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Distr.
GENERAL

ID/CONF.1/G.80 SUMMARY*
14 July 1967

ENGLISH
Original: FRENCH

United Nations Industrial Development Organization

INTERNATIONAL SYMPOSIUM ON INDUSTRIAL DEVELOPMENT
Athens, 29 November - 20 December 1967
Provisional agenda, Item 3(a)

THE ROLE OF PRIVATE ENTERPRISE IN THE INDUSTRIALIZATION OF THE DEVELOPING COUNTRIES

Submitted by the Government of Switzerland

D01848

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E.67-14251

The Role of Private Enterprise in the Industrialization of the Developing Countries

Private enterprise has always played the principal part in Switzerland's economic life. The State only intervenes in the internal and external machinery when the national interest so requires and only if it is both financially and legally equipped to do so. If Switzerland, a typically under-developed country barely a hundred years ago, is now one of the most highly industrialized countries in the world, it is in great part due to private enterprise, both national and foreign, which has not hesitated to invest ever-increasing amounts of capital in the country. The progressive industrialization of Switzerland was possible, however, only because the State created the climate of confidence in which private industry could flourish. The construction of the Swiss railway system may be cited, an important element in the country's economic infrastructure, financed largely by foreign capital which it has taken almost a century to reimburse or buy back.

The lessons it has derived from its own experience with development have led Switzerland to apply similar principles to its economic relations with other countries. The same ideas govern the relations it has entered into with the newly emergent developing countries. Private enterprise provides essential assistance supplementing the Swiss authorities' efforts to help those countries. Thus the major part of Swiss capital exports are for industrial investment abroad. Switzerland ranks first in the export of private capital to the developing countries, reckoned per capita, and fifth, reckoned in absolute figures.

Direct investment by Swiss undertakings in the developing countries, rising by some 200 million francs per year ($46 million), amounted at the end of 1965 to nearly 3,000 million francs ($700 million), three-quarters of it being industrial investment, particularly in the food industry, chemicals, aluminium, cement and machinery.

For the Swiss industries, some of which have been established abroad for more than half a century, especially in the less prosperous areas, it was often a problem of sheer survival, a consequence of the economic and political developments of the past few decades. The main motives of this policy of international expansion were the narrow limits of the Swiss market, increasingly depressing because of the development of mass-produced articles, and constriction by tariff barriers that were becoming harder and harder to surmount. Although they have derived undeniable advantages, the fact remains that these advantages have not been one-sided and that the countries in which the investments were made have also profited from them, often very considerably. For foreign investment brings with it, together with transfers of capital, contributions of technical as well as commercial and administrative skills, the scarcity of which is often an even more serious handicap than the lack of capital itself. The fact that the parent establishments situated in Switzerland accord their foreign subsidiaries the right to use patents, manufacturing processes, know-how, etc. which are often the result of several years' research is a determining factor in the development of industries situated in the developing countries. Without these contributions, they would generally have to produce at risk and would be unable to meet foreign competition, usually enjoying the advantages of the most recent technical discoveries, on equal terms. It is true that Swiss undertakings are tending increasingly to decentralize research as a matter of policy and that this is enabling the developing countries gradually to build up a not inconsiderable scientific arsenal; but scientific research requires such very large capital resources that the developing countries, and even countries like Switzerland, will have to count to an ever-growing extent on joint international enterprises in this particular area. Hence the cardinal importance for industrial development of collaboration among industries on an international scale.

Besides any special advantages which undertakings themselves may enjoy owing to their links with their parent establishments abroad, private investment provides advantages of a general nature to the receiving countries' economy. Experience has shown that such investments help to polarize industrialization by their multiplier effect and act as an auxiliary element in technical co-operation activities, especially vocational training schemes, and set up partnership combinations between Swiss industry and industry in the less developed countries. Furthermore, these investments help to solve the problem of the use of local resources (raw materials, agricultural produce, etc.) by processing them locally and/or helping to place them on the local, regional or international market. Although foreign investments demand certain regular outlays of foreign exchange by the receiving countries (payment of interest, earnings and royalties), when all is said and done they provide their economies with more substantial advantages in the form of additional export earnings, savings of import outlays and an improvement of the people's level of living.

Countries interested in this form of collaboration should therefore create the requisite conditions for an increased flow of private capital into their economies. The main condition is the existence of a favourable investment climate together with the appropriate legal and political security necessary for any long-term enterprise. In this respect the treatment accorded former investments is indicative for the appraisal of new investments. Other elements affecting the decision to carry out an investment project are the tax facilities offered by the authorities of the receiving country and the guarantees for the transfer of royalties on licences, patents, etc. Moreover, the authorities of developing countries who wish to attract foreign capital but fear that the control of their economy's development may slip out of their hands are in a position to make provision within their development plans for various categories of investments by granting privileges graded in accordance with the value they place on the investment. They may also suggest investment schemes associating national with foreign capital at the outset or later, or propose a concession system for a period fixed in advance, the undertaking to become national property when the concession expires. Private capital is very flexible and easily adapts itself to any kind of scheme, provided that it is based on confidence and security.

The Swiss authorities are well aware of this and accordingly, in conjunction with the interested quarters in the private economy, are taking an active and direct part in studies and activities designed to establish a system which will

- overcome the present fluctuation in the movements of private capital to the developing countries,
- ensure an optimum utilization of the available private capital,
- promote an improvement of the climate for investment.

It is with this in mind that Switzerland has concluded bilateral agreement with eighteen developing countries for the protection and encouragement of private investment and is now negotiating further agreements of the same kind. It is also participating in the examination and preparation of the various draft multilateral agreements for the same purposes. Those international conventions reinforce the validity of national investment codes - whose scope should not be underestimated - by giving a basis of public international law to a national legal code which is subject to amendment. Lastly, the Federal authorities are examining the possibility of instituting a system of federal guarantee of investment risks. The competent departments of the Administration, i.e. the Federal Political Department and the Trade Division of the Department of Public Economic Affairs, and the diplomatic and consular representations of Switzerland are also available to advise and assist Swiss investors in this regard.

As stated above, the largest share in capital transfers to the less-developed countries falls to private enterprise. The State, i.e. the Confederation, is not inactive as regards development aid, however, particularly with regard to industrialization.

First, through its Office of Technical Co-operation (whose activities and experiences in this particular area are set out in another chapter) the Confederation, in close co-operation with Swiss industry, contributes directly to the industrial development of the under-developed countries by training personnel, providing experts and establishing pilot industries.

Secondly, the machinery of the Federal guarantee of private export credits (Federal guarantee against export risks) enables the Swiss economy to deliver capital goods to developing countries on more advantageous terms. These guarantee commitments generally apply to individual transactions. However, in order to accommodate the requirements of developing countries, especially in view of their need to base their development plans on the most specific information possible, the guarantee has been extended to apply to model agreements in the form of commercial credits for a fixed lump sum to be repaid in five or ten years or transfer credits, i.e. lump sum credits to be repaid in ten years, with an extension of time in certain cases.

Thirdly, part of the public moneys allocated by the Confederation to development aid directly serves the industrial development of the under-developed countries, such as funds already contributed by the Confederation to the World Bank ($70 million), besides the $160 million raised by the Bank on the Swiss capital market, the loan of $12 million placed in Switzerland by the Inter-American Development Bank and the participation to the extent of $5 million in the capital of the Asian Development Bank.

It is by co-operating closely with Swiss private enterprise, particularly industry and the banks, that the Swiss authorities believe they can best contribute to the industrial development of the under-developed countries.

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