CHAPTER IX

THE EXPERIENCE OF THE LOW INCOME COUNTRIES

Introduction: What is necessary for the economies of the developing nations is a diversification of their export and production structure. The lopsided concentration on a few mineral or agricultural products causes economic vulnerability and instability. In countries that have minerals, mineral processing industries have to be built up in order to raise the value-added in the countries where the exploitation is inflicted. The same vertical diversification has to be achieved in the field of agricultural products. In countries where skilled and cheap labour forces are available a speeded horizontal diversification is desirable, but such horizontal diversification raises the need for harmonised industrial policies. A danger exists that in the absence of such harmonization countries might diversify into products that are already in over-supply or that face other problems on the world market, such as competition from synthetics. But this is not an easy endeavour even in industrialized countries; even in the framework of regional integration schemes - where a special coordinating machinery exists - harmonization has never made much headway.

However, all these efforts are, to a great extent in vain, if the developed countries maintain tariff and non-tariff barriers in these sectors where the developing countries have a possibility to industrialize. That is necessary are effective structural policies in the industrialised countries in order to support the efforts undertaken in Third World countries. The problem, however,
is that import liberalization and structural policies—or better, an anticipatory structural policy—are restricted by the rules and limits of parliamentary democracies, which virtually do not allow a structural policy that condemns certain sectors to be closed or to be transferred to developing countries. Realistically speaking, therefore, only those trade barriers are likely to be completely eliminated which have not been introduced with trade-distorting intentions. Standards of packing and labelling, or sanitary health regulations, as well as entry procedures and bureaucratic formalities, usually fall into this category. Industrialized countries can easily eliminate these barriers or support Third World countries, for instance, through training courses to better understand such regulations.

Overall, however, if the industrialized nations do not liberalize their import conditions vis-a-vis the Third World in a sufficient and satisfactory manner the aid-by-trade concept will be a meaningless academic exercise.

Given the inflexible attitude of industrialized countries in the field of import liberalization measures have to be explored and implemented that do not require the cooperation of industrialized countries. A strategy has to be supported that focuses on increasingly interdependent relations among developing countries and that reduces their collective and individual dependence on the industrialized nations. Consequently all efforts have to be made to support regional economic integration schemes of developing countries with a high degree of common protection against products of industrialised countries.
The degree of such disintegration from trade with industrialised countries is, of course, a function of the economic strength and developing potential of any single country. The more developed a developing country is, the more it is on equal level with industrialised countries and the more it can subject itself to strong competition in world trade. But for the great majority of the Third World, a protective strategy of collective and individual self-reliance appears to be more appropriate and advisable.

The Latin American Experience: One feels extremely diffident about the Latin American experience in economic integration. The results are slim. Each country fears its neighbours even more than the big international competitors. Industries have been built behind tariff walls. Even local entrepreneurs and labour unions also behave as their countries. The vested interests argued against integration. Reduction of tariffs was always undermined. The elimination of duties may not be in the near future. There were prolonged negotiations for tariff reductions. There was no agreement on details. Anyway, it would not be complete before 1986. The EEC had the same problems but overcome by different devices. The American proposal for an Alliance for Progress became suspect to Latin America about American firms. The Inter-American Development Bank has been taking keen interest in Latin American integration. This is a good example of development without dependence. Latin America should find answers to her problems. The EEC also had many obstacles, and the European countries too had differences among themselves on many issues. Of course, the

problems of the developing countries are different from those of the E.E.C. By not granting special privileges to their less advanced partners (Central America and the Andean Groups) the bigger countries have forced the smaller countries to form a common market in order to equal them in the integration process. Even with integration in the making, Latin America is not without its problems of industrialisation and marketing. The size of the market is still inadequate for some industries, while adjustment is difficult with industries already in existence. This is an indication that integration should take place before countries commit themselves too far to industrialisation, especially import substitution.

Within Latin America the growth of mutual trade in manufactured products has been slower than similar sales to the rest of the world. The limits to import substitution is well recognised by Latin America. Latin America has two hundred million people - with only two languages, (that too related). At first substitution takes place, then it monopolises the local market, but it disregards economies of scale, and then it develops vested interests and acts against integration. Many obstacles are placed and difficulties are experienced. Infrastructure is geared towards the outside world, including banking. Industries become non-competitive and so Latin America remains backward. The infrastructure needed for integration requires planning. It is needed for investment projects obstacles to foreign trade must be removed. Also, there should be a balance between regions and uniformity of prices. Thus, mutual trade requires a series of deliberate policy measures which might hurt vested interests and monopolies. But the creation of a
regional market in no way implies renouncing the development of trade relations with the outside world. There is no contradiction at all between the idea of a common market and increased freedom in overall foreign trade. On the contrary, there should at first be a fairly large base upon which to develop industries that are able to compete on foreign markets. Regional integration can eliminate some forms of discrimination and make industries more efficient. There is thus some relevance in granting protection to newborn industries on a collective and reciprocal basis rather than country by country.

The Central American Common Market: A small but useful illustration is offered by the CACM for unexpected success and the later unfulfillment of the promise. It was established over a five year period (1962 to 1963). Its objectives were: 1) Establishment of a regional free trade area; 2) Equalisation of external tariff; 3) Harmonisation of measures to promote industrialisation; 4) Free movement of persons and investment capital; and 5) Encouragement of industries to supply the regional market. The Central American countries have long enjoyed a common political and cultural heritage. But there are some factors that have tended to favour independence and isolation. In fact the area appears to meet few of the established prerequisites for a successful union. The outward looking geographical features and transportation facilities, uneven distribution and inhibiting effects of demography and population, the highly concentrated plantation economy, and the all-important foreign trade sector, have all acted as a brake on any prospects for

2. The CACM: Vitthum.
integration. Economists feel industrialisation is the answer, but only by integration, because of market problem and size of industry. Agriculture was no solution. It is a typically underdeveloped-export concentration economy. Its export receipts were due to higher coffee prices, and so there was improvement of the terms of trade since the early sixties. Progress after integration towards internal free trade had been rapid. Progress towards the establishment of a common set of external trade barriers had also been equally impressive. There was equalisation of duties as incentive for production. Relatively more trade occurred between the members as economies of scale were reaped from existing industries and from new industries established to serve the entire common market. The total trade of the area, and of each member, expanded. It was influenced by market size, dictated by transport cost rather than by tariff boundaries, and goods began to move even before tariffs were removed in anticipation. The progress towards economic union was thus very encouraging during the first few years and raised the eyebrows of the world and the Economic commission for Latin America.

With free trade and common tariff it was important to create a uniform environment throughout the area under which economic activity could thrive. Distortions of competitive conditions could not be allowed. Harmonisation of industrialisation policies were the most important as also the coordination of national policies. Fiscal incentives had to be uniform. A working party was set up to draw the necessary policies. But the implementation of harmonisation policies met with difficulties what with vested interests, both local and foreign, trying to anticipate and overcome them, though they were not so successful in the face of the will to unite.
Just as integration requires coordination and harmonisation of national measures designed to govern competition and industrial location, so too does it require a synchronisation of development policies in general. Projects to foster economic growth within a broad union-wide framework are needed if optimum or even viable development is to be achieved. This was at first done through the system of Integration Industries and later through the Central American Bank for Economic Integration (CABEI). This was begun in 1961 for the purpose of providing development finance. Foreign capital and investment were attracted, but factor mobility was not significant unlike with the EEC where it is significant.

The Agreement on a System of Integrated Industries was a landmark. The ECLA in 1965 stated that, "the greatest opportunity for reciprocal trade and integration lie in those activities which have not yet been established in Central America, if and when they are initiated on the basis of a rational plan localising them and insuring intra-regional mobility for their products". The Agreement was a supplement to the Multilateral Treaty of 1962, but was set aside by the General Treaty of 1961, which also incorporated the Tripartite Treaty. The Development and Assistance Fund of the Tripartite Treaty was followed by the CABEA of the General Agreement, which was accompanied by the Agreement on the Equalisation of Import Duties and the CABEI.

Foreign exchange reserves rose in Central America since 1962. The integration was governed by the balance of payments stability and protection of agricultural exports. There was an export boom since 1962 and exchange was relaxed and liberalised. The Declaration of Central America of 1963 pledged the eventual
establishment of full monetary union and common monetary and fiscal policies and free trade by 1970.

Thus the development policy shifted from "Integration Industries" to "Bank for Economic Integration". The "System" provide development through creation of free internal trade for designated products of chosen companies. The industrial development program was shifted to tax incentives and other stimuli. Also the Bank was created to aid in financing important projects.

Industrialisation programmes for import substitution create strong pressures on prices and balance of payments. But Central America did not suffer from this because 1) most of the industry is simple assembly or mixing, 2) governments are wedded to price and balance of payments stability and 3) agricultural and exporting interests are politically powerful. Second, industrialisation creates new import needs for raw materials which is entrenched and persistent.

Thirdly, there is the long-term balance of payments impact of foreign direct investment, i.e. remittances of earnings. These factors associated with industrialisation tend to make the demand for imports rigid and inelastic. The balance of payments becomes vulnerable and the need for a steady flow of capital and diversification of exports critical. Central America could avoid the crisis for sometime because capital and technology are required while competition could keep down prices. This may be lacking in South America. It could eventually export manufactured goods to LAFTA, U.S. and Europe. But the policy of industrialisation with price stability could weaken if exports of plantation products declined in volume and value. This reduces the ability to import and creates pressures on manufactures. This could go up in a spiral. Exports become less
competitive while imports expand and capital begins to shift into other areas. Brazil's experience between 1951 and 1962 illustrates this. Central America also slipped into this process, which was further aggravated by political disputes leading to successive secessions by members. Economics of scale appears to have offered Central America opportunities for efficient production of a wide variety of articles. Iron ore and nickel can also be exploited on a large scale.

The CACM has its gains, problems and promises. The first few years indeed gave great promise. It was hardly fulfilled later. It is impossible to say that integration has provided the answer to Central America's economic problems. But integration has not harmed the development of any of the countries, and there are considerable indications that it has helped significantly. The institutional arrangements and the will to unite have proved important in the pursuit of a common set of objectives. Integration will not and cannot succeed unless the political, social and economic environment is actually or potentially suited to it. In this, the Central America has been relatively fortunate.

In contrast to the general lack of success of common markets in developing areas, the CACM appears to have gone far toward fulfilling expectations. It has enjoyed rising prosperity. The area has attracted foreign investment. Even the Caribbean countries have expressed interest in gaining admission. It is cited as proof that regional economic unions are the key to economic advancement. Of course, some special conditions might have prevailed at the time for economic development. The region's economic growth since 1961 has resembled that of the Common Market.
High prices for agricultural products and political stability have been contributory factors. Our brief discussion of the institutional arrangement and development programmes of integration of the CACM should be useful experience, though not very appropriate for application to other circumstances and areas regardless of their location, economic structure and political and social heritage.

The Record: Free trade areas and other preferential groups have been multiplying in Africa, Latin America, the Caribbean, the Middle East and South East Asia. Some of the groups have turned out to be little more than paper commitments; but others have freed inter-regional trade extensively. The LAFTA has been less effective than the component Andean Group formed into CS; the CACM; and the Carifita (1969) which developed into a common market five years later. The establishment of a fifteen-nation group of West African countries was at an advanced stage of discussion in mid-1975. The aim is to industrialize, but the main trade is with the developed countries. The customs union between the members of the OPEC is an example. They have little common interest.

The Central African Federation collapsed as a result of political dissensions. Economic differences have produced severe stresses in others. Economic integration in Latin America is at last moving ahead. The record of accomplishments thus far, however, has not been impressive for integration programmes in most developing areas.

Integration in Africa: It is a useful lesson to look at the functioning, achievements and problems of integration in Africa.

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The continent, except South Africa, is underdeveloped. It has a population of about 300 million and except for a few states most of the 50 odd countries are uneconomic units. Called the dark continent, it was carved up by the European powers without regard to natural divisions or economic viability. Linguistic differences are an obstacle to integration. The frontiers cut through racial groupings. Feudal economy persists and there is duality to the detriment of the native. The continent is not self-sufficient even in food and a large bill is paid for it in the imports. Given the norms of development, the diversity of climate, topography, vegetation, mineral resources, etc., should prove a great asset to its future. The lakes and river basins, if developed, could change the course of economic development and remove the poverty and backwardness of the continent. The countries could as well start with a few groupings on a regional basis to solve their problems of balance of payments and industrialisation. They should change from the colonial outlook of dependence to the continental outlook of interdependence. They would then be able to acquire bargaining power in the world and attract foreign capital and investment and provide employment and better standards of living. It would promote diversification and stability. On the other hand national development would prove costly with low per capita income, small population, narrow resources, frequent wars, fragmentation and partition, and political instability. Yet they wish to be less dependent on the West, and integration, therefore, is the only solution for their aims. After all, this is an age of integration, but the gap between aspiration and achievement is wide because the benefits reaped by all are not equal, especially as they are in different stages of development with uneven growth. Arrangements
must be durable and there should be political confidence, especially as the continent is known for its frequent overnight changes. Negotiations become complex, while domestic issues absorb their energies. They are impatient to wait for future gains while being anxious to reap immediate gains for the present. Unless the nations are lured by prospective benefits the path to integration will not be smooth or rapid, for developmental needs provide ample scope for economic cooperation. Of course, Africa should improve its administration and enlist skilled labour and entrepreneurial ability if it wants to succeed in economic development. The potential is there but the market size is inadequate for economies of scale. Their desire for industrial development and a more balanced economic structure are objectives that cannot be realised except through economic groupings. They have recognised the need for it and have made several attempts to forge integration among themselves. But the desire to locate industries within their own borders has thwarted attempts at specialisation and economic location. It is of course natural that each country should desire a proportionate share of the benefits and gains of integration. This requires investigation and a willingness to locate industries in a fair way without mitigating the effects of specialisation and the best allocation of resources. Perhaps a step-by-step advance to integration would be necessary to effectively promote it. Infrastructural provisions and harmonisation of economic policies and fiscal measures are imperative to success. Africa, perchance requires more of these integration policies than of industry and trade. In fact some success has already been made even during the colonial days in spite of linguistic and cultural differences.
They were a necessity as was also monetary integration and payment and credit agreements. Integration in Africa took to many directions and many forms. There were successes and failures. There was both integration and disintegration. There is a vast literature on African development. The ECA held a conference and discussed the problem of Africa by taking the example of Mexico's take-off stage. Perhaps the example was relevant and appropriate. Independence is a recent acquisition and has many pitfalls - sentimental and administrative. The African states are now in several stages of development, but no objective is more important for its future than economic integration which could embody the principle of protection and work on the basis of specialisation and economies of scale.

**Scene:** The ECA made several studies and is a strong advocate of integration in Africa. There are difficulties like the allocation of import duties. This has impeded integration in the field of trade and industry which is negligible. There is more integration in the monetary field and transport and banking and communications and services. The Arabs have sought integration in trade and tourism and statistics and marketing, and iron and steel. There is cooperation in payments and clearing and in projects involving lakes and river basins. Industrial cooperation is as yet negligible. Many questions, mainly political, suggest themselves. Only economic integration arrangements will decide the future. But although the long-term interests often lead to independent action, the future of economic cooperation in Africa will depend on which of these considerations becomes dominant.
Lessons of African Integration:

1. Regional integration rests on industrial development and balanced economic growth and stability. By basing import substitution on regional, rather than on a national market, integration should increase growth rate of manufactured output for any given level of protection. In this way it should contribute to economic growth both directly and indirectly.

2. Integration centres on arranging an equitable distribution of benefits, which in practice means an acceptable distribution of industrial development.

3. Integration is related to opportunities for economic gains, economies of scale, size of local markets and individual national preferences for industrial development.

4. Cultural differences and political changes and instability will affect integration.

5. Integration depends on the magnitude of gains and their equitable distribution. Even if its gains may not be large immediately, an early start may be more desirable than a later one. (Sidney Poll has pointed out this in comparing Africa and Latin America).

6. Integration requires harmonisation of development plans and fiscal policies which are weak in developing countries. Technical and economic data are very necessary as also administrative and entrepreneurial ability and skill.

7. If integration is to be effectively promoted it will probably be necessary to think in terms of much more limited
objectives on which effective decisions might be more readily taken. Disparities in development should not exist.

3. It is clearly desirable to identify industries where economies of scale are present and to locate them on an equitable basis. Administration must be drawn between regional and national industries as far as possible. National industrial complexes should be developed. Development banks must take the initiative.

4. Some form of inter-state arrangement is quite necessary. Regional industries could be given legal status, a common market, and a firm assurance. This could be extended to free trade eventually.

10. The less developed countries among them may be given a share of regional industries. In the alternative, national industries may be given preferential treatment and encouragement.

Integration: A comparison. It would be useful at this stage to draw a comparison between integration in Europe and those in Latin America, Africa and Asia.

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<tr>
<th>European Integration</th>
<th>Integration among Developing Countries</th>
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<tr>
<td>1. Based on competition.</td>
<td>1. Based fundamentally on complementarity.</td>
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<tr>
<td>2. Gains and benefits relevant.</td>
<td>2. Potential development relevant.</td>
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<tr>
<td>3. Equal partners as members, and hence no problem of sharing benefits and gains.</td>
<td>3. 'Backward' effects and hence problems of sharing benefits and gains.</td>
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<tr>
<td>4. Based on Free Trade principles.</td>
<td>5. Based on protectionist principle</td>
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<td>5. Based on static conditions.</td>
<td>5. Based on dynamic conditions.</td>
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European Integration

Integration among Developing Countries

6. Based on technological industries.

6. Relief on agro-based industries.

7. Large intra-regional trade.

7. Small intra-regional trade.

8. Specialisation based on technology and skill.

8. Specialisation based on raw materials and natural resources.

9. State intervention not necessary.

9. State intervention necessary.

10. Solves industrial problems.

10. Solves commodity problems.

11. Improves industrial capacity.

11. Improves industrialisation and new investments.

12. Political motive for integration.

12. Economic motive for integration.

It is very apparent that the nature of the economy and the problems of integration are vastly different between developing countries and underdeveloped countries in several ways. It is possible to expatiate at length on the differences that exist between them, but suffice it to point out a few to illustrate the nature of their setting. Both theory and practice, though indistinguishable, are really poles apart even if mutually relevant. The skill and the political will of European integration process are worth imitation by the developing countries. But common to both are specialisation and comparative advantage and economies of scale; as well as the economic location of industries and the best allocation of resources under all condition Resource allocation under integration will give gains only on specialisation, and hence the criterion of gains is still relevant. Distribution of benefits, location of industries, harmonisation of economic policies, monetary and payments union, credit facilities,
common trade policies etc., are applicable to the one as to the other. Non-economic factors are also essential in both cases to ensure success in economic integration and beyond.

**Conclusion:** We have considered briefly three aspects of integration among developing countries: 1. Theoretical foundations of economic union in the context of developing countries; 2. Historical and institutional framework for economic integration; and 3. Concrete steps to implement the integration programme, and the refocusing by member countries resulting from the integration movement. We chose three examples, Latin America, Central America and Africa. We noted their functioning, achievements, and problems, and also drew the necessary lessons for integration among developing countries. The experiments were varied and their experience valuable. Their application to other areas and circumstances would depend on their economic environment and other socio-political factors. But underdevelopment has a desideratum of features common to all and different from those of the developed countries of the West. The transition from colonialism to neo-colonialism is fraught with many dangerous traps and requires deft handling and extreme will to steer clear between the devil of inflation and the deep sea of stagnation. But the developing countries are caught in external and domestic constraints created by an unreasonable and illogical international economic order or relations which impose so much harshness on the developing world and prevent them from rapid development and the removal of poverty. United action by the underdeveloped countries seems the only recourse left, and economic integration is one of the chief ways of resolving this dilemma. In fact, no country can survive unless it integrates with others.