



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org



D 0 0 8 6 7



Distr.
LIMITED

ID/WG.47/12
8 April 1970

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

Expert Group Meeting on Industrial Co-operation
between Developed and Developing Countries
for Exports

OUTLINE OF FORMS OF INDUSTRIAL CO-OPERATION
BETWEEN SOCIALIST AND DEVELOPING COUNTRIES^{1/}

by

Professor D. Toshev
University of Sofia
Sofia, Bulgaria

^{1/} The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO. This document has been reproduced without formal editing.

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

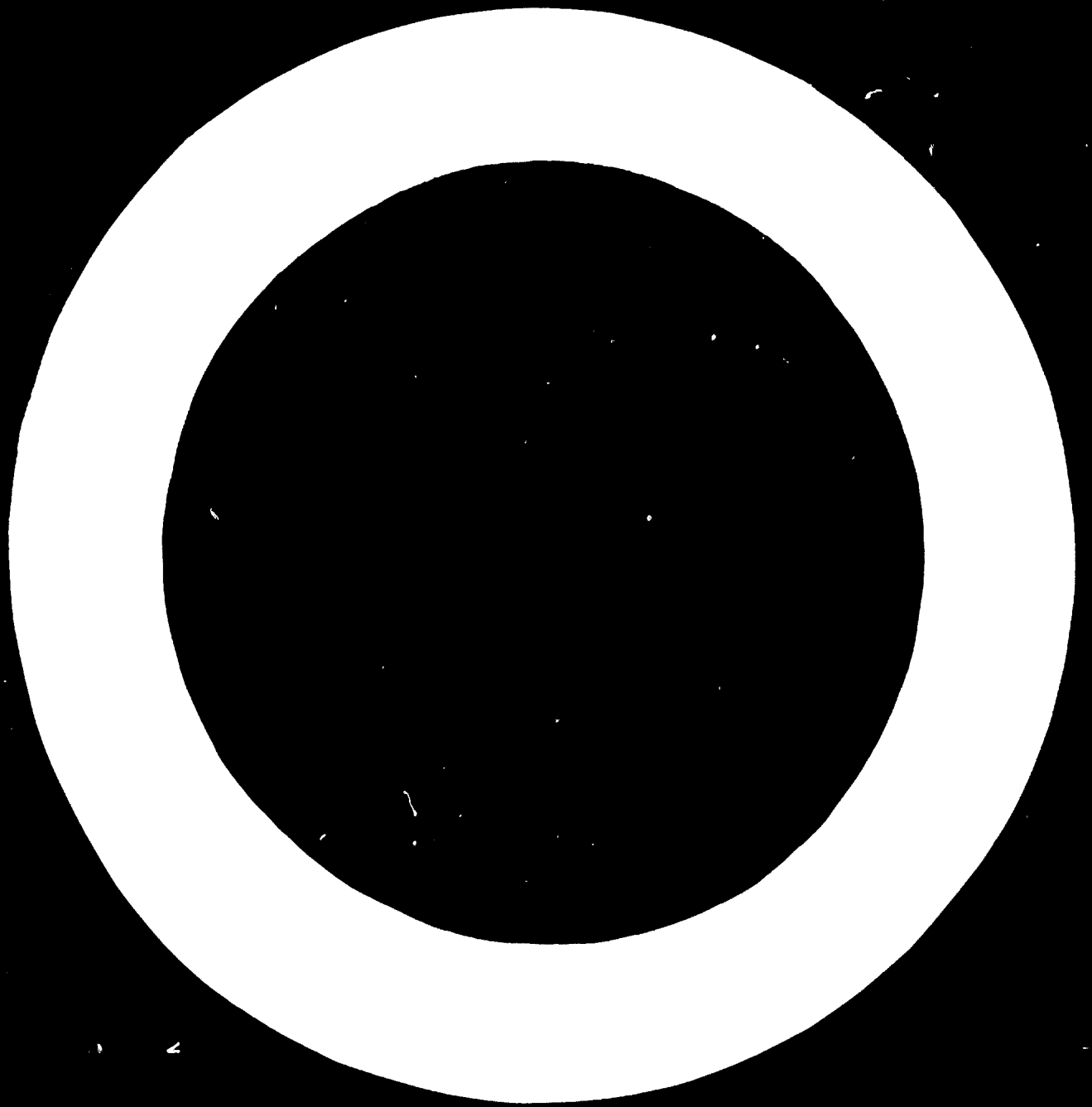


TABLE OF CONTENTS

	<u>Paragraph</u>	<u>Page</u>
Background and Purpose of the Study	1 - 3	1 - 2
Model No. I. Joint Enterprises in the Developing Countries Working on the basis of equal participation.	9 - 19	2 - 5
Model No. II. Specialization and co-operation between enterprises from socialist countries and developing countries.	20 - 29	5 - 9
Model No. III. The part of UNIDO in co-ordinating activities for the speeding up of the industrialization of the developing countries through industrial co-operation between the socialist countries and the developing countries on the basis of models I and II.	30 - 42	9 - 11
Annex A.	43 - 61	12 - 17



BACKGROUND AND PURPOSE OF THE STUDY

1. In the past practice of economic co-operation between the developing countries and the socialist countries three forms are mainly known:

a) Granting of credits and loans in the form of money or commodities which are used by the governments of the developing countries concerned for financing some enterprises already known to the creditors:

b) Construction of plant, major public buildings, roads, dams, airports, etc. is carried out directly by the enterprises of the socialist countries. On the basis of concluded contracts with the governments of the developing countries or with separate legal entities:

c) Establishment of joint ventures with capital from both the socialist and the developing countries which operate on the basis of special agreements and whose business is managed by representatives of both countries. This form is relatively new and less widespread. It is not practiced by all socialist countries.

2. The main objective put forward by UNIDO is to investigate the third and most recent form of economic co-operation between the socialist countries and the developing countries and to find out whether it is a major factor for the expansion of trade between the developing countries and their partners in the developed countries with a view to improving their balance of payments which is chronically passive.

3. This problem can be discussed within the framework of the following three models:

4. Model No.1. Economic and foreign trade consequences for the developing countries of the establishment of joint enterprises working in these countries under a joint management.

5. Model No.2. Co-operation and specialization of production in this type of joint venture.

6. The enterprises have main offices in both countries. The ready-made product destined for the market, is produced in one of the two countries.

7. Model No.3. This model deals with the part UNIDO plays in achieving a co-ordinated activity between the developing countries and the socialist countries in establishing joint enterprises under Model No.1 and No.2.

8. The present paper proceeds from the assumption that by its very

nature the form of joint enterprises between the developing countries and the developed countries appears for the time being the most adequate one for speeding up the industrialization of the developing countries and therefore deserves particular attention on the part of UNIDO.

MODEL NO.1 Joint Enterprises in the Developing Countries Working on the basis of equal participation.

9. 1. The general characteristics of joint enterprises are outlined under model No.1. The main features which determine the activity of the first type of enterprise can be defined as follows:

a) application of the principle of mutual interest of both parties. The participation in the production factors cannot be considered an equal obligation for both parties in the true sense of the word but a certain equality should be reached in the value of the factors with which the two parties participate and each person should share in the distribution of the income on the basis of the principle fifty-fifty.

b) The goods or any other kind of production which is produced in common, is considered as joint property and is placed in common on the domestic or foreign market.

c) In a period of not less than 10 and not more than 20 years the enterprise is to become the ownership of the developing country concerned. The buying off of the equity capital is effected through the delivery of the output of the enterprise to the partner from the developed country for a period of several years.

d) The foreign exchange earnings from the sale of production or services is to be placed at the disposal of the government of the developing country concerned.

e) The expansion of the business of the joint enterprise through the establishment of dependent enterprises in the same or other branches of the national economy is an aim of the enterprise, but the decision on this is taken after an agreement has been reached between the two countries concerned on the basis of a businesslike assessment regarding the prospects of the joint venture.

10. 2. In establishing joint enterprises between the Socialist countries and the developing countries a certain planning is carried out within the framework of COMECON (Council of Mutual Economic Assistance). The main task in planning the establishment of such enterprises is to select the branches of the economy in accordance with the extent of development

of the productive forces and the best location in the respective countries. In making a decision on concluding a contract for the establishment of a new joint enterprise, the following points are of major importance:

a) To what extent the production of the services of the new enterprises will lead to an improvement of the balance of payments of the developing country concerned;

b) to what extent the production or the services of the new enterprises will bring about positive structural changes in the domestic market;

c) to what extent the technical and managing personnel of the new enterprise, on the basis of the production process, will contribute to the raising of the technical and production level in the developing country and to increasing the qualifications of the manpower and the managing cadres of the country.

11. The orientation towards certain projects for establishing joint enterprises in the developing countries is carried out by COMECON as a recommendation but not as an obligatory commitment.

12. 3. In many cases, especially in establishing production or transport enterprises of infrastructural significance, it is advisable that more than one socialist country participate with capital, know-how and technical personnel. The establishment of large-scale production and financial concerns (consortia) according to the recommendation of COMECON on the establishment and financing of joint enterprises under Model No.1 is to be considered as a necessary economic policy with regard to the developing countries taking into account the remarkably rapid expansion of foreign trade of the socialist country. The statistical data on the trade of the developing countries with the Socialist and the Western countries show that the barter of the former with the Socialist countries has increased faster during the last decade than the barter with the developed market economies. Thus the problem arises for the socialist countries to look for new ways of countering the disequilibrium in the balance of payments with these countries.

13. On the other hand, the increase of the economic aid of the socialist countries under the guise of direct building of various forms of joint enterprises and financing their construction, raises also the question of resorting to new methods of countering the disequilibrium in the balance of payments with these countries.

14. 4. As is well known, the structure of the foreign trade in most developing countries is characterized by the export of raw materials and the import of ready-made products - machinery equipment and mass consumer goods. All countries in the process of industrialization are passing through the stage. The colonial period in the economic development of the "third world" shows a typical feature of this period: the monocultural character of production for the market. Some crops represented 70-90% and above of the total volume of export commodities. The economic co-operation of the socialist countries with the developing countries is directed toward a change in the monocultural character of the export of the countries of the "third world". Joint enterprises according to the first model are to be established in view of the development of the domestic market, the production of consumer goods and the restriction of their imports. Thus the possibility is opened up for the developing countries to proceed to the second stage of development of their economy, i.e. their becoming agrarian-industrial countries. As it is well known, this phase is characterized by a sufficiently developed production of consumer goods for the needs of the home market and the beginning of exports of such goods.

15. 5. Though scarce and not entirely authentic, there exist certain data which permit the study of the process of structural transformation of the economy of the developing countries under the influence of foreign trade with the developed countries and more precisely with the socialist countries.

16. The data on production performance of one or more enterprises during their several years of existence can be of value in statistical and mathematical study on the influence of economic growth on a national scale for a following period of five or ten years. All things being equal, one can establish the extent to which the growth of output of certain industrial enterprises can be an important factor for the development of the home market and the reduction of imports of ready-made products of industrial and agricultural origin. This is the proper place to show to what extent this growth is the result of the activity of the joint enterprises in a particular country.

17. 6. The experience of Bulgaria in establishing joint enterprises in some developing countries in Africa and Asia is relatively limited and moreover of short duration. This experience is more lasting in the

field of industrial construction, but is not taken into account in the working out of this model.

18. A typical example of a joint venture in the sense of the studied model is the joint enterprise "SOFOREX" established in Ghana in 1969. This mixed Bulgarian-Ghanaian enterprise is aimed at the industrial exploitation of timber and especially hardwoods. The annual production of timber will amount to about 20000 m³. Part of this material will be exported for processing abroad, while the rest will be processed in the country. This joint enterprise is supposed to work twelve years preserving the form when established. The board of managers of the firm consists of eight persons at an equal number from both sides. The president of the company is Ghanaian, while the general manager of the enterprise is Bulgarian. The shares in the equity capital are equal for both parties. The Bulgarian share in the joint capital consists of machinery and equipment, while the Ghanaian share consists of unprocessed timber. The Ghanaian partner undertakes to ensure the duty-free import of all machines, equipment and goods necessary for the industrial exploitation.

19. 7. Bulgaria has also experience in establishing joint agricultural enterprises in developing countries (Sudan, Libya). This experience is of interest, as stated above, from the point of view of the efforts of these countries to do away with the monocultural character of their exports and to satisfy the increased internal demand for local industrial or agricultural products.

MODEL NO. 11. Socialization and co-operation between enterprises from socialist countries and developing countries.

20. 1. General characteristics

This form is relatively easier to achieve and in fact represents a lower degree of interlinkage of the ownership between the enterprises of two different countries. Its main feature is manifested in facilitating the barter and overcoming the difficulties in the balance of payments between the two countries, in this case between the socialist countries and the developing countries. The essential elements which define the chief characteristics in the relations between two or more enterprises associated on the basis of co-operation and specialization of production can be outlined as follows:

a) specialization in the construction of the main building or the details or in the semi-processing and final processing of certain articles;

b) utilization of the same technology for the production of certain articles;

c) co-operation and specialization whereby the division of labour is expressed in planning, documentation and licenses furnished by the enterprise of one country, while the raw materials, the technical staff-executors and the production of the article are supplied by the enterprise of another country.

11. The application of this form of bilateral relations between the socialist countries and the developing countries is an important factor for the settlement of a number of practical difficulties in the foreign trade turnover and goes mainly along the following lines:

a) in this kind of production the ownership is not the subject of a special agreement. The articles of the two enterprises or the degree of their processing are subject to foreign trade transactions;

b) their dependence on one another represents a development of the barter between the two countries;

c) the enlarged barter does not increase the difficulties in the balance of payments between the two countries but becomes a countervailing factor, because the value added in the enterprise of one country can in principle be equal or approximately equal to the value added in the enterprise of the other partner.

12. From a financial point of view, the application of this model requires a planning of the relations between the specialized and co-operative enterprises for a longer period (long-term planning) whereas in the case of the balancing of the value of the newly produced output, in case the developing country contributes less to the formation of the value of the finished product, thus increasing its debt to the enterprise of the socialist country, then it is necessary to create more enterprises of the same type which are to work for the home market or for export to the developing country. On the contrary, when the enterprise of the developing country becomes creditor to the enterprise of the socialist country, then the balance can be effected in currency or by increasing the amount of

the credit in the currency of the socialist country.

22. 4. Conditions for the establishment of enterprises on the basis of specialization and co-operation of production and some services exist mainly in countries with comparatively well-developed industry and in which there are relatively well-trained workers and a banking and credit system which works in accordance with modern principles and is in connection with the banking system of the developed countries.

23. In selecting the enterprises which could be subject to industrial co-operation according to this model, the following peculiarities in these countries must be taken into consideration.

a) all things being equal, it is preferable for the local enterprise to be public, municipal or to work with public capital:

b) a detailed preliminary study of the perspectives for co-operating and specializing production for the home market of the developing country should be carried out.

The management of the enterprise should give their consent for certain changes in the structure and management in case these be necessary for increasing the profitability.

24. The establishment of an entirely new enterprise by the foreign firm concerned which afterward is co-operated or specialized with the enterprise of the same firm cannot be considered as a true co-operation or specialization but as a department or branch of the highly developed country. The realization of such a form of industrial co-operation whereupon the local enterprises are branches of the parent firm abroad does not enter into the framework of the considered model.

25. 5. The economic part played by the enterprises with specialized and co-operated production in achieving an equilibrium of the balance of payments between a socialist state and a developing state is subject to an appraisal for a somewhat longer period - five to ten years. On the basis of data from the existing enterprises it is possible to calculate the economic effect of such a division of labour. Here are taken into consideration several components from which the expected results are to be obtained. These components are to be expressed in mathematical figures as follows:

- a) the annual growth of output;
- b) the marketing on the home and foreign market;
- c) the coefficient of mutual dependence of the value added in country A and country B;
- d) the annual average effect on the balance of payments of the developing country;
- e) the coefficient of growth of the mutual dependence of the specializing and co-operating enterprises and its effect upon other enterprises and branches of the developing country.

27. 6. The proper functioning of industrial co-operation between a certain concern of a socialist country and the enterprise in a developing country requires a number of conditions which must exist in the economic status of the concern in the respective socialist country. These conditions can be formulated as follows:

- a) considerable experience in foreign trade. This experience should be mainly in the field of commercial transactions and payments with developing countries. This means availability of staff specialized in trade with partners from the developing countries;
- b) modern technology in export-oriented production of the enterprise;
- c) financial stability of the enterprise (concern) and firm support by the local specialized bank which grants credits to the enterprise.

28. Important enterprises (concerns) of this kind exist in nearly all socialist countries which co-ordinate their activity in the framework of COMECON.

29. 7. A certain number of enterprises in the socialist countries (Poland, Czechoslovakia, Hungary, Rumania, Yugoslavia, Bulgaria, USSR) have established industrial co-operation with several developing countries which in some cases is in full compliance with the basic traits of the elaborated model, in other cases only certain elements of the model are contained.

Consequently, it is possible to work out this model on the basis of data taken from the practice of these economic relations and they can be confirmed in many ways by the contemporary practice in this field. As is widely known, the essential feature, however, of a model is to outline the maximum perspective of improved and theoretically well-founded possibilities which are existent in reality but not yet sufficiently taken advantage of in practice.

Model III. The part of UNIDO in co-ordinating activities for the speeding up of the industrialization of the developing countries through industrial co-operation between the socialist countries and the developing countries on the basis of models I and II.

20. Here one proceeds from the assumption that UNIDO is convinced in the advantages of this form of economic co-operation between the developed and the developing countries for speeding up the process of industrialization. In this case the question arises by what means and methods within the framework etc. of tasks can UNIDO encourage the extension and intensification of the activities of the joint ventures.

21. In our view UNIDO's role could be formulated as follows:

1) It works out the most efficient models for establishing joint enterprises on the basis of profound studies which are carried out by staff members and consultants in the countries where such enterprises have operated successfully during a relatively extended period of time.

2) The experience points out that the data collected by means of sending questionnaires and forms to be filled out by departments or even by the management of the enterprises cannot be fully reliable in order to make scientifically well-founded deductions on their basis. It should be borne in mind that in many cases such enterprises, due to business or political reasons, are unwilling to give information regarding the state and development of their enterprises abroad. Such materials, acquired as a result of questionnaires can serve, in the best of cases, as check-up documentation. The well-trained specialists who are sent on the spot will have the possibility of ascertaining relatively more accurately the real state of the enterprise, the defects and the most suitable location.

3) It is advisable also to make use of studies of the World Bank when granting credits for reconstruction to developing countries.

In these studies there is a relatively objective analysis of the economic situation of the developing countries.

34. 2) UNIDO is supposed to collect all most important data and information published in the daily and periodical press and related to joint ventures and to organize a service of its own which would require from a certain number of model enterprises to fill up each model form concerning their business activity. This service should prepare basic documentation to be used by the section which deals with joint ventures and for the secretariat of UNIDO.

35. 3) UNIDO organizes international seminars and symposia where the problems of industrial co-operation between developed countries and developing countries can be discussed. These seminars should be attended by experts and businessmen from the developing countries and the developed countries as well as economists who are dealing with the theoretical problems involved.

36. 4) As was already stated in the present paper, the establishment of joint ventures at the present stage of development in the socialist countries, is in most cases incumbent on state organizations or firms which act as public enterprises. Taking into consideration the already stated assumption that UNIDO is convinced in the advantages of this method of speeding up the industrialization of the developing countries, the question arises to what degree can the creation of such enterprises be accelerated and encouraged. This form of joint venture can be publicized through bulletins or other printed materials along with the setting forth also of the peculiarities of other forms of economic co-operation and economic aid to the developing countries: direct trading, establishment of private firms, sale of licences, establishment of affiliates and subsidiaries, etc.

37. 5) UNIDO should contact international firms dealing with the consolidation of the economic and financial status of big concerns with studying the possibility of establishing joint ventures in developing countries where there is no central or municipal management who could take the initiative of inviting firms from developed countries to start joint ventures.

38. 6) UNIDO can act as a mediator between big firms from the socialist and the Western countries for the creation of joint

enterprises with the participation of several contracting parties from the developing countries and the developed countries. This is the case with projects of big infrastructural importance - construction of roads, railways, ports, and electric power stations, etc. Several such developing countries are often interested in such construction. For example, the regulation of navigable rivers in Africa, Asia and South America.

30. 7) There is also the possibility of creating international financial concerns (concerns) for financing the big infrastructural projects with the participation of the developing, the Western and the socialist countries. The task in this case is mostly to co-ordinate the activities of several small developing countries and to channel them to international and national banking institutes which are interested in the implementation of major projects in developing countries.

40. 8) UNIDO can encourage the existing joint enterprises between partners from developed and developing countries which have financial difficulties, are short of skilled workers, are lagging behind in technology and which are in search of new partners in order to overcome temporary difficulties. The data on the state of affairs in a certain number of enterprises could be obtained from the information service of UNIDO mentioned above.

11. 9) Another task of UNIDO is to work out special models on a scientific basis for overcoming the disequilibrium in the balance of payments of the developing countries (foreign trade payments, stability of foreign exchange capital inflows and outflows, etc.)

42. Some of the abovementioned problems are closely related not only to joint ventures but to the problems of speeding up the industrialization of the developing countries and of achieving an equilibrium in their balance of payment in general.

METHODOLOGICAL NOTES

43. The working out of a new model which would serve as a starting point in defining the policy of establishing joint enterprises between the socialist countries and the developing countries is based on the solution mainly of the following problems:

- a) the actual possibilities of co-ordination between the socialist countries in establishing joint industrial enterprises in a definite geographical area of the developing countries;
- b) co-ordination, on the basis of the principle of peaceful co-existence in the field of international division of labour, with the enterprises of the western countries in the same areas under the guidance of UNIDO;
- c) ensuring the collaboration of UNCTAD for the establishment of joint industrial enterprises on the basis of a long-term plan.

44. The solution of the first problem is to be carried out within the framework of COMECON (CMEA) because socialist countries of Eastern Europe are members of this economic organization. The experience of economic co-operation between the developed socialist countries in this area of the world during the last two decades shows that it is possible to achieve a co-ordinated activity for the establishment of joint enterprises in the field of industry between the socialist countries and the developing countries. The adoption of definite forms of economic co-operation between the socialist countries and one of the greatest developing countries in South East Asia, in full agreement with the governments of these countries, speaks also of the possibilities of devising other forms, more efficient in carrying out a policy of accelerated industrialization of the developing countries.

45. The international division of labour is an objective process which creates conditions for economic co-operation between the socialist countries in the western countries within the framework of their national economy as well as in the field of their policy of economic co-operation with the developing countries. The obligations of these

Countries which derive from their membership in the United Nations constitute the starting point of such a co-operation. The obligations of the countries on a higher technical and technological level towards the developing countries are based also upon the economic necessity for each country, U.N. member, to ensure perspectives for their future economic development. An expression of this general interest by each developed or underdeveloped country is the great number of trade and economic agreements which are being signed between all countries in the world at present.

46. The documents issued in connection with the Geneva and New Delhi sessions of UNCTAD point to the readiness of the developing countries to establish such forms of co-operation with the developed countries which would prove to be most efficient for the solution of the problems connected with the economic growth of those countries.

47. The specifying of one model which would serve as a basis for the working out of a co-ordinated plan concerning the forms of establishing joint enterprises between the socialist and the developing countries requires a classification of some peculiar features in the economic development of the countries of the "third world". Those peculiarities make it necessary to devise various instruments of policy and practical measures in connection with the establishment of joint ventures in the developing countries.

(a) Criterion regarding the choice of the countries

48. The analysis of the data on economic growth and the problems connected with securing such growth in the various developing countries shows a considerable difference not only between the three continents in which a large number of developing countries are situated, but also between countries of one and the same continent. While the national income per capita in some countries is below 100 dollars per annum, in some others it amounts to 500 dollars and is equal to the income of some countries which are considered as developed ones. This difference in the level of development of the productive forces makes it necessary to take into consideration some elements which are general and typical for a large number of developing countries.

49. To what an extent is such an approach justified having in view that all developing countries equally strive for a rapid development of their productive forces?

50. The reasons which determine a certain selection in working out the methodology of establishing joint ventures in those countries are the following:

- 1) the existence of obstacles of a political, economic and social nature to the establishment of joint ventures in one country rather than in another;
- 2) the acquired experience by a given developed socialist country in a given area of the "third world" which creates pre-requisites for establishing successful joint ventures;
- 3) the assessment by a UNIDO expert group of the necessity of a more rapid development of a certain branch of the economy of a given developing country in order to prevent the deterioration of its financial situation.

51. The application of the mentioned criteria of selecting the countries suitable for establishing joint ventures in a given area of the "third world" does not prejudice the general line of assisting the developing countries. These criteria give only reasons for the expediency of definite forms of economic co-operation with the developing countries.

52. When applying these criteria one should proceed from a preliminary study which is to be carried out by a group of experts on the conditions for establishing a joint venture in a given country. For the time being such studies are carried out by the experts of every socialist country in areas where the adoption of higher forms of economic co-operation with the developing countries is envisaged. Within the framework of the co-ordinating plan for a closer collaboration regarding the establishing of mixed industrial enterprises according to the proposals of UNIDO, it is possible to establish a common line of action and a joint group from all socialist countries should be established with a view to investigating the conditions in the developing countries. Such a group is supposed to work in co-operation with UNIDO representatives who have been entrusted with the same task.

(b) Criteria for the selection of branches in which joint ventures should be established.

53. The persistently passive balance of payments is the point of departure in attempting to establish joint industrial enterprises between the developing countries and the socialist countries. The problem is a decisive factor for deciding in which branches the joint

enterprises should be established. But along with the problem of research the question arises of changes in the structure of the economy which are caused by the newly created industrial enterprises.

54. The conception concerning the conditions for a rapid growth of the productive forces in the developing countries is established in the practice of the socialist countries and can be formulated as follows:

- 1) giving priority to branches which utilize the basic natural resources in a given country;
 - 2) development of production which increases the technological level of the country;
 - 3) in accordance with the size of the country, specialization and co-operation in a number of branches with those neighbouring countries with which close economic and political relations are established.
- The experience of the socialist countries during the past two decades in working out models for solving the economic problems of the developing countries confirms this economic policy.

55. For the time being this experience is made use of also by some developing countries while taking into account the peculiarities of the economy of the country and the possibilities for co-operation with the Socialist and Western countries. As it is well known, the newly established countries of the "third world" aim at utilizing the experience of the developed countries during the last two decades in the field of the industrialization. The methods applied for solving the current economic problems and establishing long-term plans for the development of the productive forces are being worked out by taking into consideration in most cases the traditional peculiarities of the country.

56. As is well known, a distinctive feature of the economic structure in most developing countries is the limited number of outputs in which the labour of the population is employed. The efforts to diversify the production and the foreign trade have not yet been successful. The monocultural character of the production in agriculture prevails while the limited number of

outputs in industry is evidently a problem which cannot be solved in the coming years. The immediate transfer of experience in the methods of management and planning of the economy by the socialist countries and the modification of the structure of the economy through the establishment of industrial joint ventures can be an important factor for solving this crucial problem in the economy of the developing countries.

(c) Criterion for Evaluating the Impact of Joint Enterprises upon the balance of payments of the developing countries

57. The present state of the balance of payments in a large number of developing countries can hardly be a starting point for finding out the real relationship between the need for foreign exchange and the possibility of satisfying this need out of the country's own resources. In order to achieve an equilibrium in the balance of payments many countries create artificially economic undertakings for import substitution of goods of prime necessity and subsidize the export of goods.

58. Therefore the necessity of working out a method which can disclose more accurately the exact correlation between the growing need for foreign exchange and the real possibilities of covering those needs through the available resources of a given country. This method is supposed to be based upon a study by means of which the following relationships can be ascertained:

- 1) the ratio between the production of consumer goods and the domestic consumption of these goods with due account for the average quantity of calories of food per capita in a given area of the world;
- 2) the average amount of foreign exchange for a period of ten years for the import of technical equipment necessary to ensure a definite percentage of growth of the productive forces and which can guarantee employment for the increasing labour force;
- 3) setting aside the necessary foreign exchange for sinking the short-term and long-term debts.

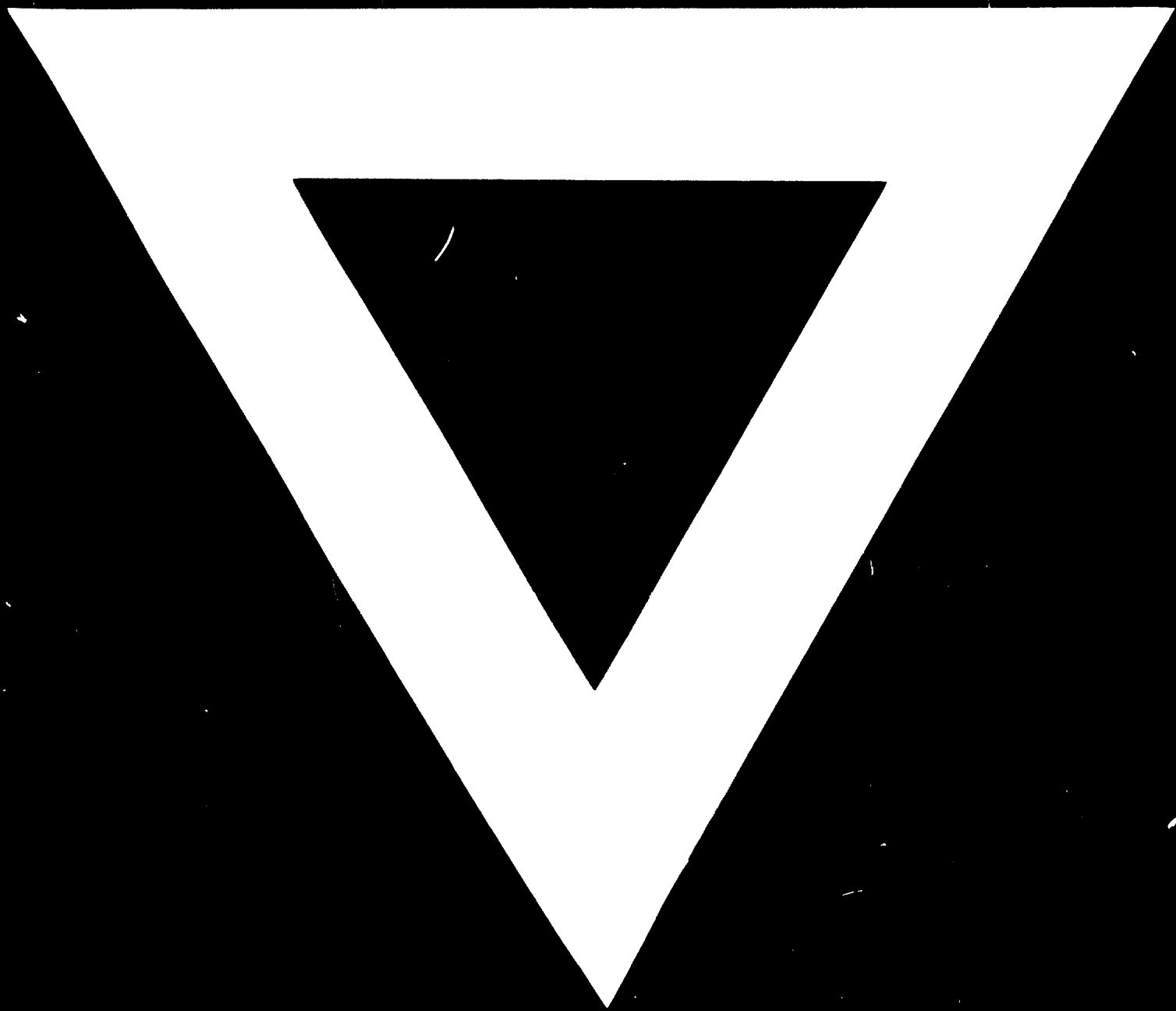
59. On the basis of this method the selection of branches which are most conducive to structural changes with a view to improving the export performance of a given developing country or the restriction of its import is to be carried out by means of establishing

enterprises producing for the home market.

60. The appraisal of the existing enterprises in the country is to be carried out in the same way with regard to their effectivity in changing the correlation between imports and exports. The analysis of the statistical data gives the main items for which considerable amounts of foreign exchange are spent: black metals, chemical products and pharmaceuticals, electrical and machine equipment and some mass consumer goods of industrial origin. Those are the branches which exert pressure on the balance of payments of the developing countries in general.

61. From the point of view of the balance of payments position of the developing countries a strict distinction should be made between the countries which export oil and oil products on the international market and the newly liberated developing countries which do not possess oil deposits. It is known that the so-called oil producing countries usually do not suffer from shortage of foreign exchange. But they are in need of a much greater diversification of industrial production in order to overcome the lopsided development of their productive forces. That is why in planning the establishing of joint industrial enterprises in those countries the main efforts are to be directed towards the establishment of new branches of industry with a potential for export of manufactures.





14.3.74