The first difficulty of this kind relates to the ambitious nature of the objectives set, namely to enable societies which are still predominantly rural, agrarian or pastoral to achieve a genuine industrial take-off in, historically speaking, an amazingly short period of time. The problem is that, even in the best of cases, virtually all the industrial structures which existed at the time of decolonization were designed with a view to exporting to the mother country and it was the interests of the latter alone which dictated where the investment was made, be it in research or infrastructures.

41. Another difficulty is the weakness of existing conditions:

- in the field of transport and communications, where the present set-up is still based mainly on the ab\_extra demands of the colonial era;
- in the industrial field, too, which means that many materials needed by firms, including the most basic spare parts, must still very often be imported.

This situation is aggravated in many cases by the topography of the countries concerned (size, landlocked, or island situation).

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42. The small population of certain countries often makes it difficult to introduce the mass production techniques applied in the advanced countries, particularly as a large section of the population does not have the minimum purchasing power necessary to acquire manufactured goods. This is frequently the case with the rural population, which nevertheless constitutes the majority.

43. The establishment of effective regional industrial and trade cooperation in response to this problem often faces political or administrative difficulties - in what state should the headquarters of the cooperative firm be located, what should be a fair return for each participant, etc? - which the Community Member States know only too well and which can be overcome only with experience and time.

44. The introduction of a training system capable of supporting industrial development (training of company managers willing to accept the risks inherent in such undertakings and technicians at different levels, as well as basic education and general literacy) is undoubtedly one of the most difficult tasks. Progress is slowest in the cultural field, particularly if the intention is to take account of local features and traditions without abandoning the idea of creating the competitive capacity without which foreign dominance will still prevail.

45. One final point, which is in part a result of the previous one, is the difficulty of using techniques or technologies developed in the industrialized countries for a specific economic, social and cultural environment where there is a well-established traditional industrial work force. As well as being too large-scale in many cases, a fact which has already been mentioned, these technologies are generally designed

with maximum labour savings in mind, whereas the developing countries have an abundance of manpower, are often unnecessarily sophisticated for the manufacture of goods intended to satisfy basic requirements, and require specialists, of whom there are still only a very small number in the Third World, to maintain or repair them. As a result, and following the interest shown in the problem of finding better ways of carrying out major technology transfers, a productive yet ambiguous debate has begun on the concept of 'suitable technologies'.

## VI. THE IMPACT OF LOMÉ I and II: ACHIEVEMENTS AND PROBLEMS

### (a) Instruments and resources

46. Title V of Lomé II, which superseded the Lomé I Convention, accords considerable importance to industrial cooperation, stating that 'The Community and ACP States, acknowledging the pressing need to promote the industrial development of the ACP States, agree to take all measures necessary to bring about effective industrial cooperation' (Article 65). It then goes on to say that this cooperation is intended 'to promote new relations of dynamic complementarity between the Community and the ACP States' (Article 66).
47. In order to achieve these objectives, the Lomé Conventions made provision for the use of part of the funds earmarked for financial and technical cooperation - 3,700 m ECU for Lomé I, and 5,700 m ECU for Lomé II - which are administered by the Commission or the EIB, and for the creation of a Committee on Industrial Cooperation and a Centre for Industrial Development.
48. Industrial cooperation can be financed by the Commission through subsidies, special loans (at an interest rate of 1%) and, since Lomé II, Sysmin. The funds administered by the EIB are venture capital, loans from own resources at subsidized interest rates (with an 8% ceiling; subsidies from EDF resources) and, since Lomé II, common-interest mining loans (not subsidized). Table II sets out for Lomé I and II the amounts allocated to these different lines.

49. The main role of the Committee on Industrial Cooperation appointed by the ACP-EEC Council of Ministers with an equal number of representatives from each side, is to 'review the progress in the implementation of the overall programme of industrial cooperation' and also 'organize ... a review of trends ... with a view to exchanging information necessary for improving industrial cooperation' (Article 78). It consists mainly of experts and officials.
50. The Centre for Industrial Development (CID) 'shall help ... to establish and strengthen industrial undertakings in the ACP States, ...special emphasis shall be placed on the identification and exploitation of possibilities of joint ventures' (Article 79). It was set up in 1977 and has been operating for little more than a year with increased resources under the Lomé II Convention.

(b) Achievements

51. The number of ventures to further industrialization (including energy and mining) involving Community financing stands at 149 for Lomé I and 39 for the first 18 months of the Lomé II Convention in the case of the Commission, and 245 for Lomé I and 39 for the first 18 months of Lomé II in the case of the EIB. In addition to these figures, tables IV and V show the proportion of industrial cooperation financing accounted for by the various types of resources and the percentage of the different categories of funding allocated to this form of cooperation as against the level of commitments. These figures also show that 29.0% of commitments under Lomé I and 35.6% of those under Lomé II (at 30 June 1982) related to industrial projects (in the broad sense of the term indicated above; the figures for industry are strictly speaking less favourable, as will be shown).
52. The breakdown by sector of these projects shows, apart from the dominant ones of energy and mining, a high concentration in the agricultural processing industries, both in terms of number and volume of resources committed. This supplements the analysis of the situation which we gave in paragraph 20 (again, see Tables IV and V).



53. The breakdown by country is to be read at two very different levels. With regard to programme aid, it merely reflects the results of negotiations and the very broad priorities of the Lomé Conventions (priority to the least-developed countries for non-repayable aid, for example, or percentage allocated to operations of a regional nature). More significant is the breakdown of EIB loans, which reflects more clearly the particular dynamism of certain states; Table VI shows, for instance, that under Lomé I, four states (Kenya, Nigeria, the Ivory Coast and Cameroon) have alone used almost 40% of all the funds administered by the Bank, while three others (Mauritania, Fiji and Togo) have used a further 15%; (it should, however, be observed that these countries have, for the moment, received only 8.4 and 5.4% respectively of the total resources administered by the EIB under Lomé II; see Table VII).
54. The CID has set up a department responsible for missions and inspection visits by experts (45 countries were visited in 1981) to help identify possible operations. These vary from helping to establish new industries (generally in the form of joint ventures) to technical assistance or rehabilitation operation. At the end of 1981, then, the IDC was involved in 77 operations (a detailed account of these operations is given in Table VIII).
55. In looking at the achievements it is also worth mentioning the allocation of financing as between specific industrial projects, generally involving large-scale investments at least in terms of the countries concerned, and small and medium-sized industries, which is particularly useful to the small countries and also in helping to secure balanced regional development. The latter type of aid generally takes the form of 'global loans' to Development Banks or local or regional financial institutions. These loans are then allocated to the individual SME-SMI (loans over 20,000 ECU administered by the EIB, those under 20,000 by the Commission), either in the form of funding for investment projects, or as direct participation in the undertakings, or, again, to finance studies. The importance and allocation of these loans is illustrated in Tables IX and X. They represent a little over 10% of the volume of industrial commitment and show an increase from Lomé I to Lomé II deriving from growth in the volume of available risk capital.

56. The impact of industrial operations financed by the EEC under the Lomé Convention may be gauged by considering the following figures for intervention involving the EIB (at 30 June 1982, excluding projects financed by the Development Banks):
- average direct additional added value created in ACP industry (excluding energy) was 870 m ECU per annum in 1982 (out of a total of 17,000 m, including 4,000 m for Nigeria);
  - the net impact of the same projects on the ACP balance of payments was a gain of 584,000 m ECU per annum in 1982 (compared with a deficit of 4,200 m including Nigeria; and 7,300 m excluding Nigeria);
  - energy projects achieved savings of approximately 260,000 m ECU per annum, the equivalent of 5% of ACP oil imports.
57. One final point of interest in assessing the results is the snowball effect of the Community's financial contributions. This is to be seen in particular in the number of co-financing operations they have engendered and the contribution of other donors to such operations. As Tables XI and XII show, 65 industrial projects (including energy and mining), representing a little over two-thirds of commitments under Industrial Cooperation, were developed as co-financing operations, the Community Institutions' share accounting for 15.9% of the total investment (it should be noted that in the case of global loans, which almost always form part of co-financing arrangements, the Community Institutions' share in the total investment is 25%: see also Table X).

(c) Disappointments and problems

58. In spite of the considerable achievements mentioned above, it has none the less to be recognized that their impact is generally regarded as disappointing by the ACP, which often hope for more and sometimes expect something different. This kind of reaction can be justified by the trend of Community imports of manufactured products from the ACP countries, although this is clearly a rather debated point; in spite of the abolition of all customs duties and, theoretically at least, all quotas for these products (Articles 2 and 3 of the Lomé II Convention), the ACP share of Community imports has remained very low and has actually declined (from 2.6% to 2% between 1975 and 1980), whereas, conversely, the share of manufactured goods in ACP exports to the EEC has clearly diminished (from 14.3% to 11.4% between 1975 and 1980, although the non-oil percentages are admittedly less convincing: see Table XIII).

59. One of the main reasons put forward by the ACP to explain this phenomenon is the lack of funding for industrial cooperation. The following remarks may be made in this connection:

- the level of funding for general industrial cooperation between rich countries and Third World countries has been hit in recent years by the financing difficulties experienced by major international institutions, notably the World Bank (which has rightly decided to give priority to agriculture); these difficulties have been due partly to a lack of good-will in certain countries (e.g. the reduction in the United States' contribution to aid) and partly to the general rise in interest rates;
- although a significant proportion of the resources under the Lomé Convention is allocated to industrial cooperation in the broad sense of the term (see paragraph 51), more detailed analysis of the figures in Tables IV and V shows a less positive picture. The 'general' line includes 'peripheral' investments, which do not really cover industry; furthermore, leaving aside energy and mining, it is clear that the percentage allocated to industry in the strict sense of the term is 16.4% of the current commitment appropriations under Lomé I (the figure for Lomé II cannot yet be regarded as significant);
- One of the commitments under the Lomé II Convention, namely, 'to carry out a detailed joint analysis...of ways of obtaining additional resources' (Annex X of the Convention), has not yet been implemented, and yet Annex X clearly states that this analysis should be 'completed in the shortest possible time, which should not exceed a period of 9 months after the signing of the Convention.' However, a group of experts under the chairmanship of Professor Onitiri submitted a report on complementary financing to the ACP-EEC Committee of Ambassadors on 12 March 1981; although the Commission and the ACP States have produced a number of documents in response to this report, it is still being considered by the ACP-EEC Council of Ministers.

60. However, another debate has begun between the ACP States, which feel that a larger number of projects could be financed with more money, and certain Community representatives, who consider that virtually all the 'good' projects have indeed been funded. The rapporteur's conclusions on this delicate issue are set out below:

- the Commission is indeed in a position to absorb more funds for industry, as it often uses funds to finance peripheral investments which are not directly profitable;
- the EIB would undoubtedly find it difficult to do likewise, as private financing can be found without difficulty for clearly profitable projects; the projects presented to it are generally less 'good', and it is a fact that alternative sources of finance could not be found for the projects it rejected, as they were not viable;
- the CID, on the other hand, rightly claims that small and medium-sized firms and industries, as well as the craft trades, have the capacity to absorb more funds.

61. The debate on the issue to which the above conclusions relate could prove to be biased for two reasons:

- there could appear to be a lack of 'good' projects simply because, once the industrial 'sure things' have been established, insufficient attention is devoted to identifying and evaluating other projects;
- the concept of a 'good' project raises the complex and crucial issue of selection criteria, which may not be the same for the ACP and the Community or even for governments pursuing different priorities.

62. The EIB's selection criteria have come in for special criticism. Some feel that the main criterion adopted is the financial profitability of projects, which means that applications which perhaps may not bring an immediate financial return but which are genuinely useful in social and national terms (projects to keep the agricultural workforce on the land or to save foreign currency) are rejected.
63. The EIB's reply to these arguments is:
- that its criteria are virtually the same as those of all the international development organizations and those are generally accepted by the developing countries;
  - that, unlike the commercial banks, it is a non-profit-making body which first considers the likely impact of a project on the economic and social development of the country concerned and only after, that looks at the more technical and financial aspects;
  - that the initial examination of the projects proposed by the States takes place during the joint planning missions by the Commission and the Bank;
  - that the money which it lends is not its own and that, even without seeking to make a profit, it has to be able to repay the loans which it raises on the financial markets;
  - lastly, that it is not in the recipient State's own interest to receive support for a project which will eventually represent an intolerable burden.
64. However justified the above points may be, they do not solve the problem altogether since, in the case of the final technical and financial appraisal, it can at the very least be said that:
- although the idea of the viability of a project is important, it depends just as much on the policy followed by the recipient country as on the EIB's estimates: does a country intend to protect a certain newly-established undertaking by the introduction of customs duties

and is it prepared to accept an inadequate financial return on the basis of its own judgment of what is in the social or national interests, etc.?

- an increase in the volume of venture capital not borrowed by the Bank, and to which more favourable terms are attached than those for loans from own resources, should make it possible to extend the range of eligible projects and, indeed, countries.

65. In actual fact there is probably one, and only one, way of resolving the argument and difficulty discussed above: by reducing the present gap between 'users' and 'deciders'. One way in which this might be done would be to detach from the existing EIB all activities in the ACP States and to set up a 'Lomé Development Bank' in the administration of which all the ACP and EEC States could participate on the model of the World Bank. Such a reform would clearly have to be implemented in such a way that the borrowing capacity of the new institution could be kept at the existing level; its impact on the role of the other institutions should also be examined.
66. Another reason advanced to explain the problems encountered is the difficulties faced by the CID. Apart from the newness of the institution, the main difficulties, according to the CID, are:
- a lack of resources, which limits the presence and activities of the CID both in the ACP and in the Community;
  - the lack of capital available to it, combined with the fact that the small and medium-sized industries cannot apply directly to the EIB;
  - the lack of incentives for the SMI to invest in the ACP countries, either directly or within joint ventures.
67. There has also been some criticism on occasion of the shift in the type of funding given under Lomé I and Lomé II. The kind of aid which has increased most spectacularly under Lomé II is venture capital, which has been virtually tripled and in fact implies a heavier financial burden than subsidies or special loans. This criticism may seem

debatable, because, on the one hand, the increase in venture capital, virtually all of which has been devoted to industrial cooperation, has helped to increase the share of funds under Lomé II allocated to such cooperation (see Tables IV and V); on the other hand, the interest rates applicable to these capital loans - which are not even necessarily repaid - seem to have been between 2% and 3%. However, there is no gainsaying the fact (see Tables VI and VII) that, from one Convention to the next, the share of EIB finances going to the least-developed ACP States (in the sense of Articles 48 and 155) seems to be declining.

68. Lastly, dissatisfaction has at times been expressed regarding poor coordination between the European institutions involved in industrial cooperation; insufficient coordination vis-à-vis the CID by the Commission and the EIB and insufficient coordination between the latter two institutions. It seems that these observations, which may have been justified at one time or another are no longer valid today.

## VII. CHOICE OF STRATEGIES FOR INDUSTRIALIZATION AND FOR INDUSTRIAL COOPERATION

### (a) The various industrialization strategies for the ACP

69. In order to draw up an industrialization strategy, each State must naturally take account, first of all, of its own characteristics and circumstances, its assets and constraints. At the same time there are a number of general principles which clearly apply in nearly every case: thus increasing the value of the local resources - mineral or vegetable - by primary processing, leaves the State concerned a greater share of the added value which will ultimately appear in the final manufactured products. Over and beyond those elements which must clearly be different in each case and those which are no less clearly of general relevance, there are some major types of strategy, based on differing conceptual priorities and policies, which must be borne in mind, with their advantages and disadvantages.
70. The strategy of import substitution is aimed at local production of a number of goods used in the country concerned. It can prove of value if it concerns really essential goods, the non-importation of which will

mean savings in precious foreign currencies and which can, moreover, be produced in a form better suited to the country's needs (examples: processed food products, building materials, simple spare parts, etc.)

However, such a strategy is often designed to satisfy a local demand that can already be paid for, i.e., that of privileged social minorities, and so it concerns above all consumer durables (motor vehicles, domestic electric appliances...). Import substitution strategy is, particularly in the latter case, unsuitable for small countries with limited outlets in this field (save in a regional cooperation framework).

71. A strategy of international sub-contracting is aimed at utilizing a country's comparative 'advantages' (low wages and social costs, limited trade union rights...) to set up assembly industries (electronics, textiles...). Its main interests are outside the country, and finished products, frequently manufactured by subsidiaries of multi-national firms, are almost wholly re-exported.

Its interest lies in its creation, locally, of employment, a more highly skilled labour force and added value; thus it can be advantageous to small (island) States or States adjacent to major centres of consumption. However, it does not generate much further activity and does not boost industrial development in the sense of creating intersectoral relationships; it leaves the host country extremely vulnerable to sudden closures. Until now it has operated mainly in Asia and some free zones in the ACP States.

72. A strategy of industrializing industries (a priority for heavy industry) is aimed at creating, first, a complete primary processing industry and then an industry producing intermediate goods.

The advantage of such a strategy is that it can generate considerable intersectoral activity if its development is well planned, and quickly reduce the country's dependence in what are often essential fields.

But it requires heavy investment and a skilled labour force such as are available only in large countries (such as Algeria and Nigeria). Moreover, it generates little employment in its initial stages and its impact is slow in the consumer goods sector. Consequently, it too has practically no effect on rural populations.



73. Lastly, the strategy of self-reliant development is aimed initially at meeting genuine local needs for which the financial resources may or may not yet be available (basic needs).

It seems to build up maximum (national or regional) self-sufficiency, which presupposes the widespread existence (among the rural population too) of a basic minimum purchasing power that will allow the growth of domestic demand. It reduces the danger of marginalizing large sections of society, with all its political consequences, and also presupposes strong inter-sectoral cohesion. The disadvantage of this approach - now in the ascendant - is that the speed of technological modernization resulting from it may seem slower, even though its effects on the whole population are actually more profound.

(b) The strategy of self-reliant development

74. From among the above strategies - and not excluding, for purely theoretical reasons, approaches which would in fact combine elements from more than one of them - Africa has chosen the one which it prefers. In the Monrovia Declaration (1979), reaffirmed in the Lagos Plan (1980), it recognized 'the urgent need to take measures aimed at achieving the objective of development and rapid self-reliant growth'.
75. This option clearly implies the introduction or consolidation of regional and sub-regional cooperation (e.g., CEA0, ECOWAS, SADCC, etc.). This is particularly true of the small States in the Caribbean (where CARICOM is being established) and in the Pacific.
76. It also implies abandoning the types of investment sometimes carried out following independence for reasons of prestige rather than practicality, under pressure from firms from the former colonial powers. It involves the accumulation of domestic capital through higher added value by means of primary processing, which might be achieved through a few large-scale projects. But it also implies the fixing of farm prices at a sufficiently remunerative level to permit the creation and growth of rural added value, thereby generating capital for a network of craft trades and cooperatives, SME and SMI, for the manufacture of a certain number of standard goods (farm implements, building materials...).

77. It further implies the introduction of planning mechanisms to establish a timetable for the development of a comprehensive and rational industrial fabric, which would include particularly the essential intermediate industries (engineering, capital goods...). The aim of such planning is not to replace market forces by rigid administrative dictates, but to help implement the priorities chosen (production targets for certain key industries, for instance) and provide information (dates and volume of investment projects, including infrastructure, capital goods, etc.) which would not otherwise be available and which would assist all operators in the economy in their decision-making.

78. What, then, are the respective roles of the public and private sectors in this planning process? This is a choice which, more than others, must be left to the discretion of the individual States. Four observations should, however, be made:

- in view of the current low build-up of private resources in many Third World countries, a large public sector is likely to be essential;
- however, for the same reasons, not only public foreign investment (large development agencies) but also private foreign investment is still desirable in most cases,
- the creation of a joint sector - in both combinations: association of private foreign capital with ACP States capital or of public capital with ACP private capital (in particular in the SME-SMI) - may be one of the possible answers;
- in any case, it is important that private foreign capital should be invested in keeping with the priorities and goals of the national plans.

(c) The implications for the Community's industrial policy and industrial cooperation

79. The first point to note here is that there is hardly any Community industrial policy at present (except in sectors - in most cases, those in difficulty - which are covered by the ECSC Treaty). The negligible role played so far by the EEC's medium-term economic planning has led to a de facto situation which will not make for rapid progress in the dialogue.

80. Having said this, from the Community standpoint, the choice by its partners of a self-sustaining development strategy, which places less emphasis on foreign market outlets, represents less of a threat in the short-term to its existing industrial and employment structures.
81. Certain imports from the ACP countries can, however, create problems. This has already been the case in the textile sector, where the Community has invoked Article 12 of the Convention (safeguard clause). A similar situation could occur in regard to refined sugar (largely because the Community has had refining capacity sold off which far exceeded existing requirements or in regard to certain articles deriving from the sub-contracting sector. We shall return in Section VIII to possible solutions to these problems.
82. At all events, the nature of the flow of Community exports will have to be modified in the medium-term, taking into account not only the industrialization of the South but also the growth of South-South trade: there will have to be a gradual shift in exports towards capital goods, upmarket products and advanced technology, which, as a general rule, it will take the ACP States a long time to master.
83. To avoid being completely overtaken by competition from the newly industrialized countries of the Third World, the EEC will have to ensure that the manufacture of many products is adapted to the technical and cultural requirements of its partners. This means in many cases that the design of these manufactures will have to be a joint operation.
84. These considerations prompt the opinion that, in future, industrial cooperation cannot be confined to unilateral aid, largely decided on the basis of moral considerations, as has been the case up to now. It must also include concretization of the resolve to define jointly the future international division of labour. This must include a description of the broad lines of future industrial development in all the countries concerned; this in turn must be based on an effort to coordinate the projects and plans of the individual partners, at least roughly, as regards location and timing. A genuine concept of mutual interest will have to be thus elaborated on the basis of each participant's potential and assets.

## VIII. INSTRUMENTS TO BE USED

### (a) Trade

85. An examination of the practices adopted by the EEC in relation to certain imports of sensitive manufactured goods from the ACP States raises the question of whether, rather than juxtaposing, without explanation, Articles 2 and 3 of the Lomé Convention on the one hand, and Articles 12 and 23 on the other, it would not be better to establish (in particular for textiles) a quota system which would allow for precisely defined percentage increases.
86. The extension of the list of products covered by Stabex to include some processed vegetable or mineral products may also provide an incentive for the development of certain processing industries in the ACP States and eliminate what has often been criticized as a stultifying side-effect of Stabex.
87. It is too early to assess the success of Sysmin. In so far as the funds available can be used to improve the development of primary processing of raw materials (see the first two operations in Zambia and Zaire), it should have a positive impact on industrialization in the ACP States.

### (b) Financial resources

88. In the low-income developing countries, foreign capital represents almost 60% of the value of overall domestic investment<sup>1</sup>, while for the others it currently exceeds 30%. This capital is shared almost equally between the public and private sectors.
89. An improvement in the ACP's own savings would therefore be one source of funds. Such savings can be effected as from now by purely internal measures (remunerative prices for agriculture, for example) or by an improvement in the real value of exported raw materials (which depends on the successful outcome of international negotiations).
90. A primary source of public financial resources is, further, the world organizations (World Bank, AID). It is important that, despite the worsening crisis and the self-regarding reaction of certain countries, this funding should continue to increase in proportion to the needs.

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<sup>1</sup>Source: Industry in the world since 1960: progress and prospects (UNIDO, 1979)

91. The methods of public financing under the Lomé Conventions were outlined in paragraph 48. Each has a specific purpose: venture capital, however, seems particularly well-suited to industrial operations, in particular through global loans in so far as the SME-SMI are concerned. The available appropriations allocated in consequence of political negotiations have generally been used up easily. The volume of the financial resources provides and will continue to provide one of the clearest indications of EEC interest in industrial cooperation, and more generally, evidence of its analysis of ways of emerging from the world crisis.
92. Similar observations could no doubt be made in respect of bilateral agreements linking certain ACP States to certain Member Countries of the EEC. However, there is as yet no centralized source of statistics at Community level which would make it possible to compare the figures involved with those for the Lomé Convention.
93. At least five observations can be made regarding private investment and the factors likely to encourage it:
- a reduction in the present level of interest rates seems in the developing countries, as elsewhere, an essential condition for any meaningful upturn in private investment;
  - private investment is attracted more readily to areas with existing infrastructures and satisfactory environment, the improvement of which must therefore be an important objective;
  - the need for foreign senior staff, which increases production costs and sometimes discourages investment; this is one more reason for giving priority to training;
  - possibilities afforded by the Lomé Convention (loans, support measures ..), which are not sufficiently well known to private investors, in particular the SME-SMI, should be publicized more widely;
  - the question of security and guarantees on investments - including the 'political risks' which certain confidential publications claim to assess (nationalization, additional fiscal measures, etc.) - appears to be one of the most decisive factors for potential investors; its solution requires the introduction of suitable safeguard mechanisms, either linked to specific projects, or preferably, resulting from general agreements laying down reciprocal undertakings.

94. Finally, the increased snowball effect which may result from the Lomé Convention - i.e., the growth in co-financing, encouraged by the guarantee of the quality of the projects concerned which the Community's participation represents - demands a special information and promotion effort on the part of finance organizations in the countries with a balance-of-payments surplus, essentially the oil-producing countries.
95. Lastly, it should be observed that the effective utilization of the financial resources is a matter which merits at least as much attention as the question of their volume. Thus, in many ACP States considerable industrial production capacity can be created by simple and inexpensive operations to rehabilitate existing undertakings or projects which have been poorly administered in the past (supply of spare parts, replacement of certain machinery, training of technicians or experts).

(c) Technical means

96. The critical problem here is the transfer of technology. For such transfers to be possible, a number of conditions must be fulfilled in the recipient's country, particularly as regards the problems of training, which will be discussed later. It also requires 'vectors' - which will in the main be the undertakings themselves, which brings us back to the problem of investment - but may also be 'experts' of various types.
97. The assistance of industrial experts bringing their technical expertise to the recipient state can also be a determining factor in the transfer of technology. Their role may be either to identify and evaluate new projects - suggesting ways in which they might be implemented - or to diagnose and rehabilitate existing industries which are not functioning satisfactorily; or again, where factories have been delivered more or less ready for production by the foreign investors, their help may be needed to make them operational and, initially, in their management, such a role possibly including the training of local personnel and technicians.
98. In this connection, the recent moves in the CID to equip itself with a body of experts able to undertake some of the above tasks would seem to be worth encouraging, especially since they can reveal new scope for joint undertakings.

99. However, for the moment the above tasks are usually undertaken by consultancy bureaus and groups of engineering consultants, working on the basis of private or public, local or foreign initiatives, but who are generally from the industrial countries. It seems desirable that there should be more organizations of this kind operating with ACP nationals, who are acquainted with the special features of the host country (at present only four ACP countries - Jamaica, Kenya, Nigeria and Zimbabwe - appear to have such agencies); their creation might be facilitated through joint ventures with their European counterparts.
100. The recipient country must acquire - ultimately at least - a real command of a new technology if the transfer is to be effective rather than superficial. This means that the technology transferred must be adapted to the recipient's capacities (its available raw materials and energy at a specific cost in existing workforce, or possibility of training such, not only for the operation of plant, but also for maintenance and repair, etc.). Adapted technology should not be synonymous with obsolete or lower-performance technology, involving sales from the 'North' of outdated machinery; yet this does not automatically rule out the use of such machinery, which can still prove very valuable in countries where the ratio of capital to labour is different.
101. Having said that, the best way of guaranteeing the suitability of a particular technology is for it to be either the product of a multi-disciplinary research programme conducted jointly by the donor and the recipient, covering both technical and socio-cultural aspects and carried out, if possible, in the recipient country, or, better still, the result of the direct establishment of truly indigenous research, at national or regional level.

(d) Training

102. Training is an essential requirement for inwardly-focussed development. It is a pre-condition for sound industrial development. It needs to be accomplished by mass programmes (schooling for all children, literacy campaigns) backed up at local level by programmes for rural training (basic hygiene, the rudiments of agriculture) and technical training (making simple tools, maintenance and repair of machines in every day use). Advanced level of training should be the pinnacle of as wide and comprehensive an education as possible.

103. In the context of an industrialization strategy, high-level training should enable a number of existing imbalances in most of the developing countries to be redressed. In particular, instead of giving precedence to training in law and the arts - which ultimately leads to an overgrown civil service and still more bloated State bureaucracies - emphasis should be laid on scientific training (economic and technical) to provide these countries with the supervisory staff they most need.
104. Once this body of qualified staff has been trained, it is essential to prevent a brain-drain into State administration, or, even worse, abroad. That implies that the corresponding professions must be upgraded, socially and financially, and means must be established, possibly at regional level, for retraining qualified people and providing the research required to maintain a high professional standard. Such measures would also encourage ACP students or trainees to return home once they had completed their training in the EEC; at present some decide not to do so.
105. Technical cooperation, as it too frequently operates at present, should be the subject of a rethink. Cooperation by training should replace cooperation by substitution: one of the prime objectives of those working under a technical cooperation scheme - and one of the proofs of their success should be their replacement by nationals of equal competence.
106. In the same vein, the financing granted under Lomé ought to include - or, in the case of co-financing, be subject to - the setting-up of training programmes whose purpose is to allow the replacement of the greatest possible number of foreign technicians. In view of the wage costs involved, this would also be to the advantage of the investor in the medium term. The process could be furthered by expanding the EEC's scholarships and training programme, which is ludicrously inadequate at present since only about 30 scholarships and 20 traineeships linked to industry have been granted under the Lomé I Convention.
107. Finally, ACP migrant workers in the EEC (approximately 400,000, of whom three-quarters live in the United Kingdom or the Netherlands)<sup>1</sup> could make an important contribution to raising the standard of training in their

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<sup>1</sup>Source: Michel report to the ACP-EEC Consultative Assembly, Doc. ACP-EEC/18/80 (1980)



home countries. This would involve agreement on the part of the host country to assist in two ways: by helping them during their stay in the EEC to maintain contact with their own culture and mother-tongue; and by adapting their occupational training to the situation and needs of the mother country once the workers have expressed a desire to return home.

(e) Institutional means

108. The powers of the Committee on Industrial Cooperation (CIC), as defined in Article 78(1) of the Lomé Convention, should actually be deployed in full and should not be confined to supervision of the CID's activities, so as to enable it to keep under review all the difficulties and measures referred to in the preceding pages.
109. It would also seem essential that both the trade unions and employers' organizations be allowed to speak on the problems of industrial cooperation - not only on investment safeguards but also on workers' rights and working conditions - which concern them directly. For this purpose the 'contracts' envisaged in the Lomé Convention, which depend on the initiative of the Council of Ministers or the Consultative Assembly (Articles 168(6) and 175(7)), seem totally inadequate: they should be formalized through the setting up of a kind of Economic and Social Committee with the power to deliver recommendations and opinions.

IX. CONCLUSIONS: FROM LOMÉ II TO CO-DEVELOPMENT

110. The analysis of the situation and the problems of industrialization in the ACP States and an assessment of the achievements of industrial cooperation under the Lomé Conventions - by no means negligible but falling far short of expectations - have been presented in this report in such a way as to lead naturally to certain recommendations. These have been set out in the motion for a resolution drawn up at the beginning of this report and form its last section, headed 'The means for implementation'.
111. All the specific measures proposed, aimed at strengthening industrial cooperation, fall within a very definite framework: that of a medium-term programme for a comprehensive development scheme negotiated in the interests of the countries concerned; this development scheme should include detailed statistical data on prospects for production and trade in the most sensitive areas of industry as well as priorities for the anticipated and foreseeable investment flows.

112. At the outset, ACP-EEC relations were based on the concept 'aid', sometimes motivated by generosity but, in practice, often paternalistic and self-seeking. With increased interdependence and the worsening economic crisis, a new approach based on co-development, as outlined above, should henceforth inspire those responsible on both sides. What is at stake is a particular view of humanity, freedom and human dignity. What is at stake are the prospects for peace; do we really believe that poverty, or the arms race, can continue for long without provoking a serious crisis? What is at stake is our duty to plan for the future and to create the best possible chances of emerging from crisis, in the interest of us all.