

# THE CONVENTIONAL THEORY OF ECONOMIC INTEGRATION AND THE AFRICAN CONDITIONS

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The main concern of the African countries is to accelerate the rate of growth of their national economies, and to realize the necessary changes in the structures of these economies to facilitate the process of economic development, and hence raise the standard of living of the African peoples. Thus, the problem of «Economic development» in the so-called developing countries, will cast its shadow on our analysis. This is natural, for «Economic Integration» is discussed by the economists dealing with the problem of the development of those underdeveloped economies, as a device to help them in their effort to develop. So, in this context, economic integration is a means to a very urgent and important end, that is to promote economic development in the underdeveloped world.<sup>(1)</sup>

The importance of «economic development», then, will influence our handling of the problem of economic integration in Africa. In other words, our definition of economic integration, its theoretical and applied aspects, will have always the problem of economic development in the background.

## a — A definition of economic integration

So, we would extend the conventional definition of economic integration, either as a process or a state of affairs,<sup>(2)</sup> not only

- 1) Economic development is not, of course, an end in itself, but it is a means to an ultimate end, that is the welfare of the people.
- 2) See some definitions of economic integration in Bela Balassa, *The Theory of Economic Integration*, George Allen and Unwin 1961 p. 1 et seq. Peter Robson, *Economic Integration in Africa*, George Allen and Unwin 1968, p. 25 et seq.; R. Sanweld and J. Stohler, *Economic Integration*, Princeton University Press 1959.

to mean the elimination or the suppression of trade impediments (tariffs, quotas, or other restrictions) between a group of countries in order to facilitate specialization and exchange, but it would include any concerted measure or action taken by a group of countries in order to accelerate the rate of economic growth for the group as a whole or for the individual countries of the integrated group.

By such a broad concept of economic integration we give the integration efforts a positive and dynamic role to play in the development of the underdeveloped economies, and not merely a negative meaning by the mere abolition or the reduction of trade restrictions.<sup>(3)</sup> Hence, all measures designed to promote economic development in the integrated area, such as sectorial integration, integrated industries or joint projects, common services or other infrastructure projects may be more useful to the African economies than the total or partial reduction of trade barriers between the members of the integration scheme. Indeed, as will be seen later, the size, value, and pattern of trade between the African countries would render the tariff reduction of little benefit to these countries, not to speak of their usefulness to their economic development.

**b — The impact of economic development on integration economics.**

The impact of economic development on our analysis will also be felt when we discuss the relevance of the conventional theory of economic integration to the underdeveloped countries in general and to the African conditions in particular.

A great part of the theoretical analysis was devoted to the

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3) Compare = Tinbergen.

He contended that negative integration implies the abolition of instruments harmful to the common well being of the integrated area i.e. trade impediments; while positive integration requires, as a minimum, co-ordinating the use of some instruments in order to avoid a falsification of the price formation and the ensuing division of labour... It implies the organization at the community level of the institutions and means required for the maximum welfare.

Customs Union theory<sup>(4)</sup>. The Customs union is the form of economic integration where a group of countries agree to eliminate or suppress trade impediments among themselves and establish a uniform tariff and other trade arrangements vis-a-vis the outside world. According to the analysis of the advocates of the customs union theory, the gains from a customs union would be realized if it is more «trade creating» that is if it results in shifting purchases of a given commodity from more expensive domestic to cheaper member-country sources of supply, then if it is «trade diverting» i.e. shifting sources of supply from lower-cost foreign to higher cost member-country goods.

As the advocates of the conventional theory of customs union are, more or less, those who are faithful to the classical theory of International trade, i.e. comparative advantage and free trade, they based their analysis on the same assumptions as those of the theory of comparative advantage.<sup>(5)</sup>

It might be illuminating to call upon the concept of comparative advantage to find out how its basic assumptions would fit into the condition of the African countries, and hence the relevance of the Conventional Integration economics which followed the same argument.

#### **The static concept of comparative advantage and the african economics.**

The concepts of comparative costs (or comparative advantages) and free trade are synonymous in the classical analysis. It has been calculated that the gains which can be derived from free trade are more than if trade is restricted if we look at the total volume of trade between all the trading countries.

The theory assumes a given quantity of natural and human resources; free trade will result in the optimum allocation of these resources and the maximization of out-put. If the resources

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4) We shall see later on that there are some other forms of economic Integration: free trade are, Common market, Economic Union etc.

5) Viner, Meade and others.

of a country are subject to continuous change, as in the case of the dynamic process of economic development, where the main problem for an underdeveloped country is to accumulate capital, or increase its cultivated land, and other national resources etc, the concept of comparative costs cannot be a proper guide in economic policy. In this context the theory is static, assumes a given amount of resources, seeks its optimum allocation from the point of view of the trading countries together, the output increases in the two (or more) countries together because of trade, but it is not necessarily useful from the viewpoint of a (individual) particular country, for the latter can gain more by restricting trade.

Another assumption is that factors of production can move easily from one economic activity to another. This could be difficult or impossible, where there are shortages in skilled labour for instance (another feature of the underdeveloped economies). In such circumstances, the factors of production used in producing goods which have no comparative advantage, should accept lower wages. If this cannot be done because of trade unions influence, free trade would cause unemployment in the industries in which the country has no comparative advantage.

The theory also assumes full employment and the absence of unemployment problems, so that the increase in the output of a commodity would mean the decrease of the production of another. As unemployment exists in the capitalist economy, and takes different stages in the underdeveloped economy : chronic, frictional, seasonal disguised etc., producing a commodity, or increasing its output does not necessarily imply the reduction of the output of another commodity. Hence, there will be a continuance of producing a commodity with no comparative advantage so far as its production does not affect the production of the commodity with comparative advantage.

A further assumption is the perfect competition, where the value of the commodity equals its real cost. This is not so in the case of monopoly and all other forms of imperfect competition, which dominate the economic scene either within a country or in international economic relations. Under these forms of imperfect competition the price of a commodity does not reflect its

real cost, as the producer's equilibrium here takes place where the commodity price is always higher than its marginal cost. If the marginal cost is the monetary expression of the real cost, the price of commodity under different types of monopoly is higher than its real cost. This would change the nature of the international specializations, for if monopoly raises the value of the commodity with less or no comparative advantage, it reverses that specialization and free trade here would lead to a pattern of specialization contrary to the comparative costs.<sup>(6)</sup>

A serious shortcoming of the conventional theory of international trade is that it abstracts from a group of social factors, and economic and social institutions neglecting them, considering them as given, and concentrates its analysis on some economic variables. It goes without saying that these social problems and economic and social institutions constitute one of the most intricate group of obstacles which hinder the effort for economic development in the African countries. Indeed, if we forgo the problems of traditional tribal and religious values (often hindering development), illiteracy, low standards of education, and health services, lack of efficient and stable government and administration etc., it will mean that we are foregoing the basic problems of underdevelopment. If we assume the existence of the necessary organizations and the institutional framework, i.e. no impediments to the perfection of the market, a monetary economy, efficient banking, honest and efficient administration, favourable attitudes towards growth, social justice, well trained labour force, and so on and so forth, it means that we have removed all these problems with a pen stroke. We would have liked the picture in the underdeveloped world to be in fact what it is assumed to be by traditional theory, but unfortunately it is not so.

Related to the previous point, the comparative cost theory

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6) Also a significant part of International Trade cannot be explained on the basis of cost differentials, due to factor availabilities resource endowment etc. Non-economic factors such as cultural links, former colonial ties, political obstacles to trade etc. play a significant role. See, Linnemann, H. An econometric study of international trade flows, Amsterdam 1966.

considers the state of technology as given, and hence the resources endowment of a country would stay the same. This is again part of the static approach the theory follows. Technology changes and hence the pattern of specialization changes with it as it affects the pattern of resources the country could have in the dynamic process of technological development.

There is another weakness of the static theory of comparative cost and the free trade concept connected with it. The type of international division of labour between the developed industrial countries and the underdeveloped primary producing countries which was praised by that theory and the growing gap between the developed and the underdeveloped countries have struck some of the contemporary economists<sup>(7)</sup> who have lead a revolt against the conventional theory of foreign trade and even against the conventional economic theory itself.

They attack the conventional theory on the basis that it follows what they call the «stable equilibrium» analysis. This analysis is wrong if we want the theory to explain changes in a social system. According to that theory the social process follows a direction to a situation which can be said, in one way or another, to be in a state of equilibrium between forces. It contends that a change would lead to a reaction in the system in terms of changes which take the opposite direction towards the first change. They contend that in reality there is no such automatic stabilization of the social system. The system does not move by itself towards any kind of equilibrium between forces but it moves away from that situation. In the normal case, a change would not cause countervailing changes, but it would maintain changes which would move «the system» in the same direction taken by the initial change, and push it further according to the «circular causation of a cumulative process.» This last concept<sup>(8)</sup> contends that there are circular constellation of forces which

7) Myrdal G., *Economic theory and underdeveloped regions*, G. Duckworth London, 1957.

» , *An International Economy*.

» , *An American Dilemma, the Negro Problem and Modern democracy*, Harper's New York, 1944.

8) We find a similar analysis in the literature concerning the concept of the «vicious circle».

act and react on each other to keep the underdeveloped countries poor. This is similar to the case of a poor man, with not enough food, his health deteriorates, affecting his ability to work, and thus his productivity decreases. He will stay poor, which means the further deterioration of his health and productivity etc. Thus we have a cumulative process in the downward direction. While if there is less poverty and more food, his health improves and his capacity to work and his productivity rise. That would again reduce poverty, and leads to a more efficient economic performance. In this case a cumulative process in the upward trend takes place.<sup>(9)</sup>

The market forces would work for increasing the inequality between the developed, or relatively developed regions and the underdeveloped regions within a country. If the market forces are left to play freely without intervention, industrial production, trade, banks and other economic activities, the infrastructure, science, art, literature and education etc. would tend to concentrate in the prosperous areas leaving the other areas in a backwater. The developed regions would attract capital and skilled labour, and hence the productive power with its ascending cumulative effects while the depressed regions would suffer the descending cumulative process.

Applying the concept on the economic relations between the developed countries and the underdeveloped countries, the conventional theory of international trade after inheriting the stable equilibrium analysis from the economic theory, fails to explain the inequality gap between the two types of countries. The logical structure of the trade theory would lead to the decrease

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9) Myrdal showed that the social process can be altered (stopped) by an exogenous factor introduced in the «system». The countervailing forces here are not a natural result of the forces inside the system. He gave the destroying of a factory as an example for the downward cumulative process: unemployment increases, incomes decrease, poverty spreads, health deteriorates, which decrease income again. While the establishment of a new factory and its favorable effects on employment and income and the sanitary and educational standards which raise productivity of labour and increase incomes and so on and so forth in an upward cumulative process:

Econ. Theory and the underdeveloped Regions op. cit.

in the differences in production and income levels between the developed and underdeveloped countries.

What happens in reality is the contrary, and the course which international trade theory took resulted in the underdevelopment of the poor countries and the development of the rich countries.

Under the influence of the stable equilibrium, the static assumptions, and concepts like free trade, laissez-faire, laissez-passer, harmony of interests, the failure to conceive the dynamic and cumulative process of development and underdevelopment, the theory of international trade did not develop to take into consideration the growing inequality between the underdeveloped and the developed countries. It does not give much attention to the problems related to the great differences in the relative scarcity of factors of production, nor did it examine the productivity functions themselves which are related to the great differences in the relative scarcity of the factors of production. It did not also consider the great gap in the standard of living and cultural systems in the countries of the world.<sup>(10)</sup> The upward cumulative process with its spread effects occurred in the advanced countries, and the downward cumulative process with its back wash effects took place in the poor countries according to the circular causation of the cumulative process. Thus the international division of labour between the primary producing countries and the industrial countries, based upon the theory and practice of the conventional comparative advantage argument was detrimental to the underdeveloped countries.

It appears that the conventional theory of customs union has inherited the static assumptions and the stable equilibrium of the comparative costs theory: the inputs of factors of production, the state of technical knowledge, tastes, type of economic organization, social institutions, these are considered as constant and autonomous variables. Other groups of assump-

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10) See a defence of the conventional theory by Baner, *International economic development*, *Economic Journal*, March 1959 pp. 105-23.; Haberler, G. *International Trade and Economic Development*, National Bank of Egypt, Fiftieth anniversary Commemoration Lectures, Cairo 1959.

tions are : perfect competition within each country, external economies and diseconomies disregarded, no interference with prices, full employment, problems of adjustment disregarded etc.<sup>(11)</sup> With these static assumptions, the theory is mainly concerned with gains which can be achieved from re-allocating given inputs of existing resources.

It is clear from the above mentioned assumptions that the theory as it stands, is far from being a suitable analysis to the conditions prevailing in the african countries, and thus cannot be relied upon to guide policies in those countries especially those related to the crucial problem of economic development.

Even the advocates of the conventional tradition are not sure of the gains from customs unions. They contend that the customs union will be trade creating if the number countries have little external trade in proportion to total production or, total expenditure, and if a high proportion of this trade is with the other partners. Trade creation depends also on the sensitivity of trade pattern to tariff changes, and on the extent of the differences in the pattern of relative prices at which protected products are produced. The customs union would also be useful if the higher each member's pre-union duties are on the other products.

#### d — Some characteristics of african economies.

Taking these considerations into account, we find that the picture of the african economies is quite different.

- i. — the african countries are highly dependent on foreign trade, so their external trade is large in relation to their domestic production : exports of the african countries, for example, are one fourth of total production, and imports are one third.
- ii. — They trade very little among themselves: the proportion of trade between the african countries is about 7 — 10%

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11) See P. Robson, Econ. Integration in Africa, op. cit. pp. 30 — 39.

of their total external trade. This inter-african trade is mainly concentrated between the ex-metropolitan territories. For instance, in the ex-British territories in East, Central and South Africa, we find that 80% of their inter-african trade takes place with each other.

- iii. — The level of industrial development is very low, and the exports of the african countries are mainly agricultural and other primary products which compete freely in the world market. In such conditions, economic integration cannot bring about a re-allocation of resources within the union for these products.<sup>(12)</sup>

With these characteristics,<sup>(13)</sup> the conventional model of economic integration will be of little significance if any, to the african countries. If we look at the customs union theory as a (mini) version of the classical theory of comparative advantage and free trade, inheriting its static assumptions and stable equilibrium analysis, neglecting the realistic circular causation of the cumulative social process, and abstracting, like the trade theory, from the most important problems which hinder the development of the underdeveloped countries, considering them as constant or given, while they are not given at all, one can conclude safely that this type of theorising is irrelevant to the problems of the african countries. Even if we examine the considerations which the advocates of the theory discussed as necessary for gains to be obtained from the customs union, the result is that the conditions in the african economies are quite different from those visualized by the theory.

If this argument is accepted,<sup>(14)</sup> and if the reallocation of existing resources which the traditional theory concentrates

12) See Robson, *Econ. Integration op. cit.* pp. 30 et seq.; Hazelwood, *African Integration and disintegration op. cit.* p. 6 et seq.

13) More characteristics will be dealt with later on.

14) See also, D. Seers «The limitations of the Special case», *Bulletin of Oxford Institute of Economics and Statistics*, May 1963; Bela Balassa *op. cit.* p. 35 ; R.F. Mikesell, «The Theory of Common Market as applied to Regional arrangements among developing countries» in *International Trade Theory in a developing world*, ed. by Harrod. R. & D.C. Hague, Macmillan, London 1963 p. 213.

upon is not the main concern of the underdeveloped world, it seems that we are left with no choice but to call upon the concept of «economic development» to form the type of economic integration suitable to the developing economies of africa.

Economic development is a vast field indeed. We shall draw attention to one important aspect of economic development which will also be relevant to our discussion on economic integration in the african countries.

One of the main characteristics of the african countries is that most of them are extremely small. About twenty countries have populations of less than 2 1/2 millions<sup>(15)</sup> Gabon and Gambia have 400,000 and 300,000 people respectively. Although some countries cover large areas (e.g. Libya, Algeria, Mali, Tanzania, Sudan, etc.,) the average size of the african country is about 271,000 sq. miles, while it is 488,000 sq. miles for countries in Asia and 529,000 sq. miles for Latin American countries.<sup>(16)</sup>

The gross national product or the total income in africa is very low. It was estimated in 1962 to be about 9,300 million (which is equal to half the aggregate income in the United Kingdom and as only twice that of Mexico). The per-capita income — whatever the state of the distribution of income in the different african countries is and whatever the proportion of the gross national product transferred abroad in the form of profits, remittances etc. to the foreign companies, individuals or governments — is also terribly low. In some estimates the yearly average of per-capita income in Africa<sup>(17)</sup> is about £ 30. It ranges from as little as £ 14<sup>(18)</sup> in Niger to £75 in Ghana.

15) Twenty three african countries have a population of less than 4 million

16) On average the countries of africa have a population of 6 million compared with 11 million in South America, and 43 million in Asia, ECA, Industrial Growth in Africa pp. 77.

17) Excluding South Africa.

18) It has been pointed out that the money income, or the present cash market in many African countries is not larger than that of a European town of moderate size (100,000 inhabitants), See ECA. document may 7th 1963. Hazelwood op. cit. p. 9, Robson, op. cit. p. 69 See also, A.J. Brown, «Should African countries form Economic Union», in E.F. Jackson, Economic Development in Africa, Basil Blackwell Oxford 1965, p. 180.

It is clear, then, that whatever measure is used, be it the size of the country, the number of population, the gross national income, or the much more telling criterion of the per-capita income, we find that most of the african countries, taken individually, constitute very small national markets indeed. This smallness of the national markets can be considered an obstacle to growth. For an efficient economic enterprise should have a market of an optimum size in order to benefit from the economies of scale and of specialization. But the african countries cannot furnish such a market, so the need arises to extend the market through the concerted effort of a group of neighbouring countries by establishing an integrated area, in which the market will be larger to achieve the optimum size for their enterprises, or something near the optimum position, where costs can be reduced to a minimum, and hence reach the maximum performance of the integrated economies. In joining forces together the member countries of an integration scheme would enhance their effort for economic development.

But extending the market for what kind of enterprise? Certainly not for the agricultural and other primary products. It is well-known that the bulk of the exports of the african countries are agricultural and mineral products. These products are marketed mainly in the world market outside the countries of Africa. So when the U.A.R., Sudan, Uganda, for example want to form a certain degree of economic integration, their objective will certainly not be the export of raw cotton to one other. The same applies to Cocoa or coffee beans between countries of East or West Africa. The organization of States of the River Senegal, (OERS) i.e. Senegal, Mali, Guinea and Mauritania, will obviously not trade with each other in peanuts as all of them produce more or less the same product. The same principle applies to the maghreb countries as we will show below so far as their olive oil, citruts fruits, grapes, and wine, phosphates etc. are concerned.

The extension of the market via economic integration, therefore, is needed to promote industrial enterprise, and hence enhance the economic and social development of these countries. As the level of industrial production in Africa, in general is very low, and hence manufactures represent a very low percen-

tage in their total exports so, industrialization is the main factor either to encourage trade between the member countries of the integration scheme, or to accelerate their development.

### **The place of Industry in economic development**

Industry occupies a special place in the economic development effort. Both the historical and theoretical analysis of the economic development process tell us an unmistakable story: that industrialization is synonymous to development.

1 — From the point of view of the history of economic development, we find that the ratio of industrial output to gross national product, and the number of workers employed in the industrial sector compared with those employed in agriculture are very high in the developed countries and considerably low in the underdeveloped countries.<sup>(19)</sup> It has been found that there is a relationship between the ratio of industrial employment to total employment and the share of the industrial sector in the national product on one hand and per capita income and economic development on the other hand. The corollary is that as industrial employment and output increases, income per capita increases and vice versa: whenever industrial employment and output are low, the country can be said to be underdeveloped.

A few examples will illustrate the fact that the history of economic development does not give even one example for a developed country which relied mainly on agriculture or primary production to achieve a high level of per capita income. In the United States, 72% of the total labour force was employed in agriculture in the year 1820, and less than 20% in the year 1940. In Japan in 1870, 72% of the working people were employed in agriculture, and less than 30% in the thirties. The labour force employed in agriculture in the underdeveloped countries in Africa, Asia and Latin America is between 60—70% of the total working people, while the percentage in the countries which export considerable quantities of agricultural products, (Aus-

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19) See K.H. Khalil, *Industrial development Planning*, IDEP/ET/LXVII/2035-7 plet seq.

tralia, New Zealand, Holland, Denmark and Canada) is far less than 30%.<sup>(20)</sup>

2 — Economic development, by its very nature, implies continuous change. In this sense it constitutes a transformation process in the use of resources, the intensive use of capital in production, and the allocation of the labour force between various economic activities. This transformation must take place, otherwise growth would halt. The reason is that as output and income increase, demand on some products increase at a lesser rate than the increase in income, while demand on other products increases at a higher rate than the increase in income.

This argument is based on «Engel's law» which contends that if income increases over a certain minimum, food consumption decreases as a percentage of income even if the absolute quantities of consumption of food products increase.<sup>(21)</sup> In the underdeveloped densely populated countries, it can be said that most of all the increase in income is to be spent on food, in other words, income elasticity of demand is near unity, while in the United States for instance, what is spent on food is a small part of the increase in income.<sup>(22)</sup>

Economists and statisticians pointed out the historical classification of countries according to the number of workers in the different sectors of the economy. Fisher introduced the idea of primary, secondary and tertiary production or employment. Primary production, to him, includes agriculture, pastures, some mines; secondary production includes manufactures and mining in general and construction in general; tertiary em-

20) S. Kuznet's *Toward a theory of Economic Growth in National Policy of Economic welfare at Home and Abroad*, ed. by R. Acham, Doubleday on Comp., New York 1955 pp. 30 et seq.

21) See Svennilson, *Growth and Stagnation in the European Economy*, U.N. Economic Commission for Europe, Geneva, 1954 p. 7 et seq.; Kindleberger, *Economic Development*, New York, McGraw Hill, 1958 p. 116.

22) See Colin Clark, *World supply and requirements for farm products*—journal of the Royal Statistical Society, Series A. 1954 p. 278; H. J. Burton, *a survey of Recent Contributions to the Theory of Economic Growth*, Massachusetts Institute of Technology, Center of International Studies, Cambridge Mass, April 1956.

ployment constitutes transport, communication, trade, government and personal and household services.<sup>(23)</sup>

Colin Clark collected a considerable amount of data to prove Fisher's point of view and found that there is a relationship between employment in the different sectors of the economy and per capita income. The ratio of labour employed in agriculture decreases from 70 — 80% of the total population in the agricultural (underdeveloped) countries to about 6 — 12% in the developed industrialized countries, like the United States and the United Kingdom.<sup>(24)</sup>

3 — Fourastie,<sup>(25)</sup> a French statistician, developed a model which combines the productivity of sectors and income elasticity of demand. He has chosen three commodities : potatoes which represent «primary» production, a bicycle for the «secondary» production, and an hotel room as an example for the «tertiary» production. He has found that the labour productivity in the first commodity increased from 100 in the year 1800 to 130 in the year 1950. Consumption increased until the twenties (1920—9) but the income elasticity of demand was less than unity. In bicycle production, labour productivity increased from 100 in the year 1900 to 700 in 1950, and is still increasing, and consumption increased by 9 times in the same period, but it then began to decrease so far as the hotel room is concerned, the increase in productivity remained constant between 1800 and 1950, but demand increased consumption from 100 in the year 1800 to 10,000 in 1950.<sup>(26)</sup>

4. — More important is that the contribution of industry

23) A.G.B. Fisher, «Economic Implication of Material Progress». International Labour Review, July 1935 pp. 5 — 18, also his «Primary, Secondary, Tertiary Production» Economic Record, June 1939, pp. 2438 et seq.

24) Colin Clark ; The Conditions of Economic Progress, 2ed. 1951, ch. XI Macmillan, London, see also the recent editions of the book.

25) J. Fourastie, La Productivité, Presses Universitaires de France, Paris 1952.

26) See Kindleberger, Economic Development op. cit. p. 120 who does not agree with these figures, although he agrees that productivity is higher in industry than in agriculture. See also E.M. Ojala, Agriculture and Economic Progress, Oxford University Press, London 1952.

to economic development does not lie only in the second, third or more rounds of investments which it stimulates, a very important factor in the cumulative process of development, nor in its quick returns and short run social benefits, but much more important is its effects on the whole culture of the society. Industrial development raises the level of technology, production techniques, education, the skills of the people and it affects their innovating capabilities, their way of life; it can help remove the thousand and one problems which may be termed the socio-cultural problems obstructing the efforts to develop the underdeveloped economies.

The old economic development writers were aware of the importance of industry in an early stage of economic development thought. When «Von list» initiated the idea of protecting the «infant industry», he was not thinking only of the pure economic benefits of industry, but of its «cultural» benefits: «a country which directs its efforts merely for agricultural or «primary» production, backwardness will dominate its people, who would stay lazy; they would stick to the old ideas, ideologies, habits and obsolete techniques of production; they will lack «culture», prosperity and freedom. Industrial development will change all those ills, and industry will destroy mental and moral stagnation which prevails in the agricultural society. Industries and manufacture are the basis of local freedom, and the source of intelligence, arts, sciences, external and internal trade, navigation and improved transport and communication, it is the origin of civilization and political power.<sup>(27)</sup>

Our argument on the place of industry in the development effort in the African countries must not be taken to mean an invitation to inefficient industrial development. Inefficiency, would harm the meagre resources the African countries have. The so-called prestige industries, the waste of resources, the excess surplus capacity, the repetition of the same expenditure in different sectors or enterprises or infrastructure projects could be avoided with a genuine and scientific development planning

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27) Fredrick Von List, *The National System of Political Economy* translated by Lampson, S.L. 1885 p. 217.

either within a country or on an inter-country level. Efficiency, however, should have special meaning when we talk about it in an underdeveloped context. Nobody would seriously argue that the economic efficiency of industries in the underdeveloped economies in this phase of their development should be equal or compared with the industries in the developed countries. It is not logical nor is it necessary. It is not logical because industries together with the technological advance started their course of development about 200 hundred years ago in England, 150 years ago in the United States and Western Europe, about 100 years ago in Japan and some fifty years in the Soviet Union, while most of the African countries are still thinking to industrialize. It is not necessary at this stage of development, because using the unemployed or underemployed resources in the African economies to establish industries to cater for the internal market as import substitutes would be a net gain to those economies,<sup>(28)</sup> and would stimulate growth. This is not also an argument to neglect agriculture. Indeed agriculture plays a vital role in the process of development. It represents a suitable market for manufactured goods either for consumer goods or for capital goods which are needed to promote agricultural production. It supplies industry with its inputs and with the workers who are very often disguisely unemployed in the agricultural sector. It provides food for the industrial workers as well as the rest of the population. So it can be a source of saving of the foreign exchange which is badly needed to import capital goods for economic development instead of spending it on importing food products.

But the growth rate in agriculture in Africa, and in other underdeveloped countries is estimated to be from 2 — 3% in the last decade, and even with better organization and better techniques, agriculture would not exceed an annual increase of 3%. So if we look at the material benefits alone, the underdeve-

28) If the trade diverting industry is based on hitherto unutilized resources in a developing countries, the latter is bound to increase its income. Also a developing country concentrating on import substitution, even if this implies higher costs, may not in fact sacrifice alternative uses of resources, but rather get some growth, although inefficiently in developed world terms where none would take place otherwise. Robson op. cit.

loped countries cannot rely on agriculture to lead their development, as it is well-known that population increases by 3% or more in these countries, so without industrialization we will not have growth but stagnation. A conclusion may be made that in addition to its usual functions, agriculture's crucial role is to facilitate the development of industry, and hence the economic progress of the underdeveloped economy.

The international division of labour which the static comparative advantage theory preaches i.e. the developed countries specializing in manufactures and the underdeveloped countries in primary production, was attacked on two more points: the unfavourable terms of trade and short-run fluctuation in the export markets of primary commodities.

Whatever the concept of the terms of trade<sup>(29)</sup> one takes one would find that the amount of manufactures which the underdeveloped countries can get for a certain amount of their agricultural or primary products is decreasing continuously, with the result that the inputs of their factors of production are exchanged for less and less inputs of the factors of production in the developed industrial countries.

The second point is that prices of food and primary products are subject to violent fluctuation. In the short-run, investments are lumpy, resources or factors of production are immobile. A country may benefit from specialization in food and primary production, if their average prices are still in the long-run. But big fluctuations in the short-run of the prices of primary products make the export receipts an unstable source which would slowdown the rate of growth. It has been found, for example, that the average fluctuation in the price of fifty primary commodities in the first half of the twentieth century

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29) There are many uses of the «terms of trade». Single factorial terms of trade, real cost terms of trade, utility terms of trade, double factorial terms of trade, gross barter terms of trade. See Viner J., *Studies in the Theory of International Trade*, Haber Bros New York 1937, Kindleberger, *Economic Development op. cit.* pp. 238 — 59; Myint, *The Classical Theory of International Trade and the Underdeveloped countries*, *Economic Journal* June 1958 pp. 318—337.

(1900 — 1950) was about 14% annually.<sup>(30)</sup> While the value of exports is affected by this high degree of fluctuation, a country specializing in primary production loses control over its national income, money supply, and hence over its rate of growth.<sup>(31)</sup>

A conclusion may be reached that the objective of economic integration in Africa are not what has been taken care of by the conventional integration economics, and the whole problem of the African countries is how to develop their economies, in other words how to industrialize. Hence the fusion of the national markets of a group of countries in an attempt at integration is to speed up their industrial development, by creating optimum or near optimum markets for their industrial enterprises. The other integration measures in the other sectors are to facilitate the industrialization efforts. So policies concerning the harmonization of agricultural production and marketing tariff elimination or reduction, the economic and social infrastructure projects would be oriented to serve that purpose. Integration schemes between a group of African countries cannot be evaluated in terms of whether they are more trade creating than trade diverting. An integration scheme would be desirable and useful so far as it helps the member countries to develop even if it is trade diverting.<sup>(32)</sup>

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30) H. C. Wallish, *Monetary Problems of an export Economy*. Harvard University Press, Cambridge Mass. 1950

31) U.N. *Instability of Export Markets of underdeveloped countries*, New York 1952.

32) There are some authors who departed fundamentally from the static analysis of the comparative cost theory, and the conventional theory of customs union, and started a dynamic argument for integration, and emphasized its contribution to economic growth and to the structural transformation of the developing economies. Inputs of factors of production are taken to be variable and the character and effectiveness of factors are assumed to be bound up with the character of production. They contended that what is at issue in a developing country is not merely marginal changes but its structural transformation. Comparative advantage is not only changing but should be forced to change. This dynamic approach lays emphasis on the unemployed or underemployed resources which the conventional argument disregarded. They observed the persistent trend towards external imbalance for those countries and suggested the reduction of export dependence in the interest of promoting domestic stability. They em-

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phasized the contribution of industrialization to the development of new skills and growth, to facilitating changes in personal attitudes and included social consideration in their analysis.

Examples of these writers : Myrdal op. cit. D. seers, «a model of comparative Rates of Growth in the World Economy», *Economic Journal*, March 1962: Nurkse R., *Patterns of Trade and Development*. Blackwell, Oxford 1962.

Other examples of the authors who advocate in the industrialization approach in the integration schemes for the developing countries are: A. Breton, *The Economics of Nationalism*, *Journal of Political Economy*, August 1964.

H.G. Jonson, «An Economic Theory of Protectionism», *Journal of Political Economy* June 1965.

C. A. Cooper & B. F. Massell «Toward a general theory of Customs Union for developing countries» *Journal of Political Economy*, October 1965. Hazlewood A. op. cit. Some of them contend that the conventional theory of customs union considers the replacement of domestic consumption by cheaper imports commonly regarded as a cost rather than a benefit, whereas benefits are expected to result both from trade diversion and from trade creation in favour of domestically produced products, see Robson op. cit.