UNITED NATIONS
ECONOMIC
AND
SOCIAL COUNCIL

Distr.
LIMITED

E/CN.14/EA/EC/9
25 October 1967

Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA
First Meeting of the Interim Economic
Committee of the Economic Community of
Eastern Africa
Addis Ababa, 30 October - 7 November 1967

PRE-CONDITIONS FOR REGIONAL ECONOMIC INTEGRATION

(Background paper*)

* This article, by H.W. Singer, appreared in the September 1967 issue of the International Development Review.

M67-1485

PRE-CONDITIONS FOR REGIONAL ECONOMIC INTEGRATION

Perhaps the most successful example of regional economic integration is the Central American Common Market which has demonstrably speeded up industrialization and the general economic progress of the countries concerned. We may note some of the features of this success story:

1. The countries concerned were all more or less equal in economic importance; none of the countries could expect to dominate the others.

2. All the countries concerned - in spite of the finer variations among them - started off from an exceedingly small industrial base, consisting almost entirely of processing of natural resource products and smaller scale industries shading into the handicraft and artisan type. Thus, there were no vested interests in the area. The problem was how to distribute new industries to be created.

3. The sizes of the countries concerned were so demonstrably insufficient for the development of purely national industries limited to domestic markets that no plausible alternative to regional cooperation existed.

4. The regional movement was backed by major aid (channelled partly through special institutions created to support the integration movement) by outside multi-national or national sources of aid and investment which were determined to support and strengthen regional cooperation in the area.

5. The area was a clear potential recipient of private foreign investment - foreign exchange difficulties not being prominent in the area - and the provision of larger markets was a pre-condition for tempting foreign investors to establish branches, subsidiaries or joint ventures in the Central American countries.

The East African Common Market provides an instructive contrast. In this case, the initial pre-conditions also appeared favorable. The countries concerned had a long tradition of close association under British colonial administrations. A common system of services and infra-structure had been developed and operated. Yet, in spite of this, regional cooperation between the three countries concerned struck many rocks within a short time after independence. Here again we may note some of the circumstances present:

1. The countries involved - although more or less equal in population - did not start off as economic equals. One of the three countries, Kenya, had a considerable head start both in industrialization and in the possession of an infra-structure suitable for further industrial growth. (We may note that even in Central America the position and claims of Honduras closely resemble those of Uganda and Tanzania in East Africa.)

2. The existence of industries and of infra-structure needed for industries in Kenya not matched in the two other countries created vested interests which could not be disregarded.

3. The countries concerned were larger than the Central American countries, large enough to make national industrial development sufficiently plausible to present an alternative to regional cooperation.

4. There was no major attempt to link aid and investment in those countries with new common institutions, or to underwrite with aid and investment specific forms of regional cooperation.

The East African example shows that regional cooperation is not easy to achieve. Moreover, the difficulties in development and industrialization now experienced by such countries as Argentina, India, Indonesia - to mention only a few - show that the size of the national market alone is not a sufficient pre-condition for successful industrialization. Even in a large market the process of import substitution seems to come up against inherent difficulties which prevent the progressive improvement of the industries thus established, and which have even failed to save the countries concerned from the balance of payments difficulties which import substitution was intended to remedy.

- - - - -