OCCASION

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

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

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

D00871

Distr.
LIMITED

ID/WG.47/15
5 May 1970

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

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

EXPORT PROMOTION THROUGH INTERNATIONAL INDUSTRIAL CO-OPERATION [1]

prepared by

W.J. George Dziecielewski
Consultant
London, United Kingdom

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.

id.70-2683

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.

Page

I. [illegible]

II. [illegible]

III. OBSTACLES [illegible]

a) [illegible]

b) Product[illegible]

c) [illegible]

d) Marketing

e) Incentives and Admin[illegible]

f) Import [illegible]

IV. [illegible]

a) Necessity

b) Motives

c) Conflicts

d) Effects

RECOMMENDATIONS

A. To Developed Countries

B. To Developing Countries

C. To [illegible]

Export Promotion Through International Industrial Co-Operation

I. INTRODUCTION

Raising the standard of living in the developing countries is the greatest economic challenge of the century. International aid was the first response to this challenge but today, "Trade not Aid", is the formula that is being advocated. The world however, is still too busy removing obstacles to trade to judge whether this answer is adequate. The fact that the developing countries share of world trade has continued to diminish is an indication that something more than just trade liberalization is required to reverse this trend. International industrial co-operation being less one-sided than aid and more constructive than trade may thus be a more viable answer or an improvement on the methods tried to date.

In order to promote the expansion of manufactured goods exports from developing countries and to ensure that this is done by the most effective means, UNIDO is sponsoring this expert group meeting on export promotion through international industrial co-operation between the developing countries and the industrialized countries.

The aims of the meeting are:

a) To examine the problems of international industrial co-operation between developed and developing countries and more specifically the relationship between this co-operation and the export performance of developing countries.

b) To define the practical means of achieving the expansion of manufactured goods exports from developing countries through international industrial co-operation and indicate the industrial sectors which offer the greatest opportunities for this expansion.

c) To stipulate the most fruitful methods by which UNIDO can assist in promoting export oriented industrial co-operation that would help developing countries to solve their chronic balance of payments difficulties.

From the preliminary work done by the Export Industries Section of UNIDO, it appears that the most promising industrial sectors for export-oriented industrial co-operation are those that are based

upon indigenous resources. Such industries have the advantage of adding value at a [illegible] cost of foreign [illegible] of running expenditure. [illegible] earners when their products are exported. Examples of such industries [illegible] textiles, clothing, [illegible], furniture, paper board, glassware, [illegible], leather [illegible], food processing and canning, [illegible] and mechanical engineering component manufacture, etc.

By bringing together potential partners in such export-oriented industries [illegible] industrial co-operation (joint ventures, [illegible] sub-contracting, [illegible]) [illegible] in an increased [illegible] developing countries.

As a result of the proposed [illegible] Meeting, UNIDO will be able to better define its possibilities [illegible] the selection of potential export-oriented industries, and its assistance will become more effective. The [illegible] to prepare and present [illegible] opportunities for the development of [illegible] international co-operation. These will form the nucleus for [illegible] technical assistance projects which shall emerge from the subsequent [illegible] activities.

It is hoped therefore, that [illegible] exhaustive in its coverage of the problem [illegible] will serve as a stimulus to discussion and [illegible] all the other material that is being presented to the meeting [illegible] base for the identification of practical [illegible].

II. WORLD TRADE

Current trends [illegible] that the prosperity gap between developed and developing countries is still widening, despite all the efforts that [illegible] over the last two decades. Exports of manufactures [illegible] the spearhead of progress [illegible] with the highest rates of growth in value terms occurring in [illegible] chemicals, machinery and transport equipment. [illegible]

whose exports consist mainly of manufactured products have stood to benefit most from the buoyant expansion of the demand for them. Both the developed market economy countries and the socialist countries of Eastern Europe have participated in this dynamic growth.

The commodity structure of exports from developing countries offers a stark contrast. Their share of trade consisted of the slowest growing group of exports - raw materials accounted for 29% of their total exports in 1960 (23% in 1965), food for no less than 30% (29% in 1965). The remainder consisted of fuel (28% in 1960 and 31% in 1965) with all manufactures accounting for only 14% in 1960 and 17% in 1965.

The problem is therefore, how to induce an expansion in trade of the developing countries to levels that would ensure sufficient foreign exchange earnings to meet their development needs. As traditional exports are unlikely to provide the scope for expansion of the required magnitude in the foreseeable future, increased exports of manufactured goods can provide the only viable alternative.

III. OBSTACLES TO EXPORT

Even among developed countries there are wide divergencies in the degree of success in export performance. Only through a high degree of specialisation can the basic prerequisites of competitive prices, sufficient quality and quick adaptability to changing demand be achieved. It is not surprising therefore, that developing countries find difficulties in selling their manufactured products on world markets. Most of their industries being incipient industries have neither the necessary structure, financial resources or export marketing know-how to export successfully.

Major obstacles which exports of manufactured goods from developing countries face today can be summarized as follows:

1) Predominant orientation towards import substitution.

2) High production costs resulting in uncompetitive prices due to:

(a) High material input costs (the result of indiscriminate and excessive protection)

(b) Restricted effective markets allowing for only uneconomic small scale production runs.

(c) Low labour productivity [illegible] high [illegible] rates.

(d) [illegible]
capacity.

3) Unpredictable quality.

4) Lack of export marketing [illegible].

5) Insufficient [illegible].

6) Trade restrictions [illegible].

7) Administrative obstacles [illegible] export documentation, slowness of [illegible] credit [illegible] due to internal [illegible].

c) Import Substitution

Attempts to industrialize [illegible] on the balance of payments [illegible] imports. [illegible] to produce import substitutes, [illegible] this strain. This however has not [illegible]. The import of some goods [illegible] manufactured [illegible] certainly been reduced. Imports of intermediate [illegible] materials have risen, however, [illegible] the [illegible] import substitution [illegible]. The major disadvantage of industrialization through [illegible] import quotas [illegible] exports. Not only have governments [illegible] exchange rates than [illegible] the [illegible] of [illegible].

[illegible] import substitution policies are very [illegible] strong, [illegible] exports are concerned, they [illegible].
Developing countries [illegible] towards such policies [illegible] their exports.
[illegible] these industries [illegible] protected while these [illegible] liberalized.

b) Production Costs

As has been mentioned already, the main disadvantage of import substitution policies from the point of view of exports are their adverse effect on manufacturing costs. Indiscriminate and excessive protection raises material input costs and thus puts the manufacturer in a developing country at an automatic disadvantage in world markets. Production costs are also generally higher due to the fact that the scale of production is often uneconomic. Small and/or restricted home markets do not allow local manufacturers to operate on a sufficiently large scale to obtain the full benefits of mass production techniques. This, together with low labour productivity and the wide-spread under utilization of existing installed capacity are the main reasons why the production costs of manufactured goods from developing countries tend to be uncompetitive in world markets.

c) Quality

The question of quality is a vexed one and is closely related to prices. As long as prices are in step with a given degree of quality of a product customers can always be found. The problem in developing countries however, is that through the lack of an adequately trained labour force and inefficient quality control in manufacturing, quality is at best unpredictable and at worst unacceptable at international market prices.

Even when the physical characteristics such as product design, external finish, specification and reliability in performance are adequate and the price is right, exports of manufactured goods from developing countries suffer from a psychological barrier to successful sales. Prospective customers prefer to purchase from their established suppliers in developed countries rather than risk shortcomings that are very often imaginary. It has often been found that to sell manufactured goods from developing countries a substantial sacrifice in price has to be accepted for goods of even very good quality. A general improvement in quality coupled with substantial investment in advertising are the only means of gradually overcoming the existing bias against manufactured products produced in developing countries.

d) Marketing

The greatest single problem that faces non-traditional exports from the developing countries is the lack of marketing know-how. Marketing is a philosophy and as such its various aspects are more

[illegible]ficult to transmit than [illegible] more tangible types of know-how [illegible], quality control or [illegible] [illegible].

[illegible] potential export territor[illegible] [illegible] effectively. [illegible], the [illegible] to obtain credit, lack of effective [illegible], lack of [illegible] information [illegible] after-sale [illegible] [illegible] deliveries [illegible] the [illegible] investigation [illegible] their poor export efficiency.

Current [illegible] international marketing. [illegible] design, production [illegible] specific demands of the customer. The successful [illegible], in the capital goods sectors, [illegible] customers [illegible] solutions.

This type of approach [illegible], the [illegible] without [illegible] to export [illegible] [illegible].

c) [illegible]

[illegible] therefore more effective.

[illegible]

Foremost amongst them are the institutional complexities of export procedures which are characteristic of developing countries. Small companies do not possess and cannot afford to employ specialists in export documentation, draw-back procedures, credit finance etc. Because of this lack of basic expertise, the existing highly complex procedures tend to frighten off many potential exporters. It is highly desirable therefore to reduce export documentation to a minimum and evolve a system which rewards the exporter almost automatically.

f) Import Duties and Quotas

Last but not least of the problems which developing countries face when they try to export manufactured goods are tariff and quota restrictions. The highest rates of protection against their products are in fact applied by other developing countries, thereby hindering the expansion of exports between developing countries.

It is often claimed that effective protection which developed countries impose against manufactured goods imports from developing countries is far higher than that which is reflected in their tariffs. What is being protected in fact is the added value of products and especially the value added through labour. This is particularly disadvantageous to developing countries as one of their main competitive advantages lies in the cost of labour. Under these circumstances, import duties, even if they are very low, pose far greater obstacles to the exports of developing countries than to their competitors from developed countries.

In the vast majority of cases however, manufactured goods export from developing countries would not be competitive even if tariffs were abolished. Production costs are so high in many instances that they make the products uncompetitive in any case, and the existance or non existance of tariffs is barely relevant.

Quota restrictions on the other hand have a far more damaging effect on the potential exports of developing countries. This is because they restrict the export of competitive manufactured goods thereby reducing the foreign exchange earning capacities of the few products that are exportable.

IV. INDUSTRIAL CO-OPERATION

a) Necessity

The necessity of industrial co-operation agreements between developed and developing countries was recognized by the first United Nations Conference on Trade and Development in Geneva in 1964 and its resolutions were confirmed by the second session in New Delhi in 196[illegible]. At both sessions stress was laid on the importance of government encouragement of the promotion of economic industrial and technical co-operation as a means of stimulating the expansion of trade. Particular stress was laid on the need to encourage the diversification of exports by promoting the growth of manufactures and semi-manufactures from developing countries. [illegible] the development of export-oriented joint ventures, [illegible] [illegible] to help to overcome some of the basic obstacles to manufactured goods exports.

b) Motives

All companies from industrialized countries, whether, private [illegible] or government owned corporations would prefer to sell their products directly without the necessity for local manufacture. It [illegible] when tariffs, [illegible] and other restrictions prevent them from competing effectively on a market, that they begin to think in terms of local investment. As their primary [illegible] is to serve the local market they [illegible] out the [illegible] which would allow [illegible] this, they attempt to [illegible] their interests in third countries [illegible] [illegible] agreements.

The [illegible] of [illegible] is that they [illegible] the amount of the partners contribution [illegible] the venture, the [illegible] and [illegible] are the main obstacles to direct foreign investment in many developing countries. The presence of a local partner not only [illegible] outright [illegible]-propriation in [illegible] the [illegible] countries, but also helps to alleviate [illegible] which so often lead to restrictions and discrimination against foreign [illegible].

Through the pooling of resources, ability and experience, the partners can [illegible], which alone neither would want to [illegible] or [illegible]. The partner from the developed country [illegible] technical skills, patents, [illegible] marketing and production techniques etc. whereas the local partner [illegible] knowledge of local customs, business practices

and access to the labour market in the area.

The degree of ownership and the extent of management participation considered desirable in a joint venture varies widely and depends in no small measure upon the particular company's reasons for investing abroad. e.g.

(a) To spread available investment capital over more projects.

(b) To limit financial risk when political and economic stability are in doubt.

(c) To lessen anti foreign investment feeling on the part of government and public in the host country.

(d) To pool skills and gain knowledge of local business practices, conditions and opportunities.

(e) To enter a market which is legally closed to wholly owned foreign companies.

(f) To sell know-how.

(g) To integrate and rationalize corporate world-wide activities.

Whatever the reasons for participating in a joint venture each of the partners wants to obtain sufficient equity and management participation to attain his objective. The actual division of equity is therefore decided by the actual bargaining power of each partner.

c) Conflicts

Conflicts of interest frequently arise between the partners of joint ventures. The reason for disputes vary, but usually arise out of each partner's different interpretation of management, objectives and commercial aims of the joint company. Although it would be naive to think that conflict between partners can ever be eliminated, help is desirable in drafting the original joint venture agreement thereby ensuring that neither party signs clauses which are vague, open to mis-interpretation or against the best interests of the weaker partner or recipient country.

From the point of view of export development in developing countries, it is essential that the export component of a joint venture is written into the agreement at the outset. Without this provision there is a real danger that the joint venture will

develop into a purely import substitution enterprise whose whole structure will be unsuitable for sustained exports or at least extremely difficult to adapt toward export orientation.

Competitive conflicts are most likely to occur in the host country when one or both participants and/or the joint venture are active in the same product line. Conflicts of this type are more common among partners who are specialists in a narrow product line as there is little scope for complimentarity. Joint ventures between a local manufacturer and a large multinational corporation are far less prone to such conflicts. Large companies usually produce a wider product range and these joint ventures more often than not are set up to produce complementary equipment from the outset. Nevertheless they often include clauses in the agreements restricting the sales territory of the joint venture and prohibiting the use of licenses trade marks and know-how outside the prescribed area. This effectively bars the export of the joint ventures products to markets outside the alloted sales territory.

d) <u>Effects</u>

Joint ventures acting as a catalyst for the transfer of necessary capital and know-how create employment, income, raise standards and train local personnel in modern production and marketing methods. In the host country they contribute to increased national output and wealth, technological progress, the restructuring of industry and a high degree of specialization. This enables the host country's manufacturers to compete successfully in export markets.

Before exports of manufactures can flourish, a suitable climate must exist in the developing countries. Joint ventures can produce exportable goods but cannot supply the required infra-structure that would ensure export success. This requires concerted well balanced government action. As many industries in developing countries are structurally too weak to compete in export markets on their own, government action is required to foster amalgamations and merges within these industries and the formation of export groups in order to overcome this basic weakness.

Changes in the structure of industry have to be induced through:

(i) rigorous tax collection to ensure that the less efficient firms are forced to pay their dues in the same way as the larger and more efficient. This would eliminate the main reason for survival (tax evasion)

(ii) Financial incentives in the form of investment grants, tax concessions etc. to firms willing to amalgamate (this does not mean that small firms are to be discouraged)

These measures should be so administered that a general raising of the level of efficiency is achieved within the industry.

RECOMMENDATIONS

A. To Developed Countries

a) The governments of developed countries should:

(1) Encourage within the framework of their national legislation industrial groups (consortia) to set up joint enterprises in developing countries.

(2) Take steps which would produce a more rational sharing of development through complementary production.

(3) Urge multi-national corporations to refrain from restrictive practices in export markets when entering into joint venture partnerships.

(4) Institute a national investment guarantee fund to provide individual insurance to potential partners in joint ventures in developing countries.

(5) Consider making financial contributions for feasibility studies in developing countries.

(6) Review trade policies with special reference to the granting of preferences for manufactured imports from developing countries.

b) Manufacturers from developed countries should:

(1) Note the growing desire for local participation in developing countries and be open to such participation in joint venture partnerships.

(2) Explore existing opportunities for making use of wage cost advantages in developing countries.

(3) Refrain from restricting their joint venture partners in product development and/or in third markets.

(4) Support technical training schemes that are likely to help transfer of technology and marketing know-how to joint ventures.

B. To Developing Countries

Governments of developing countries should consider the following forms of action in order to improve their export capability.

(1) Selective import substitution must replace the hitherto indiscriminate application of these policies.

(2) Tariffs and quotas on imported components and raw materials should be gradually and selectively reduced.

(3) In their development programmes governments should lay the greatest stress on the careful selection of industrial branches to be promoted. Only branches with the highest added value should be considered.

(4) Whenever the home market in a developing country is too small to support economic production runs, the government should try to overcome this difficulty through regional co-ordination agreements with their neighbours. Industries should be set up to supply the requirements of regional market where component inputs are manufactured in different countries of the regional grouping.

(5) Incentives must not only be adequate but above all effective. To be effective incentives have to be simply administered so that no undue delay between the application for benefits and payment occurs.

(6) Active government encouragement of exports through financial participation in trade fairs, exhibitions, export market research and other promotional activities is required.

C. To UNIDO

Through its technical assistance programme UNIDO can assist developing countries to:

(1) Identify the causes of unsatisfactory export performance.

(2) Select the industrial branches that will contribute most to the export capabilities of individual developing countries.

(3) Explore the feasibility of establishing export oriented joint ventures in selected industrial branches.

(4) Change the structure of existing industries that have export potential, thereby raising their capability to export.

(5) Assist in the drafting of joint venture agreements to ensure that the interests of the weaker partner and/or host country are safeguarded.

(6) Collect and publicize information on:

(a) Government agreements which contain clauses on individual co-operation.

(b) Privileges, protection, etc. given to foreign investors.

(c) Priviliges, protection etc. given to different branches of industry in developing countries.

(d) Existing products and/or processes which could benefit from joint ventures, sub-contracting or other forms of international co-operative manufacturing arrangements.

The above help should be offered by UNIDO in addition to the already well established forms of technical assistance in the fields of production methods, quality control, labour productivity, costing, pricing, marketing, distribution, product adaptation etc.

22. 3. 74