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

INDUSTRIAL CO-OPERATION BETWEEN SOCIALIST COUNTRIES  
OF EASTERN EUROPE AND DEVELOPING COUNTRIES FOR EXPORTS <sup>1/</sup>

Prepared by the secretariat of UNIDO

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### Summary of Findings

1. The main conclusions and findings in this paper are:

(1) Cases of real industrial co-operation between centrally planned economies of Eastern Europe and developing countries are still not numerous, particularly if compared with the considerable number of industrial agreements between centrally planned and developed market economy countries, although a marked upward tendency has been noticeable during the last few years. The problems are, however, quite similar to those arising in East-West co-operation.

(2) Most of the industrial co-operation agreements between partners from socialist and from developing countries are in the field of heavy industry and infra-structure or other branches which are not quite suitable for exports for the time being. The main form of co-operation between developing and socialist countries is the supply of machinery and equipment coupled with technical assistance and credits. There is little evidence of real specialisation agreements of a complex type or of subcontracting. Joint ventures are still very rare but a shift in emphasis is noticeable in this respect.

(3) Industrial co-operation between developing and socialist countries is aimed mainly at import replacement and destined for the local market. In most cases the products manufactured under such agreements are still uncompetitive, in terms of prices and quality on the world market. Joint marketing organizations and marketing policies are still rare. This creates difficulties in the orientation of joint operations towards exports.

(4) The reason for the inadequate development of industrial co-operation between socialist and developing countries can be classified as follows:

- (a) non co-ordination of interests among the partners due to the differences in the level of economic development;
- (b) lack of understanding of what co-operation is and what advantages can be derived from it on the part of potential partners in developing countries.

- (c) Deficiencies in the economic mechanism and the export machinery both of developing and socialist countries as well as inadequate export promotion policies and incentives;
- (d) inadequate feasibility studies on dynamic comparative advantages of specialization and co-operation in production;

(5) The criteria of efficiency in establishing and implementing export-oriented joint ventures between enterprises in socialist and developing countries is coming to the fore as a result of the economic reforms in the last European countries and the balance of payments difficulties of developing countries. The problems of costs, quality and prices, terms of delivery and after-sales services as well as export marketing policies are given much greater consideration in industrial co-operation between partners from socialist and developing countries. So are the problems of multilateralization of payments and stability of currency as well as the institutional factors (fiscal incentives and subsidies, credit policies, foreign exchange policies, etc.)

(6) It should be emphasized, however, that industrial co-operation agreements involve a strengthening of inter-dependence between the national economies, or to be precise, between the enterprises and branches engaged in these forms of co-operation. At the same time, they increase the risks ensuing from non-fulfillment of obligations by the partners. This is a fact which contributes to increase the caution of those who are interested in similar transactions.

(7) There are at present, considerable possibilities for the further development of industrial co-operation between the socialist and the developing countries. It is expedient, however, to take a gradualistic approach in promoting the various forms of co-operation - from specialization in simple parts of machines and equipment to more complex goods and eventually finished products, for the domestic market of both parties and for export to third markets wherever possible.

## INTRODUCTION

2. The purpose of this paper is to discuss the problems of industrial co-operation between socialist countries of eastern Europe and developing countries as part of the larger problem of industrial co-operation between developed and developing countries. This problem undoubtedly deserves high priority both in the work programme and technical assistance activities of UNIDO and in the economic policy and planning practices of the countries concerned. It has become evident that international economic relations cannot depend solely on the classical trade based on buying and selling. Complicated forms of production co-operation coupled with the transfer of technological know-how, joint research and marketing develop ever more.
3. It is expected that the various forms of industrial co-operation (deliveries of complete plants coupled with technical assistance and credits, simple and complex specialization, joint enterprises, etc.) will lead to an increase in the industrial capacity and technological level of enterprises in the developing countries, to a diversification and improvement of their economic and export structure, to an acceleration of the rates of economic growth in accordance with the new shifts in international division of labour in the era of the technical revolution. For developed countries, co-operation in the sphere of production is one of the most promising ways of expanding the trade with developing countries by expanding their markets for capital goods.
4. From the point of view of promoting export-oriented industries and exports of manufactures from developing countries, it would be particularly important to establish whether, under what conditions and in what forms industrial co-operation can best contribute to the export potential of the developing countries and improve the efficiency of those branches of manufacturing industry which are oriented mainly towards the external markets.
5. In the paper, special emphasis is laid on the investigation of areas where industrial co-operation can be expected to be mutually advantageous. Some of the specific obstacles and difficulties are shown, which may arise when developing and socialist countries enter into industrial co-operation agreements for exports.

PART ONE

CHAPTER ONE - BACKGROUND AND CRITERIA

A. Background of the work

6. The necessity of industrial-co-operation agreements between developed countries - centrally planned economies and market economies - and developing countries was recognized as early as in 1964 by the First United Nations Conference on Trade and Development in Geneva. Two resolutions were adopted to this effect - the first one referring to industrial branch agreements on partial division of labour between developing countries and developed countries with a centrally planned economy. (See Proceedings of the First United Nations Conference on Trade and Development, Volume I, Final Act and Report, Annex A.III.2, p.29-40-).

7. The first resolution recommends a "new type of international co-operation in the form of industrial branch agreements between the countries concerned based on partial division of labour aimed at promoting the existing and establishing new export industries in the developing countries."<sup>4</sup> After highlighting the principal features of industrial branch agreements (long-term or short-term, bilateral or multilateral, partners, selection of export industries, credit and repayment of credit, co-operation in design and research, prices, etc.) the document emphasizes that "the establishment of export industries in the developing countries under the branch agreements is designed to create complementarity of economies based on specialization and partial division of labour. The exports of these industries to countries with centrally planned economies would be expected, therefore, to continue after the credit for the machinery and equipment has been fully repaid." The second resolution recommends "promoting integrated programmes of manufacture and schemes of industrial co-operation between developing and developed countries by:

(i) encouraging, within the framework of their national legislation, industrial groups to set up joint enterprises in developing economies for producing goods required in developed countries;

(ii) taking steps for harmonizing and adjustment in production patterns so that endowment factors of both developed and developing economies are more efficiently used for common benefit;

(iii) urging industrial groups to refrain from imposing restrictive



provisions relating to the division of export markets in their collaboration agreements".

8. There is a difference in emphasis in both resolutions which stems from the different conditions and motives of co-operation of developing countries with centrally planned and developed market economies. Whereas in the case of industrial co-operation between developing and socialist countries the emphasis is laid on long-term, bilateral or multilateral industrial branch agreements between the countries concerned, based on partial division of labour, with the aim of creating complementarity of economies, in the case of industrial co-operation between developing and developed market economies, the emphasis is on encouraging the setting up of joint enterprises for producing goods required in developed countries and on structural adjustments, in order to enable a more efficient use of production factors. In both resolutions, however, it is clearly stated that the aim of the various forms of industrial co-operation between developing and developed countries is the expansion and diversification of exports of manufactures and semi-manufactures and the promotion of export industries in developing countries.

9. UNIDO has embarked upon a programme of promoting export-oriented joint ventures, specialization agreements, international subcontracting and other forms of international industrial co-operation. It is felt that industrial co-operation between developed and developing countries can become one of the major instruments of industrialization of the economically less developed countries. However, most joint-venture partnerships between the two groups of countries have been set up primarily to satisfy demand in the local market and for import substitution. In most cases they do not contribute effectively to exports. This emphasis on saving, rather than earning foreign exchange has thus become one of the principal causes of the slow progress in the growth of manufactured goods exports from the developing countries.

10. The present Export Group Meeting is convened within the framework of this programme. It is focused on problems of industrial co-operation between developing countries and socialist countries of Eastern Europe. By bringing together potential partners in export-oriented industries it is hoped that the joint ventures thus formed will result in an increased ability to export on the part of developing countries. By giving technical assistance in the selection of industries that will

contribute most to the export capabilities of individual developing countries and, by promoting the development of international joint ventures that are export-oriented, UNCTAD can help to overcome some of the basic obstacles to exports from developing countries.

B. The Concept of Industrial Co-operation

11. To formulate a consistent definition of industrial co-operation is obviously a difficult task. Industrial co-operation agreements are a new phenomenon particularly in comparison with traditional foreign trade and business transactions. They have not been given due attention in international economic literature.

12. In seeking to propose a definition as possible of industrial co-operation, the functional link and interdependence of the partners must always be underlined. The partners may deliver means of production to each other or perform services, upon which they behave as reciprocal buyers and sellers. In this way "production" and the "market" become parts of a whole, even when only one of the partners has the role of "finalist", who introduces the finished production into the market. This especially holds true if the agreement on co-operation includes both joint production and sales of the finished product to third parties.<sup>1/</sup>

13. Industrial co-operation pertains to all agreements concluded between two or more industrial enterprises or groups of enterprises, located in various countries. In other words, one should focus on manufacturing industries, and, within these industries, on the agreements between enterprises, or groups of enterprises as the main units under investigation.

14. One should distinguish between economic co-operation, industrial co-operation and technical and scientific co-operation. "Economic" is clearly a very broad term, while technical and scientific co-operation is either part of industrial co-operation or may have comparatively little direct impact on trade. Current business contracts for buying and selling goods and services, obviously, cannot be considered as industrial co-operation.

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<sup>1/</sup> Co-operation with foreign countries in new conditions of business and import liberalization, Fulcrum, 1967, p.6.

15. Industrial co-operation, in the narrow sense of the word, involves co-operation in the production of one or several products, in using the same technology, or the same division of labour between industrial enterprises or two or more countries.

16. In the broader sense, the term industrial co-operation implies deliveries of industrial equipment, construction of industrial plants, or, in other words, investment activities combined with classical trade relations, on the part of a country exporting industrial equipment, coupled with the extension of technical assistance.

17. Industrial co-operation is considered here in the broader sense and includes the following three categories of agreements between manufacturing enterprises located in different countries:

(i) technological arrangements ranging from an exchange of know-how to joint research and development projects in specific fields;

(ii) specialization arrangements which may be subdivided into two groups:

(a) arrangements concerning deliveries of specified inputs, calling for flows in one or several directions;

(b) arrangements concerning production of specific items of final output.

(iii) deliveries of machinery and equipment or entire plants combined with the supply of know-how by the selling enterprise.

(iv) marketing arrangements providing for the use by one enterprise of the sales and service networks of other enterprise, or for the establishment of a joint network. 2/

### C. Prerequisites and Criteria

18. The main criterion for the establishment of industrial co-operation between developing and socialist countries is whether it contributes to a rise in productivity and maximum efficiency of production in accordance with the principles of dynamic comparative advantage. Unless the competitive position of manufactured exports both of developing and socialist countries on the world market is

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2/ For more details see Economic Survey of Europe in 1967, Chapter II, Section 7.

strengthened, there are no solid grounds to expect that agreements on co-operation and division of labour will be successful in the long run. The notes will be more successful only insofar as they lead to enter into agreements only with countries which are capable of satisfying the demand for high quality and low-priced goods. This is all the more so now, when the criterion of effectiveness of production and foreign trade of socialist countries is brought to the fore as a result of the economic reforms. Also, the problems of costs, prices and stability of money and a proper check is given being considered when assessing the advantages of specialising or co-operation between industrial establishments in socialist and developing countries. Operating conditions in industries (costs and availability of raw materials, level of wages, improvement of production processes, improvement of labour organization, establishment of qualitative control of production, etc.) should be carefully assessed before deciding to enter an industrial co-operation agreement. Last but not least, the institutional factors (fiscal incentives and penalties, credit policies, exchange rate policies, system of marketing) affecting the export capacity on a macro- or micro-economic level should also be considered. Industrial co-operation should be welcomed only in the case that by its direction and aims it coincides with the interests and requirements of developing countries and contributes to the solution of the key problems of their economic and social development.

## CHAPTER II

### TRAVEL, SCOPE AND TERMS.

A. Expansion of trade between developing and socialist countries of Eastern Europe.  
19.. The problem of industrial co-operation among developing countries and socialist countries of Eastern Europe forms part of the wider problem of promoting trade and economic relations with developed countries. All round the socialist countries of Eastern Europe account for a small share of world trade (11.5 per cent in 1965) they represent a big and rapidly developing economic system, and trade of the developing countries with them was the most dynamic sector of all the world trade since in the period 1955-1965. It nearly doubled every five years. Exports from the developing countries to the socialist countries rose from 25% billion in 1955 to 51,404 million in 1960, and to 70,815 million in 1965. The increase in the

developing countries' imports from the socialist countries was even greater - from 2630 million in 1965 to 21,445 million in 1966 and 1290 million in 1965. For the period 1962-1965, the annual rate of growth of exports from the developing to the socialist countries was about 15 per cent and that of their imports from the socialist countries - 13 per cent.<sup>3/</sup>

20. Socialist countries are a potential big market for manufactures of developing countries. The exports of manufactures and semi-manufactures from the developing countries to the socialist countries of Eastern Europe have, in general respects, grown even faster than those of primary commodities. They were negligible in 1955; they had risen to 1193 million by 1962 and to 2553 million by 1965. If we exclude Yugoslavia from the list of developing countries the corresponding figures are more modest - 177 in 1962 and 3212 million in 1965. This trade thus nearly trebled between 1962 and 1965. As a result, the share of exports of manufactures and semi-manufactures in the total exports of these developing countries to the socialist countries of Eastern Europe rose from under 4 per cent in 1962 to about 9 per cent in 1964 and nearly 10 per cent in 1965.<sup>4/</sup>

#### B. Trends and Scope of Industrial Co-operation

21. There is a marked tendency for socialist countries of Eastern Europe and developing countries to extend economic relations beyond the scope of traditional trade exchange to the sphere of co-operation in production. They enter into more advanced forms of co-operation such as industrial branch agreements, including co-production and extra long-term contracts which establish joint investment and marketing ventures.

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<sup>3/</sup> Proceedings of the United Nations Conference on Trade and Development, Second Session, New Delhi, Volume V, Special problems in world trade and development, United Nations, New York, 1962. p.9.

<sup>4/</sup> Proceedings of the United Nations Conference on Trade and Development, Second Session, New Delhi, Volume V, United Nations, New York, 1962 (Sales No.: E.68.II.2.18) p.11.

22. It would be very difficult to make a quantitative evaluation of the impact of industrial co-operation between socialist and developing countries on their economic advance of technology and productive capacities due to the lack of full data and methodological difficulties of computation. However, one can note a marked upward tendency in the establishment and implementation of various forms of industrial co-operation between developing and socialist countries during the last years.

23. For instance, Poland has signed agreements on industrial co-operation with several developing countries. These agreements are joint commissions, composed of representatives of trade and industry of both countries, investigate the possibilities of mutual industrial co-operation. If the scope of the proposed co-operation is wide, working terms taken from specific industries are established to work out in detail the mutual services and scope of activity of each party. Such arrangements greatly facilitate contacts between particular firms and enterprises. An example in point is the Protocol to the Trade Agreement between India and Poland of 1 April 1966. The Protocol states, inter alia, that the growing industrialization of both countries enables strengthening of mutual economic relations by specifying sectors of industry where industrial co-operation could be undertaken. The protocol provides for joint ventures in production and trade, exchange of technical experience, introduction of facilities for the development of trade and the establishment of groups of experts for exploring possible co-operation in the shipbuilding industry, fishing industry, metallurgy, machine building and the chemical industry especially production of fertilizers.

24. Co-operation with Poland in developing the coal industry is of special significance for India. The point is that, in addition to Poland's wide experience in this industry, the geological conditions of the deposits in both countries have much in common and the coal as a rule has to be dressed. Consequently the Polish specialists are building a mine in combination with a coal washer. Since 1960, agreement has been reached on building nine deep collieries in India, and on the construction and expansion of coal washeries and dressing plants. Poland provides credits, technical information, licenses, machinery and equipment.

25. Certain special features of this co-operation should be mentioned. First, provision is made for the gradual reduction of the share of Polish deliveries as production of equipment in India is stepped up. Second, Poland furnishes lectures only for several "head" enterprises, with the simultaneous training of Indian engineers. Designing of the other projects will be done entirely in India: Polish specialists are invited, when the need arises, as consultants. Third, Poland will co-operate in building new and extending existing capacities for the production of goods according to Polish licences. Under clearly defined conditions, Poland is ready to forego payment for the licences (except compensation for the actual outlays). One of the conditions is setting a minimum for imports of machinery and equipment from Poland for the coal washeries build according to Polish licences. Moreover, the equipment is to be imported only until such time as domestic production is organized. Fourth, the Indian government has set up a state corporation which will be responsible for planning the mining equipment required in Durgapur (built with the assistance of the USSR) and other factories manufacturing coal mining and allied equipment and also the imports of these types of equipment <sup>5/</sup> The corporation was set up to co-ordinate internal efforts with assistance from foreign sources and to dovetail foreign trade relations with economic and technical assistance.

26. Nevertheless, cases of real industrial co-operation between centrally planned economies of Eastern Europe and developing countries are still not numerous, particularly if compared with the considerable number of industrial agreements between centrally-planned and developed market economy countries. Besides, co-operation between developing and socialist countries in the industrial sector lags behind developed market economies and centrally planned economies co-operation despite its rapid rates of growth.

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5/ "Case study on trade and economic relations between India and the socialist countries of Eastern Europe" (ID/R/129, pp.37-39). "First Annual Report, 1 April 1965 to 31 March 1966", MAAMC Ltd., A Government of India Undertaking, Durgapur, 1967. p.1.

C. Forms of co-operation

27. The specific forms of industrial co-operation depend on many factors, and especially on the level of economic development of each partner, the complementarity of the economies, differences in the socio-economic systems and methods of management of the national economy, the scope of economic ties and the experience gained in this co-operation.

a) Delivery of machinery and equipment.

28. The main form of co-operation between developing and socialist countries is still the supply of machinery and equipment coupled with technical assistance. The assistance of the socialist country usually ends after the completion of the construction process, the starting-up of an enterprise and the achievement of smooth production co-operation. This, however, can be considered industrial co-operation only in the widest sense of the world. Moreover, most of these "turn-key projects" are in the field of heavy industry and infra-structure which are not quite suitable for exports, or, if suitable, do not represent manufactured products.

29. An example of this kind of co-operation is the setting up of a large economic complex in the border areas of the USSR and Iran. The project provides for the construction of a hydro-electric power station and a dam on the Arax river. All construction expenses are equally shared by the countries, each being the owner of its part. The electric power and the water for irrigation are also to be shared equally. The Soviet Union finances its part of the outlays, while the Iranian contribution is covered by Soviet credits. Iranian firms have also been enlisted in the construction. In the long run, it is contemplated that a series of twelve hydro-electric stations will be built on the Arax, including five joint plants. Another Soviet-Iranian agreement provides for the building of a gas pipeline which will supply cheap fuel for Iran's central areas and up to 10,000 million cubic metres of gas for export to the Soviet Union annually. A Soviet organization acts as the general contractor and it will enlist Iranian firms as sub-contractors. Settlements with local firms will be made in Iranian currency and payment for the equipment and the services of Soviet specialists will be made by the Soviet long-term credit. Under this form of co-operation



the organizations of the two states will work jointly on a contract basis under a single technical leadership. Gas deliveries to the Soviet Union will enable Iran to repay the credits given by its northern neighbour for the construction of the first modern Iranian steelworks with an annual capacity of 500,000-600,000 tons of steel and an engineering plant producing 25,000-30,000 tons of equipment and also to buy large quantities of goods on the usual trade terms. 6/

b) Industrial specialization

30. Specialization is one of the main forms of industrial co-operation between domestic and foreign enterprises. If planned and carried out in a rational way, it offers undoubted comparative advantages through reduction of production costs and improvement in the quality of the products, in comparison with non-specialized and miscellaneous production. However, there is little evidence of important specialization agreements between manufacturing enterprises in developing and socialist countries.

31. Poland has already gained some experience in this type of industrial co-operation:

- (i) co-operation in which Poland produces parts of machines (on the basis of a licence or its own documentation) for the final product to be assembled in the partner's country;
- (ii) co-operation in which Polish traders export machinery for which some components are produced in the buyer's country. This might for instance concern some special tropicalized parts.
- (iii) co-operation with the investor or other recommended company in construction of complete industrial plants. The scope of co-operation depends mainly on the production and technical possibilities of the investor.
- (iv) co-operation in exports of complete industrial plants supplied jointly with a foreign partner to a third market.
- (v) co-operation connected with the purchase of a licence or technology needed by the Polish industry and followed by supplies of complete plants, machines, components produced by Polish industry for the firm from which the license has been purchased.

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6/ Innovations in the practice of trade and economic co-operation between the socialist countries of eastern Europe and developing countries. UNCTAD, TD/B/23<sup>a</sup>, 27 June 1969 page 59.

1/ Trade prospects in socialist countries. Poland: conditions, policies, approaches. A study prepared by Dr. Zdzislaw M. Burarz. UNCTAD, TD/B/246; page 44.

32. The application of this form of co-operation between the socialist and the developing countries is an important factor for overcoming a number of essential difficulties in the field of foreign trade and economic relations for the following reasons:

- a) in this kind of production the ownership is not the subject of a special agreement and the partners retain their independence. The needs of the two enterprises or the degree of their processing are subject to a foreign trade transaction.
- b) the mutual dependence meant the partners represent a development of the barter trade between the two countries:

33. From a financial point of view, the implementation of specialization agreements requires planning of the relations between the specialized and co-operating enterprises for a longer period (long-term planning), whereupon the main task is the balancing of the value of the newly produced output. 8/

34. Whether conditions are existent for horizontal or vertical integration between industrial enterprises in developing and socialist countries deserves particular investigation. In our view, this would depend on the size and technological level of the enterprise, the form of ownership and its financial resources. According to some authors, the most practical way of establishing a sectoral division of labour would be the conclusion of multi-purpose international agreements on the co-operation between specific industries ("integrated" from the raw material up to the final product). Such agreements would provide for an exchange of blueprints, licenses, machinery and equipment, as well as of raw materials, semi-finished goods, the final products, and possible co-operation on third markets. They would also provide for technical assistance and training of experts. This advanced form of international co-operation could be applied not only in the engineering industries but also in the various branches of light manufacturing industries. These schemes may be accompanied by the pooling of research into the design and improvement of products, new uses of raw materials, standardization and uniform specifications for industrial products.

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8/ Prof. Lynda Teshev. Forms of economic co-operation between socialist countries and developing countries (outline)  
ID/46.47/12.

35. Agreements on sectoral division of labour cannot, of course, exhaust the whole scope of economic relations between socialist and developing countries, and they need not, therefore, be balanced. Balance should be achieved in the totality of economic relations between the socialist country and the developing country and this also includes other forms of long-term co-operation, current exchanges and, in some cases, the credits granted by the socialist country. Besides, these agreements should be treated as a part of long-term programmes of economic co-operation with the developing countries, long-term trading agreements being the expression of such programmes. 9/

c) Joint Ventures

36. Joint ventures are an advanced form of industrial co-operation, as they imply joint ownership and joint sharing of the profits and risks. By acquiring a share in the business instead of granting credits, the partner in the developed country has a much better instrument of securing his interest, while the developing country thus is given the assurance of a more careful selection and management of the project. Moreover, the risk will be divided and the problem of transfer of foreign exchange less acute than otherwise.

37. The characteristic features of joint ventures (joint enterprises) can be summarized as follows:

a) application of the principle of mutual advantage of the partners. The participation in the production factors cannot be considered as an absolutely equal share of both parties, but a certain equality should be achieved in the value of factors with which the two parties participate and in the distribution of the income;

b) the output or any other kind of production of the joint enterprise is considered joint ownership and is marketed jointly on the home or foreign market;

c) In a period of ten to twenty years the enterprise is to become the property of the respective developing country. The buying out of the value of the enterprise is effected by means of repayment with part of the output of the enterprise for a period of several years;

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

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9/ For details see Problems of Economic Relations with Developing Countries and the Long-term Planning, Gustaf Fransson and Urmay Sachs, reprinted from International Trade and Development - Theory and Policy, Harvard, pp. 304-306.

38. In planning the establishment of such joint enterprises, the main task is to properly select the branches of industry in accordance with the level of development of the production forces and to establish the correct location of the plant in the developed country. In making a decision to conclude a contract on the establishment of a joint enterprise, the following issues are of major importance:

- 1) to what extent the products or the services of the new enterprise will contribute to the improvement of the balance of payments of the developing country concerned;
- 2) to what extent the products or the services of the new enterprise will bring about structural changes in the domestic economy;
- 3) to what extent the products or services of the new enterprise, on the basis of the production process, will contribute to raising the technical level in the developing country and to increasing the skills of the manpower and the know-how of the managing cadres of the country.

39. The socialist countries have had little direct investment (amount of capital) in developing countries, so far. The reason for this may be that the socialist countries are in a rapid process of economic development and need themselves capital. The trend towards such joint ventures has greatly strengthened of late, especially after the introduction of economic reforms in the Eastern European socialist countries which emphasize the principle of profitability of enterprises.

40. Let us take for example the agreement between the Hungarian enterprise - United Incandescent Lamp Factory - and a private firm in Ceylon. The main clauses of the agreement are the following: The Hungarian enterprise has a stake of \$ 10,000 in capital of the newly founded Hungarian-Ceylon Company. The Hungarian enterprise obtains preferential shares of 7 per cent fixed interest. A bank guarantee provided by the Ceylon firm ensures the transfer of the profit and a currency clause guarantees the dividends and the principal. The partners have agreed that after the expiration of a term of five years, the Hungarian firm can assign to the Ceylonese firm, the shares that are payable in equal rates in the course of the subsequent five years. The equivalent of the machinery supplied by the Hungarian Partner is to be paid off by the Ceylonese partner, and for this

purchase the Hungarian partner has granted a five year credit on easy terms. The component parts needed for the production of incandescent lamps are to be supplied by the Hungarian partner. The latter will also provide technical assistance in the fitting of the incandescent lamps and the production of accessories. In addition to co-operation in the production, both partners intend to bring about a joint marketing organization.

This is a typical case of joint venture, the partner from the developed country supplies the machinery, providing the plant with basic materials and semi-finished products, furnishing the technological documentation, arranging for the training of experts, etc. On the other hand, the partner from the developing country places at the disposal of the joint enterprise the real estate (ground and buildings), the circulating funds, etc. In addition to joint production, the co-operation agreement generally contains the establishment of a joint sales organization as well.

d) Terms of Partnership

a) Terms

41. The most general terms of such agreements are as follows:

a) The participants in such co-operation take part in it as sovereign and equal partners who voluntarily assume certain specific obligations and responsibilities which are to be carried out in an agreed period of time and to an appropriate standard.

b) The socialist country (or its organizations) is usually to provide for assistance to developing countries in what they cannot accomplish with their own resources, namely, preparatory work for construction of an industrial project (study of the construction site and raw material sources, designing and so on); delivery of the materials which cannot be obtained on the spot and technological equipment; technical supervision over construction, the setting up and commissioning of the project; organization of production and, to this end, the transfer of technical documentation and know-how; training of national personnel. The government of the developing country or the agency appointed, on their part, undertake to assign a plot of land; organize the production and delivery of local building

materials; hire local personnel (experts and workers) and set up a building organization; effect administrative guidance of the work; ensure the financing of all outlays in local currency and pay, on the agreed terms, for the materials, machinery and equipment received from the socialist countries and also for the services of their experts and workers.

c) Developing countries are given the opportunity to repay the credits in kind in domestic exports including the products of enterprises which have received the credit.

d) Prices of equipment and machinery delivered by the socialist countries and of goods in payment for credits, are fixed by the partners on the basis of world prices. But in determining the prices, the parties strive to eliminate the purely short-term and other accidental price fluctuations on the world market. 10/

#### b) Partners

42. Up to now the partners in joint ventures with the developing countries have been enterprises from the public sector (state). Economic ties with private firms have not so far been on a wide scale. They are usually established directly between foreign trade organizations of the socialist countries and the firms of the respective developing countries. In such cases technical assistance and performance of other services is effected on the usual commercial basis. The contracts are based on the existing industrial co-operation agreements concluded at the government level, i.e. the terms of agreements are fixed and various questions settled on behalf and by authorization of the governments of the respective countries. At the same time, there are relations at the level of governmental bodies, non-governmental institutions (banks) and commercial organizations (foreign trade amalgamations and firms). (See attached excerpts from agreements between Czechoslovakia and some developing countries.)

10/ Innovations in the practice of trade and economic co-operation between the socialist countries of Eastern Europe and developing countries, UNCTAD, TD/P/235, 17 June 1969, pages 26-27.

## CHAPTER THREE - MOTIVES, ADVANTAGES AND DISADVANTAGES

### A. Motives

43. The basic motives for domestic manufacturers to establish production co-operation with foreign countries are:
- 1) fuller utilization of capacities in order to expand production;
  - 2) faster development of techniques and technology of production;
  - 3) lower production costs and higher efficiency.
44. Increasingly pressed by domestic and foreign competition, the industrialists seek new markets for the sale of their products. For businessmen in developed market economy countries the main reason for entering into production co-operation with enterprises in developing countries is to be sought primarily in their desire to penetrate into the market and/or the fear of losing markets of developing countries due to the protectionist and import substitution policies of the latter. Another motive is the possibility of achieving lower costs in developing countries due to lower labour costs, especially in labour intensive products. Industrial enterprises in socialist countries are prompted by similar motivations in establishing industrial co-operation with developing countries. By means of deliveries of machinery and equipment coupled with technical assistance and credits, the firms in the socialist countries of Eastern Europe expand their exports of machinery and equipment which represent a substantial share of their total exports. Specialisation on the basis of a long-term agreement on the division of production programmes between a domestic and a foreign enterprise is highly important also because of the increased absorption power of the market for the sale of a given product. Cumulative effects of specialization in production, larger production runs and better organization of work lead to the reduction of unit costs. This motive is particularly strong with businessmen in the developed market economies. However, the motive of commercial profitability is being given increasing priority in the socialist countries themselves with the implementation of the economic reforms in most East European socialist countries. Besides, it should be borne in mind that in East-South industrial co-operation the acquisition of raw materials in short supply is of greater importance for the partner from the socialist country than is the case with West-South industrial co-operation.

45. As far as the partners from the developing countries are concerned, their main motive in establishing industrial co-operation with developed countries - both market-oriented and non-market-oriented co-operation - is to obtain from the developed countries the up-to-date techniques and technologies, thereby improving their organization of work and production techniques and increasing labour productivity. On the other hand, it is well-known that cost-cutting is indeed a major condition as regards the quality of products. Therefore, an important factor in industrial co-operation is the improvement of quality through better organization of work and up-to-date technology of production.

46. In entering into industrial co-operation agreements with socialist countries, the partners from developing countries are prompted not only by the desire to obtain new technology and managerial skills by the parent-company in the socialist country. They have also in mind the possibility of finding an alternative source of supply of capital goods (machinery and equipment), in which socialist countries have proved to be more competitive than in consumer goods. Besides, it gives the developing countries the possibility of entering non-traditional markets for their traditional resource-based exports. On the other hand, joint ventures between developing and socialist countries are a source of capital for investment in infrastructural projects and heavy industry, which are necessary for effecting structural changes in their economy.

47. In general, co-operating partners can have an interest in establishing co-operation only when the sales price of the products built into the articles which are manufactured jointly is lower or equal to production cost if this product (part, assembly, subassembly, final product) were to be of their own manufacture, namely

Sales price of the jointly  
made product, delivered at custo-  
mer's store (SP)

Production costs in  
one's own manufacture (PC)

$$SP \leq PC$$

(1)

48. This presupposes that all the elements which can influence production costs have been taken into account, such as lengths of runs, utilization of capacities, long-term, regular, repeat orders, etc. Co-operation, therefore, comprises all the elements which have an economic impact.



49. In entering into co-operation agreements with a foreign partners, the local enterprise takes into account all these elements. All things being equal, when deciding in favour of a local or a foreign co-operating partner and for as long as it is called upon to market its production in its own country, a local co-operating partner is equally as interesting for it as a foreign partner. If, therefore, the domestic partner's prices (DPP) are equal to those of the foreign (FPP), delivered ex warehouse of the receiving partner, namely:

$$DPP = FPP \quad (2)$$

It will decide in favour of the co-operation which may be found more convenient for one reason or another. 10a/

### B. Advantages and Disadvantages

50. The main advantage and the raison d'être of industrial co-operation is the chance of being integrated into the international division of labour, thus being able to reap the benefits of increased specialization and economies of scale. Another major advantage is the transfer of technology and managerial skills by the partner from the socialist country to the partner from the developing country.

51. Under this aspect co-operation with socialist countries may be of particular value for the following reason: as partners from socialist countries are apt to take into account the export output of the joint operation in their economic plans, they will have a vested interest in the successful operation of the joint venture. A further advantage of industrial co-operation in export production for the developing country is the possibility of using the sales promotion and service network of the partner in the socialist country for the marketing of the manufactures of the joint operation. As far as exports to socialist countries are concerned, these sales and after-sales activities will be performed by the partner in the socialist country.

52. It appears that one of the main disadvantages of industrial co-operation agreements between socialist and developing countries is the settlement of payments in non-convertible currencies. This can be a disadvantage for both partners.

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10a/ For details see Co-operation with foreign countries in new conditions of business and import liberalization, Belgrade 1967, pp.62-66.

(a) For the developing country, as a result of payment in non-convertible currency, a proportion of its exportable resources which could otherwise have been sold on the world market for hard currency, is diverted;

(1) For the socialist country it could involve the allocation of productive capacity which might be used to earn convertible currency, but because it is allocated, is unavailable for this purpose.

53. For example, Poland is currently holding orders for Brazil in payment for its coffee imports. In doing so, it denies itself a proportion of shipbuilding capacity which could be used to earn convertible currency.

54. The fact that the enterprises in socialist countries are state-owned enterprises tends to prolong the decision-making, on the one hand, but has the advantage of producing co-ordinated agreements which are fully backed by both governments (inter-governmental agreements), on the other. This provides for stability in economic relations.

55. As stressed above, from the point of view of promoting exports of manufactures from developing countries, trade joint ventures with developing countries promoted by the socialist countries of Eastern Europe, have tended to concentrate on heavy industries and infrastructure. The products of these industries, when produced in developing countries, tend to be high cost and as such, are uncompetitive in world markets. They are usually geared to import substitution. Whereas they achieve the aim of a greater degree of industrialization, in some cases it is at the cost of a considerable drain on the developing countries' convertible currency reserves, as running costs in terms of raw material purchases are very often high in these industries.

56. Another disadvantage is, as a rule, the difficulty of exporting the production of the joint venture in the developing country to third countries. This is because the marketing networks of state corporations in socialist countries of Eastern Europe are, in most cases, rather limited. They confine themselves to representation in the capital cities, with very little backup in the interior. Marketing practices are, in general, not quite up-to-date. Production of goods is still the prime objective of state corporations, and the sale thereof is treated as a necessary, but relatively unimportant evil.

57. State corporations, as a rule, are not too efficient in providing after-sales services. What is worse, however, is the fact that the user of their equipment, especially in an underdeveloped country, has neither the knowledge, nor the necessary channels to ask for services, when it is required. A farmer who owns a Polish "Ursus" tractor in Brazil has no easy avenue, open to him, through which he can ask "Ursus" for the replacement of a broken back axle. Even if he contacts them, the inevitable delay before he receives the necessary spare part, will render the tractor useless at a time when he most needs to use it. Consequently, the lack of local spares availability makes the marketing of machinery extremely difficult. This handicap will, unfortunately, also be transferred to the partner in the developing country.

#### C. Import Substitution Bias

58. Most enterprises in developing countries built with the assistance of the socialist countries of Eastern Europe were planned almost exclusively for import substitution. The aim to develop the export resource was seldom set and was usually linked with insufficient demand in the home market, or temporary difficulties in the economy and the balance of payments situation. This is in accordance with the inward-looking pattern of industrialization of developing countries, leading to an inefficient national industry, sheltered behind high tariff barriers with strong monopolistic tendencies. Once such industrial enterprises are established with an import-substitution bias, it is very difficult to orient them afterwards towards exports because of their uncompetitiveness in the international markets.

59. To this we should add the negative impact of inflation. Inflationary tendencies and overvalued exchange rates, common in many developing countries, effectively keep their prices above the world market level. This price disparity is a particularly serious handicap to exports of manufactures and industrial co-operation, particularly from industries which supply inputs for other sectors. "In this way, import restrictions and import-substitution measures carried out in an indiscriminate manner tend to reinforce, rather than relieve, the causes that led to the adoption of these measures. In fact, inflation, balance of payments deficits, import restrictions, inefficient production and high costs may be considered.

as forming a vicious circle, which cannot be broken without raising the efficiency of the whole economic system and bringing the domestic prices more in line with world market prices." <sup>11/</sup>

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11/ Proceedings of the United Nations Conference on Trade and Development, Second Session, New Delhi, Volume V, United Nations, New York, 1968, p.6.

CHAPTER FOUR - PROBLEMS AND PROSPECTS

A. Problems and Obstacles.

60. The developing countries, in the process of industrialization, are faced with the following dilemma:

- (a) to rely on their own potentialities and efforts (autarkic or "closed" pattern of development);
- (b) to rely on foreign economic and technical aid, by buying foreign licences and technical documentation or entering into joint ventures with partners from developed countries (outward-looking or "open" pattern of development.)

Both ways have their advantages and drawbacks. Whether priority should be given to one or another orientation of the economy this question cannot be given a simple and unequivocal answer. It depends on the stage of industrialization of a given country, on the size of the market, on the extensive or intensive type of economic growth and a series of other economic, social and institutional factors which cannot be dealt with in detail in this report. The tendency towards diversification of the economy, if carried out to the extreme, leads to inefficiency and autarky. In export-oriented production, a contrary tendency manifests itself towards specialization of production which makes the developing countries more dependent on the world market.

As a matter of fact, import substitution and export-oriented industrialization cannot be considered as isolated from one another. They are natural phenomena in the general process of industrialization of developing countries in the era of the technological revolution. Nevertheless, the trend towards an "open" or "outward-looking" development of the economy prevails in the long run, although at the initial stage of industrialization it is rather the short-term considerations of import substitution and autarky that are predominant.

61. Leaving aside the non-economic factors, one could clearly see that reliance on foreign licences and documentation shortens the process of mastering complex products by 2-5 years. Simultaneous expenses on a new product (construction, tools, designing of prototype, testing, laboratory, etc.) are reduced by 2-4 times on the average. 12/

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12/ Miodrac Sukijasović and Djura Vujačić, Industrial Co-Operation and Joint Investment Ventures between Yugoslav and Foreign Firms, Beograd, 1968, page 17.

These data show that the line of integrating selected branches of industry into the international division of labour is preferable, all other things being equal.

62. However, one should not forget that the international division of labour is carried out in conditions of unequal economic development of the various parts of the world. Price ratios, trade policy measures, and various other circumstances in the international market create such a state of affairs where developed countries, as a rule, are in a considerably better position than developing countries. In such conditions, industrial co-operation, as one of the forms of external economic relations, must be viewed in the light of establishing business relations between partners at an unequal level of economic development.

63. The partners in developing countries - being the weaker party to the agreement - have also to make sure that the continued dependence on foreign collaboration and investment does not stand in the way of the growth and development of indigenous technology and enterprise. In the course of development the participation in the joint venture may be substituted by a licensing agreement of minor importance which in the end can also be substituted by a simple delivery agreement based on specialization contracts. Further reductions in the share of the developed partners will be possible in this way. The policy of gradually diminishing intensity of industrial co-operation is of particular importance in export industries where there is always the danger of a divergence of interests of the partners. Actually, this policy has been proclaimed by socialist countries in industrial co-operation with developing countries.

64. Partners in joint ventures from developing countries usually point out the following drawbacks in industrial co-operation with partners from developed countries:

(1) Relatively high custom duties for parts, assemblies and sub-assemblies as well as manufactured, the import which is effected on the basis of established industrial co-operation; it is considered that such import should be freed from duty, under the reciprocity principle;

2. Lack of the developed partner's interest to more widely credit or to constantly invest for the purpose of keeping up the competitiveness of the partner licensor or beneficiary of technical documentation; it is noted that a great deal of the problems could be solved by means of joint capital investments;

3. Insufficient engagement of both partners for the purpose of joint appearance on third markets; closer business relations between the interested partners are considered necessary in this case. 13/

65. With the possible exception of point 1, it might well be that these handicaps refer to industrial co-operation between developed socialist and developing countries, as well.

66. On a micro-economic level, among the main reasons which hinder industrial co-operation, we should mention the following:

- a) inferior organization of work in relation to the demands of the developed foreign co-operating partner;
- b) inability to maintain schedules set by the foreign partner;
- c) inferior quality of products in relation to the requirements of the foreign market;
- d) relatively high prices of parts and assemblies made by the enterprise in the developing country as a result of relatively higher prices of materials, power and transportation;
- e) insufficient development of co-operating industry in the developing country. 14/

Joint ventures specialization, subcontracting and other forms of industrial co-operation between developed and developing countries involve a strengthening of inter-dependence between the national economies, or, to be precise, between the enterprises and branches engaged in these forms of co-operation. This is a fact which contributes to increasing the caution of those who are interested in similar arrangements. In case of inaccurate preliminary investigation and

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13/ Miodrag Sukijasović, Djura Vujačić, Industrial Co-operation and Joint Investment Ventures between Yugoslav and Foreign Firms, Beograd, 1966, page 19.

14/ Co-operation with foreign countries in new conditions of business and import liberalization, Foreign Trade Research Institute, Belgrade, 1967, page 72.

evaluation of the potential advantages accruing to each partner, joint ventures might turn out "white elephants", a burden for both partners. Therefore, measures should be taken to ensure that agreements on specialization and industrial co-operation should be preceded by careful feasibility studies and to integrate these agreements in the national development plans and programmes of the partners. Co-ordination of standards, research and development programmes and marketing policies is very important, too. Besides, export promotion policies and incentives should be reviewed, in order to stimulate industrial co-operation for exports. Industrial management in developing countries is often disinterested and unaware of the potential benefits of exporting and is content to concentrate on the local market. At the same time government incentives to export may not exist to encourage an interest in exporting and to enable joint ventures in these countries to compete abroad on equal terms. As far as socialist countries of Eastern Europe are concerned, their recent economic practices did not favour the flow of productive capital on the international plane.

#### B. Prospects

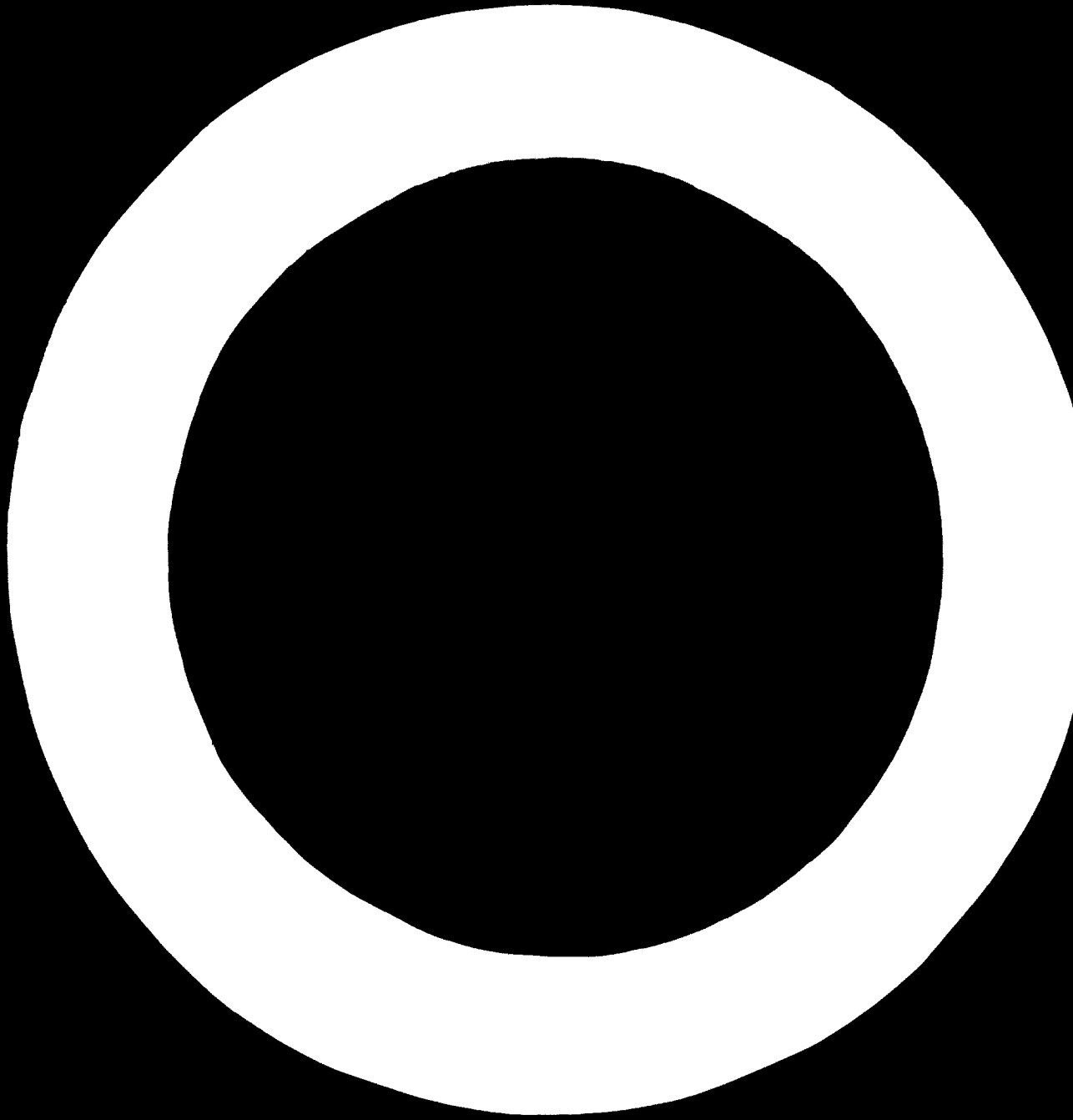
67. It may be assumed that the co-operation of the Eastern European socialist countries with the developing countries in the industrial field for exports will develop relatively quickly in the near future. There are two main reasons for this assumption. First, the relatively untapped opportunities of extending the scope of co-operation based on the complementarity of the economies; and, second, the increasing significance of market relations in socialist countries which is likely to increase the interest of the individual enterprises in establishing new forms of industrial partnership in accordance with the principle of profitability. On the other hand, there is an increasing awareness on the part of developing countries of the advantages of an export orientation of the economy through joint ventures.



68. The construction of individual industrial enterprises is a typical feature of the initial stage of co-operation, but in later stages of the development of co-operation a considerable larger role will be played by joint action to set up industrial complexes operating on a vertical or horizontal basis to ensure the most effective utilization of the natural resources of developing countries and the sale of the manufactured goods produced.
69. A gradualistic approach to the problems of industrial specialization among developing and socialist countries seems very advisable. This is actually the standpoint expressed in one of the latest documents published by UNCTAD on the problem of promotion of imports by the socialist countries of Eastern Europe of manufactures from developing countries. "In the framework of such co-operation, - the paper recommends - the enterprises in developing countries might at first produce simple parts of machines and equipment and, as they gradually become more experienced and improve technical standards, they might later produce more complex goods and eventually finished products, for the domestic markets of both parties and for export to third markets wherever possible." 15/
70. In order to extend co-operation as widely as possible and secure maximum effectiveness, it is essential to make constant improvements to existing forms of relationships and to introduce new ones. Practical measures to improve co-operation in the industrial field include, in particular, such measures as the shortening of the time taken to complete preparatory work, to deliver equipment, to construct enterprises and to bring them into production, the improvement of the qualitative characteristics and competitiveness of the goods produced in such enterprises, the achievement of greater stability in the labour force and the improvement of its level of training, the establishment of a system of skilled technical servicing and overhaul, etc.
71. The further development of industrial co-operation between the socialist and the developing countries, can actively contribute to the solution of the problems of economic development and to the promotion of exports industries and exports of manufactures from developing countries.

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15/ Promotion of Imports by the Socialist Countries of Eastern Europe of Manufactures and Semi-Manufactures from Developing Countries, TD/B/C.2/21, p.26-25



## PART TWO

SOME SELECTED CASES OF INDUSTRIAL CO-OPERATION  
BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

A Study of Replies to UNCTAD Questionnaire

The Export Industries Section, Industrial Policies and Programming Division of UNCTAD has sent out a questionnaire to firms in developed and developing countries that have established some form of industrial co-operation (joint ventures) with a view to promote exports of manufactures.

The present survey is based on the replies of 12 companies, out of which 8 are situated in India, 1 in Ceylon, 1 in Malaysia, 1 in Iran, and 1 in the UAR. These are industrial partnerships mainly in the field of automobile, engineering, chemical and electrical industries.

As regards the form of co-operation, 8 are joint enterprises (3 Indo-German joint ventures, 1 Indo-French, 2 Indo-Swedish, 1 Ceylonese-Hungarian, and 1 Malaysian-French-Japanese) and the remaining 4 are joint operations with technical co-operation and licensing agreements (1 Indo-German, 1 Indo-British, 1 Egyptian-Yugoslav, and 1 Iranian-Romanian). There are no samples of specialization or sub-contracting agreements.

Out of all cases 2 are joint operations between public sector partners (Iranian-Romanian and Egyptian-Yugoslav), 4 are mixed companies (private/public partners, 3 of them Indo-German and 1 Ceylonese-Hungarian) and 6 are joint operations between private partners (1 Indo-German, 1 Indian-French, 2 Indian-Swedish, 1 Indo-British, and 1 Malaysian-French-Japanese).

In the case of joint enterprises 2 are with majority participation of the developing country's partner, 1 is a fifty-fifty partnership and 5 are with minority participation of the developing country's partner.

In 9 cases the output of the joint operation is oriented towards the domestic market, while in 3 cases - both towards the domestic and the foreign market, with exports constituting a small percentage of the total output. There are no cases of joint operations oriented exclusively towards exports.

- 2 -

Concerning the motives for establishing industrial co-operation between developed and developing countries (question 5 of the attached questionnaire), one should note a distinction between the motives of the Government and the industrial firms. Further, one should differentiate between economic, commercial and financial considerations, both at the macro-economic and micro-economic level. For instance, in the reply of the Romanian-Indian joint operation it is explicitly stated that the acquisition of some Indian goods prompted Romania to establish a joint operation with Indian partners. The underlying assumption is that through this arrangement the socialist country's partner will be able to export his own industrial goods (tractors), thereby earning the foreign currency necessary for importing Indian goods (crude oil). At the micro-economic level the main motive of the abovementioned joint operation is to secure a market for the goods produced by the partner from the developed country which might be lost otherwise due to the protectionist policies of the developing countries. Thus, in a reply by an Indo-German joint venture it is stressed that "the export business to developing countries will undergo a change in its pattern. The developing countries will reduce the quantum of their imports, whereby, while imports of finished products may not be permitted, components required for the same will be permitted. To be in a position to export such components to developing countries it is essential to develop their manufacturing facilities which only can absorb such components".

Another Indo-German joint venture describes the motives of the partners from developing countries to enter into industrial co-operation agreements with partners from developed countries as follows: "After independence, the (Indian) Government embarked on a policy of industrialization, in order to provide employment opportunity as well as to reduce the dependence upon imports. The Government made it its policy to encourage industrial co-operation between establishments in developed and developing countries. This policy of the Government created a climate that could be considered favourable for such a co-operation". Thus, in part substitution, seems to be the predominant motive for developing countries in establishing industrial co-operation with developed countries.

In the case of another Indo-German joint operation it is mentioned that the main intention behind the venture is to establish manufacturing facilities on a modern and scientific basis in order to meet the domestic requirements of the developing country.

In another reply (by the Romanian partner in an industrial co-operation agreement with Iran) another important aspect is mentioned - the possibility of reducing the transportation costs of products, if they are manufactured in the developing country itself, thereby increasing their competitiveness. "The possibility of rendering more competitive - it is stated in the reply - in this area, our tractors which are wholly or partially assembled with components imported from Romania, due to shorter and consequently lower freight whence lower prices for the buyer within the area."

As far as the share of import components of manufactures produced by the joint operation in total sales and total value of exports of the company involved is concerned (questions 8, 9, 10, and 11) the replies received from some companies do not permit to make definite conclusions. It appears, however, that the value of input (raw materials, components, etc.) imported for the joint operation is pretty high. This is, of course, dependent on the industrial branch, kind of product, and the stage of processing. Thus, for instance, in the case of the Romanian-Iranian joint operation, the share of import components in total sales amounts to two-thirds of annual production value, at the stage of tractor assembly and 10 per cent at the stage of tractor production. In the case of an Indo-German joint venture in the field of electrical industry the import component amounts to 50-60 per cent of imported output (for transformers) and 5-10 per cent (for motors and switch-gears of the value of the product exported) In another case of an Indo-German joint venture in the manufacture of automobile auxiliaries, the value of exports amounted to 16.7% of the output for 1968. The value of imports was approximately 35.1%. The import contents of the exports was about 35.0%.

With regard to question 14 - results of joint marketing policies and joint marketing: (a) in the developing country, (b) in the developed country, and (c) in third countries, one firm gave the following replies:

under (a): the developing country obtains the benefit of the vast market research conducted by the collaboration in the developed country;

under (b): the developed country will have the pleasure of determining products that would still be able to export directly to third countries and also what products could be exported from the developing country. It may enable them to arrive at the most competitive prices in this manner. For example, where the collaboration intensive products are involved a combined quotation including that

of the developing countries may achieve the best results;

under (c): these countries are also likely to be benefited by the joint marketing policies because it would ensure their obtaining the most competitive prices at the same time based on expert experience.

Concerning the setting up of a joint marketing organization in foreign markets, all replies were negative with the exception of one where such an organization is envisaged by the partners. No case is reported of an own marketing organization set up by the partner either in the developing country or in third countries. In three cases the sale of the products of the joint venture is entrusted to the distributing firms or agents of the partner in the country. Concerning market sharing arrangements (export franchise) - question 15 - such kind of agreements exist in 6 cases (allowing for exports of the joint operation mainly to neighbouring countries) and are non-existent in five cases.

As far as the competitiveness of the products manufactured by the joint operation in the developing country is concerned - question 19 - there are no data available in 5 replies, while the remaining six firms replies as follows: two of the firms replied that their products were not competitive in terms of prices, one firm replied

that the products are competitive in quality, but not in price, and the remaining three firms stated that the products manufactured under the joint operation are competitive in terms of prices with the reservation that this competitiveness is due to government subsidies.

Replying to question 15 - what kind of assistance (incentives) is provided to the joint operation in the developing country, and by whom - some joint ventures in India stated that they received such assistance from the Indian government in the form of fiscal, financial and tax-off incentives for exports:

- i. in the case of the products manufactured by the joint venture, import licences to the extent of 60% of the f.o.b. value of goods exported are given in order to replenish raw material stocks;
- ii a cash incentive of 20% of f.o.b. value of the goods exported is given if the exports in the year are 10% higher than the exports in base year.
- iii if exports in a particular year are more than 10% of total production, then the exporting unit is given the status of a priority industry and is entitled to preference in issue of import licences.

Besides, the tax laws of India allow a Development Rebate Reserve on plants and machinery installed which can be carried forward tax effective for 8 years. The reserve allowed varies for individual manufacturing plants.

Question 17 - is concerned with the advantages (benefits) derived by the partners from the joint operation.

Most of the companies replied that the joint operation has brought to the partner in the developing country increased technical know-how, improved research and designing, the advantages of a world-renowned trade mark, expert advice, the services of experienced export marketing agents of the company in the developed country, etc. As far as the advantages of the partners from the developed (Socialist country) are concerned, it was stressed in two replies that they consist in increased sales of their products as well as of machinery and equipment for the commissioning of the manufacturing plant in the developing country.

In this respect the following reply received from an Indo-German joint venture is worth mentioning:

- a. easy accessibility of proved and well recognized agents in the countries to which the exports are directed;
- b. experience of the collaborator (from the developed country) in the market research conducted by them in these countries;
- c. easier acceptability of the products of the joint venture, in the countries to which they are exported because they are exactly similar to the products of the partner company in the developed country which are known in such countries for a very long time.

Question 19 refers to difficulties and obstacles encountered in industrial co-operation agreements. Most replies focus on the following handicaps:

- a. obstacles arising from governmental industrial policies and
- b. the foreign exchange constraint.

In this respect the following classification made in the reply of an Indo-German joint venture is noteworthy:

- i. difficulties and obstacles which must be expected in an economy totally planned and controlled by an economically not very sophisticated government;
- ii. difficulties resulting from the scarcity of foreign exchange;
- iii. difficulties resulting from restrictions in the manufacturing volume by the industrial licensing system.

Another Indo-German joint venture points to a different kind of obstacle - the divergent interests of partners in exporting. "The only difficulty - the reply states - is that there are two countries which are both interested in exporting: one is the parent company in West Germany and the other is the joint venture in India. This, however, can only be of a temporary nature and a solution beneficial to both could be definitely worked out."



In this respect, it is worth mentioning the reply of ~~state~~ foreign trade enterprise in Romania which enumerates, among other obstacles to industrial co-operation, "the adverse influence of the tractor manufacturers who have lost this market (since Iranian authorities have stopped the imports of tractors of similar types to ours)."

QUESTIONNAIRE

On Industrial Co-operation <sup>1/</sup> for exports between developed <sup>2/</sup>  
and developing countries

A. Questions for joint operations

1. Name of partners in the joint operation
  - a) (in the developed and the developing country)
  - b) Name of the joint operation (joint enterprise)
2. Are your partners in the joint operation, public or private firms?
3. When was the industrial partnership in developing countries established, and how?
4. What products or product groups are manufactured, assembled or processed by the joint operation in the developing country? (list in order of importance by turnover or value of products).
5. What motivated you to enter into industrial co-operation with partners in developing countries? (please explain in detail)
6. What is the form of industrial co-operation established (simple and complex mediation agreements, sub-contracting, joint enterprises, licensing, etc.)
7. What kind of products are exported by the joint operation in the developing country, and to which countries?
8. What is the value of the total output of the joint operation in the developing country?
9. What is the value of the exports of the joint operation in the developing country?
10. What is the value of input (raw materials, components, etc.) imported for the joint operation?
11. What is the share of import components of manufactures exported by the joint enterprise in the developing country, in the total value of exports of these manufactures?
12. What is the effect of joint research and development programmes between the partners of the joint operation from the view point of export promotion?

13. What is your experience in establishing joint maintenance and repair services in the export markets? (please explain)
14. What are the results of joint marketing policies and joint marketing, in: (a) the developing country; (b) the developed country; (c) third countries?
15. What kinds of market sharing arrangements exist between the partners in the joint operation?
16. What kind of assistance (incentives) is provided to the joint operation in the developing country, and by whom?
17. What advantages (benefits) have you derived from the joint operation? (Please explain in detail)
18. What difficulties and obstacles have you encountered in implementing the industrial co-operation agreement? (please explain in detail)
19. Are the products manufactured by the joint operation in developing country, competitive on the external market (in terms of costs, prices and quality) and if yes, why?

3. Questions for Joint Enterprises <sup>2/</sup> with:

1. What is the share of the business?
  - a) a credit account
  - b) in the hands of directors, etc.
  - c) in the new report - (please specify in a separate)
  
2. What are the existing arrangements in the allocation of profits?
  - a) share of re-investment in total earnings
  - b) share of the net profits retained to the partners in the developed market economy or centrally planned economy
  
3. In what form and on what conditions is the joint enterprise supplied by the partner in the developed country? with:
  - a) raw materials
  - b) intermediate products
  - c) components
  
4. Does the joint enterprise supply the partners in developed countries with:
  - a) components
  - b) spare parts

and under what forms and conditions? (e.g. specialization, subcontracting etc.)

## ANNEX I

### Explanatory Notes

1. Under industrial co-operation, we understand co-operation in the manufacturing sector and, within this sector, the focus is on relations between industrial enterprises or groups of enterprises from various countries.

Industrial co-operation, in the narrow sense of the word, involves co-operation in the production of one or several products, using the same technology, on the basis of division of labour between industrial enterprises of two or more countries.

In the broader sense, the term industrial co-operation involves deliveries of industrial equipment, construction of industrial plants, or, in other words, investment activity combined with classical loans rather than technical assistance.

In these notes, industrial co-operation includes the following four categories of agreements or arrangements between manufacturing enterprises located in different countries:

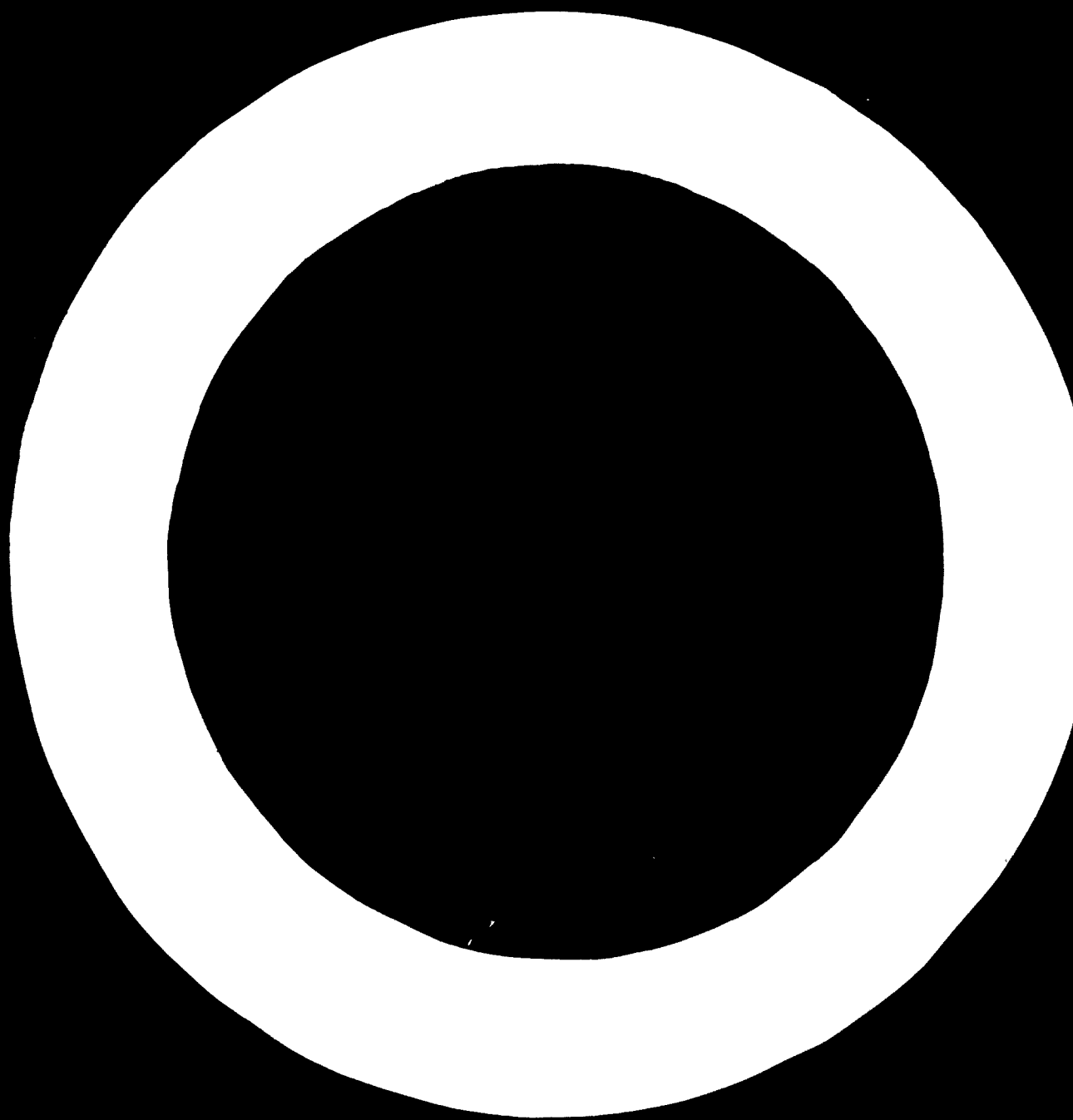
- (a) technological arrangements ranging from an exchange of know-how (including some technical co-operation and exchange of personnel) to joint research and development projects in specific fields;
- (b) specialization arrangements which may be subdivided into two groups:
  - (i) arrangements concerning deliveries of specified inputs calling for flows in one or several directions;
  - (ii) arrangements concerning production of specific items of final output aimed at reaping the benefits of specialization;
- (c) deliveries of machinery and equipment or entire plants combined with the supply of know-how by the selling enterprise;
- (d) marketing arrangements providing for the use of one enterprise of the sales and service networks of another enterprise, or for the establishment of a joint network.

2. The questionnaire refers to both groups of developed countries - with a market economy and with centrally planned economy (socialist countries).

3. Under joint operation we understand any form of industrial co-operation, including joint enterprises.

4. Joint enterprises involve participation of a financial company in the capital of another industrial enterprise, creation of jointly-owned subsidiaries by industrial firms, mergers, cross participation, and so on.

5. Please give an answer concerning one typical case.



GOVERNMENT'S REPLIESa) Hungary

There is no unambiguous definition in the general international usage for the concept of industrial co-operation.

According to our present practice, we regard as industrial co-operation the following types of agreements in the Hungarian foreign trade:

- a) one partner participating in the co-operation pays for the intellectual product supplied by the other partner with the product produced by means of the intellectual product. The partners may also co-operate in the marketing of the product produced in this way.
- b) the partners carry out a joint or co-ordinated marketing of the product which is the result of a joint development activity.
- c) the co-operating partners manufacture some product jointly, co-operating or co-ordinating the marketing of the jointly produced product/production sharing.
- d) the co-operating partners agree on production sharing/division of the range of manufacture/ and carry out in co-operation or co-ordination the marketing of the products manufactured in such a division.
- e) the product ordered by one of the co-operating partners is produced by the other partner according to the instructions, designs or with the technical assistance of the partner passing the order.

In practice these types of co-operation occur, of course, in a combined form.

In the following we give our answer in the order of questions put in the Questionnaire:

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\* This is a reply by the Hungarian Ministry of Foreign Trade to a questionnaire prepared by UNCTAD.

- (1) At government level the Hungarian People's Republic has technical and scientific co-operation agreements with 36 foreign countries, 34 of which have the general approval of the technical and scientific co-operation.

These technical and scientific co-operation agreements contain provisions about the selection and recruitment of experts and scholars abroad as well as about the exchange of industrial and technical descriptions.

- (2) The Hungarian Government considers suitable all the enterprise forms of technical co-operation and supports them, directs and organizes them as well as the fulfillment of the obligations assumed in the relevant contracts.

The Hungarian industrial and mining enterprises, depending on their field of production and the nature of their activity, give preference to the forms of industrial co-operation being most suitable for them.

- (3) Both the Hungarian Government and the Hungarian producing enterprises regard the co-operation agreements closely related to technical co-operation as an essential means of participating in the international division of labour. The technical co-operation contracts make it possible for the Hungarian enterprises to conclude long-term delivery contracts both in export and import, on the basis of mutual agreement and taking into consideration the requirements of the market. Through the co-operation contracts the Hungarian enterprises wish to meet a part of their foreign export and import requirements to receive the financial return, payment for the equipment and the products manufactured or to be produced in their plants which can be considered.



We take it that questions No.4, 5 and 6 of the Questionnaire refer to developing countries.

- (7) Co-operation agreements to be concluded with developing countries enjoy all the state preferences which can be granted according to the Hungarian regulations, to industrial co-operation agreements, such as: customs preferences to be accorded on the basis of reciprocity, credit facilities, etc. In addition, on the basis of mutual agreement, the necessary import or export licences for the goods exchanged in co-operation may be granted out of turn and even well above the quotas.
- (8) Promotion of co-operation contracts with developing countries forms an integral part of Hungarian trade policy conceptions. The Hungarian enterprises are encouraged to increase their efforts to conclude co-operation contracts in order to further the industrial development of developing countries. Such contracts may cover the questions of the location of industry and the processing of natural resources of developing countries in the form of joint ventures. With this latter form we wish to increase the direct import of materials from the developing countries producing them and in this way the West-European intermediaries used traditionally could be excluded.
- (9) According to the directive of the Hungarian Government an Interdepartmental Committee for Co-operation has been set up consisting of high-level representatives of all authorities concerned. The task of this Committee is to elaborate policy guidelines and incentives aimed at promoting the co-operation agreements.
- (10) We render assistance to developing countries in the form of government and enterprise credits. The credit period of our government credits ranges up to 10 years and the rate of interest is fixed taking into consideration the recommendations of UNCTAD. Our companies grant credits in accordance with the conditions of the market competition.

Government credits have been granted by Hungary for instance to India, Iran, Syria, Egypt, Ghana and China.

Recently we have granted bank credits as well, the terms and conditions of which are in accordance with the banking practice.

In case the industrial co-operation involves the granting of credit, the enterprises can have the political and economic risks connected with the credit covered by State Credit Insurance. Otherwise the industrial co-operation is carried out at the risk of the enterprise.

- (11) Naturally, it is the economic result that the enterprises consider when establishing industrial co-operation contracts with developing countries. The conclusion of such contracts is stimulated by the Hungarian authorities by means of all available economic regulations. In this connection we can mention the wide range of preferences that can be given in the granting of credits and the determined methods of the re-export of products.

Question No. 12 of the Questionnaire refers to developing countries.

- (13) By establishing co-operation contracts the Hungarian enterprises wish to create long-term, stable market contacts which make it possible for both partners to secure the sale of their products for a long period, the continuous exchange of intellectual products and development cooperation for carrying out the co-operation and, finally, to lay a stable foundation for the friendly relations between the contracting countries.

- (14) It is difficult to secure this operation in a uniform form, because the methods are in a different way in every country. It is essential to step back and hinder the conclusion of industrial co-operation agreements in the interests of the enterprise of the developing countries, in those cases when part of

co-operation and there are also internal financing problems in starting the co-operation. It is necessary to obtain a more effective assistance from the authorities of developing countries to be able to overcome these difficulties.

It should be stressed that we had no such experience in connection with industrial co-operation that developing countries have little experience in industrial co-operation and in the countries which have only recently gained their independence, the administration is not smooth enough in some cases.

Question No.15 of the Questionnaire refers to developing countries.

- (16) In accordance with our valid legal regulations, the trade in used machinery is carried out in the frame of normal commercial transactions.
- (17) The Hungarian Government regards it as desirable and useful that the Hungarian enterprises should undertake joint ventures in developing countries or with companies of developing countries in order to promote East-West trade. Such ventures can be directed to the exploitation and processing of natural resources and raw materials of the country in question. They can also be aimed at the joint establishment of factories producing goods for domestic requirements and at the common solution of intellectual and technical co-operation problems.

In conclusion it should be pointed out that at present Hungary has technical and scientific co-operation agreements with 18 developing countries.

In spite of the fact that Hungary's industrial co-operation contacts with the developing countries are in an initial stage yet, these relations developed considerably in the past few years.

The Hungarian Government as well as the Hungarian enterprises do their best to further extend their industrial co-operation relations with the developing countries.

b) Summary of Replies - Brazilian Government  
Officials

1. Not specifically for exports. The Foreign Relations Department has two specialized divisions for promoting industrial co-operation: the Technical Co-operation Division and the Commercial Promotion Service. The first one deals with the opportunities of technical co-operation in the international sphere, and the second one with sales opportunities. Information on such opportunities to the industries established in the country, in general, is given through the trade associations, such as the National Industrial Confederation, or the Industries Federation of the State of São Paulo.
2. In principle there is no established preference. All forms satisfy the needs of the country.
3. Lack of own technology, lack of qualified personnel, lack of available funds, in general.
4. There is a legislation on foreign capital, foreign patents, technical assistance agreements, administrative agreements, contracting of foreign personnel. Copies may be sent, if necessary.
5. None, not formally at least. The problems are solved on the basis of the present legislation.
6. The principle of equal rights of the local partner is guaranteed. There are also investment guaranteed agreements signed with some countries, mainly the United States.
7. No answer.
8. Refer to answer No.1. The Technical Co-operation Division still has little experience, but the Commercial Promotion Service has enough practice in promoting sales, participating in fairs, etc.
9. Not permanently. There are the Commercial Missions which visit various countries to foster transactions with Brazil. In general, experience shows that these missions yield good results. They are composed of government representatives and businessmen but the duration is limited to the duration of the mission.
10. No answer.
11. There no incentives but also no obstacles.
12. Only in the case of the socialist countries, where the enterprises in general seem to be part of the government.

13. The advantages are many but the quantification and enumeration is difficult.
14. i. find this co-operation available;  
ii. in a form adequate to the national interests.
15. There is no discriminating treatment. Such experts receive the same incentives as those given to other experts not deriving from the industrial co-operation.
16. There are no restrictions.
17. There are no preconceived views on this subject. A concrete case for a definition in this respect would be necessary.

NOTE: As these replies are a summary of various opinions within government circles they do not reflect, necessarily, the official opinion of the Brazilian Government.

Question to Governments on Industrial Co-operation for  
Exports between Developed and Developing Countries

1. What forms of industrial co-operation do you have with developing (developed) countries?
2. What forms of industrial co-operation are preferred in your country and why?
3. What motivated your Government to conclude industrial co-operation agreements with developing (developed) countries?
4. Is there any special legislation in your country on industrial co-operation between domestic and foreign partners?
5. What measures are taken by the government of the developing country to safeguard the interests of the domestic partners in industrial co-operation agreements with developed countries?
6. What measures are taken by the government of the developing country to protect the legitimate interests of the foreign partners in industrial co-operation with developed countries?
7. What measures are taken by the government of the developed country to minimize the risks of their national companies - partners to industrial co-operation agreements with developing countries?
8. Do you have national institutions for the promotion of industrial co-operation with developing (developed) countries, and what is their experience?
9. Do you have intergovernmental bodies or committees on promoting industrial co-operation with developing (developed) countries, and what is their experience?
10. What kind of credit arrangements are offered to the developing countries and under what terms?
11. What incentives are provided by the government of the developed country to the domestic partners in industrial co-operation agreements with developing countries?
12. Does the government of the developing country provide technical and managerial assistance to the joint operation in the developing country?
13. Do you believe that your country has derived advantages from industrial co-operation with developed (developing) countries, and if so, what are these advantages?

14. What obstacles have you encountered in implementing industrial co-operation agreements with developed (developing) countries?
15. What is the attitude of your Government towards exports of manufactures produced under industrial co-operation agreements with developed countries?
16. What is the attitude of your Government towards the transfer of second-hand machinery and equipment to developing countries under industrial co-operation agreements?
17. What is the attitude of your Government towards East-West co-operation in establishing and promoting joint ventures in developing countries?



EXAMPLES OF INTER-GOVERNMENT AGREEMENTS

- A) Extracts from Agreement on Economic Co-Operation between Czechoslovakia and the United Arab Republic 21 March, 1962.

Article 1

The Government of the Czechoslovak Socialist Republic in an endeavour to contribute to the realization of further development of the national economy of the United Arab Republic grants credit to the Government of the United Arab Republic up to the amount of 20,000,000 (twenty million) Pounds Sterling for financing of purchases of complete plants and industrial and other machinery equipment with deliveries of spare parts necessary for the first running period, agreed upon in each individual contract which shall be delivered from the Czechoslovak Socialist Republic to the United Arab Republic in accordance with this Agreement on F.O.B. basis.

The credit facilities granted under this Agreement are intended for purchases of goods produced in the Czechoslovak Socialist Republic only.

The goods to be delivered are indicated in the Schedule attached to this Agreement.

It is understood that the value of items mentioned in para I of the said Schedule represents only a part of the credit agreed upon.

Article 4

Deliveries of goods carried out in accordance with Article 1, 2 and 3 of this Agreement as well as further expenses in connection with these deliveries shall be paid to the Czechoslovak Exporters as follows:

- (a) 7½% (seven and half per cent) of the total F.O.B. value of the deliveries stated in the contract shall be paid in advance by the United Arab Republic Importers according to the agreement between the Czechoslovak Exporters and United Arab Republic Importers expressed in each individual contract but not later than 90 (ninety) days after the date of the signing of the contract.



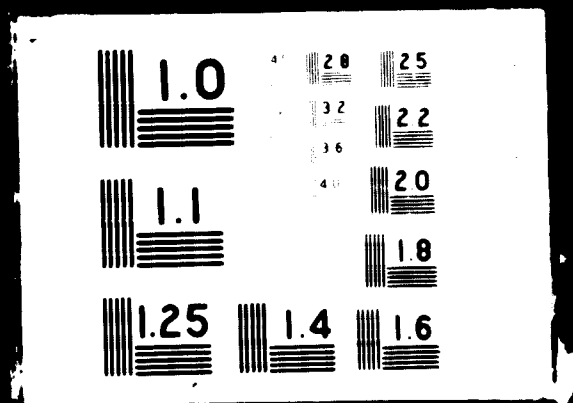
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(b) 7½ (seven and half per cent) of the U.C.R. invoiced value of each delivery or part delivery of goods in accordance with the respective contract shall be paid upon the presentation of shipping documents according to the agreement between the Czechoslovak Exporters and the United Arab Republic Importers expressed in each individual contract on the strength of an irrevocable divisible Letter of Credit to be opened by the Central Bank of Egypt by order of the United Arab Republic Importers with the State Bank of Czechoslovakia (Státní banka československá) in favour of the Czechoslovak Exporters.

(c) 25 (eighty five per cent) of the U.C.R. invoiced value of each delivery of goods in accordance with the respective contract shall be paid by utilizing the credit on the strength of irrevocable divisible Letter of Credit to be opened by the Central Bank of Czechoslovakia in favour of the Czechoslovak Exporters through the Credit Account established in accordance with Article 3 of this Agreement.

(d) all payments according to paragraphs (a) and (c) of this Article shall be effected by the United Arab Republic Importers in accordance with the Payment Agreement in force between the two countries.

B) Extracts from the Second Agreement on Economic Co-Operation between Czechoslovakia and the United Arab Republic (10th March 1965):

Article 2

(1) The Government of the Czechoslovak Socialist Republic makes available to the Government of the United Arab Republic a credit up to 25,000,000 (twenty five million pounds sterling)

(2) The credit shall be utilized in conformity with Article 4 of this Agreement for financing 5% (five per cent) of FOB cost of purchases of complete plants, industrial and other machinery and engineering equipment (Czechoslovak origin only, including necessary spare parts for the first operating period to be agreed upon in each contract) hereinafter referred to as "capital goods"

(3) The capital goods to be delivered on credit on the projects to be implemented under this Agreement shall be agreed upon and specified in a Protocol which shall be concluded between the two Governments as soon as possible after the requirements for such capital goods have been analyzed and assessed between the experts of the two countries, however, not later than by 30th June, 1965. The Protocol shall form an integral part of this Agreement.

Article 4

(a) 5% (five per cent) of FOB value of each invoiced delivery under the contract shall be paid by the purchasers to suppliers within 90 (ninety) days after the presentation of respective documents on the strength of an irrevocable, divisible and confirmed letter of Credit to be established on the amount covering 5% of the total FOB value of the contract by the Central Bank of Egypt with the Czechoslovak Commercial Bank Ltd., within 30 (thirty) days after the signature of the contract.

(b) 95% (ninety five per cent) of FOB value of each invoiced delivery under the contract shall be drawn under Credit referred to in Article 2 of this Agreement. The Czechoslovak Commercial Bank Ltd. is authorized to pass automatically the value of the said 95% to the debit of the respective Credit Account established under Article 7 of this Agreement simultaneously with the presentation of respective documents under the letter of Credit referred to in paragraph (a) of this Article.

C) Principal Items of the Agreement on Economic Co-Operation between Czechoslovakia and India (11th May, 1964):

Article 2

The Government of the Czechoslovak Socialist Republic will make available to the Government of India a Credit up to Rs. 400 million Indian Rupees (Four Hundred Million) (One Indian rupee contains 0.186621 grammes of fine gold) in payment of the 70% value of the deliveries effected from Czechoslovakia to India in pursuance of the contracts for the deliveries of machinery, industrial equipment and other supplies as envisaged in Article 1. The said contracts will be concluded before December 31, 1967 in Indian rupees between the Czechoslovak Foreign Trade Corporations and the Indian organizations authorized by the Government of India in this behalf.

Enclosure

The following projects and programmes will be financed by the Credit:

- (a) Expansion of the High Pressure Boiler Plant at Tiruchirappalli.
- (b) Expansion of the Heavy Power Equipment Plant at Ramachandrapuram.
- (c) Two factories for the manufacture of machine tools.
- (d) Additional foundry and force facilities.
- (e) 2 x 110 MW Thermal Power Plant with at least 30% Indian participation.
- (f) Factory for the manufacture of tractors and power tillers.
- (g) Supply of jigs, tools and fixtures for projects enumerated in (a) (b) (c) (d) and (e) above.
- (h) Supplies for the production programme of the High Pressure Boiler Plant at Tiruchirappalli, the Heavy Power Equipment Plant at Ramachandrapuram, the Heavy Machine Tools Plant at Ranchi and the Malchaanagar Industries for manufacture of cement plants. These would include knocked down deliveries, sub-deliveries and other items which have been worked upon prior to despatch to India, but would exclude raw materials.
- (i) Such other industrial projects and programmes as may be agreed upon between the two Governments.

- D) The principal articles of the Agreement on Economic and Technical Co-operation concluded between Czechoslovakia and Iran (29th January 1966):

Article 1

The Government of the Czechoslovak Socialist Republic and the Imperial Government of Iran will co-operate in the establishment of industrial plants in Iran and in the supply of equipment and machinery by Czechoslovak Socialist Republic to Iran under the terms set forth in this Agreement.

Within the frame of this Agreement the equipment and machinery for the following industrial plants will be supplied from Czechoslovak Socialist Republic:-

- (a) Foundry
- (b) Machine Tools Factory
- (c) Electric Motors Factory
- (d) Pumps and Compressors Factory
- (e) Power Plants
- (f) Other industrial plants and equipment and machinery that may be agreed upon by both Parties.

The equipment and machinery will be supplied together with the spare parts necessary for the first period of the operation of the plants, agreed in the contracts.

Upon the mutual agreement of both parties the above projects may be replaced by others.

Article 2

The Government of Czechoslovak Socialist Republic will extend to the Imperial Government of Iran a credit in the amount of up to the equivalent of 15 (fifteen) million US dollars for payment of goods delivered by Czechoslovakia from Czechoslovak borders (or FOB European Ports) as referred to in Article 1 of this Agreement.

Article 3

The economic and technical co-operation stipulated in the present Agreement will consist on the Czechoslovak part particularly in:-

- Preparation of the detailed project reports of the industrial plants mentioned in Article 1.
- Supply of the equipment and machinery for industrial plants.
- Shipment of equipment and machinery to Iran on Iranian account on the basis of provisions agreed in the respective contracts.

- Extension of the necessary technical assistance, e.g. through:  
Deputing Czechoslovak specialists to Iran for such fields as collection of necessary preliminary information for preparation of the projects, and also the advisory services to the Iranian organizations in the construction of the industrial plants, assisting in the erection, adjustment and commissioning of the equipment and machinery, training of the Iranian personnel in the erection, adjustment and commissioning of the equipment and machinery, receiving Iranian personnel (in numbers, specialties, and for periods to be agreed upon between the organizations of both Parties) for technical training at the appropriate Czechoslovak plants, with a view to their employment in the plants stipulated in the present Agreement, and providing technical know-how for the manufacture of the agreed products.

- Supplying of the necessary technical documents and drawings, including the working drawings, to the Iranian organizations for the construction of the plants as well as for the normal operation of the plants stipulated in the present Agreement.

The technical documents and drawings handed over by the Czechoslovak organizations to the Iranian organizations shall be used by the latter exclusively at the plants in Iran. Such documents and drawings shall not be transferred to any foreign physical or juridical entities without prior consent of the Czechoslovak organizations thereto.

The co-operation of the Parties shall consist particularly in:-

- Supplying to the Czechoslovak organizations all the initial data, held by the Iranian organizations, which are required for the opening of the industrial plants mentioned in Article 1, and co-operation with the Iranian organizations in collection of other necessary information.
- Considering the detailed project reports submitted by the Czechoslovak organizations to the Iranian organizations well in advance, if any, to permit them to meet the obligations, under the contract, to be fulfilled from the date of the receipt of the project reports.



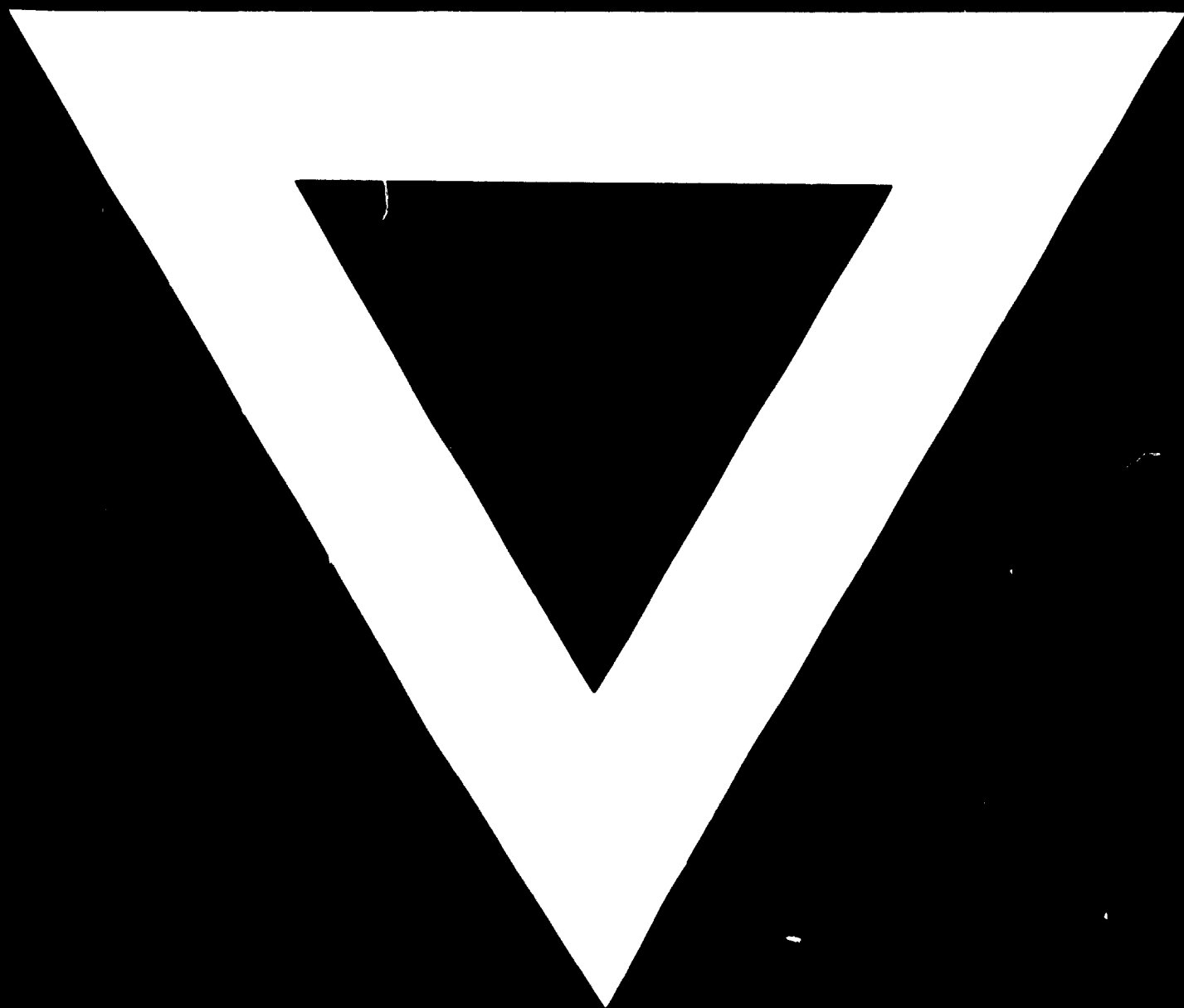
- Construction of the industrial plants (civil engineering works) and carrying out other works in accordance with the project reports with the technical assistance of the Czechoslovak organizations, if necessary.
- Supply of the necessary power, transport facilities and materials for construction of the industrial plants as well as the construction of roads, railways, transmission lines, and communication facilities to the site of plants.
- Providing the necessary financial means for construction of the plants and carrying out of other works in Iran, providing housing and transport facilities within Iran for the convenient living conditions of the Czechoslovak specialists who are sent to Iran for the implementation of the projects in accordance with the present Agreement, at the expense of Iran.
- Purchasing licences and designs for technological processes, wherever necessary.

Article 4

At the request of the Iranian organizations, the technical assistance will be rendered by the Czechoslovak organizations also in attaining the designed capacities and efficient operation of the industrial plants, included in the present Agreement, by deputing Czechoslovak specialists, delivering spare parts and necessary materials on terms and conditions to be additionally agreed upon by both Parties.

The system of agreements on economic and technical co-operation is completed by a series of agreements on scientific and technical co-operation.





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