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UNIDO MONOGRAPHS ON INDUSTRIAL DEVELOPMENT

18

Industrialization of Developing Countries: Problems and Prospects

REGIONAL CO-OPERATION IN INDUSTRY

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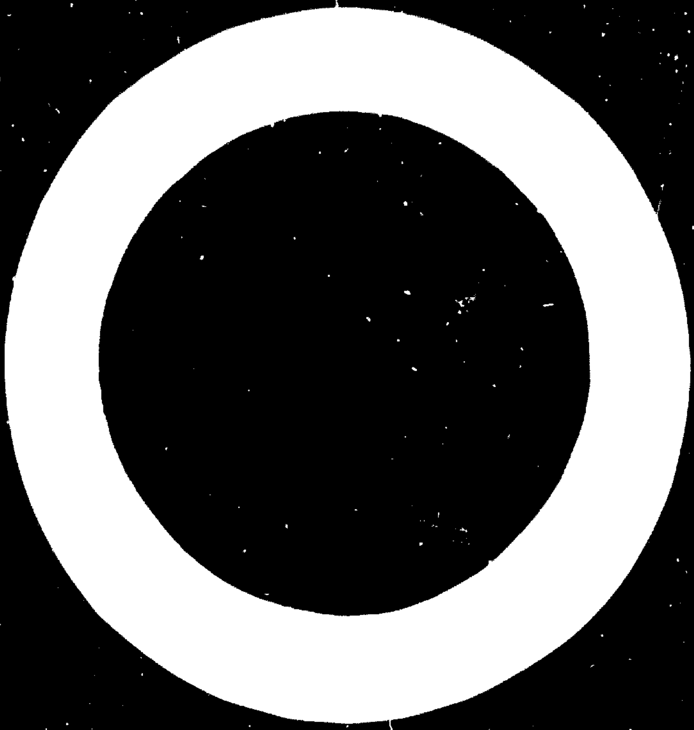

REGIONAL CO-OPERATION IN INDUSTRY

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
VIENNA

UNIDO MONOGRAPHS ON INDUSTRIAL DEVELOPMENT

Industrialization of Developing Countries: Problems and Prospects

MONOGRAPH NO. 18

REGIONAL CO-OPERATION IN INDUSTRY

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Foreword

The International Symposium on Industrial Development, convened by UNIDO in Athens in 1967, was the first major international meeting devoted exclusively to the problems of industrialization of the developing countries. It followed a series of regional symposia on problems of industrialization held in Cairo, Manila and Santiago in 1965–1966 under the sponsorship of UNIDO and the United Nations regional economic commissions, and a similar symposium held in Kuwait in 1966 under the sponsorship of UNIDO and the Government of Kuwait.

The Athens Symposium was attended by some 600 delegates from 78 countries and by representatives of various United Nations bodies, international organizations and other interested institutions in the public and private sectors. It provided a forum for discussion and exchange of views on the problems and prospects of the developing countries which are engaged in promoting accelerated industrial development.

The Symposium devoted special attention to possibilities for international action and for co-operative efforts among the developing countries themselves, and explored the scope, means and channels for such efforts.

Studies and papers on a wide range of problems relating to industrialization were presented to the Symposium—by the UNIDO secretariat and by participating Governments, international organizations and observers. An official report, adopted at the Symposium, has been published by UNIDO.[1] Based on this documentation and the discussions in the meeting, the present series of monographs is devoted to the 21 main issues which comprised the agenda of the Symposium. Each monograph includes a chapter on the issues presented, the discussion of the issues,

[1] *Report of the International Symposium on Industrial Development, Athens 1967* (ID/11) (United Nations publication, Sales No.: 69.II.B.7).

and the recommendations approved by the Symposium. Some of the monographs deal with specific industrial sectors, some with matters of general industrial policy, and others with various aspects of international economic co-operation. An effort has been made to make the monographs comprehensive and self-contained, while the various economic, technological and institutional aspects of the subject matter are treated within the context of the conditions generally prevailing in the developing countries.

Since economic, technological and institutional aspects are described with particular reference to the needs of the developing countries, it is felt that the monographs will make a distinct contribution in their respective areas. They are intended as a source of general information and reference for persons and institutions in developing countries concerned with problems of industrialization, and particularly with problems and issues of international co-operation in the field of industrialization. With this in view it was considered that an unduly detailed technical presentation should be avoided while at the same time enough substantive material should be offered to be of value to the prospective reader. For a more elaborate treatment of the subject, the reader is referred to the selected list of documents and publications annexed to each monograph.

The annexes also contain information on the areas in which UNIDO can provide technical assistance to the developing countries on request, a selected list of major UNIDO projects in the respective fields, and a list of meetings recently organized by the United Nations.

It is hoped that the monographs will be particularly useful to Governments in connexion with the technical assistance activities of UNIDO and other United Nations bodies in the field of industrial development.

This monograph has been prepared by Mr. Vladimir Dragomanović, senior research economist, the Institute of International Politics and Economics, Belgrade, Yugoslavia, as consultant to UNIDO, in co-operation with the secretariat.

CONTENTS

EXPLANATORY NOTES

Billion refers to thousand million.

Dollar ($) refers to US dollar unless otherwise specified.

The following abbreviations are used in this monograph:

CABEI	Central American Bank for Economic Integration
CACM	Central American Common Market
CARIFTA	Caribbean Free Trade Association
CEMLA	Centro de Estudios Monetarios de Latino America
ECAFE	Economic Commission for Asia and the Far East
ECLA	Economic Commission for Latin America
IDB	Inter-American Development Bank
LAFTA	Latin American Free Trade Association
OCAM	Common Afro-Malagasy Organization
UNCTAD	United Nations Conference on Trade and Development
UNESOB	United Nations Economic and Social Office in Beirut
UNIDO	United Nations Industrial Development Organization

INTRODUCTION

For the purpose of this monograph no strict interpretation attaches to the terms "economic co-operation" or "regional co-operation in industry". Economic co-operation may be understood as the initial stage of an integration process ultimately leading to the permanent voluntary abrogation of economic sovereignty for the greater benefit of each member country. Regional co-operation would include all types of joint or co-ordinated action in the economic field among countries of the same region. Such action might develop in various forms, depending on the conditions prevailing in the particular region. Such action may be limited to a specific project, or it may encompass the formation of a free trade area (abolition of trade barriers among member countries), a customs union (establishment of a common tariff policy towards non-member countries), a common market (free movement of factors of production as well as of commodities within the area), or a complete economic union among the member countries.

The process of establishing regional industrial co-operation, and to an even greater extent economic integration, inevitably encounters many obstacles: inadequacy of infrastructure, particularly transport and communications; a low level of trade with countries of the same region; unstable prices and foreign exchange rates, which can more than offset any tariff reductions; vested interests in uneconomic industries and small-scale production; incompatibility of national development objectives, planning methods and policy decisions.

It is evident that these hindrances to regional co-operation are also serious barriers to national industrial development. The broader economic framework of regional co-operation offers a better chance of successfully eliminating these barriers.

In the circumstances it is not feasible to work out a universally applicable model of regional industrial co-operation. It is generally felt that regional co-operation should be carried out in a manner fully compatible with legitimate national aims and development policies. This is not to deny that analyses of different types of regional experience and the identification of the features they have in common may contribute immensely to finding the most suitable and most effective strategy of industrial development. Global integration schemes may possess potential advantages, but their conversion into real advantages presupposes systematic efforts to eliminate obstacles to co-operation in specific cases.

The principal task of this monograph will therefore be to identify appropriate opportunities for fostering regional co-operation among developing countries as an essential step towards achieving rational industrial promotion and expansion. Its main attention is devoted to the issues of economic integration and industrial growth *(chapter 1)*, the concept of creating regional industries *(chapter 2)* and the establishment of a regional policy for industrial co-operation *(chapter 3)*. *Chapter 4* reviews the issues discussed at the International Symposium and the recommendations approved. *Chapter 5* sets forth the areas of regional co-operation in industry in which the United Nations (including UNIDO) currently offers technical assistance; it also describes briefly the technical assistance for industry provided by the United Nations to eight regional organizations.

Chapter 1

ECONOMIC INTEGRATION AND INDUSTRIAL GROWTH

At the risk of oversimplification, it may be asserted that, in given circumstances, there will be a consistent trend towards a higher degree of integration, more complex co-operation, and expansion of the geographical area of integration.[1] This trend tends to favour new initiatives for co-operation at various stages and levels.[2] The explanation lies, perhaps, in the steadily growing industrial, technological, financial, commercial and organizational interdependence of countries. Every effective step on the path to integration tends to provoke a chain reaction: horizontally, by producing and spreading progressive structural changes, and vertically, by stimulating even closer integration. Two conclusions may be drawn: integration and structural changes go hand in hand, and the rate of advance in economic integration depends on the effectiveness of the measures taken to overcome the obstacles to such integration.

The main objectives of regional economic integration with a view to industrial development may be defined as follows:

Expansion of production opportunities, including improved utilization of production capacities;

Acceleration of industrial growth rates;

Maturation of the industrial structure;[3]

[1] There is considerable evidence for this assertion. For example, in the Latin American region, forces are at work to transform the Latin American Free Trade Association (LAFTA) into a common market, regardless of the difficulties of fully organizing the free trade area itself. From relatively modest steps towards enlarging the market, a system of regional economic institutions and co-operative devices is gradually evolving, particularly in regard to infrastructure, both within the Central American Common Market (CACM) and within LAFTA. These two organizations, having expanded to comprise most of the countries of the area, now consider merging into a single integrated organism. A joint co-ordinating commission was established after the Punta del Este Conference to deal with these problems.

[2] For example, the creation of the Andean Group to intensify co-operation among six LAFTA countries in the Pacific subregion.

[3] Or, as N. Halevi puts it, the achievement of a "considerable degree of economic homogeneity", in Regional Integration and the Industrialization of Developing Countries (ID/CONF. 1/11) p. 9.

Improved use of resources, reflected in increased efficiency and cost reduction;

Maximization of the national income of each participating country.

The methods best suited to the attainment of these goals appear to be:

Intra-regional industrial specialization;

Co-operation among certain sectors of industry;

Improvement in the technology and operational efficiency of business enterprises;

Enlargement of the size of the market (intra-regional trade liberalization);

Rational and fair distribution of benefits derived from integration;

Formulation of a common strategy for industrial development.

Regardless of preferences for and priorities attached to individual objectives and methods, one problem that must be faced in any integration policy is that of integration of market versus integration of production. No market, whatever its size or growth rate, can be regarded as a direct source of national wealth in itself, although lack of a market is an insuperable handicap to industrial expansion. This means that liberalization of intra-regional trade is an indispensable but still inadequate device for stimulating the integration process—a point well illustrated by the difficulties in implementing the programme of liberalization envisaged in the Treaty of Montevideo.[4] The fact remains, however, that most existing integration schemes among developing countries have come into being primarily as regional commercial arrangements, and their distinctive feature is still a commercial one. At least at the outset, developing economies find it harder to promote active and direct co-operation among themselves than to establish rules and programmes for widening their markets.

Another point deserving of attention relates to the nature of the sources of the benefits of integration rather than to the benefits themselves. The point is one which may have special implications for the countries concerned because much of their regional strategy will depend on how they assess those sources.

The sources of the benefits of integration should be seen in the combined production, technological and market effects, specifically those deriving from industrial specialization, in economies of scale and external economies, and in forward and backward linkages as well as in the creation

[4] Treaty instituting the Latin American Free Trade Association, Montevideo, 1960.

of new industrial and social environments. Some of these issues will be discussed later from the viewpoint of their relevance to the problems of regional industrial development.

There is a direct relationship between economic integration and industrial growth. Successful economic integration is inconceivable without accelerated industrial growth. The technological changes associated with the integration process can be introduced and propagated only through a changing pattern of industrial division of labour. The economic rationale behind industrial specialization consists in achieving economies of scale in a growing number of industries, in discovering new sources of external economies, in creating new networks of forward and backward linkages and in improving the economic and social environment of industrialization. A systematic analysis of the practical aspects of these developments, based on case studies, would assist the formulation of policies applicable to typical situations in developing countries.

In addition to the customary distinction between horizontal and vertical specialization in industrial production (horizontal specialization pertaining to goods at a similar stage of manufacture, vertical specialization to goods at different production stages), a distinction of particular relevance to regional co-operation for industrial development is that between inter-industrial and intra-industrial specialization.

It has been observed that specialization at the branch level (inter-industrial specialization) can in many instances prove painful for developing countries because it may lead to the elimination of certain established industries that are incapable of undertaking the necessary structural adjustments.[5] Two other negative consequences are the narrowing of the scope for intra-regional competition and the increase in investment and production costs in selected industries deprived of external economies.

Specialization in the production of specific goods, or their components, within particular industries (intra-industrial specialization at the product level) may be more beneficial to countries in the process of industrialization, since industry is thus enabled to make better use of external economies and of potential comparative advantages. Such specialization offers a better opportunity to the less advanced developing countries to establish a modern production system based on economies of scale. This is true whether the production specialization is orientated towards exports or towards import substitution.

It has been observed that in developing countries the leading role is

[5] See A. Ferrer, *Comercio Exterior*, May 1968, pp. 425 and 426.

taken by industries where import substitution becomes profitable as the market expands. In other words, economic integration leads through industrial specialization to a new hierarchy of industries able to satisfy regional production criteria.[6]

Very closely related to industrial specialization is the question of external economies resulting from the spread of technological and economic know-how, industrial standardization, the direct interaction of plants, the development of infrastructure in a regional framework and the raising of the general educational level of the population. It must be borne in mind that all industries are sources and recipients of external economies, which should not be limited to the impact of the provision of economic overheads on other industries but should include the effects and intereffects of an expansion in any industry. In this connexion, many authors have suggested that as a result of horizontal and vertical industrial interdependence, investments are likely to prove more profitable in interrelated sectors of industry than when undertaken in isolation.[8] In a broader sense, external economies encompass the effects of establishing a favourable social and institutional background for industrial development.[9]

Associated with the questions discussed so far is that of economies of scale. For a great number of developing countries economies of scale do not become possible until they join a wider regional market. Here the interdependence of industrial growth and market expansion is vividly demonstrated. In the absence of a sufficient market and because of the unavailability of capital equipment designed to meet the exact requirement of the size of the market, investors in many developing countries are faced with a choice between plants that are either too small or too large. In the first case, production is as a rule technologically backward and therefore uneconomic because the plant is adjusted to a very restricted market. In the second case, production is again costly and non-competitive because the plant, although equipped with advanced technology and capable of satisfying a larger market, cannot fully use the installed capacity.

[6] H. B. Chenery, "Patterns of Industrial Growth", *American Economic Review*, September 1960, p. 651.

[7] B. Balassa, *The Theory of Economic Integration* (George Allen and Unwin, London, 1962) p. 150.

[8] H. B. Chenery, "Comparative Advantage and Development Policy", *American Economic Review*, March 1961, p. 6.

[9] UNIDO, *Industrial Development Survey*, Vol. I, p. 146 (ID/9) (United Nations publication, Sales No.: 69.II.B.18).

A striking example of the latter situation is afforded by the highly fragmented automotive industries in the LAFTA countries. From the evidence presented by J. Baranson[10] it appears that, in 1967, 67 firms in 8 LAFTA countries produced 652,000 vehicles in over 200 basic models. As the economic size of an automobile plant has been estimated by United States standards at some 240,000 units per year of a single basic automobile type, it is not surprising that there are huge cost disadvantages in Latin American countries. In 1967, production costs for light trucks (United States = 100) amounted to 245 in Argentina, 180 in Brazil and 158 in Mexico.

From data assembled from many sources it may be concluded that:

There is considerable opportunity for industrializing countries to achieve substantial economies of scale.

In some industrial sectors in developing countries, costs of long production runs may be lower than in comparable sectors in industrialized countries.

The opportunities for large scale production in developing countries vary considerably from one sector or region to another, and require further thorough examination.[11]

Industrial co-operation among developing countries, if successful, also gives new dimensions to their economic ties with developed countries. An industry working for a small market lacks attraction for foreign industrial capital. A regional industrial framework can change this situation fundamentally by offering genuine incentives to foreign capital to invest on a new and far broader scale in industry, infrastructure and technology. Further benefits may be anticipated from the improved competitive and bargaining position of the developing countries in the world market through regional industrialization, particularly if progress is made in current negotiations to facilitate the access of their manufactures and semi-manufactures to the markets of developed countries. A regional framework provides developing countries, including the smaller and least developed countries, with a unique opportunity for formulating a harmonized industrialization policy, directed to the regional as well as to the world market. More efforts should be devoted to the examination of the implications of this approach for industrial co-operation among developing countries.

[10] *Finance and Development*, December 1968, p. 27.

[11] For a discussion of the relevant theoretical issues, as well as for additional empirical evidence on economies of scale, see B. Balassa, *Economic Development and Integration* (CEMLA, Mexico, 1965) chapters 5, 6 and 7.

CREATION OF INTEGRATED INDUSTRIES AT DIFFERENT LEVELS OF INDUSTRIAL DEVELOPMENT

Regional industry may be regarded as a feature of the intra-regional division of labour, established with a view to satisfying the regional market as a whole and possessing a legal status derived from the regional arrangements to which it is subject. (The term "regional" in this context covers "subregional" as well.) The principal problems involved are those of choice of industry, technology and location, distribution of the benefits —or disadvantages of integration, and formulation of a consistent regional economic policy. Any concept of regional industry must reflect the wide differences in industrial development among the various developing countries and regions concerned.

The problem of choice of industry resolves itself into that of the criteria to be applied. Leaving aside non-economic considerations, however important they may be, there are, in the first place, the conventional economic criteria of factor composition and intensity and comparative advantage; these have to be adapted to take account of the dynamism of regional integration and the changes in comparative costs. Such changes are very rapid in certain developing areas. It has been observed, in this connexion, that a policy based on a given state of comparative costs, without exploration of its origin or possible changes, is of little use to developing countries.[12] The criterion of comparative advantage must be related not only to the question whether certain products should be produced at all, but also to that of the optimum techniques to be applied, or the criterion of productivity.[13]

Among the "dynamic", as opposed to conventional economic criteria are opportunities for achieving economies of scale and benefiting from

[12] T. Balogh, *Unequal Partners* (Blackwell, Oxford, 1963), p. 34.

[13] On this question, see H. B. Chenery, *American Economic Review*, March 1961, pp. 13 and 14.

new industrial linkages. Regional integration would appear to favour capital-intensive technologies. Locational considerations are naturally of great importance, covering as they do the availability of transport facilities and energy supplies as well as the possibilities of creating such facilities and supplies. Another important criterion is that of prospective exports to developed countries; this is not to overlook the prospects for the future evolution of internal demand. Regional industries should be established in sectors characterized by higher income elasticities, so that regional industrial development will be directed "towards incremental output rather than towards the more disruptive substitution of present industrial production".[14] The selection of regional industries is never a merely theoretical issue. It raises complex problems of vested interests, conflicts between new and existing industries, and possibilities of surmounting the dislocation that inevitably ensues from a change from national to regional production.

The greatest difficulties, however, are unquestionably those arising out of the disparities in the degree of development of the countries taking part in a regional scheme. The problem may be summarized as follows:

> Where there is economic integration among countries at different stages of development and particularly in the case of developing economies, strong polarizing tendencies are bound to emerge;
>
> If established forces are not countered, they will tend to propagate and aggravate disparities at the expense of the least advantaged members of a regional group;
>
> If economic integration is to answer any purpose, all member countries must be better off after integration than before, and the total net gain must be so distributed as to lessen disparities;
>
> A fair and rational distribution of the benefits of integration is thus the *sine qua non* for the success of endeavours towards integration;
>
> Some compromise must be found whereby the strong industrial concentration and polarization effects of regional integration can be used to raise the growth rate of the region as a whole, while providing for the harmonious sharing of all partner countries in the industrial growth envisaged or achieved.

Theoretically, if one member of a regional scheme is at an initial phase of development while another has developed various industrial sectors, the common market will tend to produce stagnation in the infant

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[14] UNIDO, *op. cit.*, p. 147

industries of the first.[15] Moreover, both countries share, although not equally, the higher costs of each protected industry; and since a part of the costs of an uneconomic industry in one country is paid by the consumers in the other, a divergence will emerge between the national and common-market costs of industrial production. Under the pressure of external diseconomies of this kind, and unless precautionary measures have been taken, each country will have to adapt the level of its industrial production in the light of the foregoing considerations. That is why in some cases producers in an industrially more developed country appear reluctant to enter a regional group.[16] The fact remains, however, that the industrially less developed members of a regional group indirectly contribute to financing the industrial development of the more developed members by paying for the latter's industrial products at prices that are above world market levels.[17]

Because an enlarged market tends to strengthen industrial concentration in the more developed countries, sometimes at the expense of the less developed countries, the latter may be led to abandon a regional undertaking.[18] A number of methods have been suggested for compensating handicapped partner countries with a view to ensuring more balanced regional development, among them the following:

National and regional subsidizing of handicapped industries, creation of regional compensatory funds and funds earmarked for technical assistance in promoting infrastructural activities in less developed economies and similar modes of direct intervention;

Fiscal incentives, exemptions from trade liberalization rules and other forms of discrimination in favour of handicapped economies;

Industrial licensing, regional co-ordination of investment and other long-term strategy measures.

Another method whereby a group of unequally developed countries aiming at industrial co-operation may accelerate their individual industrial development and at the same time contribute to balanced regional

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[15] R. S. Bhambri, *Economia internazionale*, May 1962, p. 246.

[16] For example, Jamaica joined CARIFTA after all its less developed partners. Before integration, Jamaica was the only country in the region able to maintain certain industries, although with high protective tariffs. In CARIFTA, Jamaican manufacturers are likely to be faced with future competitors in the area. See *Comercio Exterior*, November 1968, pp. 993 and 994.

[17] See B. Balassa, *op. cit.*, pp. 123–125.

[18] For example, failure to equalize the distribution of benefits from a common market and common services led to the initial failure of the efforts of the three East African States to form a political union and to achieve economic co-operation.

development is that of specific sectoral co-operation arrangements on regional, subregional or bilateral levels. This method has not as yet been widely applied, although valuable examples exist in a number of regions. In such sectoral arrangements, commitments to tariff reduction and other commercial action are usually supplemented by corresponding arrangements in the fields of investment, production co-operation and technical assistance. The aims followed by regional arrangements of this type naturally depend largely on local circumstances, but certain common goals may nevertheless be defined. In general terms, these are:

To establish or extend optimum size industrial capacities in accordance with the criteria for intra-regional industrial specialization;

To stimulate the full operation of regional common markets (or other schemes of integration) and thereby the industrialization of all member countries;

To contribute to raising the competitive position of the group of countries in respect of their exports to third countries;

To endeavour to ensure the more balanced development of all the countries concerned.

It may be useful to list the main advantages and disadvantages, actual or potential, of sectoral industrial co-operation. Some of the advantages are as follows:

While increasing the efficiency and productivity of regional production as a whole, sectoral co-operation makes it possible to give due consideration to the interests of smaller and less developed countries as well; even the least developed economies can participate rationally in multinational projects, often in the area of basic industries;

Successful integration in one industrial sector promotes integration in other sectors too, as is best shown in the case of the European Coal and Steel Community;

By equalizing the prices of raw materials and semi-manufactures and by promoting modern large-scale production, sectoral co-operation contributes to raising the competitive position of the group in the world market;

The group's bargaining power is strengthened by sectoral integration;

Domestic capital and other resources are attracted and mobilized through the shift of emphasis from trade liberalization to integration of sectoral production;

Multinational production agreements tend to be much more durable than regular commercial arrangements.

With sectoral integration, government controls, fiscal, transportation and other policies are more easy to negotiate and co-ordinate.

Both the benefits and the commitments of each partner country can be defined a priori within a comprehensive programme of sectoral integration.

A joint programme can be applied to finance both the industry concerned and the relevant infrastructure.

Sectoral co-operation processes are applicable to arrangements for interregional co-operation among developing countries.

The following are some of the principal objections raised to sectoral integration:

Existing disparities in production costs and prices tend to reduce intra-regional competition.

The same effect is produced by the privileged position of sectorally integrated industries; both these factors may seriously affect the optimum location of those industries.

Sectoral co-operation agreements will be constantly jeopardized by the precarious balance of payments situation in many of the partner countries.

The proliferation of sectoral integration schemes within a particular region may provoke disruptive tendencies in the future unless such schemes are deliberately co-ordinated through a series of convergent measures.[19]

In brief, sectoral industrial integration may be regarded as a promising alternative for industrializing economies, particularly when more ambitious regional schemes of general co-operation face too many difficulties. Trade liberalization is a result rather than a cause of sectoral co-operation, and developing countries do not have to wait until a mechanism for the automatic and fair distribution of benefits has been established before deciding to enter a regional arrangement, since sectoral

[19] For an evaluation of the advantages and disadvantages of sectoral integration, see inter alia:
R. F. Mikesell, *Intra-regional Trade and Economic Development*, International Development Advisory Board, Washington, D.C., 1958, pp. 31-36; A. Ferrer, *Comercio Exterior*, May 1968, pp. 427 and 428, and J. D. Cochrane, "United States Attitudes towards Central American Economic Integration", *Inter-American Economic Affairs*, 1964, p. 83.

co-operation methods are adapted to countries at different stages of development. On the other hand, an integration scheme restricted to a single sector may not be sufficiently broadly based to be acceptable to a fairly large number of countries. In such a case, the number of sectors involved should be expanded.

The formation of common markets for regional industries is probably the best way of combining the effects of industrial growth with those of intensified intra-regional trade in industrial products. There would indeed be little use in establishing [illegible] trade areas [illegible] customs unions [illegible] if no steps were taken to [illegible] sectoral inter-dependence within the region. [illegible] a situation where many separate sectoral markets existed in the same region for a long period of time. Single product markets would probably tend to merge into a single regional market if there were none. Such a regional market, however, would rest on a sound basis of intra-regional industrial specialization and co-operation.

Chapter 3

TOWARDS A REGIONAL POLICY OF INDUSTRIAL CO-OPERATION

There can be no certainty that present market forces alone will lead to optimum investment decisions in developing regions, since present prices do not reflect future cost and demand. This applies in particular to the heavy industry sectors, owing to the long construction periods and extensive capital outlays involved and the failure to establish heavy industries at optimal locations.

If trade liberalization programmes are not accompanied by effective co-ordination of development policies, underconsumption, increasing unemployment, market disruption and social deterioration are more or less inevitable. Where sectoral co-operation is established, the co-ordination of industrial development both within individual sectors and within the region should ensure that long term possibilities of economic gain for the region are not lost in the pursuit of separate short term advantage on the part of individual members.[10]

The more a country industrializes, the higher the benefits it may expect from regional economic integration. Such benefits, however, are not automatic: the appropriate policy must be pursued. They will be even greater if all the countries concerned are aware of, and can foresee, the effects of their policies upon each other, and can co-ordinate their policies from the outset.[11]

The reshaping of industrial activity into a system of regional co-operation involves structural changes and far-reaching modifications in national attitudes and policies, particularly when the industrialization policy of developing countries has been basically orientated towards production for the domestic market. The same is true of investment policies as well as of specific measures to promote industrialization through special incentives, technical and financial assistance and the

[10] P. Robson, *Economic Integration in Africa* (George Allen and Unwin, London, 1968), p. 308.

[11] See T. Balogh, op. cit., p. 33.

establishment of industrial development agencies. Inevitably, regional industrial integration and production for export bring about changes in the traditional order of priorities. Further, they make it necessary to define the fields of regional co-operation and co-ordination, to agree on the form, method and degree of co-operation and to adjust national mechanisms and institutions to emerging regional structures.

APPROACHES TO THE FORMULATION OF REGIONAL POLICIES OF INDUSTRIAL CO-OPERATION

The short history of economic integration in developing countries tells of many highly ambitious projects that have remained at the project stage only. A detailed analysis of these failures will show that their causes were lack of flexibility, insistence on general schemes and neglect of the hurdles which must be overcome in any potential grouping.

A rational approach to the policy of regional industrial co-operation must reflect the interdependencies inherent in the process. This means that the policy of industrial co-operation must take into account problems of modernization of agriculture, power sources, transport facilities and so on. Projects that may be profitable within a regional system may not be profitable if undertaken in isolation. Individual measures of regional policy, therefore, should be concerted, particularly if there is no over-all regional plan with long-term objectives to be achieved by joint action. At the same time, if regional co-ordination of national policies is to be achieved, national development plans must be consistent, at least in their aims and methods.

A regional policy of industrial co-operation will pool and organize production, production factors and demands and combine and influence them to the best advantage. There are several approaches to such a policy:

The regional or general approach, aimed at an over-all regional programme of industrial development with a system of well-balanced priorities and a high degree of co-ordination of re-adapted national development plans;

The sectoral or partial approach, aimed at building a set of bilateral and multinational projects in conformity with agreed regional goals and criteria; if successful, this method may broaden the possibilities for more comprehensive and systematic future co-operation;

The policy harmonization approach, with the emphasis placed on the co-ordinated establishment of favourable conditions, rules and incentives for action in a desired direction.

In practice, what usually occurs is a combination of these approaches, with the emphasis shifting from one to another according to the specific circumstances and limitations of particular regions.

The modes of regional industrial co-operation range from *ad hoc* bilateral collaboration in specific projects to complex multinational undertakings, from private associations to well-established regional investment programmes. They may be briefly summarized as follows:

General regional co-ordination or planning schemes which may embrace a wide spectrum of activities, from joint research programmes, location and feasibility studies and long-term development projections to the co-ordination of key projects, regional harmonization of national plans and formulation of a balanced regional programme of industrial development. The main purpose of these activities is to rationalize the scale and distribution of manufacturing industries and infrastructural facilities through changes in the level and structure of public and private investment. Various institutional arrangements are possible, from joint investment boards and funds concerned with particular forms of activity to regional investment boards with responsibility for channelling investments to integrated industries and infrastructure or serving in a consultative or arbitral capacity. The mechanism for investment allocation might be closely linked with an industrial licensing system with independent, partially supranational, authority.[22]

Fiscal, financial, commercial and promotional mechanisms supported by co-ordinated national policies;

Sectoral programmes and agreements;

Multinational schemes for establishing regional or subregional development organizations, large multinational enterprises, infrastructure corporations, special funds and so on;

Bilateral agreements on co-operation in particular branches of industry, transfer of technology, joint exploitation of mineral or water resources, integration of frontier areas, co-ordination of regional policies and so on.

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[22] Cf. P. Robson, *op. cit.*, p. 56, and R. F. Mikesell, "The Theory of Common Markets as Applied to Regional Arrangements among Developing Countries", in R. Harrod and D. C. Hague (ed.), *International Trade in the Developing World* (Macmillan, London, 1963).

TYPES OF ARRANGEMENT FOR INDUSTRIAL CO-OPERATION

Co-operation in industry covers the successive stages of production and promotes the exchange of a wide range of raw materials, semi-manufactures and manufactures. It also promotes the application of similar technological processes in the industrial enterprises of two or more countries and the construction of new lines of division of labour among them. Between these types of co-operation are various forms and degrees of joint operation, joint ownership and industrial partnership.

Arrangements for industrial co-operation, whether bilateral or multinational, may be classified according to their techno-economic or their institutional characteristics

Under the first heading may be included technological arrangements in a narrower sense, such as:

Exchange of know-how, including technical and managerial skills, experience, training and efficiency;

Licensing agreements, linked with other types of technical co-operation (marketing assistance, personnel training, joint marketing in third countries). Licensing concessions are deemed particularly suitable for projects of large-scale production;

Technical service agreements (for example, joint maintenance and repair services);

Agreements on design, norms and standards;

Joint research and development projects in specific fields.

Specialization agreements may also be included, covering deliveries of specified inputs and/or production of specific items of final output (these agreements entail relationships of technological interdependence among enterprises and may develop into higher forms of co-operation), arrangements for industrial investment, involving deliveries of machinery and equipment for entire plants, together with the provision of technological know-how; and marketing arrangements, providing for the use by one enterprise of the sales and service facilities of other enterprises or for the establishment of a joint marketing network.

Under the second heading may be included various forms of joint ventures and contractual types of industrial co-operation. These may be divided into two broad categories: equity or non-equity relationships among unequal partners, and equity or non-equity relationships among equal partners (although not necessarily equal technologically).

Under the heading of non-equity relationships among unequal partners may be included as typical:

- The establishment of a subsidiary in the partner country, more or less incorporated in the host country but fully owned by the parent enterprise;
- Ventures in which the enterprise in one country is a subcontractor supplying certain components to the main enterprise from another country while receiving technical and financial assistance.

Under the heading of equity or non-equity relationships among equal partners, the following are typical:

- Jointly operated undertakings, with one enterprise providing capital goods on the basis of long-term credits which are reimbursed by deliveries from current output;
- Equal participation of the partners in the capital of jointly established and jointly owned subsidiaries;
- Joint ownership with one country providing buildings, raw materials and manpower and the other country capital, technology and marketing facilities;
- Mixed companies, with agreed or equal shares for the partners;
- Shareholding among several firms;
- Public companies in which all the partner countries participate with agreed shares, eventually offered for sale.

Joint ventures are particularly suited to promoting industrial co-operation among developing countries. Through the sharing of profits and risks, as well as of capital, all the partners are directly interested in the viability of the undertaking, and the close co-operation implicit in such ventures leads to a fruitful exchange of up-to-date technology and know-how. However, in the circumstances prevailing in present-day intra-regional and international economic and political relations, a well-defined contractual joint venture partnership may often be preferable. It has been contended that the specific interests of the partners are better reconciled and protected when each partner preserves more of his own identity. It should not be impossible to incorporate in a partnership contract of this kind some of the relevant elements of an equity investment.

One of the advantages of the joint venture form of industrial co-operation is that it engenders greater confidence among the countries concerned and lessens the fear of foreign control over domestic production.

Nevertheless, the advantages of this form of co-operation may not materialize in the absence of the necessary supporting policy measures. Industrial partnership and joint ventures have so far been concentrated in a few of the more dynamic fields; they are no less needed in certain industries adversely affected by competition within an enlarged market. Again, joint ventures may prove inefficient unless accurate preliminary investigation and feasibility studies are undertaken. The countries concerned should ensure that their legal and administrative systems are sufficiently flexible and should adjust the traditional instruments of association to the specific conditions of integration among developing countries. Some suggestions on this point are made below in the section on "Harmonization of fiscal and financial policies".

Harmonization of industrial policies

An important question in any regional industrial policy relates to the differentiation of industries from the standpoint of their location and eligibility for regional co-operation and integration. For the purpose of this monograph, industries may be broadly classified on the one hand into resource-based and market-oriented industries, and on the other into capital-intensive and capital-non-intensive industries.

Resource-based industries are those whose location is usually predetermined by such factors as supplies of raw material, energy and manpower (for example, agricultural or copper-processing plants and pulp mills). Transport costs are another decisive factor in the choice of location.

In the case of market-oriented industries, a distinction may be made between establishments which produce bulky or perishable goods involving high transportation costs and those which require market accessibility for effective technical servicing and communication with consumers. Two types of these industries will be of special interest to a developing region:

Assembly plants, with accompanying units for parts and sub-assembly (communication and transport equipment, agricultural machinery, business machines, appliances and so on);

Industries where the need for regional co-operation arises out of the vast heterogeneity of the end products (textiles, pharmaceuticals, plastic and rubber products and the like).

In the latter group of industries, economies are associated with product specialization rather than with the volume of output, which calls for a large number of producers.

Perhaps the most difficult problem in selecting industries for regional integration is to determine those which are both resource-oriented and market-oriented. An estimate of industries suitable for regional co-operation in Latin America appears below in the section on "Regional institutions of development financing".

As has already been pointed out, general regional co-operation schemes are of small utility where the countries concerned are all at differing levels of development. Only through co-ordinated and coherent programmes of sectoral development is it possible to take account of the difficulties inherent in the varying levels of development. Such programmes would be aimed at:

Improving, reorganizing and modernizing existing plants by changing their technical structure, harmonizing the internal capacities of individual enterprises and, if necessary, increasing their size to the economic minimum;

Augmenting capacities in order to achieve optimum size by the enlargement of existing plants or the construction of new ones in line with the criteria of regional specialization.

It might be helpful to reproduce the elements of a model sectoral agreement as proposed by ECLA:

Development programme, taking into account long-term trends, location problems, obstacles existing in the sector;

Investment programme;

Technical assistance programme;

Programmes for tariff reduction and harmonization of external tariffs;

Commitments for harmonizing economic policies and consultation procedures;

Provisions on exemptions in respect of the most-favoured-nation clause, especially in the case of less developed countries;

Provisions on the practical application of these programmes and measures, including proposals on the institutions and agencies needed.

Even if such a model agreement were accepted, however, it could not ensure sufficient harmonization or uniformity of the criteria, methods and policies in each sector. An industrial policy aimed at the gradual development of a system of sectoral agreements through concerted and simultaneous negotiation in several major sectors might achieve that purpose. Pending the establishment of such a system, periodic consultations should be organized among Governments and among producers' associations with a view to ensuring the harmonization of the various national programmes, at least with respect to key industrial projects.

It has often been claimed that the greatest gain to be achieved from economic integration is in the creation of new industries. This view can hardly be disputed if the countries concerned are still at the initial stage of industrial development for example, most developing countries of eastern, western and central Africa, of Central America and some in South East Asia. Nevertheless, the new industry orientation is not necessarily to be preferred to the policy of better utilizing existing capacities if some of the co-operating countries are industrially more developed. In some cases, structural improvements within the existing capacity, through reconversion, modernization or elimination of bottlenecks, may yield greater benefits in relation to the amount of investment expenditure.

The last ten or fifteen years have seen the excessive expansion of certain industries in a growing number of developing countries. This phenomenon is not primarily due to the aforementioned new industry orientation or the requirements of modern technology, but rather to absence of inter-country co-ordination and sufficient market outlets. The consequence of such duplication of production is, naturally, misallocation of resources and lowered productivity, accompanied by growing competitive pressures, which give rise to protectionist policies. Resolving problems of imbalance between production potentialities and scarce demand, even within a regional framework, is certainly no easier than determining policies for the distribution of new industries among the partner countries.

One of the main functions of a regional industrial policy is to ensure greater uniformity in the conditions governing business activities in the area. Two practical means of achieving this aim are fiscal and financial and trade policy measures, which will be discussed in the following sections. Two further points should be mentioned in this connexion.

First, the legal position of so-called regional firms is far from uniform in the various countries of a region. There is great need that such firms should be given recognized status in all the countries concerned and that they should be entitled to change their location, to establish subsidiaries and agencies and to merge with other firms.[23] Regional firms need a stable framework for their activities; they have to be assured that their competitive position in the regional market will not be jeopardized by administrative bottlenecks or by unilateral measures by other partner countries.

Second, many difficulties originate in the differing approaches of Governments to foreign capital. In competing for foreign investments, Governments sometimes nullify joint efforts. It is therefore essential that countries desirous of co-operation should revise and harmonize their investment goals and incentives.

A major concern of any regional industrial development policy must be the development of regional infrastructure. Adequate facilities in the areas of transport and communications energy and water supply, research and technology education, housing and various social services are even more important in a regional than in a national framework, since many industries within a region are exposed to greater competitive pressures and, to survive, urgently require modern regional infrastructural networks. A developed regional infrastructure implies both sufficiently articulated national systems of infrastructure and well-planned inter-country links. Unfortunately, most existing national systems of infrastructure are designed to serve either the development of protected national economies or the traditional links of those economies with the rest of the world.

The crucial infrastructural element in any scheme for regional integration is transportation and particularly freight, which often determines not only the directions of intra-regional specialization and location, but also the composition of the regional partnership. Lack or inadequacy of transport links among developing countries is often a major impediment to regional integration.[24]

On the other hand, trade and economic co-operation among countries have never been preceded by perfect transport links; each is both a prerequisite for and a consequence of the other.

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[23] See A. Carrido Ruiz, *Comercio Exterior*, January 1968, p. 61.

[24] The point is well illustrated by the fact that it is cheaper to ship wheat to Brazil from the United States than from Argentina, or to send certain industrial goods to West Africa from Europe than from East Africa.

Thus far, there have been three principal methods of building regional transportation networks:

Through the formation of multinational transport and communications corporations;[25]

Through agreements for the construction of transcontinental roads, as in Southern Asia and Latin America;

Through subregional and bilateral infrastructural projects.[26]

HARMONIZATION OF FISCAL AND FINANCIAL POLICIES

Fiscal and financial policies have to be co-ordinated on a regional basis from the outset because, on the one hand, inter-country differences in indirect taxation on particular products may nullify the effects of tariff reduction and foster smuggling and, on the other hand, differences in the taxation of incomes and business profits, as well as in other financial incentives, encourage tax evasion on local capital and thus adversely affect the selection and location of new enterprises and the desired distribution of benefits.

The major obstacle to the harmonization of these policies is that internal levies, together with customs duties, are traditionally the main source of revenue. Moreover, many inefficient producers would feel their position threatened by a changed fiscal pattern.

The function of regional fiscal and financial policies should not be simply to prevent imbalances in resource allocation, price formation and profit distribution. Their role should be more extensive. If rationally applied, they might contribute greatly to the achievement of uniformity of conditions and possibilities among domestic firms and those of partner countries. This would imply, for example:

Joint schemes of fiscal incentives, such as that of the East African Economic Community;

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[25] In East Africa, for example, there are four such corporations: for rail, sea and air transport and post, telephone and telegraph. Similar corporations exist in Latin America. The Convention on Maritime Transportation, signed by nine LAFTA countries in September 1966, should also be mentioned.

[26] For example, large river basin projects, such as those for the Mekong Delta, the Senegal, the Uruguay, projects for interconnecting road networks between Argentina, Bolivia, Peru and Paraguay, links between southern Brazil and northern Chile and so on. See *Comercio Exterior*, October 1967, p. 840; December 1968, pp. 1083–1085; January 1969, pp. 9–11.

Uniform or selective reduction of income tax in agreed industries and countries.

Uniform special tax regulations for regional firms.

Prevention of double taxation.

Safeguards against *ad hoc* and unilateral fiscal changes.

Fiscal and financial policies might directly stimulate regional development through financial incentives including subsidies and compensation of less developed countries. The latter type of measure might include the following:

Subsidizing production for the regional market of raw materials and intermediate products, including the use of power and transport facilities.

Regional investment allowances and loans for regional industries and projects at lower interest rates.

Mutual incentives for financing various joint operations.

Subsidies from regional or national funds to compensate producers in the least developed countries of the region. (Direct subsidies for export industries in less developed countries are regarded by many authors as clearly preferable to commercial incentives as a means of dealing with the effects of disparities in levels of development and in general.[17] The main problem, however, is to persuade more developed member countries to transfer the funds required for compensation purposes.)

All these measures could effectively contribute to the optimum allocation of regional resources and optimum specialization and to the achievement of the desired benefits from integration.

As already suggested, rational fiscal harmonization need not imply complete uniformity. On the contrary, a number of special measures have to be applied in a highly selective manner, at least for some time. Useful experience has already been gained in favouring industries producing particular goods or established in particular regions, for example, by tax exemption, tax reduction, accelerated depreciation of capital goods, assistance in pre-investment activities and so on. In most Latin American countries such practices have been fostered through industrial development legislation. It is an open question whether such measures should

[17] See R. S. Bhambri, *op. cit.*, pp. 247 - 250, and C. A. Cooper and B. F. Massel, "Toward a General Theory of Customs Unions for Developing Countries", *Journal of Political Economy*, October 1965, p. 461.

is applicable only to production for export, intra-regional or extra-regional, or to the entire production of the industries concerned. In any case, such measures will necessarily be of a temporary nature only. It is to be anticipated that the new regional industries will develop into large, modern enterprises and multinational corporations and have no need of privilege.

Harmonization of trade policies

The regional co-ordination of trade policies is another area of particular importance for the promotion of regional industrialization and necessitates a reconsideration of the role of imports and exports in the industrialization process. Exports should no longer be regarded merely as a sector generating resources for growth but equally as an important stabilizing factor in a system of rationalized regional economic structures. Imports, on the other hand, should cease to be regarded as a necessary evil but, once restructured, as an organic and permanent factor of intra-regional specialization. The partners to a regional agreement would then be concerned not only with intensifying their own exports but also with opening new possibilities for the development of industrial exports from other countries, both intra-regionally and to third countries.

Leaving aside the question of industrial export promotion as such, which has been amply discussed in studies presented by UNCTAD, UNIDO and the United Nations regional economic commissions, some aspects of trade policies have to be referred to here in connexion with regional industrialization. Many of the familiar methods of export promotion, such as tax and foreign exchange incentives, suppliers' credit and risk insurance, can easily be applied in intra-regional trade development as well as in extra-regional commercial relations. Such promotional measures are indispensable if goods from developing countries are to compete successfully in the regional market with those from developed countries, and even more if they are to compete effectively in the world markets. Certain specific points, however, deserve attention.

First, within a regional framework, there is much greater need for supporting and promotional measures for industrial exports owing to increased intra-regional competition, the delicate position of less developed countries and the greater ambitions of the region in the world market. The accent, however, should perhaps be shifted from incentive-type to direct promotion-type measures, which are as yet insufficiently applied; for example, joint export information and marketing services, training of personnel in foreign trade, technical assistance in trade promotion, tariff standardization, quality control, market studies and publicity.

Second, parallel with the development of production links among a group of developing countries, and in some cases preceding them, trade liberalization and promotion measures should be directed to serve sectoral co-operation and should constitute an integral part of any sectoral agreement. In practice, an accelerated liberalization programme is usually envisaged for a particular industry, with joint promotional measures being neglected. The deliberate construction of export promotion mechanisms for particular sectors must thus be a part of any policy of regional co-operation, whether a sectoral agreement exists or not. One of the less utilized but promising expedients in this area is the establishment of well organized trade consortia in individual branches of industry.

Third, although no single blueprint can be envisaged in the area of trade policy for industrial integration, regional (or sectoral) groupings are in great need of a lasting, stable, comprehensive but still active and adaptable system of industrial export incentives, rules of conduct and promotional measures. The advantages of both trade liberalization and selective protection of domestic (or regional) production should be reconciled within a revised and extended "infant industry" or "export infancy" concept.[illegible]

Rational integration means deliberately influencing the behaviour of inefficient producers within a broader economic framework so that they will adjust to new market conditions by modernizing their capacities and thus reducing production costs, or by changing their production lines and specializing in fewer products. No special fiscal or commercial incentives can take the place of direct government intervention or of such action as modernizing infrastructure, improving efficiency, introducing new technology, encouraging mergers of smaller firms and undertaking progressive structural and institutional reforms.

REGIONAL INSTITUTIONS OF DEVELOPMENT FINANCING

Within the regional as within the national framework, the progress of industry is largely dependent on new industrial investments, their volume and their structure. While regional integration *per se* does not

[illegible] See T. Balogh, *op. cit.*, p. 31.

lead to more intensive capital formation, it creates the conditions for the better utilization of capital formation and consequently for its growth. It also creates a more attractive framework for the influx of external financial resources.

There are three main sources of financing for regional industrial development:

Extra-regional resources earmarked for regional projects and other undertakings, invested directly or through existing financial institutions;

Intra-regional public and private resources used directly, usually through intergovernmental agreements, for financing multinational undertakings in regional industry and infrastructure;

External and internal financial resources accumulated by semi-autonomous regional financial institutions such as regional development banks and their special funds and used to finance various development projects of a national or regional character.

This monograph considers only the last-named type of regional financing.

So far, seven regional or subregional financing institutions have been put into operation: the Inter-American Development Bank (IDB), since 1960; the Central American Bank for Economic Integration (CABEI) since 1961; the African Development Bank and the Asian Development Bank, both since 1966; the Mutual Aid and Guarantee Fund of the West African Entente, established in 1966; and the East African Development Bank and the Andean Development Corporation, both established in 1968. Several other institutions have been under active consideration, for example, an Arab development fund, a Caribbean development bank and a Central African development bank.

The principal activities of regional development banks are, or should be, to finance industrial, agricultural and infrastructural projects within the region, to extend pre-investment and technical assistance to industry and agriculture, to encourage private investment in industry, to procure extra-regional resources and to finance intra-regional exports of capital goods.

In practice, regional systems for development financing through regional development banks operate independently of existing industrial integration schemes. Some of them cover several integration schemes in a developing continent. In some financing institutions—for example, IDB and the Asian Development Bank—both developed and developing countries are shareholders; in others only developing countries are shareholders, but they obtain a considerable part of their resources in developed countries. The trend, influenced by external shareholders or creditors and reflecting the situation in the world money market, is for regional banks to operate increasingly in accordance with commercial principles. Their loans are largely of the conventional or "hard" type, and only a minor part of their total resources has been allotted to typically regional projects, such as the multinational projects financed by the African Development Bank or the large road construction projects financed by CABEI. Excessive dependence on foreign resources is, of course, a natural consequence of insufficient savings and of lack of co-ordination among capital markets in developing countries, impeding intra-regional financial movements and the harmonization of financial and monetary policies.

These trends may be exemplified by a brief review of the operations of IDB. In the first eight years of its operations, IDB's contribution to regional financing amounted to $2.4 billion.

TABLE 1:
OPERATIONS OF THE INTER-AMERICAN DEVELOPMENT BANK 1961—1967

	All loans		*Loans for integration projects*		
	Million dollars	*Percentage*	*Million dollars*	*Percentage*	*Percentage of total loans*
Agriculture	578.3	24.2	—	—	—
Industry and mining	488.8	20.4	24.2	12.1	4.9
Drinking water and sewerage	394.5	16.5	—	—	—
Housing	287.6	12.0	—	—	—
Transportation and communications	243.3	10.2	143.4	71.7	30.6
Electric power	224.9	9.4	143.4	71.7	30.6
Education	101.6	4.3	3.0	1.5	2.9
Pre-investment	52.3	2.2	9.7	4.8	18.6
Export financing	19.7	0.8	19.7	9.9	100.0
TOTAL	2,391.0	100.0	200.0	100.0	8.4

SOURCE: *Comercio Exterior*, February 1968, p. 135, and May 1968, p. 415.

As shown in table 1, the bulk of total loans (54.6 per cent) was assigned to economic and social infrastructural projects, the rest being divided among agriculture (24.2 per cent), industry (20.4 per cent) and export financing (0.8 per cent). It is noteworthy that only 8.4 per cent of total loans, or $25 million, was earmarked for industrial integration projects. The same trend appears in the distribution of technical assistance resources by IDB in the same period: $79.8 million (out of a total of $96.7 million) was allotted directly to the countries concerned, $12 million was used for training, research and general activities and only $4.9 million was earmarked for integration programmes.[29]

Regional integration may have benefited more from IDB resources than is apparent from these figures: the funds received by countries directly may have been used for integration purposes too. The direct financing of integrated regional undertakings might, however, be a more rational procedure.

Some further observations may be made concerning development financing in Latin America, some of them of validity for industrial integration in the developing regions as a whole.

First, about one third of the total amount—$7 billion—of international public resources granted for financing specific projects in Latin America between 1961–1967 was channelled through IDB. From the standpoint of regional industrialization policies, it would be desirable that both the share of external resources managed through the regional bank and the share of the bank's resources earmarked for integration should be greater.

Second, owing to the increasing tightness of international capital markets and the stagnation in the influx of foreign public resources, IDB was obliged to resort to the more costly capital markets in Europe. The result was a rise in IDB's interest rates on hard loans, from 5.75 per cent when it began operations to 7.75 per cent in December 1967. Inevitably, therefore, IDB's orientation was to highly profitable loan-granting at the expense of certain large regional industrial and infrastructural projects.

Third, the existing system of special funds within IDB does not facilitate industrial co-operation within the region. The Fund for Special Operations and the Social Progress Trust Fund, which have been financed mainly from abroad, offer more favourable terms, but their resources are intended largely for agriculture, education and social infrastructural projects. There is also a Fund for Latin American Integration, established in 1965 with an initial capital of $16.5 million, to finance feasibility studies for multinational projects to advance Latin American integration. Another fund, established in 1963 with an initial capital of $30 million

[29] *Comercio Exterior*, May 1968, p. 415.

for medium-term financing of intra-regional trade in capital goods, is intended to foster the area's economic integration through the increase of regional trade. These funds, however, have been unable to compensate for the deficiency in the basic financing of regional industries.

Fourth, more attention should be given to an interesting suggestion which has so far been rarely acted upon: that external loans be used to increase developing countries' opportunities to supply capital goods. In this connexion, it may be noted that the Conference of Latin American Industrialists has proposed that IDB loans be used to purchase industrial goods produced in the area even when their price exceeds "within a reasonable percentage" the average price offered by extra-regional industries, and that IDB establish a "preference margin" financial clause in favour of Latin American countries participating in international bids and tenders.[30] Another possibility that has been insufficiently explored is the repayment of credits through the output of multinational enterprises that use the credits.

The problems of financing integration projects in Central America are of a similar nature. The main emphasis of CABEI's financing is on regional integration and balanced regional growth. Loans for industry and for infrastructural projects are designed to counterbalance disparities in basic sectors. CABEI is specifically precluded from financing purely local or national projects. The projects it finances should be calculated to create economic complementarity among the member countries. Within the bank's competence are direct loans for project financing, technical assistance, investment in the equity of enterprises, and guarantees for obligations incurred by borrowers in member countries. In 1965, the Central American Fund for Economic Integration was established as a separate account administered by CABEI to finance infrastructural projects affecting more than one country. By 1968, the fund had a capital of $82.5 million. For infrastructural loans, CABEI requires international competitive bidding, and its interest rates are high (8 to 9 per cent).

SOME EXPERIENCES IN SECTORAL INDUSTRIAL CO-OPERATION AMONG LATIN AMERICAN COUNTRIES

A new regional policy of industrial co-operation among developing countries should normally be founded on successful experiences of inter-industrial relationships among developed countries, between developed

[30] See *Comercio Exterior*, April 1968, pp. 293 and 294.

and developing countries and among developing countries themselves. Unfortunately, there has been little of this type of experience among developing countries so far. It would therefore be all the more useful to analyse and evaluate existing types and trends in industrial co-operation among developing countries, as well as failures to establish co-operative links. The discussion here will bear on one type of industrial relationship—sectoral co-operation—in the Latin American region, where it has been practised more than elsewhere.

The question of the selection of industries and the establishment of priorities in promoting sectoral co-operation has been touched upon earlier in this chapter. Two approaches to this question may be distinguished here, as it affects industrial co-operation in Latin America.

The first is to select the most dynamic sectors, which at the same time contribute to import substitution in the region. Those sectors, in Latin America, have been identified as branches of heavy industry, particularly production of steel, heavy chemicals, petrochemicals, machinery and cellulose. The income elasticity of demand for these products is very high, and their share in total Latin American imports amounts to 75 per cent. By expanding the market for these industries, it will be possible to reap considerable gains through economies of scale, a higher degree of utilization of capacities and the establishment of a more balanced ratio between the expansion of demand, the pace of capital formation and technological renovation. Co-operation within the dynamic industrial sectors on a regional or subregional scale would constitute the backbone of Latin American integration.[31]

The second approach is to evolve a system of priorities within different groups of sectors, all capable of industrial co-operation, such as the following:

Sectors that are fundamental for the industrial development of Latin America, namely, metallurgy, machinery and machine tools, transport equipment, basic chemical and petrochemical products, oil and coal;

Sectors distributed throughout the region (traditional industries), such as textiles, clothing and footwear, glass, food processing, timber and paper;

Sectors with good prospects for industrial complementarity (in addition to the first group listed above), namely, tractors, railroad

[31] A. Ferrer, *Comercio Exterior*, May 1968, p. 427.

cars and engines, business machines, transformers, generators, agricultural machinery, machine tools;

New sectors which would contribute to import substitution, such as special steel, large electric power plants, electrical and electronic equipment, various chemical products [32]

The ultimate decision on the selection of industries for regional co-operation and on the scope and shape of such co-operation will depend not so much on the logic and persuasiveness of the approach chosen as on the state of political, economic and other relations in the different

TABLE 2: COMPLEMENTARITY AGREEMENTS AMONG LAFTA COUNTRIES, IN FORCE OR UNDER NEGOTIATION AS OF 15 OCTOBER 1968

Agreement No.	*Sector*	*Year of subscription*	*Participating countries*
1	Business machines	1962	Argentina, Brazil, Chile and Uruguay
2	Electronic valves	1964	Argentina, Brazil, Chile, Mexico and Uruguay
3	Electrical and thermic appliances	1966	Brazil and Uruguay
4	Electronic products and electrical communications equipment	1966	Brazil and Uruguay
5	Chemical industry	1967	Argentina, Brazil, Colombia, Chile, Mexico, Peru, Venezuela and Uruguay
6	Petrochemical industry	1968	Bolivia, Colombia, Chile and Peru
7	Home appliances	1968	Argentina and Uruguay
8	Glass industry	In negotiation	Argentina, Brazil, Colombia, Mexico and Uruguay
9	Electronics	In negotiation	Argentina, Brazil, Colombia, Chile, Mexico, Peru, Uruguay and Venezuela
10	Refrigerators	In negotiation	Argentina, Brazil, Chile and Mexico
11	Electrical equipment	In negotiation	Brazil and Mexico
12	Chemicals	Proposed	—
13	Valves for industrial use	Proposed	—
14	Plastics	Proposed	—

SOURCE: Annual Report of the Permanent Executive Committee of LAFTA; see *Comercio Exterior*, November 1968, pp. 956—958.

[32] A. Calderon Martínez, *Comercio Exterior*, November 1968, p. 984.

country combinations within the region as a whole, as well as on their relations with countries outside the region.

The programme of priorities referred to above may be compared with the emerging network of complementarity regions within LAFTA as shown in table 2.

Table 2 shows that of the fourteen agreements in force, under negotiation or proposed only one (for the petrochemical industry) relates to the group of basic sectors and only one to the group of traditional sectors. All the others relate to the production of durable consumer goods, mainly to a few dynamic sectors in the chemical and electronics industries. Two explanations may be suggested:

The complementarity agreements have been largely conceived as a device to accelerate trade liberalization in certain new industries. In fact, the method of negotiating complementarity agreements has not differed appreciably from the standard negotiations on liberalization;

The agreements, existing and proposed, have been almost exclusively initiated by entrepreneurs and industrialists in sectors that are at the moment most dynamic and profitable, while the public sector has been almost wholly ignored. Should this trend continue, the basic industrial sectors such as steel and aluminium, metal-transforming, pulp and paper, heavy equipment, fertilizers and other heavy chemicals will remain outside the integration process, so that the progress of co-operation in other production sectors will become increasingly difficult.

Some encouraging trends should be noted, however:

The first two complementarity agreements have proved a success; reflecting inter-country specialization, mutual trade rose in the case of statistical machines from $3,200 in 1962 to $1,335,300 in 1966, and in electronic valves from $139,200 in 1964 to $1,670,700 in 1966;[33]

Unlike the first two complementarity agreements, the agreement on chemical products subscribed to in December 1967 covers 125 items and all LAFTA countries except the three least developed. Under article 25 of LAFTA resolution 99 (IV), three countries—Bolivia, Ecuador and Paraguay—are automatically entitled to enjoy all benefits resulting from the agreement. The agreement covers existing

[33] *Comercio Exterior*, January 1968, pp. 11 and 12.

capacities and establishes many harmonization measures. In practice, it automatically speeds up liberalization;

The complementarity agreement on the petrochemical industry, subscribed to in 1968 by the countries of the Andean Group, represents another important advance. In addition to the five-year programme of complete and automatic liberalization, including common external tariffs, it envisages a co-ordinated investment policy to bring about an agreed production pattern (for example, participating countries undertake to refrain from establishing in their territories plants similar to those assigned to other participating countries if by so doing they would jeopardize agreed production and market structures[34]), mutual assistance in plant construction, harmonization of policies in regard to foreign capital and establishment of special arrangements for multinational enterprises.

In the course of 94 meetings held between 1962 and 1968, Latin American industrialists worked out some 55 bilateral and multinational projects on industrial complementarity in 28 sectors and subsectors. More than 530 concessions were included in the programme of liberalization pursuant to complementarity agreements. A significant innovation in the LAFTA system is the provision that decisions are to be adopted by a two-thirds majority instead of unanimously.[35]

Some advances have been achieved, although still to a very modest extent and only at a bilateral level, in co-operation among automobile manufacturers. Although no single item of this industry was included in the LAFTA liberalization programme until the end of 1968, some specialization arrangements came into being earlier, for example between Argentina and Chile[36], and others are under negotiation, for example between Argentina and Brazil, Colombia and Argentina and within the Andean Group. Conflicting forces are at work in this industry; strong incentives exist for co-operation in automobile production and assembly owing to mounting production and investment costs. At the same time, this movement has been strongly opposed by vested interests, including foreign investors, as well as for reasons of national prestige.

[34] *Comercio Exterior*, May 1968, pp. 429 and 430.

[35] In this connexion, it is worth mentioning the bilateral agreement between Empresa Colombiana de Petroleos and Empresa Petrolera Fiscal del Peru, envisaging co-operation in production, exchange of goods and exchange of technical experience. See *Comercio Exterior*, April 1968, p. 329.

[36] The arrangement between Argentina and Chile allows for only a very limited interchange of car components—in the case of Argentina, up to only 6 per cent of the value of the vehicle. See J. Baranson, "Integrated Automobiles for Latin America?", *Finance and Development*, No. 4, 1968, p. 27.

This situation indicates that it will be difficult to find any solution solely within the regional framework. An outward orientation, implying specialization for the international market, might contribute to a long-term solution.[37] Such a solution implies inter-country specialization, which would permit essential improvements both in nationalizing the network of suppliers of parts and accessories and in raising the degree of self-sufficiency of factories so that advantage might be taken of the lowering of in-plant costs.

A strong regressive tendency in the process of trade liberalization within LAFTA would indicate that the promotion of the integration movement is to be sought in another direction, namely, through the improvement of sectoral co-operation under sectoral agreements. The scope for such change offered by articles 15, 16 and 17 of the Treaty of Montevideo being too narrow, an attempt was undertaken by the LAFTA Conference in December 1964 to amend the treaty in certain points relating to complementarity agreements, as follows:

Emphasis to be placed on the over-all importance of sectoral integration and the creation of industries of a "zonal character";

Localization of industries to be effected jointly, and in accordance with a programme;

Joint programming to be understood as implying the adoption of a common policy in the various production sectors;

To achieve industrial complementarity, not only measures for the elimination of trade barriers but also all other means should be employed to foster the process of sectoral industrial integration.[38]

As shown by the sequence of events since 1965, the advances in sectoral co-operation among the LAFTA countries have tended to remain very slow, probably because the member countries have failed to bring about the structural changes envisaged in the Treaty of Montevideo and other basic instruments. The following are some of the required changes:

The public sector and, through that sector, certain basic industries should be explicitly included in the system of regional co-operation;

Provision should be made for co-ordination between the public and private sectors;

[37] This is exemplified in the arrangements between Mexico and Massey-Ferguson in farm tractor manufacture and between Yugoslavia and Fiat in automobile manufacture and assembly.

[38] LAFTA, resolutions 99 (IV) and 100 (IV) (Montevideo, 1965).

The basic sectors and some specific industries, such as the automotive industry, should be given special treatment and incentives;

Formal differentiation between new and existing industries should be reduced to reasonable proportions (certain provisions of resolution 100 (IV) might be interpreted as implying that complementarity agreements and joint programming apply to new industries, while "equal conditions for competition" apply to existing ones).[39]

The institutional framework of LAFTA or of any other integration scheme should necessarily include all the mechanisms needed for the practical application of its formal stipulations.

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[39] As ECLA puts it, existing industries tend to be left outside integration processes and new industries are deprived of the advantages of competition. See ECLA, *Hacia la integración acelerada de América Latina*, pp. 147 and 148.

Chapter 4

THE INTERNATIONAL SYMPOSIUM ON INDUSTRIAL DEVELOPMENT: ISSUES, DISCUSSION AND RECOMMENDATIONS APPROVED

The issues, the discussion and the recommendations approved by the Symposium are presented in this chapter.

THE ISSUES[40]

It is generally agreed that, for developing countries, the dynamic benefits of regional co-operation[1] (that is, the benefits for economic growth) are far more valuable than the short-run effects of changes in trade patterns. The overriding consideration in this context is enlargement of the market made possible by arrangements for such co-operation. The limited size of the market is one of the major obstacles to the development of modern industry in developing countries. These countries' exports consist, by and large, of primary products in which economies of scale are generally limited. In addition, individual countries will not find it easy to increase exports of manufactured products owing to weaknesses in their economic structure and restrictions imposed by developed countries.

Some form of regional co-operation or integration might be the only means of achieving economies of scale in existing industries and of establishing new industries which depend on a minimum demand. At the initial stage, therefore, regional co-operation should primarily be "inward looking", the main objective being to form a stronger group for production

[1] The concept of regional co-operation is broader than that of regional integration. The latter must be considered as including steps leading to permanent voluntary losses in economic sovereignty for the sake of greater benefits for each member country. Regional co-operation, on the other hand, includes all types of joint or co-ordinated action in the economic field among countries of the same region. Such action may be limited to a specific project or activity, or may encompass the formation of a free trade area (abolition of trade barriers among member countries), a customs union (establishment of a common tariff policy towards non-member countries), a common market (free movement of factors of production as well as of commodities within the area) or a complete economic union among the member countries.

[40] UNIDO, Issues for Discussion, Regional Co-operation, 1967 (ID/CONF.1/A.24) (mimeo.).

and trading purposes; ultimately, the group should be able to orient itself towards the international market and become more fully integrated in the world economy.

The principal problem in the field of regional co-operation arises from the differences in economic development among the member countries of a region. The difficulty of ensuring a fair distribution among the countries concerned of the costs and benefits of a regional co-operation scheme often diminishes the effectiveness of such a scheme and may even prevent its establishment.

The following are areas of major concern in which national and international action would be most productive:

Planning and regional co-operation;

General and sectoral co-operation;

Identification of sectors in which regional co-operation would be particularly effective and politically feasible;

Co-operation in research and statistical activities.

Planning and regional co-operation

Whatever the economic system of member countries and the extent of government intervention in the economy, planning is a necessary element of any co-operative effort; indeed, it is even more necessary in a regional than in a national context. The scope of planning may vary from *ad hoc* plans relating to specific cases to a comprehensive plan for the region as a whole.

One of the issues in this context is the choice of methods to achieve consistency and co-ordination among national plans. At one extreme—co-operation on a specific project—the issue is simple, for the indivisibility of the project necessitates joint programming. For broader forms of regional co-operation, national plans can be co-ordinated *ex ante* or *ex post*, that is, they can either be formulated in advance on the basis of regional considerations or adapted to such considerations after they have been formulated independently. Although the problem is often one of degree, since the solution will depend on the form of co-operation and the countries' characteristics, the effectiveness of the effort will depend on the planning approach emphasized.

A feasible planning sequence for the broader undertakings of regional co-operation might be to formulate national plans first, after which a regional (indicative) plan could be elaborated on the basis of the national plans; the latter, in turn, could be modified to accord with the regional plan. In this way, consistency and co-ordination among plans would be ensured and the economic interests of the co-operating countries safeguarded.

General and sectoral co-operation

Sectoral co-operation is limited to a particular project or activity, while general co-operation cuts across industrial lines and involves joint action at all levels. The advantage of a general approach is the possibility it offers of compensating a country for its losses in one sector by benefits in another. The advantage of a sectoral approach lies in the greater willingness of many countries to accept limited commitments at the start and in the possibility of using sectoral co-operation as a pilot project and model for broader co-operation. Because many branches of industrial production are inseparably linked, the combined regional market is generally not large enough to permit the co-operative establishment of more than one plant for a given industry. If the sectoral approach is to be successful in industry, it must normally be applied in several industries at a time, so that appropriate productive facilities may be allocated to each co-operating country.

UNIDO could evaluate the merits and drawbacks of each of these two broad approaches through studies of specific instances of regional co-operation, to be carried out jointly with the regional economic commissions.

Identification of sectors in which regional co-operation would be particularly effective and politically feasible

Whether a sectoral or a general approach to co-operation is regarded as better suited to a particular region, successful co-operation must be based on knowledge of the characteristics of those industries which may benefit from joint decision-making. This problem may be considered as having two components: identification of sectors and distribution of benefits.

Generally speaking, the fewer the enterprises in a sector, the more feasible is co-operation in that sector. Moreover, the greater the economies of scale that can be achieved, the more advantageous co-operation is likely to be. This suggests that industry is the most suitable field for co-operative action. Many industrial sectors should be established only on a co-operative basis. Such sectors tend to be the more dynamic ones, which can substantially contribute to the development of the region as a whole. The choice of the industries will depend on the characteristics of the region.

The costs and benefits of the co-operative establishment of industries should be distributed among countries with a view to achieving the maximum growth of the region as a whole. UNIDO proposes to study the various aspects of the problem in co-operation with the regional commissions and UNCTAD and to provide technical assistance in this field.

Co-operation in research and statistical activities

Significant economies of scale may be derived through joint research and statistical activities; indeed, co-operation in this area might well be the initial step on the road to further co-operative arrangements, through the development of a common approach which could be applied on the policy-making level. Two points arise in this context: minimum research and statistical requirements, and the method whereby such work is to be carried out.

With regard to minimum research and statistical requirements, decisions to engage in joint action usually imply decisions to engage in new productive fields; research and statistical investigation will therefore precede such decisions as well as result from them.

Regional co-operation may involve the establishment of a new institution to serve the needs of the entire region, or the exchange of data and results that have been independently obtained. The advantage of centralized research and statistical analysis is uniformity of methodology and consistency of results. Independent research, on the other hand, may be more economical, assuming that each country already carries out such work on a sufficient scale and in conformity with satisfactory standards. In general, if the co-operative project is a large one, it may be more efficient to centralize research activities; this may imply, in some cases, no more than the attachment of national personnel to the new institution.

The developing countries might agree to compare procedures of data collection and elaboration and methods of research on a regional basis, and permanent mechanisms for exchanging information might be developed. The role of UNIDO in this area might be to ensure co-ordination in the work of the regional groupings so that uniform standards of data measurement were applied on a regional and possibly interregional level. It might also provide the know-how for collecting and interpreting industrial programming data. Finally, UNIDO could assist existing regional centres for industrial research and statistics and promote the establishment of new regional development centres wherever local conditions were suitable.

The discussion[41]

The problems of industrial co-operation among developing countries were discussed under a particular agenda item at the International Symposium but were also discussed under most of the other items as well.

[41] From *Report of the International Symposium on Industrial Development, Athens 1967* (ID/11) (United Nations publication, Sales No.: 69.II.B.7).

owing to the vastly complex nature of the problem. The discussion was based not only on the documents presented on the specific issue of industrial co-operation, but also on a number of other documents, background papers and studies of individual industries, e.g. in connexion with the transfer of technology, technical assistance, expert promotion and other fields where mutual co-operation among developing countries is important.

The thought underlying all deliberations on the problem of regional co-operation may be said to have been that self-sufficiency should not be the main aim of an industrialization policy and that an appropriate combination of import substitution and production for export should be established. It was recognized, however, that both import substitution and production for export, to be successful, must enjoy the advantages of economies of scale, but that in many cases this would be impossible within the domestic market. The pooling of resources of a group of developing countries was felt to be a precondition for the success of such an orientation. This would imply a renunciation of the idea of self-sufficiency in the development plan of the individual developing country, replacing it with the idea of economic interdependence among countries or groups of countries.

Beyond the overriding considerations of the enlargement of markets beyond national borders and the economies to be derived from the joint utilization of available resources, it was recognized that industrial co-operation at the regional, subregional or interregional levels was of decisive importance in the enlargement of the capacity of industries, the reduction of costs and prices through specialization and internal competition, and the more rational exploitation of resources and knowledge, as well as in making the products of developing countries competitive in the international market.

Despite the serious consideration given by a number of regional and international organizations to the promotion of industrial co-operation among developing countries, it was felt that little real progress had been made in that direction. Hence, special attention was given in the discussion to the obstacles to such co-operation. It was generally agreed that the analysis of the obstacles to co-operation schemes must be practical and specific and must include adequate consideration of the possible limitations in the functioning of those schemes, of any disadvantages resulting therefrom and of appropriate remedial policies.

The view was expressed that sectoral regional co-operation might adversely affect activities in other areas unless due account were taken of the priority character of those activities. It was also suggested that developing countries might be placed at a disadvantage in a regional co-operation scheme that included developed countries. In this connexion, it was recognized that the objectives of regional co-operation were attainable only if the countries concerned were genuinely prepared to work together for the benefit of all, and if adequate provision was made for the equitable distribution of short-term and long-term benefits and losses. It was further suggested that the merits and drawbacks of the various approaches to industrial co-operation did not lend themselves to generalization. Each case should be carefully investigated, programmed and implemented in order to ensure the ultimate objective of the better utilization of resources, and each of the countries concerned should follow the path best suited to its degree of economic development and its political system.

Many possibilities for promoting co-operation in specific industries were thoroughly explored. Such possibilities had been found particularly in the iron and steel industry, the non-ferrous metals industry, the engineering industry and the petrochemical, fertilizer and textile industries. However, in connexion with co-operation between established industries, it was suggested that, while a co-operative agreement between such industries would probably bring about a net increase in trade, it might also, reflecting strong vested interests, lead to the imposition of protective walls around an antiquated, autarchic organization. Such an outcome could be prevented by the co-ordination of sectoral integration at the regional level. The disadvantages of sectoral co-operation would be reduced if such co-operation formed part of the over-all development plans.

Successful co-operation in the field of industry, it was pointed out, must be based on a clear identification of the industries or projects which would benefit from joint action. In other words, such co-operation should be included in over-all long-term plans embracing all the objectives to be achieved in the region by joint action. Such plans, without being mandatory, could provide some foundation for the co-ordination and harmonization of the activities of participating countries.

It was suggested that the co-ordination of national plans at the regional level would have to be achieved progressively; it would therefore be necessary to explore methods of achieving the harmonization of development plans as well as the equitable distribution of production facilities among the participating countries. Sustained efforts would also have to be made to develop the machinery for joint planning and policy making on a regional scale.

Excessive regionalism or subregionalism must be guarded against, since it might lead to isolating one group of countries from another or causing discriminatory tariff walls to be set up between them. It was suggested that geographical proximity and ethnic or historical affinities should not be regarded as the only criteria for regional co-operation, and that similarity in degree of economic development might provide valid grounds for initiating co-operation among countries in different geographical regions. The emphasis on regional co-operation, therefore, should not overshadow the potential benefit of co-operation among countries in different regions.

Recommendations approved[12]

UNIDO should be enabled to strengthen its relationship with the regional economic commissions, UNESOB and intergovernmental organizations, which are recognized as the most suitable bodies for promoting regional co-operation in the field of industrial development among developing countries. In order to develop projects jointly with the regional commissions, UNESOB and intergovernmental organizations, and to avoid duplication of efforts, UNIDO, in addition to its field advisers in individual countries, should appoint regional liaison officers in the headquarters of the regional commissions, UNESOB and intergovernmental organizations.

UNIDO should participate actively in the industry survey missions, action groups, feasibility studies and so on, as may be recommended by the regional commissions and UNESOB, or as may be requested by intergovernmental organizations.

UNIDO should assist in the preparation of regional symposia or regional conferences on industrialization, as may be organized by the regional commissions, UNESOB and intergovernmental organizations.

The Executive Director of UNIDO should submit periodic reports to the Industrial Development Board on the progress made in the above undertakings.

[12] From *Report of the International Symposium on Industrial Development, Athens 1967* (ID/11) (United Nations publication, Sales No.: 69.II.B.7).

Chapter 5

UNITED NATIONS ACTION FOR THE PROMOTION OF REGIONAL CO-OPERATION IN INDUSTRY

Technical assistance in the field of regional co-operation is still at the initial stage. Nevertheless, the United Nations is in a position to provide specific technical assistance to developing countries in the following areas related to regional co-operation in industry:

Establishment of regional centres for industrial and research development;

Dissemination of information on potentials for regional industrial development;

Methods and criteria for planning the regional location of industry;

Feasibility studies of regional industries and projects, including market and location surveys, studies on the integration of industries, and comparative cost of local manufacturing and importing;

Training.

UNIDO's assistance to developing countries in the field o. regional co-operation in industry is financed under various United Nations operational programmes in which UNIDO participates. These programmes are: the Regular Programme of technical assistance devoted to industry and financed from the United Nations budget; the Special Fund component of the United Nations Development Programme (UNDP/SF); and the Technical Assistance component of the United Nations Development Programme (UNDP/TA). In addition, UNIDO receives voluntary contributions from Governments for the financing of the Special Industrial Services programme (SIS), a programme confined mainly to urgent short-term missions. Some projects may also be financed from funds in trust, deposited by Governments for specific projects, or other direct voluntary contributions. In all these programmes assistance is given only at the request of the Government concerned.

United Nations activity specifically directed towards assisting the developing countries to co-operate on a regional basis has involved, or is expected to involve, UNIDO assistance to the following eight regional organizations and to others that may request it.

SIECA

The SIECA (Central American Common Market) countries include Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. Since 1968, the United Nations has had a three-man team of experts working with SIECA in the selection of integration industries and the development of a policy oriented towards greater regional industrial integration. Future work is expected to include assistance to SIECA in the establishment of protocol agreements among the SIECA countries to designate selected industries as integration industries, to assign each of these industries to a single country, and to ensure that they remain integration industries and that their purpose is not defeated by their duplication in the remaining countries. It may also include advice and assistance on the publication of designated integration industry opportunities to potential investors.

CARIFTA

The CARIFTA countries include the Commonwealth Caribbean countries and the West Indies Associated States. During 1969, the United Nations sent an industrial development mission to CARIFTA for a period of six months. The mission completed its report in the summer of 1969, covering the potentials in the CARIFTA region for the production of the following products:

Solar salt
Chlorine and caustic soda
Pharmaceuticals and essential oils
Cosmetics, soaps and toiletries
Corrugated paper and board
Cotton cloth
Spun cotton
Cotton-polyester cloth
Processed foods

The potential for industrial estates was also explored.

In addition, the United Nations held a Regional Workshop on the "Harmonization of Fiscal Incentives to Industries" at Port of Spain, Trinidad, during 1969.

The Arab League

The fourteen countries of the Arab League are establishing an industrial development centre and a separate standardization and metrology organization. Two United Nations experts will be provided to advise the industrial development centre on industrial programming, industrial surveys and information and documentation. Two other United Nations experts will advise the standardization and metrology organization on the standardization of parts and measurements and on metrology.

OCAM

OCAM includes fourteen West African countries. The United Nations has provided an expert to evaluate the organization's needs for technical and planning assistance in the field of meat packing and marketing. In addition, a request may be received for an expert to evaluate needs in connexion with the potential for the agricultural implements industry.

The East African Community

The East African Community includes Kenya, Uganda and the United Republic of Tanzania. The United Nations is currently recruiting seven experts to provide assistance to the industrial units of the Community and the African Development Bank. They will advise the countries on the joint development of a motor vehicle assembly industry, a pharmaceutical industry and other industries.

The Maghreb Centre for Industrial Studies

The Maghreb Centre (in Tripoli) has been assisted through the provision of United Nations experts, fellowships and some equipment. It undertakes pre-investment studies for the four Maghreb countries of Algeria, Libya, Morocco and Tunisia, concentrating on those fields where

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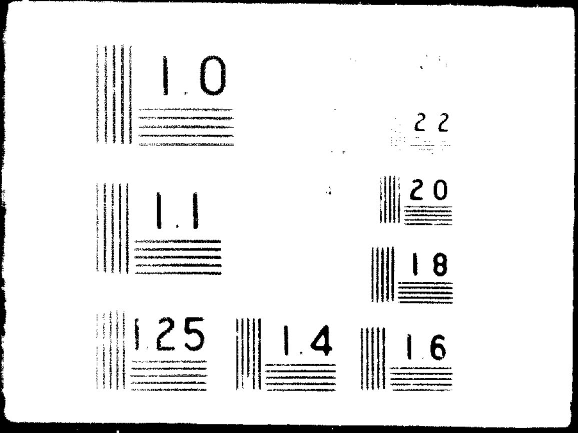

co-ordination of investment would be useful. It also tries to formulate measures which will promote other forms of industrial co-operation, such as joint policies and standardization of parts.

ECAFE

The ECAFE countries include most of the countries in Asia and the Far East. While these countries have not concluded a formal co-operation agreement, the United Nations is encouraging a certain degree of co-operation in selected fields by providing advice on the establishment of regional institutes to allow the ECAFE countries to share their experience in the following fields: economics of industry and marketing, standardization of parts; training; and processing of major crops.

United Nations experts are available from ECAFE (in Bangkok) to serve developing countries in the region, particularly in the production of oils and fats, iron, steel, aluminium, agricultural machinery, transport equipment and fertilizers.

The Mekong Committee

The Mekong countries include Cambodia, Laos, the Republic of Viet-Nam and Thailand. In its programme for 1970, the Mekong Committee has included feasibility studies of the potential of the following industries for the region: aluminium smelting, furnace phosphoric acid, ferro alloys, iron and steel, calcium carbide and alkalis, and fertilizers. The Mekong Committee will probably request United Nations assistance in making these studies.

Annex

SELECTED LIST OF DOCUMENTS AND PUBLICATIONS ON REGIONAL CO-OPERATION IN INDUSTRY[1]

UNITED NATIONS

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Report of the Interregional Seminar on Industrial Location and Regional Development (held in Minsk, August 1968) (ID/19) (Sales No.: 69.II.B.22).

Regional Integration and the Industrialization of Developing Countries, 1967 (ID/CONF.1/11) (mimeo.).

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Trade Expansion and Economic Integration among Developing Countries (Sales No.: 67.II.D.2).

Proposals for the Creation of the Latin American Common Market, 1965 (TD/B/11) (mimeo.).

ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST

"The Scope for Regional Economic Co-operation in Asia and the Far East", *Economic Bulletin for Asia and the Far East*, December 1961.

ECONOMIC COMMISSION FOR LATIN AMERICA

The Latin American Common Market (Sales No.: 59.II.G.4).

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[1] Symbols and sales numbers of United Nations documents and publications are given in parentheses after the titles.

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- No. 1. Non-ferrous metals industry
- No. 2. Construction industry
- No. 3. Building materials industry
- No. 4. Engineering industry
- No. 5. Iron and steel industry
- No. 6. Fertilizer industry
- No. 7. Textile industry
- No. 8. Chemical industry
- No. 9. Food-processing industry
- No. 10. Industrial research
- No. 11. Small-scale industry
- No. 12. Standardization
- No. 13. Industrial information
- No. 14. Manpower for industry
- No. 15. Administrative machinery
- No. 16. Domestic and external financing
- No. 17. Industrial planning
- No. 18. Regional co-operation in industry
- No. 19. Promotion of export-oriented industries
- No. 20. General issues of industrial policy
- No. 21. Technical co-operation in industry

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