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INTRA-AFRICAN ECONOMIC CO-OPERATION AND AFRICA'S RELATIONS WITH THE EUROPEAN ECONOMIC COMMUNITY

(Some issues raised and proposals made in the Philip Report)

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TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

I. INTRA-AFRICAN CO-OPERATION

A. The need for co-operation

Most African countries are today dissatisfied with their own achievements in the field of the establishment of industries. Often only a few per cent of the labour force - say two to five - are directly employed in industries. Industrial enterprises are few and small and it is rare that they are able to sell outside a protected home market. Although they are small - often so small that they are unable to use the most modern techniques - they nevertheless have excess capacity. Such industries have often - although they have a monopoly on the home market - the greatest difficulty in breaking even. Such industries will hardly ever be able to sell on the world market. (WP.7, para. 2)

Since the trouble is that the purchasing power in the national markets is so small, the question might be raised whether it would be feasible to establish one big African market, a free-trade area composed of all independent African countries, maybe with the exception of the five in North Africa whose economies after all have stronger links with the EEC economy than with the African. (WP.7, para.3)

Free trade in industrial products in Africa is at present found in the East African Common Market, the Southern African Customs Union, and the Central African Customs Union (UDEAC). The first and the last of these three organizations permit certain exceptions. The second, the Southern African, is completely unbalanced through the domination of South Africa, but the other two are associations of equal partners. But even the East African Community (EAC) and UDEAC constitute relatively small markets for industrial goods. (WP.7, para. 11)

For the establishment of economic groupings it seems appropriate that a grouping should be as big as possible. With the very low consumption of processed goods even the biggest African markets imaginable are small. Also for the running of common services the upper limit is pretty high. The bigger the area the bigger the advantages, for example from counter-balancing seasonal variations, etc. There may for some services be an upper limit of size but for the existing groupings this ceiling is far from having been reached. (MR, para. 119)

Most African countries have a small population. A typical African State has about 4-5 million inhabitants. The total demand in such a State is less than 1/10 of the total demand in a Western European country with the same size of population; and the demand for processed goods is about 3-6 per cent of the corresponding demand in Western Europe. This means that in a typical African State the demand for such goods is most probably the same as in a middle-sized provincial town of less than 200,000 citizens in Europe. The markets for processed goods are thus extremely small. This is even the case in the big States. In Nigeria, which is the biggest in terms of market size, the demand for processed goods hardly corresponds to more than that of a European town of two million people. (MR, para. 87)

There is a connexion between the size of the market and the protection needed to persuade people to invest. If the market is big, a tariff of, say, 10 per cent may suffice to encourage investors to go into that market. But if the market is small a higher tariff, say, 25 per cent will be needed. There may be markets so small that not even the highest tariffs will tempt investors. The smaller the markets the more the consumers must pay to get industries established in their countries. (WP.8, para. 9)

To establish a big market a number of countries may unite to form customs unions or free trade areas. In the period following the Second World War a number of such markets have been established between developed as well as between developing countries. The motivation for these establishments may differ. The most important economic reason for the establishment of the EEC and the EFTA was that these markets made specialization, extension of research, etc. possible. In these cases the amalgamation of several markets often resulted in increased competition. In the developing countries - not least of all the African - the purpose has been to create markets big enough to hold some industries, often having only one factory in each branch. (WP.8, para. 10)

There are plenty of resources of raw materials in Africa. It is certainly not lacking in iron ore, copper and bauxite, to name only three, which has prevented the establishment of an African Ruhr or Birmingham. Nor is it lacking in capital, scarce though this is in Africa. Capital is the most mobile factor of production, so there can be little doubt that it would be forthcoming from other sources if the returns were attractive enough. There is no shortage of labour in general - and the quality of the potential labour force is improving thanks to the education programmes of the last ten years. There is a shortage of technical and managerial personnel but these can also be imported. Prices of land are low and salaries for labourers are only a fraction of salaries in the developed countries. (WP.7, para. 8)

The duplication of industries which results from internal tariff barriers in Africa is both inefficient in itself and also diverts resources from the establishment of integrated industries on a multinational basis. These alone have no chance of competing successfully if industrial growth is to be sustained into the next decades. Industries must be started behind tariff barriers, but they can only survive in the long run if they become efficient by world standards. Perhaps this is looking too far ahead as far as Africa is concerned, yet the first steps could and should be taken now, namely, movement towards industrial free trade between African countries, whilst retaining tariffs against foreign industrial goods. (WP.7, para. 10)

African countries should therefore aim at the establishment of intra-African industrial free trade on the widest possible basis. New industries need protection from competition from long-established enterprises in the developed countries, but that is no reason why there should be protective tariff barriers inside Africa. Unfortunately, however, the maintenance of colonial tariff barriers and the proliferation of new ones is already leading to the establishment of identical sets of big industries in country after country. (WP.7, para. 9)

A big home market may be the starting point of the establishment of export industries. Without competition behind the tariff walls, it is hardly conceivable that the industries will be able to compete on the world market. The possibilities for expansion in Africa are today limited. After all, the African continent only produces 2 per cent of the total production of the world. Those who earn the other 98 per cent live elsewhere. By far the greatest part of the purchasing power is to be found in Europe and North America. There is no reason why African countries could not develop an export industry using its cheap factors of production, labour and land, to these parts of the world. (WP.7, para. 7)

There are already cases of national excess capacity in certain countries of the area and some concern about it was occasionally voiced during the Team's visit. But what in some cases would *prima facie* appear to be a menace could well be turned into an advantage by obtaining particularly favourable conditions of supply under long-term agreements (and obtaining, where feasible, partnership or participation status). Such an approach would be more economical than for each country to try to develop costly production lines of its own and to erect tariff barriers to protect them. This would be meaningless in view of the existing difficulty of controlling frontiers and might result in further excess capacity. (WP.11, para. 139)

It cannot be assumed that all existing or envisaged industrial activities should be co-ordinated among all the partner States. This would only stifle initiative and create bureaucratic problems in cases where the self-regulating forces of the area's markets could provide for corrective action. There is, however, an essential need for continuous exchange of information and close co-ordination on all major industrial ventures of the area where a supranational market is needed. Industrial harmonization is unfortunately only in its earliest beginnings in this part of Africa. (WP.11, para. 140)

Economic co-operation between inland and coastal countries is thus a necessity, not only to overcome the particular handicaps of a land-locked position but also to exploit every possibility for economic complementarity. However, there are obvious limits to what a coastal country and its land-locked partner can achieve together. As mentioned above, the average economic capacity of most of the West and Central African countries, including all the coastal countries with the exception of Nigeria and Zaire, is such that only fairly large groups of countries can offer a viable basis for industrialization. In view of the range of economic and technical operations required for major industries producing iron and steel, aluminium, copper, automobiles, basic chemicals, fertilizers, sheet-glass, etc., and the geographical distribution of mineral resources, the ideal economic grouping for a customs or an economic union ought probably to be comprised of all the countries in the West and Central African area. At the present time, however, it would seem more realistic to think in terms of several groupings which would correspond to existing trends towards economic polarization. It is essential, however, that each grouping have a minimum degree of complementarity in resources, production and external trade and that it offer an aggregate market which allows for the development of economically viable industries. (WP.11, para. 72)

There is a certain degree of economic complementarity in the area: between the savannah and the coastal areas, between land-locked and coastal economies, among the coastal countries - and especially among the most dynamic poles of development, and between primary and secondary producers. There is nevertheless a need to expand trade among the countries concerned. However, it is also clear that the limits to co-operation in trade, where both its volume and its development impact are concerned, are bound up with the lack of production of capital and intermediate goods in the area. This poses the problem of the co-ordination of existing industrial production and - even more so - of new industrial capacity, which in most cases requires large-scale operations which clearly surpass the absorption capacities of national markets. Hence, there is a need to avoid the parallel establishment of identical lines of production. (WP.11, para. 138)

Close co-operation between land-locked countries and their transit neighbours on the coast is, however, an obvious necessity and of mutual economic interest. Both types of country might benefit from a common market and joint services organizations, preferably uniting a number of land-locked and coastal countries.) It is important for land-locked countries to obtain good transit and transport facilities on the coast and an outlet for their labour surplus. Coastal countries, on the other hand, might need additional markets for the products of their import-substitution industries. They must also benefit from "cheap" labour and raw materials from the land-locked areas. Furthermore since the standard of living is rising on the coast, they may well require additional supplies of meat from the land-locked countries. Such interdependence ought to be the basis of co-operation negotiations among the countries involved so that reasonable forms of cost-benefit-sharing can evolve. Both land-locked and coastal countries need transit trade facilities and direct sources of supply and markets as the above table will show. The question of the distribution of industries among the members of a common market is certainly important, but it should not be affected in such a way as to curtail economies of location, which would defeat the purpose of integrated economic co-operation. In other words, the land-locked countries should not ask that industries be located inland unless such a location is economically justifiable. Coastal countries, on the other hand, must be prepared to share the direct and indirect advantages of economic concentration accruing to them (employment, tax revenue, shareholding and management). (WP.11, para. 70)

The land-locked countries /thus/ face a variety of obstacles to their economic development: they have a very limited economic potential especially in terms of productive capacity and purchasing power; they are beset by transport problems, which reduce their net export earnings and increase their gross expenditures on imports, and finally they are subject to migratory pressure resulting from lack of employment opportunities. This makes it imperative for them to co-operate with their land-locked neighbours, with the transit countries, with countries in other parts of the sub-region and with the industrialized countries where trade, finance and technology are concerned. (WP.11, para. 66)

The fact is that there has not yet been much co-operation among the land-locked countries to overcome some of their handicaps. Although transport development, which does much in determining economic opportunities, has already become a priority, there are a number of other fields where joint efforts would appear worthwhile. Such fields include telecommunications; the promotion of tourism (much of the remaining game is found in the land-locked countries); co-ordination of training efforts to produce skilled labour and technicians; organization of basic services for important branches of production, such as the cattle and meat sector; crop protection;

agricultural research and the application of its results; joint operation of certain import-substituting industries based on local raw materials (e.g., clinker and cement production); common facilities for the processing of export-oriented primary products (especially transport-cost sensitive items); and joint exploration of mineral resources. This list is indicative rather than exhaustive, and it would be useful if land-locked countries would work together in identifying areas of co-operation using the technical assistance provided by the international community, as required. So far the only systematic efforts in this direction have been in connexion with the Liptako-Gourma Regional Integrated Development Authority, which therefore merits some attention. (WP.11, para. 67)

B. Types of co-operation

The easiest way to create a bigger market for processed goods or to establish a more diversified export of agricultural products is to convert national markets into bigger markets, composed of a number of countries which are members either of customs unions or of free trade areas which have established some system of monetary co-operation. (MR, para. 91)

These groupings should not be thought of as mutually exclusive entities. There will be a need for an inter-group co-operative effort, especially where co-ordinated bargaining is required, such as in negotiations on commodity agreements, or where the economies of scale call for larger, i.e., sub-regional groupings, as in the case of maritime transport, both coastal and long distance service (prospect of a West and Central African merchant fleet). Should the forthcoming Yaoundé negotiations bring about an African free trade area, the importance of the economic groupings will diminish. (WP.11, para. 80)

Customs unions or free-trade areas must always concern a rather limited number of closely co-operating countries. That a Government is a member of such a grouping does not prevent it from co-operating with other Governments in specific fields. It is essential, however, that such co-operation does not conflict with the plans and operation of the economic groupings. This is particularly important in the case of drainage basin development organizations. It is essential that countries bordering the same river co-operate in the utilization of the water resources. Such co-operation becomes even more necessary with growing populations, higher standards of living, the use of imported seed for agriculture and more intensive farming with all demanding more water. In the future more dams will be built for the production of power, irrigation, fishing and transportation. In the absence of co-ordination therefore conflicts are bound to arise among users. Often in the bargaining between inland countries and coastal countries the latter are in a strong position in such

matters as transport. When it comes to questions concerning the utilization of water it will often be the other way round. If the utilization of water is considered as a part of a package deal between the States this may provide for wider scope in sharing co-operation benefits. Co-operation concerning delivery and utilization of power may create groupings different from those of the river basins. (WP.8, para. 63)

As another example of a grouping which could cut across established economic groupings, tourist organizations could be mentioned. It is obvious that it is an advantage for a number of countries to co-operate in this field. Tourists often prefer to visit several countries on the same tour. To establish and run tourist offices in European and American cities is expensive and unless they are of a certain standard merely wasteful. It is, however, obvious that a grouping of this nature may have a membership different from that of other economic groupings. Higher education and research are other examples of a field of co-operation between nations which need not necessarily coincide with the economic groupings. Whereas economic groupings are in most cases most appropriate if they are composed of nations whose produce is complementary, this is not so when for example it is a question of agricultural research. (WP.8, para. 64)

Should a country belong to one multi-purpose grouping or to a number of specialized groupings? As it is important to create a balance of interests it is obvious that a grouping should be responsible for a number of important activities. This does not, however, exclude the possibility of a country being a member of more than one grouping of African States. (MR, para. 113)

Those groupings which take care of a number of activities are in a stronger position. A country whose interests suffer in one activity may be able to obtain compensation and thus be content to remain a member. A grouping cannot survive unless all its members have interests in its survival. It is, therefore, impossible for a grouping to remain active, unless taking on activity with another all partner States benefit. For efficient co-operation comprehensive groupings are, therefore, to be preferred. (WP.8, para. 72)

Some important conclusions can be drawn at this stage. Effective development of customs unions and economic communities calls for important political decisions at the outset and for time to become operational. Functional or sectoral arrangements between English-speaking and French-speaking countries, for example, may pave the way for more comprehensive associations and should therefore be encouraged. Political decision-making with regard to such agreements must be informed by knowledge of the different national policies and institutions in potential partner countries

and of the mutual advantages and obligations which may result from economic co-operation. The United Nations family - including UNDP and ECA - and EDF should as a matter of priority be prepared to assist with related documentation and research programmes, and, more generally, seeking to encourage a shift in emphasis from "national" to "regional" projects. (WP.11, para. 83)

It is unlikely that African Governments should accept the establishment of a free trade area without some temporary protection against their neighbours and member States. We therefore suggest that an African State considering itself less developed industrially than the other member States shall in general have the right to protect its new industries by means of a transfer tax. This tax should only be used for the protection of infant industries, for no more than eight years for each commodity, and should never be higher than 50 per cent of the external tariff. Gradually the African continent will thus move into being one free trade area. It is hardly possible to indicate any criteria acceptable to all which determine when a country is less developed industrially than its neighbours. It seems rather harmless if it is left to the countries themselves to decide whether they are entitled to use the transfer tax. It will in any case be phased out within a limited number of years. In the beginning the loss of revenue will be negligible. However, as intra-African trade develops the whole economy would be modernized and other sources of revenue such as income tax, turnover taxes and value-added taxes would be manageable and available. (MR, para. 85)

To establish a free trade area of many African countries should not be so difficult technically. The trade between African States today is so negligible that the loss of revenue at the introduction of the free trade system will be insignificant. For the same reason disturbances of the present system of production will be negligible. Rules of origin will not raise problems. It seems natural to accept the same rules as those which are used vis-à-vis EEC. (MR, para. 82)

C. Institutional considerations

The procedure for establishing groupings may take different forms. The most usual procedure is for member Governments to agree to a treaty and afterwards get it ratified in the national legislative assemblies. If, however, the grouping is concerned with matters which usually require legislative amendments, other forms of procedure may be more practical. The legislative bodies may also express the wish to have more direct influence on the formulation of treaty amendments. In such cases a consultative body of parliamentarians from the member States could be established as is the case, for example, among the grouping of the nordic countries in Europe. Such a consultative body could meet regularly to discuss

new legislation concerning the common activities. They could thus in their national legislative assemblies recommend the same draft proposals or at least closely co-ordinate draft proposals. A very unusual procedure is used in East Africa where a special East African Legislative Assembly composed of parliamentarians, etc. from the member States meet regularly to legislate on common issues. Such a procedure requires clear rules about which matters are common and which are not. It is also necessary to have rules on what procedure to follow in case of a conflict between national legislation and such group legislation. This system seems to have worked fairly well in East Africa. In case of an enlargement of EAC it should be possible for an enlarged East African Legislative Assembly to function almost as effectively as at present. (WP.8, para. 70)

Conflicts now and then arise concerning the right interpretation of the treaty or of decrees issued by the grouping. If too many cases have to be solved at the political level this may create friction and hard feelings among member States. It may also create a certain arbitrariness which is harmful to smooth co-operation. It is advisable therefore to provide a court of arbitration or tribunal in all groupings. In the African context it would be most practical to reserve to Governments the right to refer cases to arbitration. (WP. 8, para. 84)

A question which often arises in a grouping is whether it should be governed according to majority rule or according to the principle of unanimity. For the smooth running of a grouping it is important that decisions be taken by a majority. However, to prevent a break-up of the grouping it is important that no Government feels that its interests are neglected by the decision-taking bodies. The solution which can combine these two conflicting viewpoints arrange it so that decisions of less vital importance can be taken by a majority whereas vital decisions would require unanimity. The fewer the questions reserved for unanimous decision the better it will be for the smooth running of the administration, but the more dangerous for the viability of the grouping. (WP.8, para. 76)

The member Governments would often prefer to see the agency headquarters distributed among the member States. In East Africa the headquarters for the common services, etc., were distributed in such a way that each country received two "headquarters"; this was not the most efficient solution but it did not do much harm. More problematic are decisions to establish "national headquarters" running the national part of a common service. There may be a number of functions which can be taken away from a grouping's headquarters and transferred to a number of national headquarters. Such a transfer is contrary to the whole idea of a centralized service, but there can be a strong national interest in favour of such a policy. If the centralized headquarters have to take many decisions

of minor importance it may create the feeling that this service is in fact a service working for another country. On the other hand if the national headquarters are made strong the result may be that the common service may be divided into a number of national services. In some cases it could be efficient to establish a number of district agencies subject to control by the centralized headquarters. There could be a number of districts in each country and in some cases more than one country could constitute a district. (WP.8, para. 80)

Many of the African groupings suffer from having an executive which is too weak to perform its functions. If a grouping is to work in a satisfactory way there must be a cadre of civil servants who are dedicated to its objectives and ideals. It is essential that they do not feel that they are there merely on loan from their national Governments. It is even more dangerous if an international career is felt as something inferior to a national career. To achieve this it is important that the officials of the groupings enjoy rights which are not inferior to those of the national civil servants. They should have the authorization to take a number of day to day decisions without being forced to consult the Governments of the member countries. And the individual civil servant should not in any way feel obliged to take orders from the Government of his home country. (WP.8, para. 73)

The East African Common Market is in at least one respect more advanced than the European Economic Community (EEC), namely that it has an established uniform income tax regime. Income tax legislation is the responsibility of the East African Legislative Assembly, and the collection and administration of income tax is carried out by the East African Income Tax Department, which is one of the General Fund Services of the Community. A uniform income tax is of some importance to the establishment of a fully comprehensive common market. There is little point in setting up a common tariff unless there is also at least the intention to move towards a harmonized income tax system, and it is significant that the EEC has this as one of its objectives. For clearly if one member country in a common market has a corporate tax rate which is half that in another, the fact that each applies the same custom tariff will not prevent new investment tending to concentrate (other things being equal) in the country with the lower corporate taxation. The common income tax system will be further discussed below. (WP.9, para. 44)

Customs duties have already been discussed in connexion with the tariff. Excise duties are charged at different rates on certain goods by the partner States and the resulting price differentials can lead to smuggling, but the major cause of smuggling - besides different prices charged by the different marketing boards - is the sales tax imposed in Tanzania and Uganda at standard rates of 20-40 per cent. The land frontiers shared by the three countries are

long and not easily patrolled, so that the only sure solution to smuggling is likely to be the removal of the price differentials which make it worthwhile. This could be achieved in part if Kenya were to introduce a sales tax or the others were to abolish or at least reduce the rates of their sales taxes. Kenya has in fact begun to move towards a sales tax system with the introduction of "consumption taxes" on beer, cigarettes and tobacco in 1971, and on a much wider range of goods in 1972, albeit at generally low rates, about 5-10 per cent. The consumption tax is still not as comprehensive in its coverage as the sales taxes in Uganda and Tanzania and is lower. (WP.9, para. 101)

These groupings should not be thought of as mutually exclusive entities. There will be a need for an inter-group co-operative effort, especially where co-ordinated bargaining is required, such as in negotiations on commodity agreements, or where the economies of scale call for larger, i.e., sub-regional groupings, as in the case of maritime transport, both coastal and long distance service (prospect of a West and Central African merchant fleet). Should the forthcoming Yaoundé negotiations bring about an African free-trade area, the importance of the economic groupings will diminish. (WP.11, para. 80)

D. Apportionment of costs and benefits

General

Those establishing a common market will have a difficult problem before them. Within the grouping the least developed parts of that market will need to be protected to provide an incentive for them to remain in the common market. It is very important that the provisions which are taken to offer this protection do not lead to the disintegration of the common market, but should lead to the establishment of a true common market. The problem is well known from Africa, where the Treaty of East African Co-operation provides the less developed parts with a certain protection which, however, is phased out over a number of years and leading eventually to the establishment of a common market without restrictions. Also elsewhere it has been necessary to make special provisions for the least developed to keep them in. There are special arrangements for parts of Italy in EEC, for Portugal in EFTA, for Honduras in the Central American Free Trade Area, etc. (WP.8, para. 12)

The impression gathered by the Team in the various countries of the area was that one major issue underlay the difficulties experienced by UDAO and UDEAO; the less highly industrialized countries, and especially the land-locked countries, feel that the principal outcome of the institutional arrangements made so far in the field of intra-trade has been additional trade and development for the Ivory Coast and Senegal, the two countries which had already been more highly industrialized than the others. For the poorer

countries they had resulted in loss of revenue and reduced opportunities for industrialization. This confirms that inter-country co-operation between countries of different levels of industrialization is bound to fail if it is restricted to trade and customs questions. New formulae for economic groupings in the area must therefore cover more than trade and allow for compensatory measures which take into account both the particular problems of the less industrialized countries and the general economic interdependence of the two groups. (WP.11, para. 147)

2. Distribution of industries

(a) The problem

Inside a common market (customs union or free trade area) established by a number of developing countries, the distribution of industries will in most cases be very uneven. The industrially less developed countries will almost always wish to have a larger share of the new industries and they may make this a condition of their participation in the common market. To establish a more even distribution of industries different means have been suggested. Some of these urge industries to establish themselves in the industrially less developed parts of the common market. Such incentives are: tax advantages, monetary advantages as cheaper and/or bigger loans, protection against goods produced in the more industrially advanced parts of the market, i.e., a transfer tax. In these cases the investors decide where to establish their firms, but they are encouraged to do so in the less developed parts. It is, however, also possible for the Governments to use a more direct method: the Governments decide where the new industries shall be established. This method has been called Direct Distribution of Industries or only Distribution of Industries. (WP.8, para. 13)

The function of a common market is to permit maximization of production, and this is obtained on one hand by locating industries where they can minimize costs, and on the other hand by allowing such industries free access to the whole market. The East African Common Market is based on these principles, even though it is modified by the transfer tax system. (WP.9, para. 26)

The problem of "balanced" industrial development, by which is meant equitable sharing of industrial investment opportunities, appears to be in conflict with the basic principles of a common market. Certainly this is so if one country is persuaded to forego establishing an industry for which it is well suited so that the industry can be set up in less favourable conditions in the country with a minor share of industrialization. (WP.9, para. 28)

However, the distribution of industries is also difficult for the executive. Considerable know-how is needed to estimate the extra cost involved in the distribution of industries. Often only the businessmen themselves will know and they are either the potential investors or they are competitors. In some cases it may be possible to hire experts from outside, say, consulting engineers. Even in cases where the Government may have the experts, the question may arise whether in a developing country these experts could not be used in a more useful way. However, today hardly any country in tropical Africa has the experts capable of negotiating with the big multinational firms and possessing the same technical know-how. It is, therefore, not surprising that this method has hardly succeeded at all. This method might be applicable if investments were made by the Government itself as is the case in the socialist countries. But in the developing African countries investments in industries are made by foreign private and local private or governmental investors. (WP.8, para. 20)

(b) <u>Proposed solutions</u>

There are two possible methods of resolving this conflict. One is to devise methods of sharing the benefits of industrialization, where benefits are not taken to be the same thing as the industries themselves but would include participation in the profits and the employment offered by the industries. The other is to intensify the search for valid investment opportunities in the lagging country. There is so much to be done in any developing country, and so many idle resources, that there is no reason for despair or special concessions by the other associated countries merely because the latter at a certain point in time appear to have more obviously viable industrial possibilities. The first method has the disadvantage of the difficulty of devising acceptable benefit sharing schemes and of failing to satisfy the aspirations of most developing countries for development of their own modern industrial sectors. The second requires active entrepreneurship - State or private - and considerable investment in feasibility studies and market research. (WP.9, para.29)

An important general requirement for "balanced" industrial development is that each country should maintain a favourable investment climate. This does not mean that there should be an open-door approach to foreign private investment only; large industrial projects today typically require the participation of both domestic and foreign capital. No developed country's Government is likely to guarantee or participate directly in investments in a country which cannot be relied on to honour agreements. And if one member of a common market becomes markedly unattractive to foreign public and private investment, it surely cannot expect its fellow members to hold back on their plans for the sake of "balanced" industrial development of all the members. There is, however, general recognition of this point. (WP.9, para. 30)

It has already been noted that developing countries are determined to create modern industrial sectors in their economies, and that they will therefore not easily be persuaded to accept say a share in profits of an enterprise located in another country as compensation for not having the enterprise themselves. Yet some form of benefit sharing scheme might be acceptable as partial compensation. There are several possible types of scheme, but the most interesting is the possibility of setting up multinational corporations which would be responsible for implementing the agreed programme of multinational industries. (WP.9, para. 34)

The capital structure of an industrial corporation would no doubt be different from that of the present corporations, and the financial targets would differ, since the industrial undertakings should be profit makers, whereas the services are intended to break even only. On the other hand, employment in each industrial enterprise could as in the present corporations be open to all East Africans.* (WP.9, para. 36)

Other major advantages of a system of /East African/ industrial corporations are:

(a) that a State which did not have a major share of the physical plant of, say, the steel industry would nevertheless be represented on the board of the steel corporation and would thereby have a say in development of an industry whose outputs and inputs might well be of considerable importance to others of its own industries. For example, Uganda has no seaport of its own, but through the East African Harbours Corporation does have a voice in the management of what is a vital interest to Uganda.

(b) Representation on the Board would also give the State lacking a direct interest in the physical plant opportunity to ensure that future development of the industry did not neglect any opportunity for investment in that State.

To summarize, one could see future industrial development in the East African Community taking place on the following lines:

(a) Agreement on location of multi-national industries on a least-cost basis;

(b) Special efforts to be made to identify viable multi-national projects in less developed countries;

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* See WP.9, para. 35

(c) Establishment of /East African/ industrial corporations to facilitate participation of each country even in industries not physically located on their own soil.** (WP.9, para. 38)

The possibilities of some form of joint, i.e., multinational, ownership of integrated operations are many and varied, but the Team understand the matter is shortly to be the subject of a special study by ECA. This will indeed involve a considerable restructuring of present tariff arrangements. These usually apply the highest duties against consumer goods, whilst raw materials and producer goods (machinery and equipment of all kinds) enter duty-free or at relatively low rates of duty (which may be remitted or refunded in particular instances). Several African countries are already finding that their customs revenues are tending to level off after initial rapid growth immediately after independence, and this is a direct result of successful replacement of imports of consumer goods by domestic production. Increased rates of duty on producer goods are beginning to be introduced, either to protect new industries or to generate additional revenue. But this is happening on an ad hoc basis. Ten years after independence it could well be appropriate for countries to undertake a systematic overhaul of their external tariffs. Opportunity could be taken at the same time to implement any agreements which may be reached on intra-African industrial free trade. (WP.7, para. 14).

To grant cheaper and maybe bigger loans to those industries which are established in the less developed areas may be a greater incentive. This method can only be applied if the Government has a decisive influence on the rate of interest in the country. It should be able to force the banks to follow such policy. Many industries are, however, established by foreign - perhaps multi-national - companies utilizing the international capital market. They will thus be independent of the local capital market. A special way of accomplishing such a differentiated rate of interest may be for the Government to give industries established in the least developed areas a guarantee which will enable these industries to get loans on the most favourable conditions. Or the Government may channel foreign soft loans to industries in these parts of the union and not to the others. (WP.8, para. 23).

To institutionalize such a policy investment banks could be established. This policy was followed in East Africa when the East African Development Bank was established. Through its policy this bank is meant to contribute to a more even industrial development. Twenty-two and one half per cent of its investments shall be placed in the most developed of the three countries, namely Kenya, and the rest equally divided between the two other member States. It is

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** See WP.9, para. 25

obvious that such a policy can only succeed if other important sources of capital are not available at the same rate of interest. A certain risk may exist that the bank will try to fulfil its obligations by granting a smaller share of each investment to the rich part of the union than to the poor. If the bank for example contributes 15 per cent of the capital in establishments in country A but 25 per cent in B, the less fortunate country, it may be able to assist more investors in A and nevertheless keep its obligations to invest more in B than in A. As long as the Investment Bank is only one among many sources of capital its influence is likely to be rather limited. (WP.8, para. 24)

It is obvious that if such a bank is used to bring about a more balanced development its resources should be measured per capita and not as in East Africa per country. As things are now, Uganda, which probably still is more industrially advanced than Tanzania, receives approximately 30 per cent more per capita than Tanzania. Another lesson to be learned from the East African Development Bank is that the formula of opportunities will not have the desired effect except over a long period. (WP.8, para. 25)

In many developing countries so-called tax holidays are used to encourage investments. By allotting more tax holidays to less developed areas than to the more developed, investors are encouraged to choose the less developed. Used inside a country this method may work well. If used by different countries inside a union it may raise some problems. Usually the least developed is also the poorest part of the union. For fiscal reasons it is not easy for the poorest to give tax reductions larger than those given by the rich. Unless this method is followed up by some transfer of financial resources from the rich to the poor it is hardly justifiable. For poor countries it may be a little doubtful whether it is at all advisable to compete with each other by granting tax holidays. In most developing countries the Governments urgently need the tax revenue. By under-cutting each other they may attract industries from each other, but in the end the result may be that they all lose revenue. It would be an advantage for the developing countries if they could agree on refraining from tax holidays. (WP.8, para. 27)

Consideration and adoption in particular of the draft report's recommendations for harmonized administration of particular fiscal and non-fiscal incentives (e.g. duty remission procedures, double taxation agreements, government purchasing, investment allowances, export incentives) is a matter of some urgency if the common market is not to be whittled away by unilateral initiatives of the partner States. Action could be taken in the areas listed, e.g. the new system of charging duty on air-freighted imports at 50 per cent of the tariff, could be introduced without prejudice to giving consideration later on the working party's more controversial proposals for a new system of supervision of fiscal incentives

offered by partner States, or for a range of permitted differentials in some types of incentives. It should also be possible for the East Africa Customs and Excise Department to implement some of the suggestions in the draft report for improved management of duty collection and refund procedures. (WP.9, para. 46)

Another incentive is the transfer tax. The transfer tax is a tax on the transfer of goods from one region to another. Using such a tax for the transfer of goods from a more developed to a less developed region, but not for transfer from the less to the more developed, industries will be encouraged to establish themselves in the less developed. A transfer tax should always be (1) lower than the external tariff, (2) levied on goods which in the foreseeable future will be produced in the less developed area, (3) levied for a limited number of years, and (4) its revenue should be allotted to the less developed countries. The use of a transfer tax within a customs union has a double purpose: to preserve a big common market and, nevertheless, to give a certain protection to part of this market. The transfer tax, being lower than the external tariff, gives the producers from the customs union an advantage over the producers from third countries. In East Africa the transfer tax is half the external tariff. (WP.8, para. 28)

Instead of a transfer tax a surtax might be applied, i.e. a tax imposed by the less developed country on top of the external tariff. In that case goods originating in other member States incur only the surtax, whereas goods from third countries incur an external tariff plus surtax. This system may be preferable and may make the whole procedure more acceptable to those member States not entitled to use the transfer tax or the surtax. The purpose of levying the transfer tax (or surtax) for a limited number of years is that the customs union should be one, and only one market. It serves to protect the industries established in the less developed areas as long as they may be considered infant industries. Sooner or later the pioneer industries will find that other industries attracted to the area have been established in thee neighbourhood and they will share its external economies. In East Africa the transfer tax may be levied for up to eight years. Perhaps this period should not be the same for all kinds of industries. The two rules, the ceiling of the transfer tax and its limited duration, are inter-related. Where the duration is long the transfer tax may be lowered. It seems to be beneficial to all to keep the surtax at a rather low level, say never more than 10 per cent, and give it a relatively long duration although never more than, say, 15 years. (WP.8, para. 29)

A transfer tax should not be introduced unless it is designed to foster production in a less developed country. If used merely for financial reasons or in anticipation of later development it might result in the diversion of imports from a partner State to a

third State. This is harmful to a partner and does not create industries in the least developed country. To use a transfer tax in such cases is contrary to the whole idea of a common market. The exporting country as well as the importing might collect the tax. Whoever it is it should be a matter of course that the revenue goes to the tax-imposing country. The transfer tax leaves it to Governments and enterprises to decide which industries should be established in the less developed areas. Transfer taxes may be justified only in conditions where it may be demonstrated that the new industries can produce at competitive prices. To secure this, the rules (i.e., the duration of transfer tax, the ceiling of transfer tax, etc.) should be the same for all goods. (WP.8, para. 30)

3. <u>Distribution of other investments</u>

It could be argued that the best results could be obtained in a common market if investments are made to augur a maximum rate of growth. This would, however, entail concentrating investments in a few countries and compensating the other partner States in money or in kind. While this method might be applicable inside a country, within a grouping of States, it could cause resentment among those deprived of investment opportunities and eventually threaten disintegration of the grouping. In practice, therefore, all partners should be allowed a fair share of investments from the start. (WP.8, para. 59)

4. <u>Distribution of customs revenue</u>

Inside a customs union the proceeds from the tariffs must be distributed among the member States usually in proportion to their consumption. Distribution on this basis is sometimes impossible because of inadequate statistics. In most common markets, arrangements for the transfer of funds from the more developed to the less developed States may be made either directly or through common services. Through such services the more developed partners may make proportionately greater financial contributions than they receive. (WP.8, para. 58)

II. CO-OPERATION IN COMMON SERVICES AND OTHER SECTORS

A. General Considerations

Economic co-operation between developed countries is usually regarded first of all as aiming at the promotion of trade, better utilization of industrial capacity, creation of more competition, etc. This is certainly also the case in Europe where EEC and EFTA as well have been aiming at this. Common services are in this context considered of minor importance and each of the European countries has by and large been considered big enough to run its own services. In Africa as in other parts of the developing world this may be different. (WP.8, para. 38)

A grouping can only be established and sustained on the basis of well-balanced interests, e.g., the coastal countries getting a bigger market, the inland countries getting a number of advantages, first of all guaranteed cheap transport. Common services can be a way to pay the land-locked some compensation for opening their borders to goods from coastal areas. Common services will most probably give a better yield of profit in the richer than in the poorer areas; a common service may therefore involve a financial transfer to the land-locked countries. If the co-operation includes higher education and training this may flow in the same direction. (MR, para. 110)

There are a number of services which could be profitably operated only in common. The best known examples are of railways, shipping lines, airlines and telecommunications. Others are trunk roads, ports and harbours, power plants, postal services, civil aviation, meteorological services, drainage basins development schemes, tourism, higher education, agricultural and industrial research. In Central and West Africa central banking is for many countries a common service. Tax administration is a common service in East Africa, and there are countries which also have a common supreme court. (WP.8, para. 40)

The establishment and running of common services in these fields have other and more important aspects. For the land-locked countries it is important that they have a say concerning the means of transport to the harbours. If a coastal country charges high rates in harbours or on railways, in a way it taxes the producers and consumers in the land-locked country. It is, therefore, for the whole economy of a land-locked country important that it has good and cheap access to the sea. This may be guaranteed by co-ownership of

the means of transport. For land-locked countries it may be an advantage to have more than one outlet to the sea. A certain amount of competition may keep tariffs, etc. at a reasonable level, and it gives the coastal country less power over the land-locked. (MR, para. 106)

For common services it seems appropriate to leave decisions on matters of minor importance entirely in the hands of boards of directors appointed wholly or partly by the participating Governments. Top civil servants from the administration should participate in the decision-taking and could under certain circumstances be board members. Those boards ought to guarantee efficient leadership and should have the authority to take decisions by a majority. It is, however, hardly possible to leave the most important decisions to such boards. It may be that the Governments represented by Ministers should, applying the rule of unanimity, decide on the most important matters such as major investments, new tariffs, changes in wages and salaries above a certain level. The more that can be left to the boards the better it will be for the smooth and efficient running of the administration. If majority decisions are taken on important matters the whole grouping may run the risk of disintegration. (MR, para. 123)

B. <u>Transport and Communications</u>

1. <u>General considerations</u>

In Africa, however, modern transport and communications have not been the result of an autonomous local or regional development process, but were rather imported to meet metropolitan requirements, i.e., to facilitate the administration of the territories, and to establish close links between each of the raw material producing colonies and the industrial processing centre overseas. In view of the existence then of several colonial powers and of the number of African territories involved, a disconnected system of north-south transport and communication channels emerged, with local traffic routes as mere coast-inland extensions. This situation could neither satisfy the internal development needs of the newly independent countries nor allow for economic co-operation to develop between them. (WP.2, para. 2)

A look at the map discloses that almost the whole African transport network is geared to transport to harbours. This is not least the case in West and Central Africa. In this part of Africa very few roads and no railroads run parallel with the coast. This means that the land-locked as well as the coastal countries have only one or two connecting links with the coast. Besides these links there are very few links between the States in this part of Africa. In Southern Africa and East Africa the situation is so much better but until now the connecting links between the two sub-regions have been poor. However, not only roads and railroads but also other kinds of communication still conform to the old pattern. Intra-African

postal services are often very slow, the reason being that in many cases mail from one African country to another is still routed via Paris or London or both. Long-distance telephone calls follow the same route; this routing is time-consuming and more likely than not makes communication more expensive than necessary. The maintenance of the old system is to some extent caused by a certain lack of initiative in establishing new routes and is, furthermore, due to the costs involved, but has its roots also in the economic interests of the existing services. (MR, para. 12)

Faced with such a dilemma the new Governments opted in many cases for the obvious sequence of priorities: first, to develop the fragmentary internal traffic routes into a national network capable of contributing to the opening up of the hinterland, to the formation of a national economy and to the consolidation of the nation; secondly, to connect the national network with the transport and communications system of neighbouring countries. This background must be borne in mind for the proper appreciation of today's development needs in Africa in the field of transport and communications both as regards general strategy and the specific problems of the various services. (WP.2, para. 3)

Trade and transport are closely connected. It is obvious that unless there are reasonably cheap means of transport there will be no trade and therefore no specialization which is the basis of all economic progress. It is less obvious that without trade there will be no means of transport, but in poor countries it is difficult to spend money on constructions which will not be used to a reasonable extent for the first decade or more. New means of transportation will have to be paid for by the country in which the constructions are made, but the benefits may spread to a number of countries. This creates a demand for intra-African co-operation. It appears to be a necessity that some kind of institution is established to take care of the co-ordination of African transport and communication. The Sahara will, however, divide Africa in such a way that even after the potential construction of the Trans-Saharan Highway there will hardly be much need for institutionalized co-operation between North Africa and Tropical Africa. (MR, para. 11)

Conclusions: The foregoing review shows the magnitude and complexity of the transport problem faced by the land-locked countries. It is an urgent problem in view of the growing deterioration in the terms of trade between the land-locked, less industrialized countries on the one hand and their coastal neighbours on the other. A solution to it is urgently needed in order to avoid frictions betweeen neighbouring countries which might jeopardize existing or envisaged institutional attempts at economic co-operation in the sub-region. The question is what can the land-locked countries do by themselves; what might the coastal countries be expected to contribute to the solution of the problem and, finally, what role the industrialized countries and the international community might play in this connexion. (WP.11, para. 44)

Both land-locked and coastal countries would benefit by rationalizing inter-country transport. They could enhance its efficiency through the mutual establishment of identical standards in connexion with technical and security specifications, technical regulations relating to vehicles and containers, the handling of frontier formalities, rules for Customs documentation, transport licensing, insurance, etc. (WP.11, para. 48)

The land-locked countries should keep their national transport system under continuous review with a view to improving the co-ordination of their policies in respect of the development of the various national carriers and international requirements. Since the cost incidence of the various modes of transport on net export earnings and on gross expenditure for imports is not well known in many countries, there appears to be a need for the establishment of national machinery for the collection and evaluation of transport data, which are a prerequisite for the preparation of transport policies and inter-country negotiations on international links. The land-locked countries should also examine whether certain high-bulk and low-value imports could be substituted by local production and which exports could be increased in value through better conditioning or processing so that the cost of evacuation could be supported more easily. We have seen that in a number of cases there are prospects for the industrial extraction of minerals. Since mining requires adequate means of communication for the evacuation of the minerals extracted and can support the costs included in the construction and maintenance of transport infrastructures, the promotion of economically viable new mining ventures would automatically facilitate the development of coastal transport links. (WP.11, para. 45)

The coastal countries derive various benefits from transit traffic and trade with the hinterland. Since most of them are more highly industrialized than their land-locked neighbours, adequate transport links with their neighbours increase their own trade potential since otherwise the land-locked countries would have to rely on other more remote markets or sources of supply. It is therefore in the interest of the coastal countries to participate in the development and maintenance of good transport infrastructure and facilities for traffic to and from the land-locked countries. This entails sharing in investments and in maintenance costs, as a rule according to their respective territorial responsibility. By so doing, coastal countries will avoid the imposition of transport fees or rates which might be discriminatory. They might increase the benefits derived from hinterland trade and transit by granting preferential tariffs to the land-locked countries. (WP.11, para. 46)

Such organizations as RAN and OCDN are examples of arrangements whereby a coastal country shares in transport operations with a land-locked country. The obvious advantage of such arrangements is that they may contribute to the development of partnerships in other fields. Since the way in which a given maritime port functions influences the expenses incurred by the land-locked country concerned in connexion with its overseas trade, the latter should be represented on the port administration and should be granted a transit area of its own for supervision of the storage, handling, clearance and transshipment related to its external trade. Moreover, in view of the contribution made by land-locked countries to the volume of maritime transport handled by coastal countries, land-locked countries should be represented on shippers' councils in such States as the Ivory Coast and Senegal where they exist. The taking of such steps would guarantee the land-locked countries a minimum share in the benefits which the coastal countries derive from the transit and trade of their less highly industrialized land-locked partners. (WP.11, para. 47)

/Co-operation in the area is complicated by the fact that West and Central Africa contain seven of the fourteen land-locked countries in Africa, all of which are among the least developed countries. The main concern of the seven independent land-locked countries has always been to ensure their access to the sea as an essential condition of their political independence. The full importance of this concern does not appear to have been fully accepted by the authorities of all the coastal countries since the necessary guarantees and/or facilities have been granted too slowly./ The impression gained is that an increasing number of exits has become a top priority for the /seven/ land-locked countries. This will obviously affect traditional transport and transit arrangements and established economic relations. However, a word of caution seems necessary. If access to the sea is treated as an isolated right or problem, it may be difficult to find a solution of a lasting nature. The matter would be easier if it were handled as one question within the wider context of economic complementarity and mutual inter-dependence of the land-locked and coastal countries. Such an approach would make it possible to weigh mutual advantages and obligations more equitably. (WP.11, para. 16)

There is hardly any other field where co-operation is needed more than in transport and communications. An action taken in country A can exert the greatest influence on the economic conditions for the Governments and the people of a number of countries. Development is, however, slowed down if A has to pay all the costs but benefits are falling not only to A but also to B, C, D, etc. The fragmentation of the African continent makes this a more serious problem on the African continent than elsewhere. (WP.2, para. 125)

It is therefore, recommended that the Governments of independent Africa meet at regular intervals for consultation. During these meetings the future could be planned. Country A could promise to do its part of the job in the expectation that B, C, etc. will make their contribution. (WP. 2, para. 126) (Also see WP. 2, para. 60)

2. Inter m o d a l transport relations

This also raises the question of co-ordination between road traffic and other means of communication in inter-country transport for areas of functional overlapping between road, rail and river services, where they exist. A division will have to be made to allow each of the modes of transport to play its basic rôle in accordance with both the requirements of its particular technical and economical scale of operations, and the contribution it can make to the transport system which serves neighbouring countries. Although some scope may be left to self-regulatory initiatives of transport operators the importance and complexity of transport co-ordination calls principally for State and inter-State regulations. It is, therefore, not surprising that sub-regional groupings of countries tend to retain transport harmonization as one of their envisaged joint policies, as for example in the case of the Central African Economic and Customs Union (UDEAC Treaty, Part 3, Titles I and II); other and perhaps more pressing priorities have unfotunately delayed formulation of joint transport policies. (WP. 2, para. 57)

There are many countries where a permissive policy towards road haulage of freight has led to increasing disuse of the railway system, regardless of the hidden social costs of heavy road traffic and of the financial costs of running down the railway, which may well involve writing off substantial railway debts. In East Africa, with its great distances between main centres and with the still large importance of bulky export commodities in freight movements, it appears that the Railway Corporation can compete successfully with road haulage provided that it is able to charge economic rates for particular traffic. This being so, there would be little need for special restrictions on road haulage, such as limitations of distance or route or type of freight that may be carried. However, there is a need for road taxation to be at levels which ensure that road users meet the full cost of the roads provided by Government. Otherwise road users will be receiving an indirect subsidy, while East African Railways are required by the Treaty to cover their costs. (WP. 9, para. 77)

3. Road transport

(a) General considerations

With the exception of North and East Africa intra-African road links are still rare, although in the future roads will play the major role in the transport system of the African continent. Roads and tracks were initially developed to meet the internal requirements of the colonial territories with an essential inland to coast orientation. Upon independence, therefore, one of the first problems was to establish road links between the various countries and a number of these links then resulted from ad hoc initiatives of neighbouring countries. It was only in the sixties, that the need for an integrated African road network began to be realized with the identification of a few major road arteries like the Trans-Sahara and the Trans-African Highways. This obviously points to a general need for the standardization of road specifications, road administration and road traffic. As useful as the work of the two inter-governmental highway committees is, the magnitude and complexity of the task to build an intra-African road network would call for a more comprehensive approach for which an adequately organized all-African focal point is a prerequisite. It is not a matter of course that each country should pay its own costs of construction. Certain formulas for distributing costs between Governments involved could be used. As this is an area where benefits are going to other countries than to those which according to tradition have to pay, and as the benefits are in most cases likely to turn up long after the construction, and frequently are to the advantage of other groups than the Governments, for example higher incomes to farmers, expanded sales for industrialists, etc., this is a field where technical assistance and financial aid can contribute to the solution of difficult financial problems. (MR, para. 14)

Work on the Trans-African Highway project appears to have made a promising start, which is probably as much due to the composition of the Inter-governmental TAH Co-ordinating Committee as to the existence of a project secretariat, the TAH Bureau. The initial impetus of this major highway project should perhaps be used not only for the timely implementation of its work programme of road improvement, maintenance and rules of traffic flow, but also to set standards of inter-country co-operation and co-ordination, which could be applied to other African highway projects and transport schemes. (WP.2, para. 59)

In this context the Team feel that the following measures ought to be envisaged:

- organization of working parties and co-ordinating committees composed of transport planners, experts in trade and economic co-operation, engineers and economists, etc. for work on new inter-country road links, thus ensuring an inter-disciplinary approach;

- gradual transformation of the present TAH Bureau into an all-African Highway Bureau which would provide technical backstopping to the various highway projects, assist the participating States in negotiations with international and bilateral sources of finance and promote joint standards for road construction, maintenance and transport; it would also perform secretariat functions to related regional or sub-regional transport conferences;

- establishment of an African Conference of Ministers of Transport to review progress in intra-African transport development and to set new standards for transport law and practice. 25/ (WP.2, para. 60)

(b) Inter-country road traffic conventions (code of conduct)

The organization of inter-country road transport is at present subject to different regulations in Africa: in the case of Senegal and Mauritania national operators proceed to the frontier only, where trans-shipment to trucks from the neighbouring country is obligatory. Upper Volta and Ghana have agreed to license an equal number of lorries for border crossing transport in the two directions; Cameroon and the Central African Republic have agreed on granting each other a one-way transport priority (Douala-Bangui being principally handled by CAR trucks and Bangui-Douala by Cameroonian operators). Even within the East African Community, with its otherwise well-organized joint services, road transport licensing is handled separately, and differently, by each of the partner States. (WP.2, para. 54)

International road transport inevitably necessitates a joint approach to the licensing of operators, both for the transport of goods and passengers. This question is linked to the problem of traffic sharing and to the co-ordination of tariff policies, which become even more important if road traffic in the two directions of the same inter-country road link is of unequal density. Price undercutting and/or cost compressions of normal maintenance may arise and both may be practiced at the expense of traffic safety. (WP.2, para. 53)

25/ It could have a mandate similar to that of the European Conference of Ministers of Transport (ECMT). Proposals for joint examination have been made in the Report - especially in Annex I.

But in addition to road technology the possibilities of road transport are also determined by automotive transport technology and both have to be co-ordinated: inadapted roads may contribute to an excessive wear and tear of lorries and result in high ton/kilometre transport cost, whilst the operation of heavy duty trucks on lightly constructed roads may damage the latter and entail heavy road maintenance cost. /Experience in European inter-country road traffic has indeed shown that there is a need for the standardization of road specifications as well as of vehicle weights, loads, and dimensions. International road traffic also entails uniform traffic regulations and traffic signs, customs and transit procedures (including rules for the use of containers). The question of an application of TIR standards to the African context also arises.7 (WP.2, para. 52) (See WP.11, para. 97)

The Treaty in defining the aims of the Community calls in Article 2 for the co-ordination of transport policy. In addition it is an essential adjunct of a Common Market if there is to be in principle free movement of goods across the borders of the member countries. Unfortunately in East Africa, each partner State enacts its own transport licensing laws, and these all deal with the regulation of domestic traffic, whilst inter-State transport problems are omitted. No effort is made by the licensing authorities of the three partner States to co-ordinate their regulations with respect to inter-State traffic. (WP.9, para. 78)

The current restrictions no doubt limit the scope for useful co-operation within the Community since they offer partner States hardly any privileges other than those already enjoyed by other countries. Therefore, whatever attraction there might be for neighbouring countries to join the Community is thereby reduced. Perhaps more important an opportunity has been lost, through the development of these purely national arrangements, to utilize the lorries in the most economical way. (WP.9, para. 82)

There is also a need for harmonizing regulations dealing with insurance requirements, axle-load ratios, truck dimensions and equipment, lights and reflectors, and so on. There is increasing divergence between requirements in each partner State. No great loss of sovereignty would be involved if the partner States came to an agreement to harmonize their practices in this area. Some of the differences seem trivial - extra reflectors can easily be added to comply with the regulations of the strictest partner State. However, other differences could make it impossible for a vehicle to be driven into another partner State at all. (WP.9, para. 83)

The cost of road transport also depends on the load carried, return freight possibilities and freight rates, all of which are related to the organization of the transport sector. Some countries have agreed upon the number of lorries which may be operated in inter-State transport. (For example, Ghana and Upper Volta have agreed that each may operate 40 lorries.) Between Nouakchott and Dakar traffic is shared on a purely territorial basis. Senegal's lorries carry the goods between Dakar and the Senegal river, and Mauritian operators carry them between Rosso and Nouakchott. This system entails transshipment from one lorry to another, which adds to the cost of transportation. Joint pooling and sharing of cargoes may be a more economical solution for all concerned. Since traffic density and direction vary from one inter-country transport link to the other, bilateral arrangements would have to be worked out on the merits of each case. Agreements on freight rates will have to be reached as well. A general prerequisite for a co-ordinated approach to inter-State road transport is the collection of statistics as to value and volume. The team found that as yet such statistics do not exist for most of the countries visited. (WP.11, para. 99)

The conclusion is that there is a great need for a detailed enquiry into the problems of road transport sharing and licensing with a view to developing rational freight pooling formulae and joint standards which will favour intra-African transport and trade at minimum cost, and thus allow mutual benefit to be drawn from the envisaged intra-African highway system.23/ (WP.2, para. 55)

The time has come for the introduction of a simple standardized code of road transport rights and obligations: on one hand the available pool of vehicles is not yet too big for eventual modifications, on the other a substantial expansion of road transport in the coming years can be anticipated. There will be seasonal variations in road transport which will not always coincide in the various countries. It is important that the vehicles be utilized as much as possible and that unnecessary costs for loading and unloading are avoided. It is important, therefore, to ease frontier formalities in order to permit the maximum freedom of inter-country circulation of properly registered vehicles under the proposed standardized licensing system. (WP.2, para. 56) (Also see WP.9, para. 84)

Under the sponsorship of OAU, ECA, and ITU/UPU a common "code of conduct" could be elaborated, indicating in broad and rather general terms the aim to be reached in road transport, postal services and telecommunication services, this to be circulated to all independent African States south of the Sahara. The Governments of these States would be invited by OAU and ECA to a meeting to discuss this code of conduct. At least two months before that meeting each country should

23/ This would appear to be an area where both the ECA and the International Road Federation could render valuable service.

submit a paper giving a description of its rules and practices. At the first meeting this "code of conduct" should be discussed. After the meeting OAU and ECA should publish such a code; its content should be the sole responsibility of these organizations. ITU and UPU should be drawn into close co-operation with OAU and ECA. (MR, para. 22)

(c) Specific recommendations on road links

East and Central Africa

WP.11, para. 41 – Rwanda's outlets to the sea
43 – Burundi's outlets to the sea
31)
32) – Chad's outlets to the sea
33)
37 – CAR's outlets to the sea
WP.10, para. 76 – Links between Somalia, Kenya and Ethiopia

West Africa

WP.11, para. 92 – Effect of poor transport links and excessive transport costs on inter-country co-operation
96 – Condition of specific international road links
97 – a. Trans-African Highway
b. External assistance towards international road links

North Africa

WP.13, para. 7 – Links between Egypt, Libya and Sudan
WP.10, 118 – Links between Sudan and some East African countries

Southern Africa

WP.12, para. 30 – Botswana's, Lesotho's and Swaziland's road access to external markets.

4. Railways

(a) General considerations

This section will discuss railways in the context of economic intra-African co-operation before taking up the other means of communication in turn. In doing so one must, however, right from the outset bear in mind that rail, road, air, and waterways are inter-dependent or complementary carriers which make up a transport system, irrespective of certain areas of overlapping or competition.

Railways have an advantage over road transport in long-distance linear service, where a continuous flow of an important volume of bulky goods is assured (minerals, timber, export crops). Road transport in turn enables quick local service in smaller shipments, given the existence of a minimum of road infrastructure. The road can perform a feeder function for the rail or constitute an inland extension of the latter. The question of complementarity and transport co-ordination is particularly relevant in Africa where more than anywhere else none of the various carriers has a sufficiently dense coherent network to cope with most of the existing transport requirements. (WP.2, para. 24)

The following ECA map reveals a very uneven distribution of railways over the African continent, with a few scattered networks and quite a number of unconnected coast-inland railway lines. Parts of these elements could be linked up where the distances involved are not too long, were it not for the existence of a whole range of different technical systems utilized by the various railway companies for their rail tracks and rolling stock, such as gauge width, rail weight, types of buffers and couplers used, height of couplings above the rail, braking systems, etc. This increases the difficulties of establishing an African railway network since substantial cost would arise from the conversion of existing routes and equipment in addition to the investments needed for the construction of new connecting links. (WP.2, para. 28) (See also WP.2, para. 30)

The ECA has done a pioneering job by promoting African standards for railways as regards the coupling type, height of couplers, brake systems and especially the gauge width (1067 mm).5/ An African railway union was established in September 1972 to co-ordinate work in this field. These standards should be observed when new railway lines are constructed, and when old rolling stock is to be replaced by new vehicles (convertible wheel-sets) and track relaying is undertaken (adjustable sleepers). (WP.2, para. 29)

The establishment of a comprehensive African railroad system is hardly conceivable. There are few rail networks in Africa - the best examples are to be found in Southern-Central Africa, in East Africa, and the Maghreb - besides there are the many unconnected railways in West and Central Africa, the Sudanese railway and the two railway links in Ethiopia. The rail systems in Southern and Eastern Africa will in the near future be connected. There are a number of different gauges in use. In the African context railways will be justified for transporting minerals, etc. to the coast for export. Taking into consideration how sparsely populated the continent is, and considering that roads are subject to greater development than railroads, there is hardly any reason for intra-African transport to try to establish an intra-African railway system. (MR, para. 13)

5/ UNECA, Technical and Economic Study of Railway Linkages in the African Region, document E/CN.14/TRANS/WP.25, Addis Ababa, 1966, and its subsequent sub-regional studies for East and West Africa.

Another question concerns the problem of new railroad construction, for the interlinkage or the extension of disconnected railway lines, which is particularly important for the development of the hinterland and the land-locked countries. There are only a few railway construction projects under way or scheduled to begin shortly: the above-mentioned TANZAM railway from Dar es Salaam to Kapiri-Mposhi (1859 km) which is expected to be fully operational by 1976; a further extension of the "Transcamerounais", from Balabo to Ngaoundere, will be put into service in 1973 (projects for branch lines into CAR and Chad have not been pursued further); commencement of construction on the first leg of the "Transgabonais" (631 km) between Owenda and Belinga, is imminent (RCA's idea of an extension into RCA through southeastern Cameroon has so far not been pursued further). (WP.2, para. 34)

The main economic justification for these important railway construction projects is that the new rail links correspond to a need of year-round evacuation of a substantial volume of bulky goods, like minerals and timber. Further trackline extension or branch lines beyond the adopted routes of the Transcamerounais and the Transgabonais are not being actively considered for the time being since additional transport requirements could be met by other modes of more flexible economic scales of operations.11/ (WP.2, para. 35)

These examples show that major railway construction projects can hardly be expected to materialize in West Africa, except in the case of large-scale commercial exploitation of new mineral deposits. Railroad construction will rather concern the relaying of the ageing rail-tracks, mostly built some 60 years ago, entailing also the renewal of rolling stock. Since new railway projects will most probably only comprise short extensions of existing routes or the construction of small feeder lines, the evolution of new coherent railway networks, similar to those of the Maghreb, East Africa and Southern Africa cannot be expected. With the existence then of fragmented railway lines in many parts of Africa on one hand, and the need for inter-country co-operation on the other, it becomes obvious that rail services must be completed by those of other carriers and bound together in combined transport systems. (WP.2, para. 38)

(b) Specific recommendations on rail links

East and Central Africa

WP.2, para. 32) – EAC-Zambia linkage
33)

WP.10, para. 10 – EAC-Zambia co-operation in overhead and other services
9 – EAC-Zambia-Malawi 9(see WP.10, para. 101)
53 – Ethiopia-Sudan linkage

11/ There have been many other proposals for railway construction (and other transport) projects which are contained in a useful inventory prepared by the African Development Bank and which merits up-dating; ADB, Survey of African Regional Transport Studies, Volumes I and II, Abidjan, 1968.

West Africa

WP. 11, para. 101) - Structure of the West African railway
102) system
18 - Mali-Senegal-Niger - Co-operation in railway administration
26 - Niger-Nigeria linkage
WP. 2, para. 37 - Liberia-Guinea linkage
36 - Mali-Guinea and Ivory Coast-Niger linkages
38 - Outlook for West Africa Railways

5. Maritime and Inland Waterways Transport

(a) Maritime Transport

(i) General Considerations

Maritime transport is the main carrier of world trade. Its role is even more important in the African context; indeed, on average, and just to indicate an order of magnitude, only 10 per cent of the annual value of the external trade is intra-African (which is mostly carried by rail or road). In its overwhelming majority, therefore, Africa's exports and imports are seaborne, mostly on long-distance routes to and from countries of the European Economic Community of the Nine. Within the EEC (9) the former metropolitan countries are by far the major destination or origin of this intercontinental trade flow. With the generally heavy dependence on African national economies on external trade, maritime ports play a major role as a terminal of both sea routes and national inland transport systems; ocean-going vessels use them as points of trans-shipment to and from other modes of transport, i.e., railways, roads and/or inland waterways. This degree of interlinkage and interdependence must be borne in mind as regards the actual scope of African countries for expense saving efforts on the whole transportation chain or on some of its sectors. This raises in particular the question how far are the developing countries participating in the operation and control of maritime transport as the major carrier of their external trade. (WP.2, para.80)

Whilst African ~~countries normally~~ have the possibility of keeping cost developments and trends of national modes of transport under control, they have as a rule little influence on maritime freight and insurance rates and conditions, since they are determined by foreign companies. This adversely affects not only the production and consumption levels of African countries but also their balances of payments. (WP.2, para. 82)

There are, however, some special problems. There is not much coastal traffic along the African coast, and the lack thereof is part of the explanation why there is so little trade. A number of Governments could jointly establish such coastal traffic. (MR, para.31)

There are several solutions which can help overcome such difficulties: first, the country concerned can rationalize its own transport channels, shipment methods and port administration; secondly, it may build up its own shipping facilities - individually or jointly with other African countries; thirdly, it may promote protective law and practice and/or encourage its importers/exporters to build up increased bargaining power through the constitution of shippers' councils. In fact a number of African countries have already taken steps in this direction. (WP.2, para. 83)

It is obvious that improved rail, road or river transport, including better storage and trans-shipment facilities can reduce the cost of internal transport (including insurance for loss or damage). However, more can be done by way of a timely grouping of small quantities of merchandise into bigger lots, a standardization of shipments and consolidation of cargoes. Owing to the heterogeneity of imports, and the variety of sources of supply used, this rationalizing effort can be much more easily undertaken on the export side of an African country with its limited range of export items. The economic aim would be to facilitate the handling of cargo on its way to the ocean-going vessels, especially to avoid the high freight rates of small individual liner parcels which have been the typical feature of traditional break-bulk liner carriage. (WP.2, para. 84)

The concentration of cargo of one type, for one destination at a given time as well as the adoption by producers and exporters of standardized bales, pallets, and containers, which are also acceptable to conference liners, makes it possible to obtain lower freight tariffs. Marketing boards, co-operative federations, professional associations, Chambers of Commerce, and certain related governmental institutions could play an active role in this respect through the provision of organizational assistance or technical advice. (WP.2, para. 85)

However, the improved organization of African ports can also contribute to a reduction of costs through more efficient handling of cargo, which requires a minimum of modern equipment for loading and unloading, and well-trained port personnel at all levels, not to forget an efficient customs clearance. Co-operation between different ports of the same shipping range may also help in reducing costs, e.g., use of the same dry dock facilities or dredging services by several ports. Such co-operation may be achieved through the joint ownership and management of existing facilities as in the case of the

East African Harbours Corporation or through the co-ordination of such services by intergovernmental organizations, e.g., the Port Management Association of West and Central Africa. (WP.2, para. 86)

Cost reductions resulting from increased port productivity may, however, only benefit the country concerned if it uses contractual time charters or if it operates a national shipping company of its own. In the case of foreign liner service the benefits would rather accrue to the shipowners since the standard freight rates charged to shippers contain not only line haul costs between two ports (or two ranges of ports) but also elements of port costs (dues, handling of cargo, demurrage, etc.) and insurance of port handling of goods at both ends. (WP.2, para. 87)

In view of the implications of maritime transport for the economic performance of African countries and the freight rates practiced by liner conferences, a number of African countries have started to build up their own maritime shipping capacity to carry at least part of their external trade with their major trade partners between the ports concerned. They often start with time charters which enables them to win experience both in maritime transport organization and management, and with the types of vessels they might finally wish to own and operate at reasonable cost. (WP.2, para. 88)

The other major alternative which African countries embarking on maritime navigation have to face is whether they should content themselves with tramp shipping or whether they should operate a liner service which automatically raises the question of admission of newcomers to the liner conferences controlling the Mediterranean traffic (North Africa), the West African shipping range (Nouadhibou-Matadi) and maritime traffic in Eastern Africa. Tramping which is not bound by fixed sea routes and sailing schedules is useful for the carriage of petroleum products, iron ores and other dry bulk cargoes (although the question of organizing return loads through the open freight market arises). (WP.2, para. 89)

One conclusion is that the existing small African shipping companies could improve their position by closer mutual consultation and co-operation. It would be useful for them to establish, as a first step, in each of the three sub-regional African shipping ranges, i.e., north, east and west, a minimum machinery for the exchange of experience and mutual agreement on matters of common interest, such as:

- recent trends and developments on the various maritime transport markets;

- port administration and management;

- economies of scale of new types of vessels and their implications for African shipping companies;

- acquisition of new or secondhand vessels and possibilities of time charters;

- practices of freight exchanges and of liner Conferences;

- management of ports, vessels and shipping lines;

- possibilities for increased co-operation (mutual representation abroad, exchange of freight capacity, tariff policies, scheduling of sailing, mutual use of ship service and repair facilities, joint transport ventures, etc.);

- advice to Governments on shipping policies and transport rights (national and inter-State);

- advice to other African countries, as required, on the possibilities and limitations of building up small national shipping lines.

(WP.2, para. 93)

Progress in maritime transport technology and vessel construction may also induce African countries to form special consortia of shipping companies for the operation of the new ships and their terminals or to establish multinational shipping companies. The pressure here may come from the other end of the sea routes where capital-intensive maritime transport is in constant progress, whilst the labour-capital ratio in African countries is different. African countries should rather use the opportunity of fleet renewal elsewhere to buy good secondhand "labour-intensive" vessels instead of breaking fairly unknown ground in respect of container ships, roll-on/roll-off boats and LASH systems, i.e. barge-carrying vessels. (WP.2, para. 100)

In the medium and long run there may also be a need for multinational maritime shipping companies in Africa. There are a number of small countries, especially in West Africa, whose economic dimensions would make the establishment of a national shipping line an uneconomical operation. Participation in a multinational merchant fleet would, however, enable them to accomplish an important productive function themselves whilst saving foreign exchange, which they might otherwise have to spend on liner transport. Participation also improves their bargaining position vis-a-vis the liner Conferences, although the multinational share in the transport market of a route may be small in the beginning. Group ownership and operation of such a line has also other advantages: spreading of risks over a number of partners, dense cargo liner service, better use of available tonnage, employment of specialized vessels, efficient representation abroad. All these advantages would be beyond the reach of a small individual maritime shipping operator. Each venture of the kind should, of course, be preceded by detailed technical, financial and commercial feasibility studies. (WP.2, para. 99)

(ii) Specific recommendations on economic co-operation in maritime transport

Eastern Africa

WP.2, para. 96)
10, 150) - Co-operation among national shipping lines

132 - Co-operation between Mauritius and Eastern Africa

WP. 2, para. 98 - Co-operation in coastal shipping

WP. 9, para. 86)
87) - Proposals for expansion of East African National Shipping Line

WP. 2, para. 97)
10, 79) - Co-operation in ports administration

West and Central Africa

WP.11, para.105)
106) - State of maritime transport
107)

Footnote 57) - Co-operation between Ghana's Black Star Line and Nigeria's National Shipping Line

para.108 - Position of countries without national shipping lines

109)
111) - National shippers' councils

111 - Co-operation on ports

112 - Multinational shipping lines

113 - Coastal shipping in West and Central Africa

WP. 2, para. 95 - Multinational co-operation in maritime matters

WP.11, para. 23 - Transit facilities for Upper Volta

(b) Inland Waterways

(i) General Considerations

WP. 2, para. 61 - Drainage map of Africa

67 - Justification for co-operation in use of international rivers

64 - International regulation of water use

65 - Proposed regulation of water use with OAU and ECA assistance

(ii) Specific recommendations on co-operation on international drainage basins

West Africa

WP. 2, para. 68 - Senegal River
69 - Niger River (see also WP. 11, para. 27)
71) - Congo and Oubangi Rivers (see also
72) WP. 11, para. 35)

Eastern Africa

WP. 2, para. 74 - Lake Victoria
75)
76) - Lake Tanganyika
77)
78 - Lake Malawi

6. Air Transport

(a) General considerations

The present setting of the air transport scene in Africa has been determined by two major factors: first, air transport has been imported into Africa as part of a north-south oriented transport and communications system between the metropolitan centres and their respective African territories - only at a later stage and to a lesser degree it was also used to improve intra-territorial transport and communications for passenger, freight and mail service; secondly, the emergence of independent African countries in the fifties and sixties was accompanied by a growing number of national air transport operators which, to varying degrees, depend on external participation and assistance - due to both the advanced level of technology and the substantial investment needs which are so typical of this mode of transport. This in turn explains three things, the continued absence today of an integrated African air route system, the substantial volume of African air traffic handled by external airlines, and the slow progress made so far in promoting intra-African airline co-operation and integration. (WP. 2, para. 103)

In several countries the Team's attention was drawn to the lack in east-west route operations which hampers coast-to-coast traffic and especially the development of tourism in West and Central Africa. The explanation given was the lack of intra-African co-operation in the exchange of traffic rights. This was partly due to the fact that many African air companies relied for their functioning on non-African air companies which are apparently much more interested in the development of the load factor on north-south routes, for which they had been able to secure the necessary traffic rights in

time, than in the promotion of east-west air traffic. If both the African and the European carriers operate a north-south route under pooling arrangements they may fear that an extension of east-west connexions might divert passengers to other north-bound routes operated by other companies. The reluctance of African countries to grant each other the necessary freedoms of the air may thus stem from keen competition between large international carriers. (WP.2, para. 114)

Air transport does not yet play an important role in intra-African traffic and trade. But since it has development potential in this respect whilst being a sector which requires a particularly high degree of multinational co-operation and co-ordination, this mode of transport merits a good deal of attention by both Government circles and business. Tables VIII and IX convey an idea of the growth of air transport in Africa in recent years.43/ Civil aviation has become a highly competitive industry which is subject to the rapid evolution of technical, financial and commercial requirements. Its structures and working methods have, therefore, to be kept under continuous review with a view to maintaining and improving levels of performance. (WP.2, para. 102)

The entry into service and rational operation of such modern expensive aircraft as the CONCORDE or the Boeing 747 cannot but increase the need for closer economic multinational co-operation in air transport. With the prevailing competition in international air services and an upward trend of the minima for economic scales of operation of modern aircraft on one hand, and the relatively limited volume of all civil African air traffic45/ on the other, the best economic solution would probably consist of having one all-African air company operate all international air transport at present handled by the various African carriers. (WP.2, para. 105)

The establishment and running of common services in these fields have other and more important aspects. For the land-locked countries it is important that they have a say concerning the means of transport to the harbours. If a coastal country charges high rates in harbours or on railways, in a way it taxes the producers and consumers in the land-locked country. It is, therefore, for the

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43/ Whilst the development of air cargo has hardly affected maritime transport, the growth of airborne passenger traffic has led to a noticeable reduction in scheduled passenger boat services between Europe and Africa.

45/ According to Tables VIII and IX Developing Africa's total air traffic amounted in 1969 to 5327.3 million passengers/km and to 173.0 million cargo ton/km. The corresponding figures for one medium-sized European air company, namely SAS, were 5197.0 million passengers/km and 213.4 million cargo ton/km.

whole economy of a land-locked country important that it has good and cheap access to the sea. This may be guaranteed by co-ownership of the means of transport. For land-locked countries it may be an advantage to have more than one outlet to the sea. A certain amount of competition may keep tariffs, etc. at a reasonable level, and it gives the coastal country less power over the land-locked. (MR, para. 106)

In a number of cases such interests take the form of shareholding which may run up to 49 per cent of the capital of an African air company. The motivation may vary from case to case: e.g. profit sharing, exertion of influence on matters relating to extension of traffic rights or facilities to third parties, preferential utilization of the shareholder's servicing and supply facilities, feeder line role of a smaller airline vis-a-vis the partner's network of long distance routes, etc. (WP.2, Footnote 46)

The following choice would then arise: either the establishment of a joint air company for the operation of all international routes, or a full merger between the two national carriers, including their domestic services. The first solution would be clearly preferable should the domestic services be differently organized in the two countries, as regards their extension, functions and economic viability (subsidized development function); it would help avoid conflicts on imbalances in cost and benefit sharing over unprofitable national routes. (WP.2, para. 108)

However, Governments also can benefit from co-operative arrangements in matters of official technical supervision and licensing of civil aviation, which would prove too costly for a small individual country to organize on a national basis; such services comprise inter alia the following functions:

- certification of airworthiness of aircraft, including supervision of maintenance and overhaul;
- licensing of operating and mechanical personnel;
- maintenance of flight standards: inspection of operating procedures and facilities and of the application of safety regulations;
- organization of ground safety services, including fire services, first aid, etc.;
- accident investigation, which demands special skills and equipment.

(WP.2, para. 109)

It may be mentioned by way of example that France encouraged the establishment of such joint services for her former colonies, i.e. the Agence pour la sécurité de la navigation aérienne en Afrique et à Madagascar (ASECNA).50/ It has now the status of an "operating agency" which applies, inter alia, the ICAO standards on air traffic security. (WP.2, para. 110)

In order to clarify the issues at stake and to pave the way for the establishment of harmonized national air transport policies in Africa, the First Plenary Session of the African Civil Aviation Commission (Dakar, 22 February-4 March 1971) recommended that a comprehensive survey be made of all bilateral air transport agreements concluded between African countries and their non-African or African partners. The Paris-based Institute of Air Transport has been entrusted with this important study and invited to make recommendations for the improvement of intra-African exchange of commercial traffic rights. The study is expected to be available by the end of 1972 and it's findings ought to be scrutinized not only by ICAO, AFCAC, national civil aviation departments and national airlines, but also by all national authorities and international organizations concerned with the development of economic inter-country co-operation in Africa. (WP.2, para. 115)

African Governments realize more and more that there is also a need for a more comprehensive study of all operational, structural and financial implications of present inter-State and inter-continental African air transport - especially since substantial reforms, including the streamlining of equipment systems, may prove necessary to improve economic performance and the viability of an important mode of transport. The magnitude and complexity of such a task would appear to require the full support of IBRD and ICAO as recommended in paragraph 29 of the Report. In the meantime it is suggested that more liberal use be made in the exchange of traffic rights following the example of AIR AFRIQUE and AIR ZAIRE, where the latter obtained provisional traffic rights in several capitals of the AIR AFRIQUE area51/ in return for traffic rights in Kinshasa. ETHIOPIAN AIRLINES and EAA on one hand and AIR AFRIQUE and AIR ZAIRE on the other might in a similar way link their respective areas. This could stimulate tourism and trade in West and Central Africa. (WP.2, para. 116)

50/ The ASECNA agreement was signed in 1959 by France and 12 French-speaking countries; since France subsidizes part of ASECNA's expenditure she holds eight seats on the board of administration (out of 22 seats).

51/ Air Afrique had until then rigorously applied the "one territory" formula, according to which another carrier could only receive traffic rights to one capital of a French-speaking country on a 1:1 reciprocity basis.

There is no doubt that a careful study of the whole structure of African air traffic is needed and that far-reaching reforms would be of the greatest importance. We recommend that the African Governments request such a study, and we suggest that such a request - taking into consideration the magnitude and scope of the programme - should be submitted to the World Bank, which should be technically assisted by ICAO. (MR, para. 29)

(b) Specific recommendations on co-operation in air transport

West Africa

WP.11, para. 116 - Co-operation between Air Afrique, Air Zaire, Ethiopian Airlines and East African Airways

117 - Air Mali, Ghana Airways, Nigerian Airways and Air Afrique

118 - Co-operation between Ghana Airways and Nigeria Airways

Eastern Africa

WP.10, para. 13 - Co-operation between Zambia Airways and East African Airways

78 - Co-operation between Somalia and East African Airways

103 - Co-operation between Malawi and East African Airways

119 - Co-operation between Sudan and Kuwait national airlines

Southern Africa

WP.12, para. 35 - Co-operation between Botswana, Lesotho, Swaziland and independent African airlines

7. Postal Communications

Postal services in most cases follow the old pattern. There are good services from the hinterland to the harbours and from there by ship or air to the capital of the former colonial power and a similar good return service is in existence. Between African countries, however, the service is poor, mail in most cases having to be routed via European capitals. Surface mail to neighbouring countries may take months. Such delay is particularly detrimental to parcel dispatch. It is detrimental to the development of African

trade if the customers must wait for months for spare parts or finished goods. Poor postal services could be improved if the African countries gave consideration to other than the traditional routes, for example the use of public or private buses or trucks to carry the mail. In a number of cases it should be feasible in African countries, as is often the case in Europe, to forward "surface mail" by air. There may be cases when untraditional means of transport will have to be used; there may also be cases when Governments will get into conflicts with the established carriers of mail. (MR, para. 16)

There are a number of similarities between the development of services like road transport, postal and telecommunications services: the investments to be made, the actions to be taken are almost all national; the benefits, however, spread over the entire continent. The costs have to be financed by the national Governments but the benefits accrue to a wide range of nations. It is obvious that here is a field for concerted action. To change the present pattern will, however, take a number of years. There is, therefore, a need for a permanent institution to look into and to encourage progress. (MR, para. 19)

The still widespread lack of east-west transport links has resulted in the routing of a substantial amount of intra-African mail via trans-continental channels, mostly through Paris and London. But even in cases where there are coast-to-coast flight connexions they are often neglected in favour of a routing via Europe. This is partly due to the limited volume of mail handled for certain destinations, but it is equally the result of institutionalized preferential postal traffic arrangements dating back to the colonial period and the then prevailing communications system between groups of colonial territories and their metropolitan country. (It may in certain cases also be due to the efficient sales promotion of the large international air carriers and the direct or indirect influence they have on the young national air companies.) The Union africaine et malgache des postes et télécommunications (UAMPT) established by treaty of 8 September 1961 and grouping French-speaking countries as far apart as Mauritania and the Malagasy Republic is one example. Article I of its rules for postal and financial services cements the then existing preferential arrangements whilst insisting on the maintenance of uniform tariff structures and rates. Would not from a postal and trade point of view Ivory Coast and Ghana have more in common than the two above-mentioned countries? Questions of the kind will become all the more topical once a number of English-speaking countries join the EEC/AAMS group. (WP.2, para. 120)

The postal communications gap between English- and French-speaking African countries can perhaps more easily be bridged through the enlargement of less politically-motivated organizations like the Conference of Postal and Telecommunications Administrations of West Africa (CAPTEAO) which intends to make a serious attempt to rationalize postal services.52/ (WP.2, para. 121)

In the meantime it would be an advantage if ECA and UPU could review all bilateral and multilateral postal traffic arrangements concluded by and between African States with a view to developing a common approach to intra-African postal communications policies and mail services. (WP.2, para. 124)

Under the sponsorship of OAU, ECA, and ITU/UPU a common "code of conduct" could be elaborated, indicating in broad and rather general terms the aim to be reached in road transport, postal services and telecommunication services, this to be circulated to all independent African States south of the Sahara. The Governments of these States would be invited by OAU and ECA to a meeting to discuss this code of conduct. At least two months before that meeting each country should submit a paper giving a description of its rules and practices. At the first meeting this "code of conduct" should be discussed. After the meeting OAU and ECA should publish such a code; its content should be the sole responsibility of these organizations. ITU and UPU should be drawn into close co-operation with OAU and ECA. (MR, para. 22)

8. Telecommunications

Telecommunications facilities presently available in Africa are still, to a large extent, a legacy of the past, not only with respect to the international routes served and the equipment used but also as regards the prevailing forms of commercial exploitation. The marked preponderance of vertical north-south radio and telegraph links has resulted in a substantial inter-continental routing of intra-African communications which even continues today. Indeed, ITU statistics for 42 African countries show that in 1968 (January) nearly half of all intra-African telecommunication routes passed via Europe (380 out of 832). (WP.2, para. 11)

52/ At nearly the same time was founded in Paris the Conference des administrations des postes et télécommunications des pays d'expression française (CAPTEF). There appears to be some overlapping between UAMPT and CAPTEF both as regards the aims and memberships of the two organizations.

A few examples will illustrate this absurdity. Since there is no telecommunication link between Abidjan (Ivory Coast) and Freetown (Sierra Leone), telephone calls between these two West African capitals can only be operated via Paris and London whilst telegrams are said to take two days at least (if promptly delivered). Part of the explanation is that the two countries formerly belonged to two different metropolitan orbits. However, there are also other instances concerning neighbouring countries belonging to the same group: telephone calls from Bamako (Mali) to Nouakchott (Mauritania) have to be routed via Dakar or Paris. (WP.2, para. 12)

Even in cases where direct routes exist, intra-African communications may still pass through an inter-continental channel. The functioning of the Bamako-Cairo radio link is an example in this respect: whilst Bamako apparently makes an effort to group all telegrams for direct transmission during the (short) daily operation of the route, Cairo's traffic to Mali is said to arrive in two batches, one directly transmitted, the other received via Paris (the latter probably consisting of messages Cairo accepted for transmission after closure of the daily operation hours of the direct route). (WP.2, para. 13)

Routing of intra-African traffic via Europe even occurs in cases where the two countries concerned, say Niger and Cameroon, are members of the <u>Union Africaine et Malgache des Postes et Télécommunications</u> (UAMPT) 1/, a common postal and telecommunications organization. If the operation period for inter-State traffic is closed in the one or the other country the communication may be passed via Paris - which may be rational in the given circumstances, but points to a need for reorganizing inter-State operation methods. This will also happen in cases of diminishing quality of transmission. Even the pioneer link between Addis Ababa and Abidjan is not regularly used although its establishment as a trunk route between East and West Africa was decided by the African Governments. (WP.2, para. 14)

1/ The UAMPT is an organization of 14 French-speaking countries which was established in 1961 with the aim of maintaining and further developing inter-State postal and telecommunication services (including the related mutual privileges) which had been established in the colonial days between France and her African territories and among the latter. Mali and Guinea did not join the UAMPT whilst Rwanda became a member at a later stage.

The above examples of current difficulties all reveal several types of major obstacles: lack of telecommunications infrastructure; use of ageing and heterogeneous transmission equipment; inadequate institutional arrangements for the exploitation of national and international networks; disparities in tariff structure and rates; lack of qualified operators for international traffic; and lack of inter-country co-ordination of telecommunications development programmes. (WP.2; para. 15)

There is obviously a case for a fairly autonomous telecommunication administration, a formula which has already been put to a test in a limited number of countries (e.g., Ethiopia). However, there are other countries where the international traffic is handled on a commercial basis by companies, whilst internal traffic - which is usually less remunerative - is left to the postal administrative services. The former are as a rule a relic of the past when companies like Cable and Wireless and France-Cable held the monopoly of external communications to and from the countries. There has, in the meantime, been some evolution with a number of their local agencies now operating as mixed societies, i.e., with State participation (usually 51 per cent e.g. INTELCI in Ivory Coast and EXTELCOM in East Africa). (WP.2, para. 19)

Such a split between "administrative" and "commercial" traffic makes it obviously difficult to pursue co-ordinated tariff policies and balancing of receipts between inland and external traffic. Routing of intra-African communications tends to follow the established inter-continental channels (and rate-sharing practices), mostly at higher cost than through a more direct telecommunication link. Worse is that the present structural heterogeneity in Africa of telecommunications administrations makes it very difficult to develop and adopt common routing standards, transit rules, and tariff structures for intra-African traffic. The possibility of a further gradual extension of the national share in such commercial telecommunication companies until full ownership might be considered, bearing, however, in mind the nature and scope of prevailing bilateral contractual commitments. (WP2, para. 20)

Another avenue would perhaps be more promising and realistic. In the field of trans-continental communications via fixed satellites, the establishment of (multi-national) earth stations might enable the African Governments to secure a more equitable share in the benefits of the new communications system. For intra-African traffic, however, this spatial channel may only be of limited operational interest, i.e., as regards long-distance north-south or east-west communications. The other more relevant formula for intra-African traffic is the development of national micro-wave networks in such a way that they correspond to domestic requirements on one hand, and link up with those of the neighbouring countries on the other, to form sub-regional and finally regional radio relay routes (which appear to guarantee a higher quality and capacity of transmission than the usual HF systems or open-wire links). (WP.2, para. 21)

However, a substantial amount of preparatory work remains to be done by the Governments concerned, including the standardization of equipment specifications, administrative structures, operating methods, rules of routing, tariffs and transit rates, etc. All the issues at stake would have to be settled competently and pragmatically, preferably with the assistance of those who at the national level have responsibility for telecommunications development. It is, therefore, recommended that a regional co-ordinating body (probably an African telecommunications union) be established which would meet periodically to review all preparatory phases in the implementation of the Pan-African telecommunication network, and to keep the current functioning of the network under review with a view to raising its commercial and technical levels of performance. Proposals for a joint examination machinery have been made in the Report - especially in Annex I. (WP.2, para. 23)

Under the sponsorship of OAU, ECA, and ITU/UPU a common "code of conduct" could be elaborated, indicating in broad and rather general terms the aim to be reached in road transport, postal services and telecommunication services, this to be circulated to all independent African States south of the Sahara. The Governments of these States would be invited by OAU and ECA to a meeting to discuss this code of conduct. At least two months before that meeting each country should submit a paper giving a description of its rules and practices. At the first meeting this "code of conduct" should be discussed. After the meeting OAU and ECA should publish such a code; its content should be the sole responsibility of these organizations. ITU and UPU should be drawn into close co-operation with OAU and ECA. (MR, para. 22)

C. Co-operation in Other Common Services

1. Co-operation in energy

(a) General considerations

The supply of power is an example of a service where there should be big advantages in the establishment of a common service. Costs of production differ enormously from one place to the next. Expensive installations are required for the transmission of power. It is therefore essential that the buyers be convinced that the sellers are prepared to sell at all times. There are cases when Governments have feared being too dependent on the supply from other countries, fearing that this dependency might sooner or later be misused. If there is co-operation in the supply of power the establishment of a common service is only one solution and even this may not give the buyer a full guarantee of delivery. Nevertheless, this seems to be the organization which will give the buyer the best guarantee for regular supply and fair treatment. (WP.8, para. 44)

The technical and economic advantages of co-operation in the field of power are considerable. An East African grid linking major power supplies with each other and with the consuming centres would reduce the peak capacity requirements, and diminish the need for costly stand-by generating facilities, permitting thereby a substantial reduction in generating costs. (WP.9, para. 89)

The relation between utilization of capacity and the cost per unit is not always appreciated. Failure to use a hydropower plant at full capacity raises unit costs, and hence prices to the consumer. A classic example is the Kariba scheme in Central Africa, the initial unit costs of which were very much higher than had been predicted simply because the power station was operating at less than half capacity. There seems to be a real danger in East Africa that a number of schemes will be implemented with unit costs proving to be higher than Governments perhaps had been led to believe. (WP.9, para.90)

Furthermore a recent consultant's report on a proposed steel mill has shown the critical importance of the ability of the electrical supply system to meet the peak power demand of the furnaces; the electrical load ratios imposed by the furnaces at maximum furnace power could only be accommodated by a very large integrated grid system. (WP.9, para. 91)

This is a further illustration of the interdependence of different economic factors in the process of economic integration. The development of multi-national large-scale industries in East Africa will create the need for a co-ordinated electric power network. Conversely, the proliferation of independent national power schemes will make little sense in the absence of large-scale industries to make use of their output. (WP.9, para. 92)

(b) Specific recommendations on multinational co-operation in energy

Eastern Africa

WP. 9, para. 93 - Co-operation between the EA Community partner states

WP 10, para. 36, 37, 38, 39, 48 - Co-operation between Burundi, Rwanda, Tanzania and Uganda

86 - Co-operation between Kenya and Somalia

2. Co-operation in Research and Technology

(a) General considerations

There are important economic and scientific arguments in favour of multi-national co-operation in research. Firstly, there are many research problems which arise in more than one country and from the economic point of view obviously lend themselves to joint efforts. There are imumerable examples, of which bilharzia is the first to come to mind. These problems could be dealt with in a score of national research institutes which, however, require expensive installations and highly paid staff so that there are great advantages in centralization. (WP.5, para. 16)

Secondly, there are problems which require a joint approach for technical reasons; here, the classic example is locusts, which breed in one group of countries and despoil the crops in others. The quelea bird pest has similar characteristics. River pollution is likely to become a pressing problem in Africa in the future as it is already in Europe. In these and many other areas inter-State co-operation is necessary if control measures are to be devised and made effective. (WP.5, para. 17)

These characteristics of some major problem areas in African applied research suggest that there could be great advantages in the inclusion of research programmes in the "package" of activities which are to be embraced by the economic groupings discussed in later sections of this Report. One of the benefits a relatively less financially well-off Government could obtain from association with neighbouring countries in an economic community could be access to the research results of institutes in the other member countries and receipt of financial support from the central funds of the association for its own research institutes. (WP.5, para. 18)

There should be great possibilities for co-operation in the field of research. Much more can be accomplished in one well-equipped institute instead of in a number of small institutes lacking experienced personnel and modern equipment. Agricultural research should, however, be shared by countries with a similar climate. This will almost always mean groupings different from those which are most natural from an economic point of view. There should be enormous possibilities for co-operation in research on appropriate technology. This is a field where research hardly can be carried out without a large staff and expensive equipment. Again the most natural groupings must consist of countries with similar industrial interests which most probably will be different from those which will be found together in the same economic groupings, which will and should consist of countries at varying levels of development and with different industrial potential. (MR, para. 115)

There is today a special need for research in appropriate technology, i.e. the adaptation of modern technical knowledge to the economic, physical, and climatic conditions in the developing countries. African countries in their modern economic sectors have often taken over European and American technology with little or no changes. In recent years the question has been raised over and over again whether this is the most appropriate thing to do. As it is so difficult to make modern enterprises pay in Africa, the reason may be that the technique which is the most appropriate in Europe is perhaps less so under African economic and climatic conditions. There seems to be a number of reasons why the technique which in Europe minimizes costs does not have the same effect in Africa. At least three different groups of reasons for this have to be considered. (WP.5, para. 20)

Climatic conditions such as heat, humidity, dust, and salinity of the air in Africa differ much from those in Europe. Machines, including cars, have a much shorter life in Africa than in Europe. There are undoubtedly cases where the use of other alloys or another protective coating would prolong the life of the machines considerably at fairly low cost. (WP.5, para. 23)

Modern research as performed in developed countries is nearly always carried out on the assumption that it is an economic advantage to substitute capital for labour. For many research workers such substitution is almost synonymous with progress. Research carried out with investments in Africa in view should obviously be made on other assumptions. However, almost all technical research is done in North America and Europe. Research workers in Africa are often Europeans or Africans who have received their education and training in Europe and who do not readily adapt their way of thinking to economic conditions in Africa. (WP.5, para. 27)

For obvious reasons there is hardly any research of this kind going on in Europe or USA. It may, of course, be possible for research institutes to take on such research also. It would, however, be more appropriate if these research institutes were established in tropical areas. The developing countries themselves ought to establish such research institutes. A serious need for co-operation among the small nations exists in this field. Research is expensive and technical research very expensive. That such research work only pays when in great demand may be part of the explanation why almost all of the developing countries which have made some progress in industrial development are big countries like India, Pakistan, Mexico, Brazil, etc. (WP.5, para. 32)

The rational solution seems to be that a group of countries join together and share the costs and the benefits alike. If all the countries which use the results co-operate, those who pay will also receive the benefits. This seems to be a field where co-operation between African Governments is strongly needed and where bilateral and multilateral assistance might play an important role. (WP.5, para. 34)

UNIDO, UNESCO, and ILO have all shown interest in this field. It is suggested that ECA and UNIDO take action, and call the most industrialized countries in tropical Africa, i.e., Nigeria, Zaire, Ghana, Ivory Coast, and Kenya to a meeting to consider what action should be taken. (WP.5, para. 35)

The Indian Ocean is still one of the least-known of the world's oceans. Although it is unlikely that it is as rich in fish resources as the North Atlantic or the Pacific Ocean, there remain gaps in our knowledge of the resources which do exist, especially for example of demersal fish. (WP.10, para. 146)

One of the East African Community's research institutes is the Marine Fisheries Research Organization based at Zanzibar. This institute has made a substantial contribution to our knowledge of the western Indian Ocean - it has the only seagoing research ship in the area - and it could become the nucleus of a sub-regional research effort, serving the Indian Ocean islands as well as the seaboard nations. The Governments of Madagascar, Mauritius, Tanzania, Kenya, Uganda, and Somalia could approach the major aid agencies for assistance in creating a "centre of excellence", based on the East African Marine Fisheries Research Organization, but extending its facilities to serve the Indian Ocean islands and Somalia. (WP.10, para. 147)

The metropolitan powers which are still responsible for Reunion, Comores, and the Seychelles should also play a part in ensuring that the benefits of the exploitation of the western Indian Ocean are shared by those who live there. (WP.10, para. 148)

D. Co-operation in Other Sectors

1. Co-operation in agriculture and utilization of water resources

(a) Co-operation in agriculture

The easiest way to create a bigger market for processed goods or to establish a more diversified export of agricultural products is to convert national markets into bigger markets, composed of a number of countries which are members either of customs unions or of free trade areas which have established some system of monetary co-operation. (MR, para. 91)

An economic grouping should consist of countries which are different and can supply each other with goods and services. A certain degree of complementarity is an asset. In Africa it is most natural that these groupings consist of one or more coastal countries and one or more land-locked countries. The coastal countries would get bigger markets for their industrial products, whereas the land-locked countries would be guaranteed cheap access to the harbours for their export products and would thereby get more for their exports and pay less for their imports. The land-locked countries will supply the coastal areas with cattle and meat and other agricultural products and maybe with power, and in West Africa with labour. (MR, para. 109)

Little progress has been made in regard to this long-term aim. The difficulties are first that each of the partner States has adopted policies of national self-sufficiency in basic food crops, and secondly, the existing national marketing boards follow different pricing policies. (WP.9, para. 51)

Self-sufficiency involves certain costs, e.g. (a) use of areas best suited for export crops (proceeds of which can be used to buy imported foods) for production of staple foods. The Team was informed in Tanzania that this has happened there, with maize being grown in preference to wheat; (b) the tying up of capital in storage facilities to cope with the surpluses which self-sufficiency policies frequently generate. (WP.9, para. 52)

It should perhaps be remembered that a policy of self-sufficiency on an East African basis is not necessarily more sensible than on a national basis; sugar production in East Africa generally requires a costly investment in irrigation. Meanwhile Mauritius could well satisfy East Africa's requirements. (WP.9, para. 55)

The following steps are suggested for ensuring that the Eastern African countries can participate more fully in the exploitation of one of their most important natural resources:

(a) Madagascar and the other Indian Ocean countries could establish a joint fishery corporation which would build up a fishing fleet and ancillary facilities and thereby promote direct participation by these countries in the Indian Ocean fisheries. This fishery corporation should not only be responsible for investments in a fishing fleet but also in fishing harbours and canning factories.

(b) Technical assistance in setting up this corporation could be sought from the European Development Fund (on the assumption that all the coastal countries will by 1975 be associated with the EEC in Yaoundé III); such assistance could also be used to establish training centres for fishery operatives. (WP.10, para. 143)

The basis for the proposed multinational fishery corporation is of course that the capital required to establish a modern fishing fleet of viable size is beyond the resources of any of these countries on its own. Each country could establish its own national fleet, but the high overheads and the small scale of national operations would be a serious limiting factor to the competitiveness of the fleets. (WP.10, para. 144)

In West Africa, economies of scale and of location mean industrial concentration in the coastal areas. Certain types of agriculture and stock-raising, however, are best carried out in the inland savannah zone. This sets up a trade-stimulating north-south complementarity. The production of cattle, sheep, goats and pigs is thus a typical industry of the land-locked areas, whereas more meat is consumed in the countries of the coastal belt, where a higher standard of living stimulates demand but where animal production is hampered by the tse-tse fly. The savannah countries, Mauritania, Mali and Upper Volta, are therefore able to trade their livestock with the countries of the southern coast and to obtain other goods, particularly manufactured products, in return. There is even now a meat deficit, especially where beef is concerned, which is expected to increase in the coming years. Thus, livestock production provides the land-locked countries with a major source of income. There is, however, still room for improvement. The need for more and better transport facilities with a view to increased production returns has already been discussed; and the land-locked countries can also raise their livestock production by stock improvement and more effective disease control. They can increase the value of their exports by slaughtering and processing animal by-products locally. (WP.11, para.131)

In addition to meat production, the land-locked countries could also develop some dairy farming and export dairy products to the coastal areas. At present there is a deficit of milk in the area which is covered by exports from abroad, in liquid or powder form. Many agricultural food items produced in the savannah countries such as mangoes, beans, onions, and to a lesser extent, millet, find a ready market in the coastal areas. In the medium run, Upper Volta and Mali also appear capable of exporting sugar and rice to the coastal countries. (WP.11, para. 134)

Even in the field of cash-crops, which are essentially produced for export to the industrialized countries, there are some possibilities for north-south trade. Cotton is produced mainly in Mali, Upper Volta and the Ivory Coast. Although Ghana and Guinea have launched their own cotton schemes, they still have to import raw materials for their textile industry. Liberia and Sierra Leone may also become cotton importers. Another cash-crop possibility is tobacco, which Senegal and the Ivory Coast import from abroad. (WP.11, para. 135)

Although the main flow of agricultural trade would be from north to south there are also possibilities for some south-north flow of agricultural and forestry products. Ivory Coast and Ghana have major wood-logging industries and the wood reserves of Liberia are also being tapped. Timber, sawn wood, plywood, and wood-based panels have a market in the savannah countries. Certain types of paper production could be established in the Ivory Coast and Ghana while a greater variety of paper-converting activities, such as cardboard and paper bag production might be carried on in the savannah countries (labour-intensive production in smaller units). There is also a coast-inland trade in kola nuts, bananas, pineapples and salt. (WP.11, para. 136)

These few examples show that there appears to be considerable scope for trade in agricultural products in both directions, although to a lesser degree from south to north. If the land-locked countries could achieve a positive balance in such trade this would enable them to pay for their imports - mainly manufactured consumer and producer goods - from the coastal countries. However, such economic complementarity can work to the full advantage of the area only if the coastal countries refrain from developing crops which thrive best under the ecological conditions of the savannah countries. Inland countries, on the other hand, should refrain from establishing industries which can be operated at less cost, taking the cost of inland transport into account, in coastal areas. There is thus a definite need for close co-ordination of agricultural development schemes in the area and a similar need as regards any industrial ventures which the land-locked countries may contemplate. Such co-ordination would develop more or less on its own if the countries concerned were united in a free trade area. (WP.11, para. 137)

(b) Co-operation in the utilization of water resources

Customs unions or free-trade areas must always concern a rather limited number of closely co-operating countries. That a Government is a member of such a grouping does not prevent it from co-operating with other Governments in specific fields. It is essential, however, that such co-operation does not conflict with the plans and operation of the economic groupings. This is particularly important in the case of drainage basin development organizations. It is essential that countries bordering the same river co-operate in the utilization of the water resources. Such co-operation becomes even more necessary with growing population, higher standards of living, the use of imported seed for agriculture and more intensive farming with all demanding more water. In the future more dams will be built for the production of power, irrigation, fishing and transportation. In the absence of co-ordination therefore conflicts are bound to arise among users. Often in the bargaining between inland countries and coastal countries the latter are in a strong position in such matters as transport. When it comes to questions concerning the utilization of water it will often be the other way round. If the utilization of water is considered as a part of a package deal between the States this may provide for wider scope in sharing co-operation benefits. Co-operation concerning delivery and utilization of power may create groupings different from those of the river basins. (WP.8, para. 163) (See also MR, para. 117, WP.2, paras. 61 - 66)

The southern part of Africa is an example of the need for close co-operation in the field of water utilization. From Angola the river Okavango flows via the Caprivi strip into Botswana where it evaporates and disappears into the swamps in the north-western parts of the country. Water is in short supply in this part of Africa. This situation could be aggravated by the rapid rate of population growth and the increasing

requirements for more intensive cultivation. One solution is to divert the river from Angola into Namibia and to use it in this country for irrigation. South Africa seems to be considering this kind of utilization of the water. Another possibility is to use the water in Northern Botswana for irrigation and in this way convert a semi-desert into farm land. Most probably, some industries would then be established in this now rather remote part of Botswana. A third possibility is to transfer the water to Eastern Botswana for use in the more densely populated parts of this country and thus assist in the urbanization and development of this part of the country where more minerals have been found than elsewhere in Botswana. Finally, it might be sent through Botswana into South Africa and used for the cultivation of irrigated farmland in that country. (WP.12, para. 31)

2. Co-operation in monetary and payments matters

The system under which African currencies are tied to a foreign currency has, by and large, been preserved after independence. Only few African currencies have been devalued on African initiative. Changes in the rates of exchange have been introduced, but these changes have been secondary effects of changes in the rates of exchange between the big currencies like US dollars, British pounds or French francs. Development within the majority of the African countries has, however, resulted in the over-evaluation of their currencies. This has been so considerable that many of the countries have been compelled to adopt measures to protect the national currencies. Today African trade and African communication in almost all fields is characterized by a whole system of restrictions. The only way out of this would be more realistic rates of exchange. The means to protect the over-valued currencies are many; they regulate not only trade but also travelling, remittance of earnings, transfer of capital, etc. (WP.4, para. 6)

Over-evaluation of a currency thus has some effect which is detrimental to the development of intra-African trade. It is, however, often said that the developing countries will not gain much from devaluation because of the composition of their exports. That the elasticity of supply of African raw materials should be zero is, however, not always the case and certainly not in the long run. There may be ores of a lower grade which after a devaluation it may be profitable to work. Isolated districts may be drawn into the production of cash crops, etc. There are, however, also cases where the expansion of the volume is limited either for technical or legal reasons. Higher prices for imported goods will on the other hand limit the consumption thereof and encourage the use of home-produced goods instead. (WP.4, para. 10) (See also WP.4, paras. 7, 8 and 9)

The policy of linking the national currency to a strong international currency has, however, its effect on internal policy too. A fixed rate of exchange works as a brake on inflation. Therefore, if either fluctuating rates of exchange are introduced or a policy of frequent changes in the rates of exchange is applied other controls are needed. It is

certainly no advantage to have a high rate of inflation. Hardly any African Government wishes in this respect to follow the Latin American pattern. Therefore a condition for more realistic rates of exchange may be the establishment of rather strong institutions to manage a monetary and/or fiscal policy. (WP.4, para. 12)

This could be a system of independent central banks granting each other rather extensive rights to draw on their reserves. This system does not demand the use of the same currency or of fixed rates of exchange between these different currencies. (MR, para. 46) (See also WP.4, paras. 17, 18 and 19)

Another possibility would be that Governments within an existing grouping, in addition to their own central banks, establish a monetary institution, a kind of African IMF, to grant Governments in need drawing rights on each other. If adequately reformed, the two existing franco-African banks might, after Africanization, be converted into an African monetary fund of this kind. (MR, para. 47) (See also WP.4, paras. 20, 21, 22 and 23)

It is recommended that ECA should suggest to member countries that they request the Association of African Central Banks to consider both systems outlined above, with a view to formulating definite proposals in conjunction with the International Monetary Fund. The groups of countries to be associated in "mini-funds" would not be limited to existing groups, since the funds need not have the same membership as other sub-regional organizations. Sub-regional "mini-funds" could make an especially useful contribution in West and Central Africa where the differences in the banking systems of the anglophone countries and most of the francophone countries are a potential obstacle to the development of wider economic communities. But there are likely to be special problems which will need thorough investigation if they are to be solved, and here again the International Monetary Fund, working in collaboration with the West and Central African Sub-Regional Committees of the Association of African Central Banks, could make an important contribution. (WP.4, para. 23)

Until now the Development Banks have concentrated on development of infrasturcture and industry. However - as mentioned previously in this paper - the most urgent need for capital is in agriculture and other areas of the traditional sector. The major Development Banks cannot directly take up this kind of banking. They can, however, co-operate with the many agricultural banks and the various co-operative credit banks and credit schemes. (WP.4, para. 31)

3. Co-operation in education and training

The importance of education in the context of African economic co-operation may not be apparent at first glance. Yet not only is there room for co-operation in the educational field itself, a regional orientation in the content and structure of educational systems could do much to prepare the way for closer multi-national co-operation at all levels. (WP.5, para. 1)

In branches of study where either the number of students is small, as in veterinary medicine, architecture, pharmacy, dental surgery, foreign languages, etc., or where overheads are very high as in physics and some of the technical sciences, co-operation could be useful, one university serving students from a number of countries in one field, whereas a neighbouring university could take care of another branch, also serving a number of countries. Most African universities are understaffed and in most cases lack specialized top-level staff. Much could be gained in quality if unnecessary duplication was avoided. (WP.5, para. 3)

In major branches such as medicine, agriculture, economics, management, etc., each university should have its own departments. This is not to say that there is no room for inter-university specialization with one university teaching, say, medicine, and a second, engineering - there are indeed examples of this approach in Southern Africa and West and East Africa. This will, however, not be a permanent feature at the undergraduate level, but post-graduate studies could still be most efficiently centred at one or two universities in each sub-region. (WP.5, para. 4)

The educational aid programmes of both bilateral and multi-lateral donors have hitherto tended to concentrate on providing scholarships for students to study in donor countries, and this was normal when technical education in particular was relatively less well-developed in Africa. Aid was also provided for the development of education in African countries themselves, and will continue to be needed for this purpose in future years. It would be worthwhile if a small part of this aid was set aside to form the basis of an African Universities Exchange Scholarship Fund, to which African countries themselves could contribute. The administrators of such a Fund could be required to provide a small number of scholarships for anglophone students to do their degrees in francophone countries, and vice versa. This might be most useful in creating a better understanding between the two groups. UNESCO could be requested to assist in the preparatory work for establishment of this Fund. (WP.5, para 6)

An exchange scholarship scheme will certainly not be sufficient to remove language ~~barriers, and indeed the scope of~~ such schemes could be limited by the number of school-leavers with a sufficient grasp of the other major ~~language to undertake university~~ education in what would be in fact their third language. It is important therefore that secondary schools, especially in West Africa, should be enabled to include French/English as main subjects in their curricula. (WP.5, para. 7)

In the post-graduate field the Institute for African Economic Development Planning (IDEP) in Dakar has set a good example in providing courses on a regional basis which could be followed by the establishment of similar institutes in, for example, fields like business management. It could be very useful if future leaders of commerce (including those in the public sector) have had common experience at such an institute; to have men at the top who "talk the same language", in the sense of having an understanding of business conditions in other parts of the continent, could help to break down the dominance of former extra-African relationships. (WP.5, para.8)

The three countries have a common university, established in Lesotho. Being the only university in that part of Africa where racial discrimination is not practiced, it exercises a beneficial influence on racial harmony. Since it serves a population of two million people, this university will remain small for many years to come. For this reason, it is not advisable to split it into three separate universities as now proposed. With the shortage of teachers and of funds the standard of small universities in Africa is almost always low. If the university is going to be split up into three colleges it is to be hoped at least that there will be no duplication of faculties. (WP.12, para. 34)

Being excluded from South African industries foreign labour usually attracts very low wages. Since such labour also does not have the job training opportunities available to South Africans, its productivity is usually lower. As products manufactured in the three have free access to South Africa, these lower wages should give investors in the three some advantages over those investing in South Africa. Whether these advantages suffice to counteract lower efficiency will of course differ from case to case. (WP.12, para. 20)

In South Africa many of the more qualified jobs are also reserved for the white population. This job reservation creates an enormous difference in wages between jobs. These rules do not, of course, apply in the three States. It should, therefore, be possible in the three to establish industries where those functions performed in South Africa by the white workers are carried out by local workers at much lower wages. Since the shortage of white workers in South Africa is growing more acute this may give the three States - and other independent African Governments - some advantage. The time may come when the independent countries not only have cheaper workers but labour will be available whereas it may not be in South Africa. Again, lack of training facilities may delay such development. (WP.12, para. 21)

4. Co-operation in labour and migration

(a) General considerations

The distribution of the labour force over the African continent reflects the past more than anything else. Subsistence farming, tribal wars, the existence of tropical diseases, slave raiding, forced labour, have exerted their influence on the distribution of labour. In the future other factors will be of importance: the use of modern farming techniques, irrigation, industrialization - therefore urbanization, and the utilization of mineral reserves will demand a distribution very different from that of the present. The fast growing population and the establishment of schools, etc. in rural areas will encourage people to find employment elsewhere. There are today on the African scene enormous income differences between the different parts of the continent; these are the consequences of a lack of adaptation to modern conditions. The existence of these differences does, however, encourage improved adaptation, inducing people to move from low-income areas to high-income areas. (MR, para. 33)

There are a number of migratory movements in Africa: the temporary migrations to South Africa and Southern Rhodesia from almost all neighbouring countries, from the savannah countries of West and Central Africa to plantations, etc. in the coastal countries, from the interior of Africa, e.g. Chad and the Central African Republic to Sudan, from the densely-populated areas in Burundi and Rwanda to the copper mines in Zaire, from the Maghreb countries to France, and in recent years there has been a certain migration of skilled people from Egypt to Libya. Besides these big streams there are a number of minor flows, often of highly trained people from those countries which have a surplus of this kind of manpower to those still in need. These minor streams often go in the opposite direction to the big flow, i.e., from the most developed to the least. (MR, para. 35)

This mobility of labour has been tolerated if not encouraged by the authorities in both land-locked and coastal territories. In the case of the Governments of land-locked countries this was because it relieved them of some of the pressures caused by unemployment and under-employment. It was tolerated by coastal Governments because the influx of unskilled workers provided them with cheap labour at a time when wide stretches of the coast were still relatively unpopulated. However, because the land-locked countries lack appropriate training facilities, they have traditionally relied on the coastal countries to supply them with skilled labour and administrative personnel. (WP.11, para. 51)

This two-way but numerically disproportionate traffic has been disturbed in recent years by politically motivated administrative measures taken in some of the coastal countries against the influx of foreign labour. In other cases, host countries have failed to enact legislation ensuring acceptable working conditions for migratory labourers. The problem in both cases is that as a rule land-locked countries do not have a strong bargaining position when the migration of labour is treated as an isolated, self-contained question. Their position improves substantially if the question is negotiated in the broader context of north-south complementarity whereby coastal countries are granted access to the market of the hinterland and a regular supply of meat in return for concessions in the fields of labour migration and transport and transit facilities. In view of the importance of a free movement of labour for sub-regional economic co-operation, reference should be made to some of the implications of present practices concerning migratory labour. (WP.11, para. 52)

In this field there is great risk of a chain reaction. A country may decide to close its borders to foreigners, or may even force its foreign labourers to leave the country. This may - or may not - solve some of its own problems, but it aggravates the problems of the neighbouring States, and may force these to take similar precautions. It is almost unavoidable that the result of such a policy will be a slowing down of the development of the continent. (MR, para. 37)

The serious problem is how to avoid the splitting of Africa's labour market into forty or fifty national labour markets. To exclude foreigners may create a number of jobs for the nationals, and in periods of unemployment this may be popular. This could be very harmful for the whole development of the continent. There may be cases which call for some control; refugees may raise special problems; there are a number of questions concerning the transfer of belongings, remittances, social benefits. This seems an area which requires concerted action by the African countries concerned. (WP.3, para. 34)

We are convinced that the free movement of African labour will be to the advantage of the African nations as a whole. And we have no doubt that unless labour can move from the less fortunate to the more fortunate parts of the region the economic growth of the continent will be considerably hampered. (WP.3, para. 35) (See also WP.11, paras. 57 and 58)

The country survey given above shows that, as in the case of Upper Volta, there is often a two-way flow of labour, generally consisting in a massive outflow of unskilled labour from the land-locked countries to the coast and a smaller inflow of skilled labour and technical staff. Whilst recruitment of unskilled labourers poses no particular problems and can be organized bilaterally, recruitment of qualified workers, specialized staff, technicians and cadres may call for a sub-regional approach and a multilateral placement agency.

This problem is topical and has come to the attention of UDEAC and OAU. Another practical question which merits special attention concerns the form migration can take (seasonal, semi-permanent or permanent). In all land-locked countries which have high rates of migration, such as Rwanda, it would appear that permanent migration, settlement and assimilation should be encouraged. This might result in less reluctance at the receiving end, thereby facilitating "labour export" from the land-locked and labour-surplus countries. (WP.11, para. 63)

There is obviously in this field a need for a "code of conduct". There are a number of questions of which only some shall be mentioned here: the right for the migrants to be accompanied by their families, a right which is denied them in South Africa; the right to send remittances to their families; the right to bring their personal belongings duty-free from one country to the other; there is a need for certain agreements concerning what shall be their rights in case of sickness, disablement, death. (MR, para. 38)

Economic development and movement of labour have always gone hand in hand. If the enormous migration to and within America had not taken place this continent would never have been developed. In Europe we find during recent years major movements from the less developed South to the more developed North, a movement which is to the advantage of both. In Africa the freedom to move may be more important than anywhere else. Today this continent is at the same time the economically least developed and most probably one of those with the greatest potential. In the decades ahead of us this continent will face enormous changes, moving from backwardness to prosperity. However, such development will coincide with a new distribution of labour over the geographical areas. And if the distribution of manpower is not adjusted to the new economic situation, economic development will be hampered. Tight controls on labour movements will almost unavoidably slow down the economic growth of the continent and preserve the present situation. (WP.3, para. 6)

(b) Specific recommendations for co-operation on labour and migration questions

Eastern Africa

WP. 9, para. 57) 58) 59)	- Co-operation on labour and migration
WP.10, para. 105) 106)	- Co-operation between Botswana, Lesotho, Swaziland, Malawi and South Africa
135	- Co-operation between Mauritius, Zambia, Ivory Coast (See also WP.12, paras. 14, 15, 16 and 17)

West and Central Africa

WP.11, para. 59 - Co-operation between Upper Volta, Ghana and Ivory Coast on labour and migration questions

62 - Co-operation between Rwanda and Zaire on labour questions

North Africa

WP.13, para. 10 - Co-operation on labour and migration questions between Egypt, Libya and Tunisia

5. Co-operation in tourism

(a) General considerations

Tourism may reach across all borders. There are no factors inherent in this field which might prevent a country from being a member of different groupings. (MR, para. 116)

Tourism is a very special service. Common services such as tourist offices in Europe, the establishment of charter companies and common arrangements in the receiving countries may encourage the tourist industry. Such co-ordinated efforts inevitably create a bigger total income from tourism. However, it will not always be the same grouping of countries which is the most appropriate for other types of services or for tourism. And it will not from the point of view of planning procedure, etc., be harmful if the groups of countries co-operating in tourism is different from the group which co-operates in other services. (WP.8, para. 47) (See also WP.11, para. 67)

(b) Specific recommendations for co-operation in tourism

WP.9, para. 104 - Co-operation within the East African Community

10, para. 29 - Co-operation between Zambia, Malawi, Botswana, Mauritius

41 - Co-operation between Burundi, and the East African Community

49 - Co-operation between Rwanda and the East African Community

67 - Co-operation between Ethiopia and the East African Community

87 - Co-operation between Kenya, Ethiopia and Somalia

136) - Co-operation between Mauritius,
152) Madagascar and Malawi

III. AFRICA'S RELATIONS WITH THE EUROPEAN ECONOMIC COMMUNITY

A. Forms of association with the EEC

On the world scene there are today at least three different lines of development for co-operation between the different parts of the world. The first is global; according to this theory all developing countries should be treated in the same way - possibly with some preferential treatment for the least developed - in their economic relations with the developed countries. The second is the tendency to segmented co-operation: North America with Latin America, Japan with a range of countries from Korea to the Philippines, and Europe with Africa. The potential association of the majority of African Governments with EEC is an example of a segmented approach. The third appears to be isolationist, through which the developing countries try to isolate themselves from the developed countries and by and large limit their co-operation to other developing countries. For the poor countries whose aim was rapid economic development such a course would be fraught with difficulties. (MR, para. 50)

The more the global approach gains momentum the less value there will be in the establishment of a segmented approach to economic relations. If all developing countries, thanks to improved general preference schemes, can send processed goods duty-free, etc. to developed countries, segmented arrangements permitting the same are of no significance. Those in favour of the global approach should act as advocates for global arrangements and in this way reduce the significance of the segmented arrangements. And they should, inside the segmented arrangements, try to make these as broad and open as possible. (MR, para. 51)

... Yaoundé III should have excellent chances of being different from Yaoundé II and it may in different ways pave the way for a more global policy in the future. (MR, para. 52)

In Protocol 22 of the Treaty of Accession the associated States and those which qualify for association are offered a choice of one of three possibilities: option I - participation in an association of the Yaoundé type; or option II (Arusha type) - an association comprising reciprocal rights and obligations, particularly in the field of trade; or option III - conclusion of a trade agreement. Option I has been interpreted as (1) the intention to establish a number of separate free trade areas, each consisting of one African country and the EEC. What actually is meant by a free trade area is not quite clear; (2) the associated States and those which qualify

qualify for association will most probably by and large have to accept the institutional framework as is formulated in Yaoundé II; (3) the associated States and those which qualify for association will have to accept that an association involves more than trade, for example, right of establishment, co-operation in financial fields and that aid, mainly or exclusively given through EDF or EIB, is a part of the agreement. If the applicants are not willing to accept this, they may eventually choose option II or III instead. (MR, para. 53)

We are convinced that only if the greatest possible number of applicants participate in the Yaoundé III negotiations and exert their influence there, can there be found a way to bring the present system once more into line with the interests of both the developing countries and the newcomers to EEC. (MR, para. 77)

Whereas there do not seem to be any legal or factual problems preventing the majority of African countries from getting a Yaoundé type of agreement, there are specific problems for the three African States inside the South African Customs Union. These countries are in a special, difficult situation, unable to give reverse preferences without the consent of South Africa. There may even be other problems where specific solutions will have to be found because of their use of South African currency. In general the associated African States will most likely oppose special arrangements for individual countries. However, these three are in such a difficult position, their economies are so small, that in their case there is special need for generosity from the other African States, from EEC, and from South Africa. (MR, para. 79)

B. Aspects of association

1. Government revenue and reverse preferences

If the present arrangements between EEC and either Togo or Zaire – neither of these countries give any reverse preferences – can be accepted as establishing free trade areas, this concept is certainly used in a way very different from the one in which it was conceived by the founders of GATT. There is every reason to expect that the growing concern for the least developed countries, along with the general acceptance that the co-operation between the Nine in Europe and the African States is a partnership between States at very different levels of economic development, and the acknowledgement of a moral obligation on the part of the rich countries to assist those which are at a stage of development, would pave the way for new ideas. (MR, para. 55)

The attitude of the associated countries and potential associates will be influenced by some elementary considerations. With the exception of those countries – Zaire, Zambia, Gabon, Nigeria, and Mauritania – which have rich mineral resources, all Governments in

tropical Africa have serious budgetary problems. At the present stage of development their most important source of revenue is and must for a number of years ahead be customs duties. Under the present economic circumstances, income tax can only be levied on a small fraction of the population and can only contribute to the government finances in a very limited way. In most countries income tax schedules are already now pretty high and could hardly be increased much. Taxes on real property, hut taxes, etc. yield a limited revenue but are far from being able to replace revenue from the customs. Excise duties may be levied on a limited number of goods, but again, what may be gained from this source is rather limited in an African State. In the majority of the African Governments, therefore, more than 50 per cent of the revenue comes from tariffs. (MR, para. 56)

The second elementary fact is that these countries intend to diversify their economies. Consequently, they wish to establish import-substituting industries and will, as things are, find it necessary to protect these import-substituting industries. (MR, para. 57)

A third - maybe less important - factor is, as stated earlier, that the trade of African countries is extremely one-sided. They get the majority of their imports from their former colonial partner. This may be established through preferential arrangements but it is just as much a consequence of the dominance of import and export firms from that country. Rightly or wrongly there is a suspicion that this "monopoly" is used to charge higher prices and/or to sell inferior goods. In any case it must be to the advantage of the African countries to be able to buy at the same terms everywhere in the world. This is an argument against reverse preferences, but in case these are unavoidable, it is one in favour of increasing the number of countries receiving these reverse preferences. (MR, para. 58)

As things are today, there is a need in these countries for tariffs. When the free trade area concept was formulated the authors of this concept had in mind co-operation between countries of a somewhat equal-level of development. Whether the formula of a free trade area can be safely applied to co-operation between nine of the richest countries in the world and one poor African country, is a question of adaptation. The original model must certainly be adapted to this unforeseen application of the model. (MR, para. 61)

All depends on the interpretation of reverse preferences. If customs duties are decreased and fiscal duties increased, and the latter, for all practical purposes, is the same as customs duties, the countries are very close to not giving reverse preferences. It is understandable that there must be a period of transition from the present system to a new one. A solution might be to phase out reverse preferences over a number of years. It might also be conceivable to suspend reverse preferences for a period of, say, 8-12 years in the associated countries for the protection of newly established industries. (MR, para. 62)

A rigid system of reverse preferences is too far away from modern thinking in this field to be acceptable. We do feel nowadays that the richer countries have a duty to assist developing countries in their efforts to develop their economies. There are already in the present system so many loopholes and so many possibilities of exceptions to the rule that it seems obvious that it is impossible to know *a priori* what the result even of an acceptance of the principle of reverse preferences will be. (MR, para. 63)

The African markets are today only of peripheral importance to the nine members of EEC but the revenue from customs tariffs and the protection of local industrial production are essential for almost all African nations. In the spirit of co-operation it seems reasonable that the African Governments be given the right to collect the tariffs they need. (MR, para. 64)

2. Trade

Protocol 22 of the Treaty of Brussels contains an offer to twenty independent Commonwealth countries (of which thirteen are in Africa and seven in the Caribbean and the Pacific) to develop special relations with the EEC. Three alternative formulas are suggested (for the full text of the Protocol, see AnnexA): firstly, participation in the next Yaoundé Convention; secondly, "conclusion of one or more special Conventions of Association...comprises reciprocal rights and obligations, particularly in the field of trade", e.g. the Arusha Agreement; and thirdly, conclusion of trade agreements. (WP.6, para. 33)

The Yaoundé Convention (as noted previously) exempts the members of the EEC from the abolition of customs duties on products subject to the common agricultural policy (CAP). However, Protocol 1 of the Convention provides that where associated countries "have an economic interest in exporting" the products covered by the CAP, the EEC will grant these products more favourable treatment than like products originating in third countries. There is an escape clause in respect of this provision, but the Community has in fact granted preferences on products like coffee and cocoa. However, more "sensitive" products (i.e., those which are produced both in the EEC and in the associated States) may be affected by the escape clause; these products include grains, butter, beef, fruit and vegetables, oilseeds (including cakes and meals made from oilseeds), and sugar. (WP.6, para. 18)

3. Trade agreements with third countries

Prima facie, Article 13 permits the establishment of customs unions between, say, Ghana and Togo, assuming that Ghana remained a non-associated State, while Article 14 would permit Lesotho, Botswana and Swaziland to become associated States whilst retaining their association with South Africa in the Southern African Customs Union. Article 13 however insists on maintenance of the exclusive Yaoundé rules of origin. (WP.6, para. 107)

The rules of origin adopted by the Council of the EEC on 5 May 1966 first of all confer "originating product" status on all products wholly produced in the associated States, and they secondly confer this status on goods wholly produced in one or more of the member countries of EEC and the associated States and territories. Products which do not meet these criteria may, however, qualify for preferential treatment if the materials imported from other than member countries or associated States are sufficiently transformed in the manufacturing process or, in some cases, if they do not exceed in value more than 40 or 50 per cent of the value of the final product. (WP.6, para. 77)

... The rules of origin governing the GSP treat each developing country as a separate entity, and not even materials imported from EEC members are exempt from the rules of origin. The effect of this difference between the two systems may well be to discriminate between multinational industrial integration projects in associated and unassociated developing countries respectively, as shown in this example: Country A is one of the AAMS and imports metal from another associated country, B, which is manufactured into various products and exported by A duty-free to the EEC. Country C is not an associated State; it also imports the same metal from B and produces the same goods as A, but C's products do not receive a GSP quota because the value of the metal is greater than 50 per cent of the value of the final product. Because C is not an AAMS, the fact that the metal came from B, which is an associated State, is irrelevant. Similarly, if A had imported metal from a fourth country, D, which was not an AAMS, then A's exports would not qualify for duty-free entry to the EEC, even though A is an associate. (WP.6, para. 79)

The Commonwealth countries which decide to take up this offer are invited to participate in negotiations on the option of their choice which will begin on 1 August 1973. The countries which choose the first formula or option will participate "side by side" with the associated African and Malagasy States in the negotiations for the next Yaoundé Convention (the present Convention expires by 31 January 1975 at the latest). Those which opt for the first formula in Protocol 22 will qualify for aid from the European Development Fund. It seems unlikely that Britain and the other new members of the EEC will increase their total aid to developing countries as a result of their subscriptions to the EDF; increases in bilateral aid are therefore likely to be held back, but the net effect from the point of view of the associated ~~countries is likely to be slight.~~ Table IX provides data on the present aid received by the twenty "associable" African countries, and also on their population and levels of national income *per capita*. (WP.6, para. 36)

4. Preferences

There are four types of differences between the various preferences offered by the EEC for processed and manufactured goods produced by associated countries and by developing countries in general, respectively:

- the constitutional status of the preferences;
- the sizes of the preferential margins or duty-free quotas;
- the product coverage; and
- the rules of origin. (WP.6, para. 80)

It is clear that the GSP does not provide equivalent preferences to those extended by the EEC to its associated States. In addition the rules of origin governing the trade between the EEC and the AAMS undoubtedly facilitate industrial integration within the associated States, whilst the rules of origin for the GSP are likely to discriminate against "multinational" integrated industries. It may well be that this effect of the EEC's GSP system is also likely to be found in the GSP schemes of other advanced countries which do not exempt raw materials imported by developing countries from the requirements of the rules of origin. (WP.6, para. 86)

5. Quantitative restrictions

The Yaoundé Convention binds the associated States not to apply any quantitative restrictions, or measures having equivalent effect, to the importation of products originating in EEC member States (Article 7). However, there are escape clauses in the case of development needs or balance of payments difficulties of the associated States, subject to consultations within the Association Council (Protocol 3), and provided that there is no discrimination against the EEC or between its members. (WP.6, para. 98)

Protocol 2 of the Yaoundé Convention defines the "development needs" which could justify the associated States imposition of quantitative restrictions. Article 1 of the Protocol is given in full as it shows the broadness of the definition; the constraint really resides only in the provisions for consultations within the Association Council on tariffs or quantitative restrictions imposed on grounds of development needs:

Article 1, Protocol 2 of the Yaoundé Convention

"The development needs of the associated States referred to in Article 3(2) of the Convention are those arising from:

- the implementation of economic development programmes aimed at raising the general standard of living in the country in question;

- the needs of their economic development, in particular where necessary to encourage the setting up of branches of production for the purpose of raising the country's general standards of living;
- the need to achieve equilibrium in their balance of payments and to alleviate such difficulties as arise in the main from their efforts to expand their domestic markets and from the instability of their terms of trade;
- the necessity of achieving a sustained growth of their country's receipts from exports." (WP.6, para. 99)

6. Industrial raw materials

Industrial raw materials such as iron, copper, bauxite, tin, rubber, timber, and crude oil enter the EEC duty-free whatever the country of origin. The AAMS are not important producers of these commodities, with few exceptions, but the associable countries include some significant mineral producers: Zambia (copper), Sierra Leone (iron ore), and Nigeria (oil). Zaire (copper), Mauritania (iron ore), and Gabon (timber) are the major producers amongst the AAMS. As far as external trade is concerned, those countries which are exporters of these raw materials do not have to contend with import duties in any of the major importing countries. (WP.6, para. 73)

7. Semi-processed and processed products; and manufactured goods

The EEC has granted duty-free entry to both the Yaoundé and the Arusha associated countries for their semi-processed products and for their manufactures. Exceptions are processed foodstuffs which are covered in the common agricultural policy. (WP.6, para. 74)

8. Rules of origin in association agreements

The rules of origin adopted by the Council of the EEC on 5 May 1966 first of all confer "originating product" status on all products wholly produced in the associated States, and they secondly confer this status on goods wholly produced in one or more of the member countries of EEC and the associated States and territories. Products which do not meet these criteria may, however, qualify for preferential treatment if the materials imported from other than member countries or associated States are sufficiently transformed in the manufacturing process or, in some cases, if they do not exceed in value more than 40 or 50 per cent of the value of the final product. (WP.6, para. 77)

As pointed out above, the rules of origin which have been adopted for trade between the EEC and the Yaoundé associated States treat raw materials imported by one associated State from another associated State or EEC member as if they originated in the importing country. Thus the rules of origin in effect treat the EEC and all the AAMS as one country. The rules of origin governing the GSP treat each developing country as a separate entity, and not even materials imported from EEC members are exempt from the rules of origin. The effect of this difference between the two systems may well be to discriminate between multinational industrial integration projects in associated and unassociated developing countries respectively, as shown in this example: Country A is one of the AAMS and imports metal from another associated country, B, which is manufactured into various products and exported by A duty-free to the EEC. Country C is not an associated State; it also imports the same metal from B and produces the same goods as A, but C's products do not receive a GSP quota because the value of the metal is greater than 50 per cent of the value of the final product. Because C is not an AAMS, the fact that the metal came from B, which is an associated State, is irrelevant. Similarly, if A had imported metal from a fourth country, D, which was not an AAMS, then A's exports would not qualify for duty-free entry to the EEC, even though A is an associate. (WP.6, para. 79)

C. Industrialization

1. General

An association is more than a trade issue. (MR, para. 66)

The developing countries should, however, also recognize that their lack of industrialization is not chiefly due to reverse preferences, but is a result of, among other things, small markets, lack of experience, etc. The countries should also face the fact that import-substituting industries can only provide them with small-scale industries, on a long-term basis frequently unable to compete on equal terms with foreign firms. Only export-oriented industries can develop into big and important industries. (MR, para. 65)

There is a need for African countries to develop exports of their manufactures, both to the EEC and the rest of the world. (WP.7, para. 16) (See e.g. working paper 11, para. 72)

2. Markets and resources

A big home market may be the starting point of the establishment of export industries. There is no reason why African countries could not develop an export industry using its cheap factors of production, labour and land, to these parts of the world. (WP.7, para. 7)

There are plenty of resources of raw materials in Africa. It is certainly not lacking in iron ore, copper and bauxite, to name only three, which has prevented the establishment of an African Ruhr or Birmingham. Nor is it lacking in capital, scarce though this is in Africa. Capital is the most mobile factor of production, so there can be little doubt that it would be forthcoming from other sources if the returns were attractive enough. There is no shortage of labour in general - and the quality of the potential labour force is improving thanks to the education programmes of the last ten years. There is a shortage of technical and managerial personnel but these can also be imported. Prices of land are low and salaries for labourers are only a fraction of salaries in the developed countries. (WP.7, para. 8)

An outcome of the Yaoundé III Conference could be that all those countries which will be associated under an Option I formula establish a big African trade area using the same rules of origin as they do in their trade with EEC. If this is not possible some of the bigger areas like UDEAC, the EAC and if possible the enlarged West African Community (CEAO) maybe together with Nigeria could consider forming an African industrial free trade area. It should be a matter of course that this African free trade area be open to other African countries wishing to join. (WP.7, para. 12)

An obvious model is the industrial free trade agreements which the EEC has negotiated with other Western and South-eastern European countries. But other models are also available. Indeed one of the most interesting developments of the seventies so far is the breaking down of trade barriers all over the world, the most spectacular examples being the growth of trade between the eastern and western powers, USSR and China, USA and Japan. (WP.7, para. 13)

3. <u>Sub-contracting</u>

We would also like to draw the attention to the problem of sub-contracting. Whereas this is of great importance in the Far East and parts of the Caribbean, it is of almost no importance between Europe and tropical Africa ... (MR, para. 69)

Close co-operation between European and African enterprises may develop if European firms will give the production of certain components to African factories as sub-contractors. Modern goods such as cars, radio and television equipment are often composed of many different components which could be produced at different places. It seems probable that components which demand much labour might be produced at lower costs in Africa than in Europe. This might be the case even where the raw material had to be imported and the finished components be exported. In some cases not only African labour but also African raw material might be exported in this way. (WP.6, para. 101)

... Co-operation of this kind can be to the advantage of both partners. Although European firms do not get the full advantages of mass production by establishing such factories in Africa, they do enjoy the advantages of lower factor costs. African countries for their part benefit from increased employment opportunities and a division of labour whereby administration skills and sales organization are provided by the developed countries. (WP.6, para.102)

Delivery of components binds the two partners close together. If the components are not delivered in time it may delay the whole production of the finished product. The factory producing components may be ruined if the main factory stops working or no longer uses this component. For the development of this kind of co-operation, regular delivery is of extreme importance. (WP.6, para. 103)

For the development of this kind of industry it is also important that Africa does not levy duties on the import of those raw materials which are to be used and that Europe does not levy duties on the components. There may be provisions in company law, etc. which may hamper or encourage such co-operation. At least in Senegal and in Tunisia more careful thinking is going on to promote co-operativeness. (WP.6, para. 104)

In a number of cases the assembling may be rather labour-intensive and it may pay to let the assembling plant move to the developing countries and have the components, the production of which may be capital-intensive or may demand an input of highly skilled workers, produced in Europe. EEC and the associated countries (Yaoundé III) should consider what could be done to further this kind of co-operation. UNIDO should be able to make some contribution to such discussions. (WP.6, para. 105)

... We feel that there is a need for a careful study of import and export regulations, of rules of origin, of company laws, maybe tax laws, to see whether anything in these laws hampers the development of sub-contracting. We feel that EEC in co-operation with representatives from the developing countries could be the right organ to make such a study and to try to convince Governments to remove hindrances to development of this kind. (MR, para. 69)

4. Rights of establishment

The third section of the Yaoundé Convention is mainly intended to ensure that the associated States do not discriminate in the matters of right of establishment of companies, or provision of services, between the nationals or companies of the members of the EEC. However, the associated States are not required to grant privileges in this area to the nationals and companies of member countries beyond what they themselves receive in the member countries of the EEC. The section also contains guarantees by the associated

States concerning repayment of capital and interest on loans of the EDF and the European Investment Bank. (WP.6, para. 23)

... Most probably Yaoundé III will have the rules concerning investment rights and transfer of capital. Most of these rules will be such that they are in the interest of the developing countries, almost all of which desire to have industries, or they may be such that countries not wishing to use the possibilities do not need to use them. (MR, para. 66)