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1. INTRODUCTION

The following information is derived from a report of the U.S. Bureau of Economic Warfare, dated 12/15/44, regarding the activities of the U.S. Bureau of Economic Warfare in the field of international trade in commodities. The report states that the Bureau has been active in the field of international trade in commodities since 1940 and that its activities have been directed towards the control of international trade in commodities. Total trade in commodities in 1940 was \$10,000,000,000 and in 1944 it was \$15,000,000,000. The Bureau has been active in the field of international trade in commodities since 1940 and that its activities have been directed towards the control of international trade in commodities.

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... Germany, Japan, Australia and Canada. Also, some of the top production facilities in France, the U.S.A., Italy, Belgium, Spain, Sweden, Holland, Portugal, Greece, Turkey, etc. In the U.S.A., the following facilities are of interest: ... in the ... of ... in ... U.S. ... the ... in ... in ... in ... in ... in ...

The ... at 100,500 ... approximately ...

... fields, including: ... units. ...

- Industrial** ... plant lines, etc.
- ...
- ...

Plant ...

On ... production ... it is ...
 ... as this ...
 ... industry,
 ...

in principle... (faint text)

- 1. It is... (faint text)

... (faint text)

It is not... (faint text)

1. INTER-RELATED INTERESTS OF U.S. GOVERNMENT AND PETROCHEMICAL SUPPLIER

- 1. This subject... (faint text)

 - (a) ... (faint text)
 - (b) ... (faint text)

... (faint text)

rubber products... (1) remain... (2) balance... against... (3)... (4)...

2. The quest... (1)... (2)...

3. In the... (1)... (2)...

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II. ASPECTS OF MASS COMMUNICATION FROM THE PERSPECTIVE OF VIETNAM

1. It is the policy of the United States to support the efforts of the Government of Vietnam in the development of a free and independent press. This policy is based on the belief that a free press is essential to the development of a democratic society. The United States will continue to provide technical assistance and training to the press in Vietnam.

... industrial agreement with ... light, ...

8. It is ... industrial ...

9. To the ...

10. It is ...

11. In practice ...

D. MATERIAL COSTS AS A FACTOR IN INDUSTRY STRUCTURE

1. The main problems which arise from the establishment of an industry in conditions other than the normal commercial environment, can be summarised under the headings of protection and competition. In this context they are in the main the consequences of the premature introduction of the industry.
2. The first consideration will usually be that of protection and the infant argument is well known and needs no repetition. There is, if anything, greater danger in an undue inflexible acceptance of it - and one wonders whether, as in some social questions, the problems of second childhood are not thereby stimulated.
3. It is often overlooked that manufacturing industry generally contributes an added value which is only some 20% of its gross output. The rubber industry ratio varies somewhat because of differences and fluctuations in the costs of its principal inputs, especially natural rubber, but tends to be somewhat below the average.

The Industry is therefore, heavily dependent on the prices of its materials. Even in the U.K. at the last Census of Production in 1965 for example, when the industry produced just over £150 million of goods, the net output was £70 million and purchases of materials for processing, packaging and fuel amounted to £77½ million.
4. The basic materials of the industry are natural rubber, which will usually have to be imported, and synthetic rubber, which if available, from local production, is liable to be priced well above world levels. An indication of the magnitude of this problem is given in chart 2 where

3. Prices in the United States and other territories are quoted in terms of local currency, but with the standard world price.

1. It also has to be borne in mind that the wide breadth of product range in many different groups will require - up to a dozen in a major group - a wide range of natural and synthetic rubbers with varying sophistication of the type and increasingly complicated types of processing (especially synthetics) to meet the more expensive and demanding requirements of the modern part of the industry. . . . trade in such will be broad. In the absence of substitutes between the two and between natural and synthetic rubbers is limited if quality standards are to be preserved. This poses a particularly difficult problem for the synthetic rubber producer since his costs will depend on the number of stages required in synthesis. Thus it is not just a question of size of territory, but of wealth is shown by the extent of this problem in India and Australia. In small low-income countries the problem will be acute.

2. One approach to the problem of the local supply of materials is to be found in trading blocs such as The Free Trade Area or Common Markets where tariff-free flows can be stimulated by agreement to subsidize. In practice, however, such blocs in a climate of chronic balance-of-payments problems, have achieved only limited successes, and the resultant uncertainty can be a considerable obstacle in local investment decisions.

3. Other important materials are the bitumens, which must now be obtained widely outside to include waxes in the tyre industry, and the carbon blacks. Together with the sulphur, these materials account for 10% of the material costs of the finished product. Bitumens, which form the skeleton of the tyre, are critical to quality and life, the markets are widely wider in range and increasingly

specialized. The types used in tyres include cotton, rayon, nylon, nylon 66 and nylon 6, polyesters, fibreglass and wire. Other processing chemicals, constituting a relatively small part of final cost, may be very significant for quality.

8. If access to the best materials is restricted, quality may be affected and there is a danger of inflation, arising from the inflation of material costs where it can be more economic in foreign exchange to import tyres than the materials and equipment from which to produce them.
9. Costs will further inflate if imported materials carry heavy tariff duties. If any hope is to be held out that local products will be exported, all this is counterproductive. This is, in fact, probably why such exports are rare, as I shall illustrate later on.
10. These factors play an important part in the situation where it has been established that the indigenous market exists for setting up production facilities. If the market is very large and the company aims to take only a fraction of it to start with, the problem will not be critical. But it may be the case that the indigenous economic factory capacity is confined to a small part of even the whole of the market, which must then be shared to it since volume is essential to efficient operation of such plants. Even then an efficient factory cannot monopolize its home market in the face of unrestricted imports from large long-established overseas plants, many of which appear to be prepared to export at little or no profit.

11. There is a need for a clear understanding to be reached between the host government and the intending manufacturer as to the degree of protection which will be afforded. If the government wants the industry it will meet the needs of the situation, but may well stipulate that prices may not be raised above a certain level without consent. This is not unreasonable and my own company would look askance at any project which relied on artificially high selling prices. Isolation from competition is not part of the normal philosophy of international companies which have built up their business against powerful rivals in many fields. They are fully aware that the spur of competition has contributed to their efficiency.
12. It must not be overlooked that such competition will, almost by definition, be technically advanced and that the local market will have become sophisticated in judging the technical merits of this type of product because of the range of imported products previously available. In these circumstances, it is not possible to offer products whose standards are inferior to those previously set by the market. As vehicles and their tyres become more specialised and sophisticated, the equipment required to produce them becomes more specific and expensive. This tends to raise the break-even point of a project.
13. If access to the market is limited to a single company, whether or not this is desirable in itself, the continuing government control of prices and marketing will have undesirable features since, even with basic agreements about the balance of measures required for initial operations, the changing world situation, especially in relation to material costs and international trading conditions, will undoubtedly alter the arithmetic. This in turn is likely to vary from one type of product to another, since in the last resort the

manufacturer is concerned with protection of the value-added, within the
excessive administrative complexity of routine practice.

14. It is an illusion to suppose that the competitive situation is
simply related to the numbers involved. Large numbers of firms can act
with remarkable unanimity and if faced with high barriers, external
conditions are likely to be forced to do so. Conversely, all the
pressure required to ensure efficiency can be concentrated upon only a few
parties and unless tariff barriers are quite unrealistic there are few
places in the world where no commercial risks will appear: it is no
accident that more and more attention is being given to non-tariff
barriers to trade. If several companies are introduced into a well
defined and basically adequate market the effect is likely to be
that of cost inflation induced by low-capacity operation and technical
stagnation, to the benefit of more favourably sited overseas competitors.

15. The rubber industry in fact is characterised by a high degree of
concentration. In those countries where a rubber industry exists the
number of tyre factories, for example, is less than five, and in many
instances only one or two. Even in the large industrialised countries
the number of tyre factories is relatively small, as the chart shows.

(Chart 3).

3. ILLUSTRATION OF THE COMPANY

1. I shall now turn now to the particular case of the rubber company's plant in the national market. It is being planned and built on a scale of 100,000 tons per annum, and is a case of a plant which is well known to me and most familiar to me, and I have been in the plant, even though I should not like to say that I am insensitive to the problems of the plant. I shall now try to describe them in a realistic and unromantic way, and in a few sentences.

2. To start with, the main problem is that companies like my own undertake manufacture in areas which are over-saturated. After all, the risks involved in this kind of investment are high, and the alternative is to direct exports to the country from existing facilities at home - has any of you any obvious attractions. To some extent the answer to that question is "no", but the main reason is that, in the ideal world, there would be little or no local tyre manufacture in the countries that fall within the scope of this paper - instead they would be supplied by imports from the manufacturing countries.

3. In the real world, it is of course. There comes a time when, for reasons I have already outlined, the governments of these countries decide that tyre manufacture is a logical next step in their economic development programmes. Inevitably, a competitive, open market system will be introduced, and the prospects of the new factory, which means, as already explained, some protection or subsidisation, on imports. The rubber company is then in the position of having to set out and develop local manufacturing possibilities at an early stage, to avoid the possibility of a total exclusion from the market as a result of parallel importation by competitors.

4. That is one side of the coin, which might be termed the defensive aspect of foreign investment. On the other side is the fact, about which no one would be in any doubt, that a high or above-average return on investments in developing countries is in order to compensate for the increased risks which are present compared with alternative investment opportunities at home. Such returns, when they do materialise, and I must emphasise that sometimes they do not, are an attractive, positive inducement to undertake foreign investment.
5. The other attraction for us of investing in developing countries is longer term and more obvious, but nevertheless worthy of mention. In the home market, levels of car ownership are already high, and consequently there will come a time in the future when the growth of tyre demand will slow down. The motor industry, which is a dynamic industry and it cannot stand still, must seek to invest in countries whose levels of ownership of vehicles and other machines are so low that rapid growth is likely to continue for a long time.
6. Finally, it is appropriate to describe the Company's attitude towards national shareholding. First, it welcomes participation in its enterprises especially by those most closely connected with them. Its willingness to accept partners is conditional on the existence of local capital markets, by its access to them if they exist, and by local attitudes. In many cases, where no capital markets have yet been developed, the Government or other public bodies are often prepared, indeed may wish, to take up a share of the equity.
7. In broad terms, the Company recognises the political and economic desirability of local participation, but normally requires that it should

have a majority holding i.e. at least 51%. This is in order to exercise its uncoupled responsibility for establishing the factory and ensuring its ultimate commercial success, which will benefit both host country and the Company. Such a holding is not necessarily a pre-condition for the setting up of a Dunlop factory: the Company has recently taken part in a venture in Iran where it has only 26% of the equity, but where it has responsibility for establishing the factory, for management and for technical assistance. Such a special arrangement does not invalidate the general proposition that it is difficult to reconcile the Company's responsibility for commercial success without financial control.

3. PROJECT EVALUATION

1. Clearly, then, we are alert to all developments which bring countries to that point where national manufacture becomes a possibility. The company's resources are not unlimited, however, and if the best use is to be made of them investment decisions must be made with great care. Selecting countries for consideration is partly a matter of the size and growth of the market, and partly a matter of the investment climate. Straightforward though they may seem neither of these is in fact a simple matter, and I should now like to say something more about each of them.
2. As regards size and growth of the market, taking tyres as an example, there are two indicators we can look at - the number of vehicles in use, and the value of tyre imports, where we can assume, corresponds to the size of the market if there is no domestic manufacture and no significant re-export trade. At first sight it might seem reasonable to expect a high correlation between these two indicators, since the demand for tyres is derived from the park of vehicles in use. In practice, the degree of correlation is quite low, as the diagram

shows. (Chart 1)

3. The reasons for this are interesting, and important for any tyre company considering potential manufacturing possibilities. One reason, of course, may be that either the vehicle parts or the tyre import figures - possibly both - are incorrect, because of the not infrequent difficulty that a distinction statistics are made, or because of a classification problem in the tyre import figures. But beyond this, the composition of the vehicle parts and of tyre imports can vary widely, with important implications for the potential manufacturer. In some developing countries, for example, there are more commercial vehicles than cars in use. Since truck tyres are on average four or five times greater than car tyres in both weight and value, such countries can appear to have disproportionately large tyre imports when the number of vehicles is assessed simply in terms of units.

4. A situation such as this would be far less ideal for local tyre manufacture, particularly if many of the trucks are heavy special types, since local manufacture of the tyres for such vehicles is rarely a feasible proposition, least of all as the very first stage in the development of a local industry. Two countries where the value of tyre imports is very high, but for this sort of reason local manufacture of tyres is less attractive than it might seem to be, are Saudi Arabia and Kuwait. In both cases large, high-value special size and types of tyre, required for oilfield vehicles, account for a substantial proportion of imports. The tyre company, on the contrary, when considering local manufacture possibilities, looks for markets where a large proportion of demand is for a small range of simple, standard size sizes.

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5. When measuring the size of markets, the existence of free trade areas and common markets can also be an important factor. Many developing countries now belong to such programs, the effect to which, especially at least, is to combine a big market out of several smaller ones. In practice the terms of such arrangements are often very complex in design and execution, and need to be carefully studied.

6. Another important point about market size is that we are just as interested in how big our share is as in the overall size, simply because it is easier to start a successful local production venture in a country where the company's products are already well known and widely accepted. Historically our activities have been orientated towards the British Commonwealth and our share of import-supplied markets tends to be highest in these countries. This means that many, though certainly not all, of our local manufacturing operations are in Commonwealth countries - Canada, New Zealand, Uganda, Zambia, Rhodesia, India, Uganda, Trinidad, and South Africa, for example, and all received Dunlop investments.

7. Finally, on the question of market size, we always attach just as much importance to future size as to the present position. We have to do this since for reasons I have described the commencement of national manufacture is often a major step in the economic sense, and the justification for the investment decision is expected future profits rather than short-term returns. Consequently it is necessary to make projections of long-term demand related to growth in the national park and overall economic growth trends.

8. Before leaving the question of market size, I must explain why tyre companies cannot be major players in adapting their operations to the requirements of each separate market, however small. The fundamental problem

in fact the minimum scale of efficient production, which is determined by the technical characteristics of the production plant. However, production capacity becomes an equally important variable in the calculation since the range of types and sizes is critical in relation to the limits set by the minimum efficient size of mining plant. In money terms the minimum outlay for a type factory, including land and buildings, is in the region of \$50,000 for the mining equipment accounts for 25% and the process about \$30,000 each. In addition it is important not to overlook the need for working capital which, with the long pipeline of expensive materials, may be as much again as the fixed investment.

9. When it comes to the question of investment estimate, I have time to mention only some of the factors the company takes into consideration. The attitude of the local government towards foreign investors is perhaps the most obvious. As a rule, we find that this is warmly welcoming, for reasons which I mentioned in the first part of the paper.

10. Much more difficult to assess are the questions of political risk and transfer risk. Frequent changes of government, in themselves are not necessarily a threat since administration can sometimes continue with a surprising degree of stability against such a background. Political risk in fact refers principally to the possibility of harmful government interference in company operations, or, in the extreme case, expropriation following the coming to power of a government hostile to foreign investment. Examples of expropriation are however, quite rare, especially outside certain sensitive sectors such as utilities, mines, banks, and export-import trades, but the risk is not one we can ignore.

* one million

Other aspects of political risk are... as a result of civil... unfortunately... interest...

11. Another... political risk... in a... since the war, several... still... holding...

12. The unfavourable developments include... 'external risks', in contrast to the... of political... and... quite of... currency devaluation... as a... payments... a short-term... to... inflationary trends... is a factor which...

13. The risks... referred... to... 'business risks'... the company... Of these "normal" risks... the risk of marketing... and testing procedures... risks which the company... through commercial... are an example...

the principal basis, in contrast, of a mixed economy with possibilities with
for capitalistic growth, or any control, and can be justified with regard
to the greater number of jobs, and so forth, in the world.

14. For many countries, in particular, the main obstacle
to industrial development is the lack of capital, although the
markets, both domestic and foreign, are abundant. So far as anti-
capitalist reforms are concerned, the necessary reforms are
mainly the kind of work which is done in the industrial
country, or any other country, on potential, satisfactory conditions of
employment - the kind of organization which is necessary.

15. One of the main problems is the lack of investment capital,
which is often, or even, the main obstacle to development of
a country with local capital and a developed local market. Another
problem is the lack of technical and scientific staff. In addition, there
is often a very small number of business men, and a lack of
availability of capital, and, in some cases, a very small
system, and a lack of organization, and a lack of
national business. One solution is to have a central bank in a
single and organized manner.

16. The next main problem is the lack of technical
facilities, and the lack of the necessary organization. One of the
main obstacles is the lack of labour, skills, and services, which
in the structure, and the main obstacle is the lack of organization.
As you would see, the main obstacle would be the lack of organization,
and the lack of organization. In practice, however, the main
problem, and quite a large one, is the lack of organization.

Examples of this can be seen in the training programmes arranged for our
managers and technical facilities available at most of our factories in
underdeveloped countries. However, we usually (and were not always) draw the line
at building roads or power stations. I said something about the provision of
these services in the last part of this paper. All I will say here is that
underdeveloped countries are the responsibility of the local authorities, which they
must take seriously if they wish to attract foreign capital for investment in
manufacturing industry.

17. At this stage it is usually necessary to make a preliminary contact with the
Government, local or central, in confirmation of the 'Welcome' sign is indeed out
to us as our industry is concerned, and to get a more positive indication as
to official attitudes to the facilities available. If the response is favourable,
a full-scale project study is prepared, covering in detail all the major points -
factory equipment and buildings, production costs, technical specifications,
sales volumes and prices, and distribution. All this information is
incorporated in a financial exercise which predicts turnover and profits for
several years ahead, and estimates the investment needed to finance the
operation.

18. Before reaching the final stage, the study is probably reviewed several times
with variations in output, equipment and building prices before it emerges as a
balanced and efficient unit which is sufficiently rewarding to attract
negotiations with Government officials can be begun, and if all goes well the
project becomes a reality. Last but not least a disclaimer is given, however, I should
perhaps emphasise that such negotiations are not always protracted. In some
instances in our experience they continued for several years before a decision
was reached.

G. THE EFFECTS OF OPERATING CONDITIONS ON COSTS

1. Having looked at some of the background to a decision by the company to undertake local manufacture in an overseas market, I should like to turn now to the conditions under which we operate, since these illustrate a number of important points about the difficulties of the industrialization process.
2. To those who are familiar only with conditions in industrialized areas, the extent to which supporting services and facilities are lacking in the underdeveloped countries can come as a surprise. Our main plant at Birmingham in the U.K. is located in the heart of a heavily industrialized area, and its production staff there are used to being able to call, at short notice, on the services of a very wide range of supporting engineering facilities. Things are very different in the developing countries. Thus, if part of the machinery breaks down, it is quite likely that no replacement is available inside the country. It would therefore be necessary to import one, with all the delay that involves, or to undertake our own repairs or improvisations. For this reason own-maintenance facilities, entailing of course extra cost, tend to be quite extensive in our overseas factories. In spite of this, interruptions to production, due to plant breakdowns can sometimes be a serious problem.
3. Closely allied to this are the difficulties that can arise from operating in a country where the working population lacks industrial experience. Especially in the early days, when the labour force may include people who have never handled machinery before, such difficulties can lead to a slow tempo of production and an abnormally high

level of machinery workrooms. We combat this by sending out a large number of expatriates - instructors, foremen, and specialists of all kinds, to work with the local staff. Their help is available for only a limited time, however, since it is company policy to discipline and train local personnel to fill positions at all levels.

4. Many sources of information, in the specialized sense would not be a predominant consideration. The new factory is assumed to be a technical position, and yet the sophisticated tastes of local customers are often successful in their demands, and cannot be ignored. In fact, there may well be an irrational but strongly rooted prejudice against a locally made product, irrespective of its technical performance. Such a reaction may require modern methods of marketing and communication as much as the more orthodox competitive use of these techniques.

5. Efficient distribution is one aspect of marketing which is important in developing countries, and one to which there are sometimes formidable physical obstacles. On occasion, however, non-commercial factors have also been known to intrude into this area. In one country where we were planning the manufacture of tyres the Government took a keen interest in distribution. It expressed its wish that some businessmen should become tyre dealers, and less use made of the foreign trading companies who set up till then had handled most of the retail distribution facilities for tyres. We undertook to do this, and even helped the local businessmen to learn how to run their new businesses.

6. The points I have made about operating conditions in developing countries, in conjunction with the search for raw materials supplies in the first part of the paper, go a long way to explain why productivity is low and costs per unit of output relatively high in the new factories.

It is true that wage rates are lower than in the industrialized countries but that in itself does not guarantee low costs. In practice it normally takes many years to achieve a level of efficiency and cost competitiveness comparable with the older industrialized countries, which also have the added advantage of larger scale. This is reflected very clearly in the export figures: at the beginning of this paper when discussing raw material costs, I said that exports for the new factories were rare.

7. Just how rare is shown by the figures in Chart 5, for world exports of tyres in 1957 and 1967. In 1957 world tyre exports amounted to £131 million. Of that total, less than 1% was exported by the developing countries (excluding Spain and Portugal, which are sometimes classified as underdeveloped, but are hardly in the same category as the other developing countries). During the following decade at least twenty of the developing countries acquired new tyre industries, and there were substantial expansions of the industry in many others. Yet by 1967 exports of tyres by the developing countries had risen to only 2% of the total.

H. CASE STUDY - MALAYSIA

1. I have said quite a lot now about investment in developing countries in general terms. To conclude this paper, it may be helpful to illustrate by means of an actual example and I propose to give you a sketch of my company's experience in Malaysia, or Malaya as it was until 1963.

2. For many years we carried on with that country a substantial export trade from the United Kingdom, principally in tyres. In addition, we have owned extensive plantation interests in the country for a long time, so that Dunlop was widely known not only as a supplier of tyres but also as an employer and rubber producer. Dunlop's interest in local tyre manufacture first showed itself at the beginning of the 1950's. At that time all motor tyres were being imported, but there was already some local manufacture of cycle tyres and certain other products of the rubber industry such as footwear.
3. The first Dunlop initiative was an attempt to buy a small cycle tyre factory which came up for sale. This fell through in the end, but it is interesting to note that the objective was to protect the company's position in cycle tyres and camelback, and, as the authorities had already expressed a wish to encourage the development of a local rubber manufacturing industry, to be in a position to expand into car and truck tyres at the appropriate time.
4. After this episode nothing happened for several years. This period of quiescence, from 1953 to 1957, coincided with the Emergency, and in retrospect it looks as though the difficulties of the security situation combined with pre-independence uncertainties about government policies were an effective deterrent to foreign investment.
5. By the end of 1957, the military side of the Emergency was over and Malaya had become independent. Growth prospects looked promising, both for the economy as a whole and for the markets in which we were interested. The new government had adopted a favourable policy towards industrial

development and - a further spur - it became known that two prominent international competitors were submitting proposals for local tyre manufacture to the government.

6. Preliminary studies indicated that a factory would yield satisfactory profits given adequate protection against imports, and it was decided to enter into negotiations with the government.

7. Further, detailed studies in 1953 brought out several important points:-

a) The forecast demand for tyres in the first year of full working by a new factory would represent a volume of manufacture barely adequate for a minimum economic tyre plant.

b) Malaya and neighbouring countries were enjoying very low prices for tyres because they constituted a highly competitive market for tyre manufacturers throughout the world. There were more than 30 different makes of tyres imported, and prices were kept low by the existence of surplus capacity in the main manufacturing countries, which encouraged a fair amount of dumping.

c) Wages and costs in Malaya were high compared with those in most other Asian countries. Labour, for example, was 70% more than in India, and electric power more than twice as much. The lower price of rubber in Malaya was partly offset by higher prices for other raw materials used in tyre construction.

8. The combination of these factors - limited volume of demand, high manufacturing costs and low current selling prices - created a situation unfavourable to local manufacture. The government

nevertheless indicated its wish to see a tyre factory established, and continued to entertain approaches from competitors.

9. It was clear to us that local manufacture could only be commercially successful in Malaya, given the difficulties I have mentioned, if all, or a large part, of the entire market demand was supplied by the proposed new factory. And since the Malayan government was understood to be opposed to quantitative import restrictions, it followed that the required concentration of demand would have to be achieved by (a) raising import duties to prohibitive levels and (b) ensuring that no other company would be allowed to manufacture motor tyres in the country. At the same time it was clear that some increase in selling prices would be necessary to ensure that the new factory yielded a satisfactory profit, in view of the high costs of production already mentioned. A further requirement was that the necessary machinery and raw materials should be allowed to enter the country duty free.
10. With regard to capital structure the Dunlop Company, in line with its normal policy, felt that Malaysians should be allowed to participate. It envisaged a public issue of 49% of the ordinary shares.
11. Proposals along these lines were submitted to the Malayan government in early 1959. It was not surprising that the authorities there should have some reservations about accepting them, since the package we proposed contained some politically unattractive items - a big increase in tariffs, higher selling prices and a monopoly position for one foreign-controlled manufacturing company. Despite this, acceptance of these terms was necessary if Malaya was to acquire a successful tyre industry, and we had to convince the authorities that this was so.
12. The negotiations were very protracted. The delay was caused partly by the difficulty of getting the Malaysian authorities to accept the arguments for our

proposals, and partly by the pressure of work on them arising from the number of industrial projects under consideration, a shortage of professional advisers and the fact that the Civil Service was being Malayitized and therefore undergoing rapid changes.

13. Another difficulty was that the legal and administrative framework of the country was not very well adapted to the particular situation. The central feature of Malaysian industry development legislation was the provision for granting Pioneer Status to new companies, the benefit of which was exemption from tax for a limited number of years. An application was made for Pioneer Status for the proposed tyre factory but this in itself was not enough. Another application had to be made to a body called the Tariff Advisory Committee for any tariff changes and concessions we deemed necessary, and this had to be pursued separately, with no guarantee of a final outcome. Sole manufacturing rights were another source of difficulty, since no legislation existed by which the Government could grant such rights. In the end we had to be content with an undertaking that no special licence or Pioneer Certificate would be issued to another company in respect of a tyre factory.

14. Despite these difficulties, agreement was finally reached some three years later with cooperation on both sides. The interesting point is that we had to satisfy the Malaysian authorities that there was a genuine need to use a proprietary of synthetic rubber in the plant. And when this had been established we had to undertake to limit our imports of synthetic to the minimum needed to make our products competitive in quality. Malaysian concern on this point was a completely understandable, in view of their interest in a local rubber and the fact that

synthetic has not been imported.

15. Another incontestable feature of the negotiations was that we undertook to supply tyres to another company under what is known in the industry as an off-take agreement, following a precedent established in other countries. This is a system whereby our company manufactures in its factory a range of tyres for a competing company, using the competitor's moulds, but leaving, marketing, and distribution to the other company. The advantage to the consumer is that while factory utilization is kept up and thus costs and prices held down, he is at the same time offered the choice of two competing brands of international standing.
16. To round off this story let me conclude by stating that production began at the new factory in 1959. After the usual teething troubles it built up to the planned level, and modest profits began to be made in 1965. The number employed by our Malaysian company is now just over 2,000, of whom a dozen are expatriates. Malaysian personnel are increasingly filling positions of responsibility and it is planned to reduce the expatriate staff still further during the next few years. Imports of tyre machinery were a large item in the country's import bill, have been much reduced and local plants have been set up on a small scale. The project has therefore achieved a fair measure of success in attaining the objectives of the company and of the Malaysian government, a success which reflects credit on both sides, not only in the original negotiations but also in subsequent operations and policies.
17. The Dunlop investment in Malaysia has been very successful from many points of view. It has contributed to the industrialization programme and hence economic growth, thereby sustaining the cause of Malaysian independence. Successful domestic production of tyres and other rubber products has strengthened the Malaysian balance-of-payments and provided a substantial volume of employment

direct and indirect. Its success has also attracted other industries to follow suit and continue the useful trend of development.

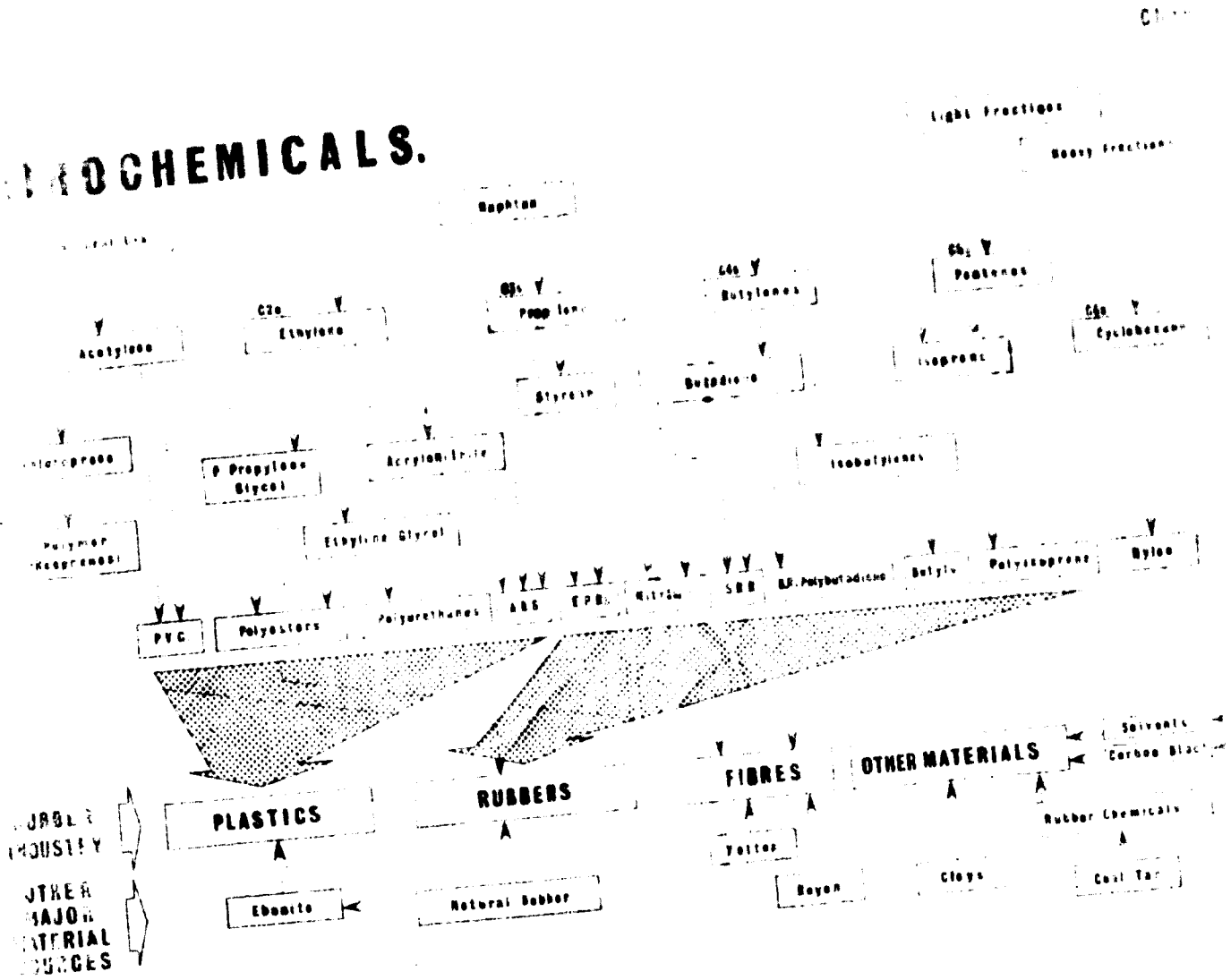
J. CONCLUSION

1. We have enjoyed the opportunity of presenting our view to this gathering. Our industry, the rubber industry, is unique in that it is between the primary chemical industries and the consumers whose satisfaction is the ultimate justification for economic activities. The wide range of interesting products offered by polymer chemical manufacturers ensures that their demand will increase rapidly in the coming years. They will be required by almost all types of final product.
2. The rubber industry itself has a very wide range of products, many owing their origin historically to the unique properties of natural rubber. Today the industry is increasingly turning to synthetic materials for the enhanced properties it needs in many fields without turning its back on its basic material. There are more plastics as well as synthetic fibres and rubbers are being produced by firms which started life in the rubber industry. The rubber industry is therefore turning itself into a consumer of polymers rather than a producer and with the skills and greater precision required in the process, it tends to use engineering to polymers. It is no accident that my company dropped the word "rubber" from its title at the beginning of 1964.
3. The Dunlop Company is an international group, certainly in the sense that its activities are not confined within the boundaries of a single nation but perhaps more significantly in the sense that it regards itself as widely based. From its earliest beginnings it has always been

Internationally minded and today we have all of its assets in
overseas countries.

The company's international character is having anti-
national implications. It is proud of its contribution to national economic
development in many parts of the world and its national participation in
shareholdings. Although these overseas operations are co-ordinated from the
Group's headquarters in London, it is an open two-way process, for the
company believes strongly in the value of the interchange of ideas, views and
experience. An international business must use a degree of local autonomy with
measures necessary to conserve and direct efficiently its resources of
management, technical skill and finance, particularly in support of its long
term plans. In the long run, the achievements of a world-wide enterprise depend
on the co-ordinated collective efforts of all the individuals who together make
up the Company.

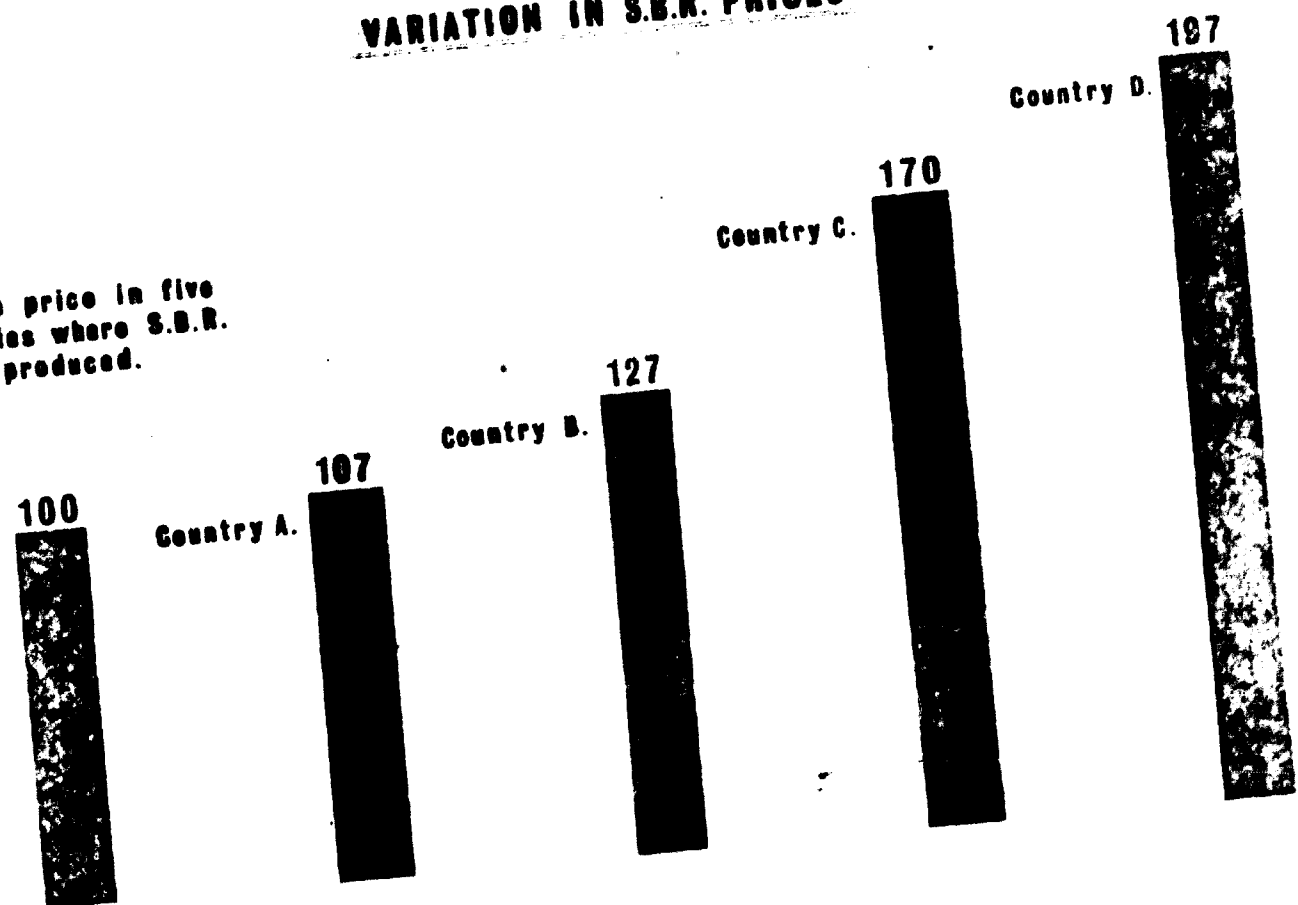
PHOTOCHEMICALS.



Chart

VARIATION IN S.B.R. PRICES

Average price in five countries where S.B.R. is not produced.



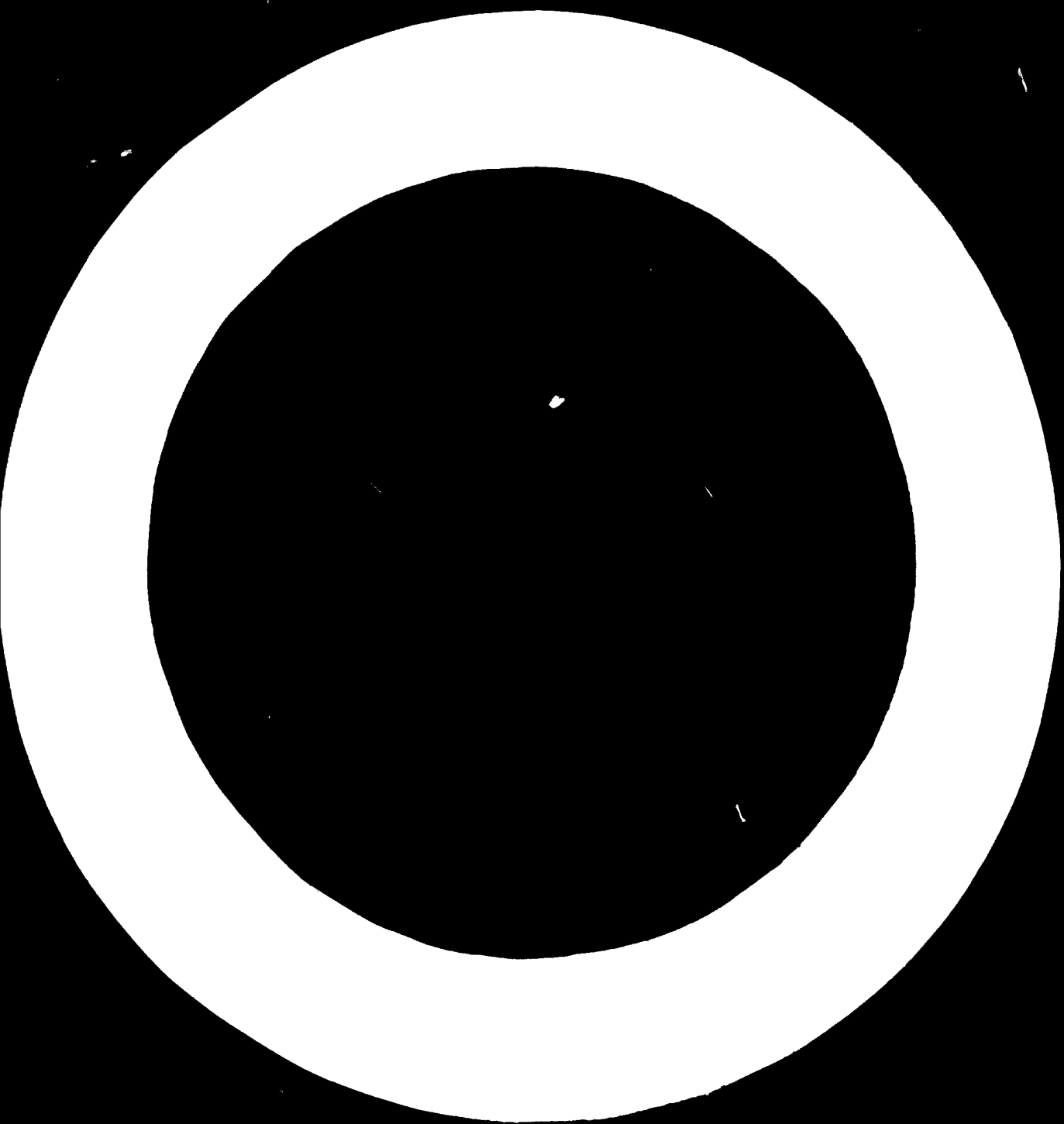


Chart 3

Number of Tyre Plants and Vehicles in Use, 1966

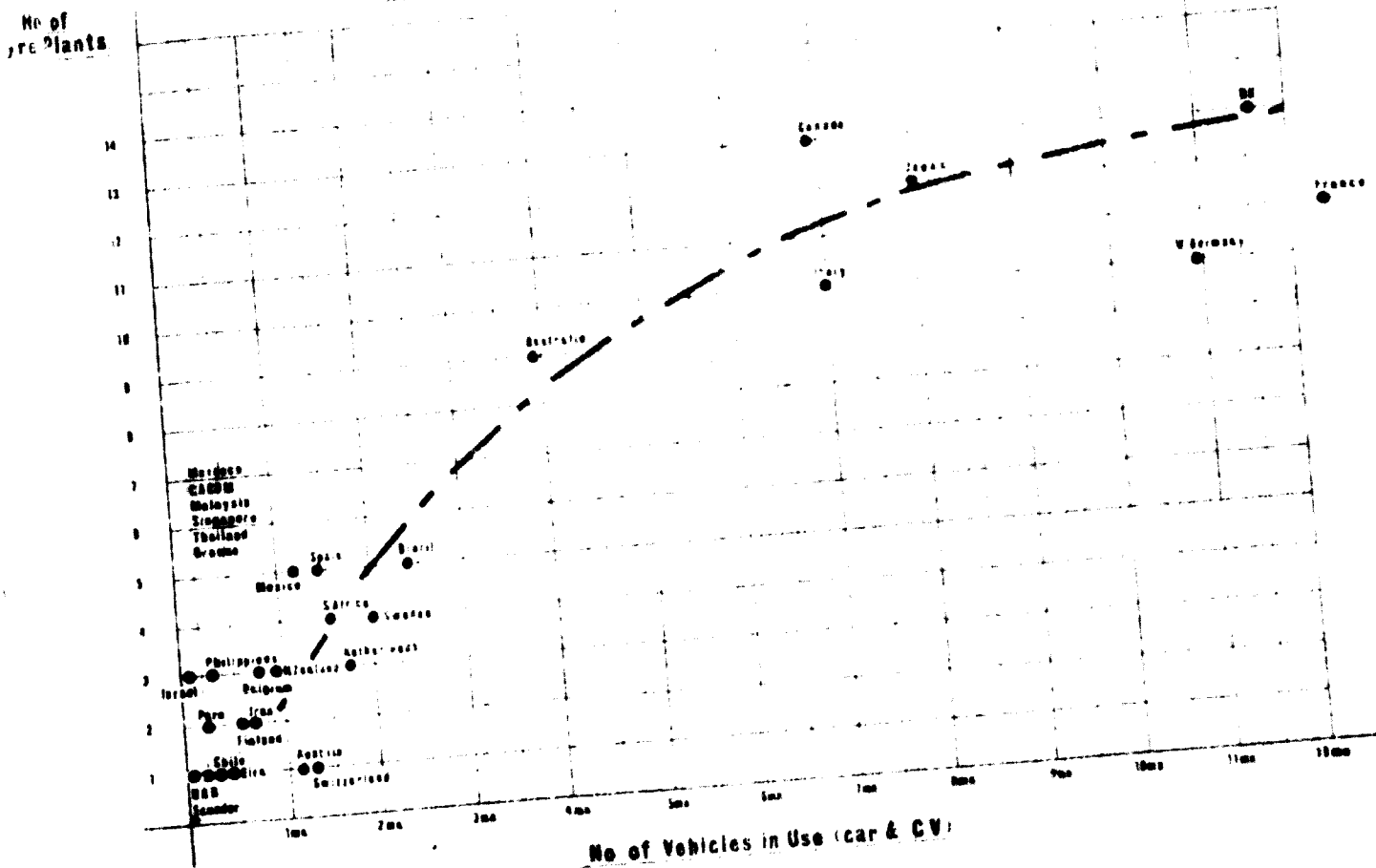
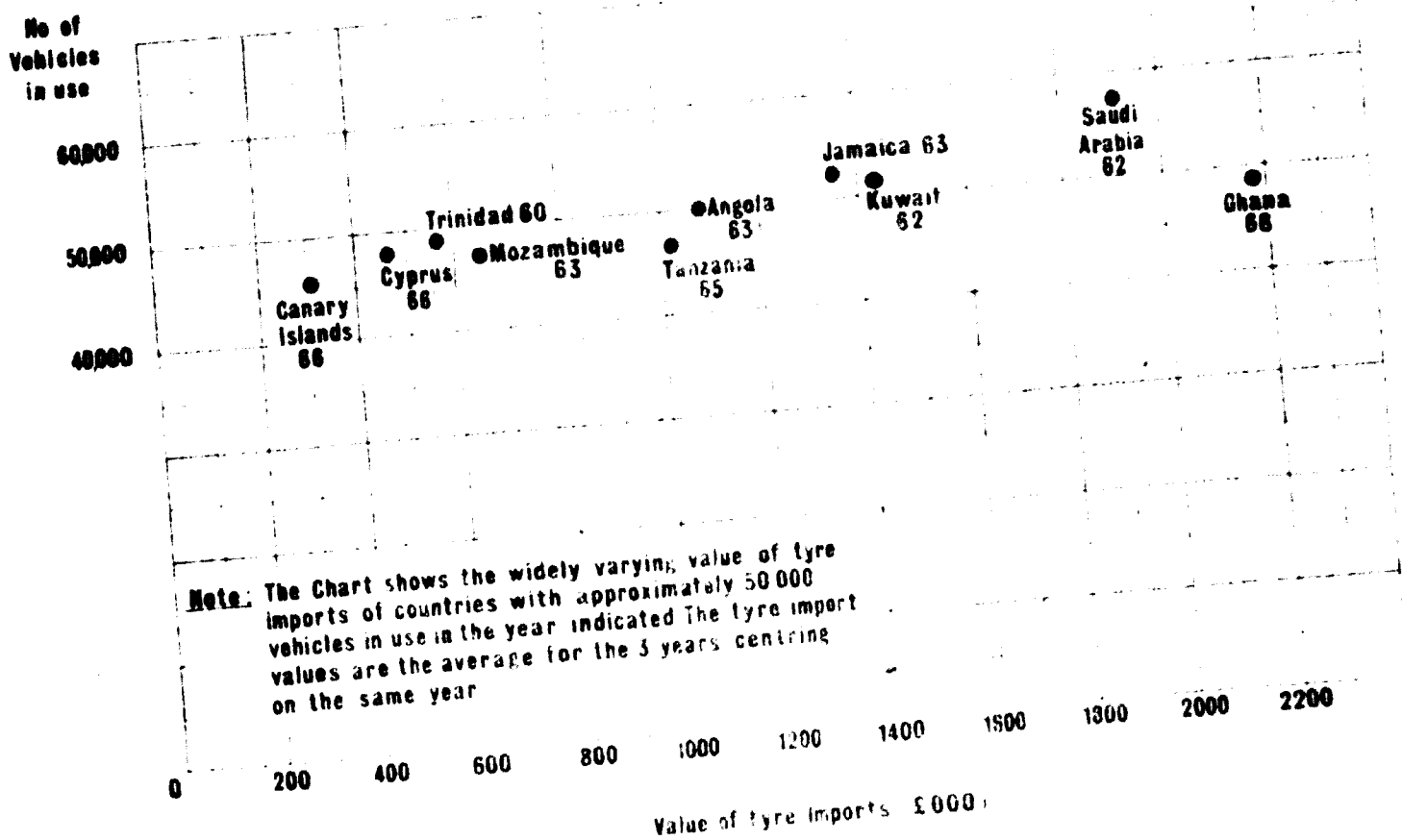
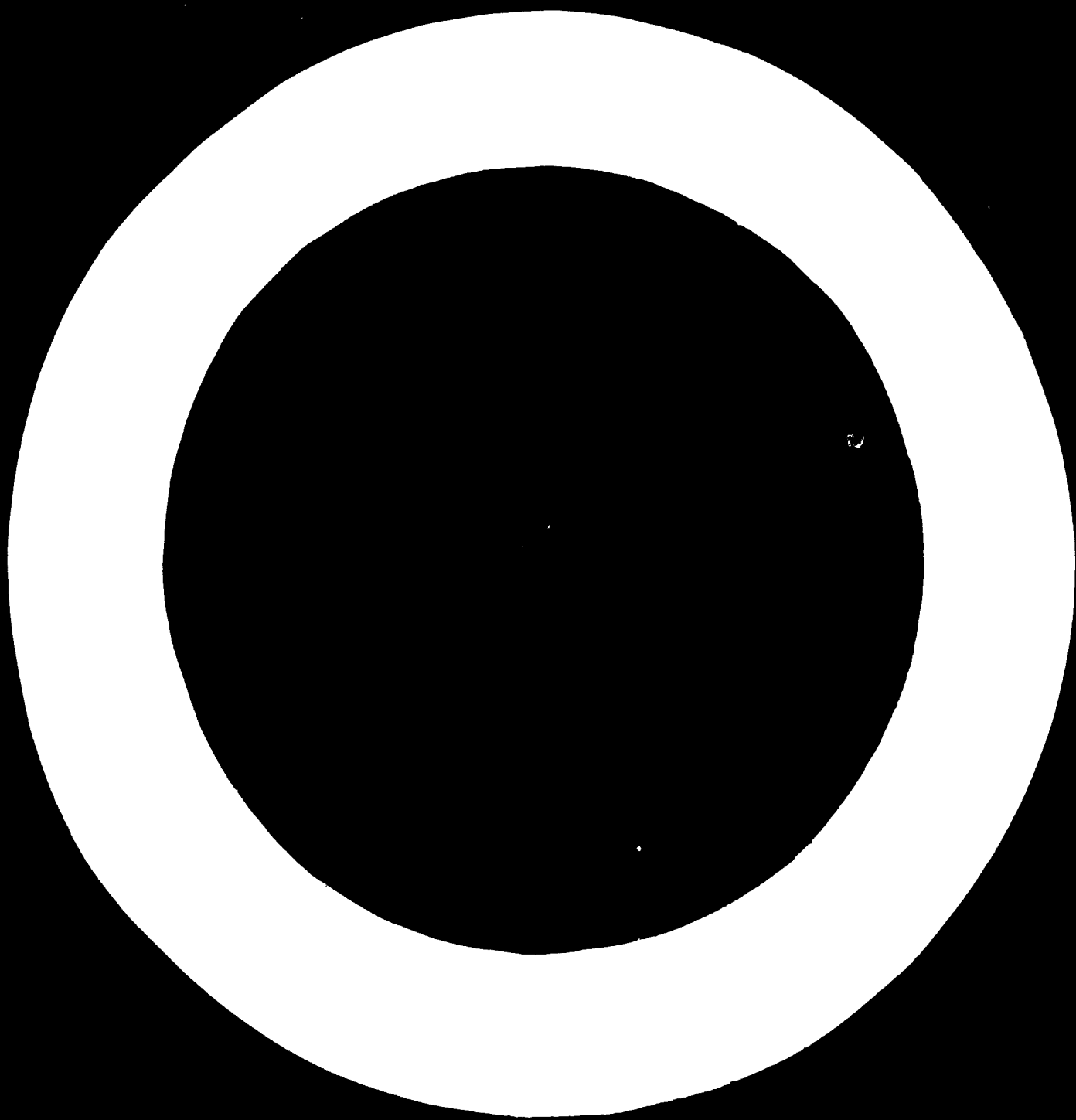


Chart 4

Number of Vehicles in Use and Value of Tyre Imports



Note: The Chart shows the widely varying value of tyre imports of countries with approximately 50 000 vehicles in use in the year indicated. The tyre import values are the average for the 3 years centring on the same year.



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Exports of Tyres 1957 and 1967 (£mn)

	1957		1967	
	£mn	% of Total	£mn	% of Total
Developed Countries				
EEC	42.9		123.5	
USA	35.8		20.8	
UK	25.3		30.0	
Japan	7.5		30.3	
USSR & Eastern Bloc	4.5		15.5	
Other developed European Countries	5.3		23.2	
S. Africa	3.1		1.4	
Canada	2.3		5.3	
Israel	2.1		3.4	
Australia	0.3		0.8	
Sub-Total	129.1	98.5	254.2	95.0
Intermediate Countries				
Spain	0.1		2.9	
Portugal	1.0		2.2	
Greece	-		0.1	
Sub-Total	1.1	0.9	5.2	2.0
Developing Countries				
India	-		1.4	
Others	0.8		4.2	
Sub-Total	0.8	0.6	5.6	2.1
All Countries	131.0	100.0	265.0	100.0



15.

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