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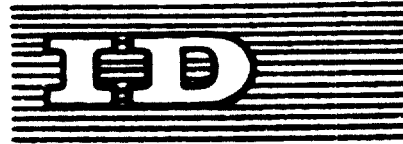
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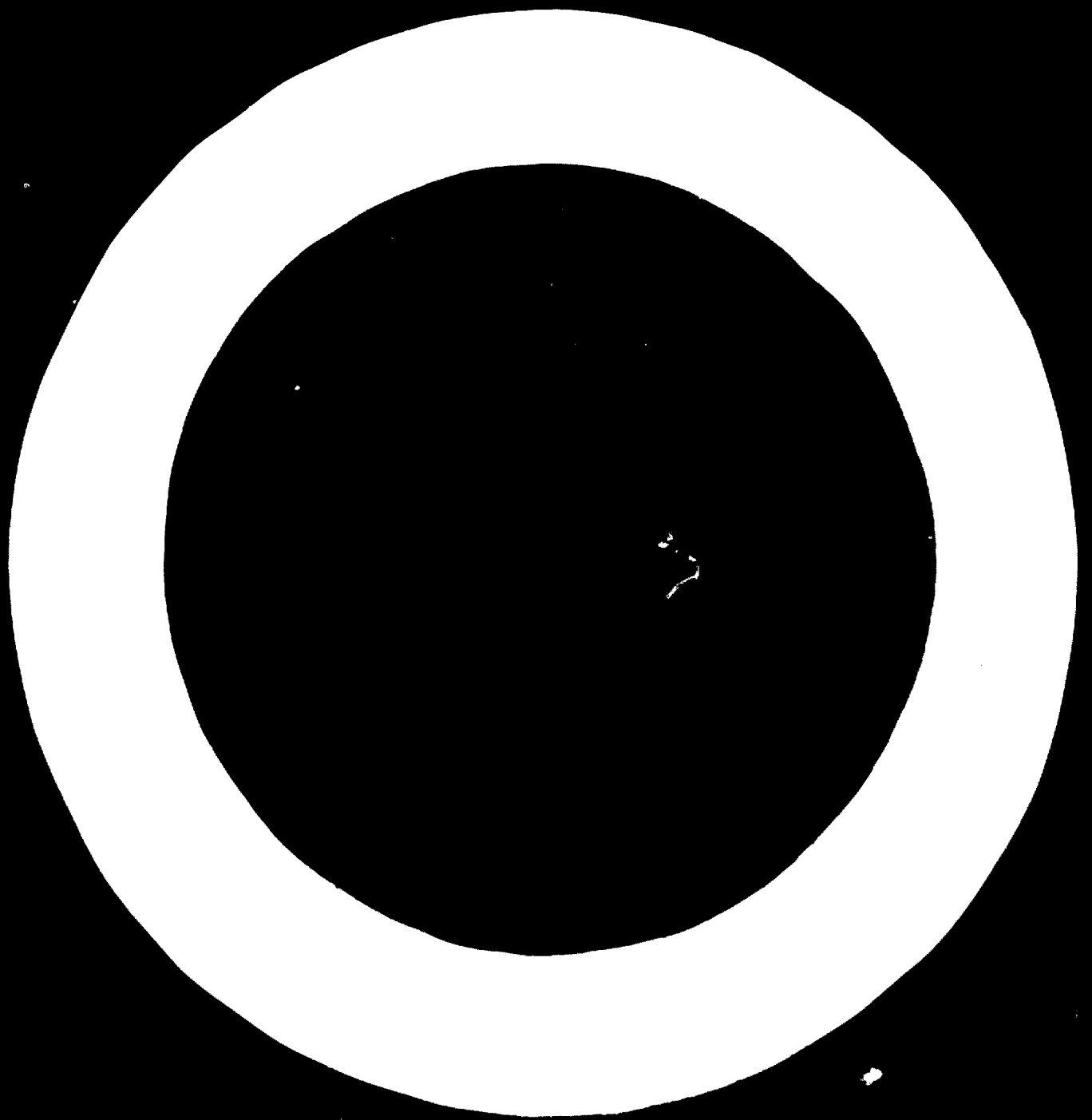
CO-OPERATION BETWEEN CHAMBERS OF INDUSTRY  
AND GOVERNMENT FOR INDUSTRIAL PROGRESS <sup>1/</sup>

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

## INTRODUCTION

Almost all developing countries are making an endeavour to industrialize their economies. This process can be speeded up if there is greater co-operation and co-ordination of activities of national chambers of commerce and industry, government departments and international organizations. An attempt has been made in this paper to identify the different areas of co-operation and the form such co-operation should take. The types and the structures of chambers in different countries are not the same and therefore the patterns which this co-operation can assume are bound to vary. However, the organisational factor has not been discussed here, because it forms the theme of a separate paper. The suggestions which have been made are based on the assumption that the chambers of commerce and industry are voluntary and the nexus with governments lies in common interest rather than common organisation.

1.1 The economic problems confronting industry are different for the small-scale and the large-scale sectors. It was, therefore, felt that these two sectors should be considered separately in the discussion about co-operation and co-ordination with government and international organizations.

1.2 The paper is divided into four parts: in Part I, the general background against which the problems of co-operation have to be discussed has been outlined. The specific issues connected with small-scale industries and the co-operation between small-scale industries and large-scale industries, on the one hand, and small-scale industries and government, on the other, have been analysed in Part II. Part III deals with the problems concerning co-operation between large industries inter se and between large industries and government. Part IV emphasizes the need for greater international co-operation through UN organisations and business institutions.

1.3 The paper is influenced by the experience and lessons of India's economic development in the past two decades. It is, however, felt that the problems and the issues are not very dissimilar in other developing countries and the type of institutional arrangements which have been suggested for greater effective co-operation for industrial progress are applicable with suitable modifications to other countries as well.

## I. THE GENERAL BACKGROUND OF CO-OPERATION

Industrialisation 1. In any programme of economic development industrialization occupies a central and pivotal place; but industrialization is an intricate and complex task. Most of the developing countries, therefore, have adopted national planning to smoothen this process. The pattern of planning varies from country to country. Whatever the nature of these plans, it is obvious that their fulfilment lies on the extent to which industry participates in plan formulation and is able to implement industrial programmes. What is necessary, however, is that the plan is not superimposed and is drawn up in consultation with different sections of industry. This will mean consultation at two levels:

- (i) Between organizations of different industries and the national chambers of industry, and
- (ii) Between the national chambers of industry and the Government.

2. The first will ensure that the interest of different sections of industry are properly taken care of and the second that the programmes of development of private industry are integrated in the overall pattern of development.

Plan formulation 3. Plan formulation presumes an institution consisting of different interests. The main problems in the formulation of the plan for industries which give rise to conflict, but would really require co-ordination are:

- (i) De-stalling of the State sector with the private sector;
- (ii) Integration of small- and large-scale industries;
- (iii) Consistency and balance in the growth of different types of industry.

Industrial  
Policy

4. In most developing countries which have a plan of one sort or another, governments have an industrial policy for demarcation of activities between the private and public sector. In India this has taken the shape of an industrial policy resolution which was first adopted in 1948 and later revised in 1956. There are, however, no a priori reasons why any industry should be in this sector or that. At the same time, purely from the point of economic necessity, governments may take upon themselves the development of those economic activities (for example, infrastructure) for which private sectors may not be able to find enterprise or capital.

Scales of  
Production

5. Industry consists of units operating at different scales of production. At the same time, there is obvious economic tie-up between small, medium and large units. Small units may be manufacturing consumer goods in competition with medium and large units or on their own. They may also be manufacturing components for medium and large units and thus be ancillary to them. In fact, the ancillary function is the most important aspect of small industry.

Industries  
Small and  
Large

6. The interest of small and large industries can sometimes be divergent and therefore give rise to conflict. From the purely short-term economic point of view, it may seem that relative shares of these two sectors should be governed by considerations about economies of scale or simply the cost of production. But taking a longer term view, it would appear that an effort will have to be made to deliberately induce the growth of small enterprises. This is so because most developing countries do not have enough entrepreneurial skill. This talent has to be cultivated by creating opportunities for new entrepreneurs who have often to start business on a small-scale. It is true that development of small industry cannot take place in isolation. Almost always their development is closely associated with the growth of large-scale industry.

7. A programme of industrial development has to be consistent and balanced to ensure that progress is not held up either for lack of inputs or of markets. Since a developing country is not expected to have the same infrastructure facilities as the more industrialized countries, it is inevitable that the cost structure may initially be high. If the economy is left completely open, industry may not even take root. Hence a certain degree of protection becomes necessary on the explicit understanding, however, that industry within a given period of time will be viable on its own. This means that the choice of industry is such that looking at the natural resources, aptitudes and skills of the people, industry ultimately enjoys a comparative cost advantage in international markets. The targets with respect to each industry are better left to implementation on the basis of market considerations. However, in sectors in which the profit motive is weak, additional facilities may have to be given to see that immediate considerations do not dampen long-term interests.

## II. CO-OPERATION BETWEEN SMALL AND LARGE UNITS AS ANCILLARIES AND WITH GOVERNMENTS

1. A large unit has normally to purchase its components from the small ancillary units. This helps specialisation and increases productivity. The small subcontractor, in due course, grows into a larger unit and the process of ancillary production is carried a step further. In most countries, large units choose their ancillary suppliers on a competitive basis. But there can be a greater co-operation between the ancillaries and large units, particularly in the following areas:

- (i) Technical assistance: Parent firms can give technical assistance, provide designs, institute quality control, material inspection and such other facilities which would ensure that supplies conform to specifications and time-schedule.



- (ii) Financial assistance: Where the parent company has an arrangement for buying from a specific ancillary unit, it can also provide financial assistance by way of long term loans, advance payments in respect of purchases, etc.
- (iii) Marketing facilities: Ancillary relation ensures a guaranteed market for the production of small units. Most firms have subcontracts for a definite period of time.
- (iv) Infrastructure facilities: Large units can provide built sheds and connecting roads. Some advisory services can also be provided in respect of labour relations, management and organization. Overheads such as medical dispensaries, schools, recreation facilities can also be made available to ancillaries on subsidized rates. This is possible only in cases where ancillary units are located in the neighbourhood of the parent unit.

2. As a working basis for complete co-operation between the parent and the ancillary units, it is desirable to have a code of conduct governing the relations between the two. In this code of conduct, the main emphasis should be on regularity of orders, adherence to supply and delivery schedules, standards and specifications, prompt payment of bills, etc.

Code of  
Conduct

3. To facilitate ancillary units to establish closer contacts with parent units, it is desirable to establish subcontracting exchanges. Such exchanges operate in some of the European countries as clearing houses of information. The requirements of large scale units are booked by the Exchanges on behalf of the subcontracting units or other small scale entrepreneurs. Arrangements like these also protect the interests of small entrepreneurs who are generally not in a strong bargaining position.

Subcontracting  
Exchanges

4. Apart from assistance rendered by large scale units, assistance as described in paragraph III. 4. can be provided by government.

### III. CO-ORDINATION BETWEEN LARGE UNITS AND OTHER SMALL INDUSTRIES

1. Besides ancillaries, there are small enterprises manufacturing a variety of consumer goods. Quite a few of these items are not manufactured by larger units and, to that extent, the small scale manufacturers have natural protection. To promote development of these industries, definite facilities can be given by large industry as well as government in the field of finance, raw materials, technology, marketing, management counselling and quality control. Large industries for example, can supply machinery to such units on deferred payment basis.

2. A major handicap in the development of small industry is the marketing of their products, both within and outside the country. In a number of cases, large units have successfully endeavoured to overcome this difficulty by undertaking marketing of the products under their trade name. This type of arrangement is particularly useful in selling the goods abroad.

3. Some of the small industries producing consumer goods also operate in competition with larger units. They are able to do so for some special reasons like advantage of location, specialisation in specific fields, market differentiation and so on. However, some areas of conflict may remain. To resolve such conflicts, central organisations of large and small enterprises may form a joint panel or committee to discuss such issues and to impose voluntary restraints and economic discipline.

4. In some countries like India, governments have set up small industry institutes to give technical guidance and other institutions to provide financial assistance on liberal terms. Also, industrial estates have been set up with auxiliary facilities like water, power, transport and communication, etc. The Government of India have also set up a Corporation to provide machinery and equipment, both indigenous and imported, on hire purchase basis.

Marketing

Joint Panel

Facilities for  
Small Industries

Price preference ranging up to 15 per cent is given to some products of small industry. However, experience has been that the facilities given by governments may not always evoke adequate response from the public because of lack of entrepreneurial talent. The gap can be made good, if large units deliberately follow a policy of inducing their trained middle level executives to go in for small industry.

#### IV. LARGE SCALE INDUSTRY CO-ORDINATION INTER-SE AND WITH GOVERNMENTS

1. The large scale industry pioneers the process of industrialisation. This is because technology is considerably advanced and the benefits of relatively cheap labour are more than offset by higher productivity of capital. In a variety of industries, like steel, fertilisers, petrochemicals, electronics, oil exploration and refining, industrial machinery, non-ferrous metals, automobiles, wagon and ship-building, etc. which are crucial in the development process, the size of the unit has to be relatively large. These can be set up only by entrepreneurs who have sufficient experience and expertise. It often happens that the implementation of the project requires foreign collaboration, mainly in respect of technology and partly for capital. The need for foreign capital is pronounced when the country is short of foreign exchange, which is a general feature of all developing countries.

2. The development of large scale sector on healthy lines presumes;

(a) That the projects are carefully selected on the basis of economic feasibility.

(b) That the extraneous conditions necessary for operating the project on commercial lines exist or are created.

Role of large  
industry

- (c) That foreign collaboration is by and large in the form of joint ventures between the national and the foreign parties and that governments in consultation with national chambers draw up guidelines in regard to the terms and areas in which foreign collaboration - technical and financial - is welcome.
- (d) That nascent industries are given adequate protection in their initial phase of development and the national chambers are consulted before entering into bilateral trade agreements at government level.

3. The development of large scale industry presupposes the availability of necessary infrastructure facilities. To begin with industry must be able to raise long-term funds by issue of equities, preference shares and debentures. This is possible only when the capital market is well developed, and there is a proper institutional framework. While most developing countries have made some headway in this direction, there are also considerable gaps to be made good. To the extent finance from private sources is not adequate to promote the desired rate of growth governments have set up development banks. The short-term requirements for working capital are usually financed from bank credit. It is, therefore, necessary to activate the growth of the bank sector through branch expansion. Governments' role in development of industry is more predominant in the provision of other infrastructure facilities, like power, water, transport and communications. To ensure that the supply of such facilities is adequate and regular, a standing committee, represented by central chambers of commerce and industry, the chairmen of public utilities and governments may be formed to review the situation and take advance action.

Infrastructure  
and other  
Prerequisites

4. In the development of industry issues are bound to arise which at least for the time being may appear like bottlenecks and tend to impede the developmental forces. These may be classified into:

- (a) Policy hurdles
- (b) Shortages arising from unbalanced growth.
- (c) Inter-industry conflicts.

5. Some element of control is implied in balanced growth. The extent of control, however, particularly in politically sensitive countries may sometimes exceed desirable limits. This leads to "multiplicity of competencies". In India for example, an application for setting-up an industry has to go through various departments like Industrial Licensing, Foreign Investment Board, Monopolies Commission, Controller of Imports, Capital Issues Control, and the Financial Institutions from which money is borrowed. This procedure inevitably involves delay at each stage which can slow down the rate of investment. To short circuit the processing of applications a high level National Committee with executive powers, should be constituted with the Minister of Industries as its Chairman, and comprising of representatives of the relevant Government Departments, and Central Chambers of Commerce and Industry. The Committee can meet at regular intervals and take decisions on various applications. No application should be kept pending for more than six months.

National  
Committee for  
Co-ordination

6. Development of industries can also be held up because of temporary shortages in critical areas such as raw materials, capital goods, etc. The planning authority, consisting among others, of representatives of Chambers of Commerce and Industry, should keep track of implementation of planned programmes so that advance action is taken to avoid possible shortages. The function of supervising the plan implementation can be entrusted to a separate cell in the planning body. In spite of such institutional devices, no foolproof arrangement can be devised to see that development is totally balanced. This is because economic situation cannot always be foreseen correctly and advance remedial measures taken. Therefore, to the extent possible, deficiencies in internal production may have to be supplemented by imports. Where the deficiency is in respect of internal services which cannot be imported a re-allocation of available supplies is made. This exercise can be entrusted to the cell in the planning body which

Imbalances

International  
supplementary  
finance

overseas implementation. A re-allocation of foreign exchange resources without affecting the general growth of the economy would be possible only if the balance of payments position is not too tight and there is some cushion available for additional imports. Since foreign exchange resources with most of the developing countries are inadequate, arrangements for supplementary finance should be thought of with international organisations like the International Monetary Fund and the International Bank for Reconstruction and Development.

Tariff  
protection and  
bilateral trade

7. Development to be efficient should be such as to withstand international competition. But, as stated earlier, in the initial stages of development industries' cost of production is bound to be high. While, therefore, some degree of tariff protection will be initially necessary, industry, once it gets going, should not only be able to fulfill internal demand but also export. In other words, the changing pattern of internal production will bring about a new pattern of export trade. These export potentialities have to be explored and as such, when governments conclude bilateral trade agreements these factors have to be carefully viewed. It will be necessary for governments to evaluate these trends and for this purpose, governments have to have a close knowledge of and intimate relations with industries through national chambers. In countries like India, there are advisory bodies like the Board of Trade, representing different interests like industry, exporters, government departments, and presided over by the Minister of Foreign Trade. This type of arrangement, supplemented by export promotion councils for different commodities can be profitably adopted by other developing countries.

8. Industrial development often gives rise to conflicts between industries themselves. These are related to:

- (a) Buyer-seller relationship between industries;
- (b) Competition between industries.

Strengthening  
chambers

In the case of intermediate items, the output of one industry becomes the input of another. Hence differences may arise in regard to price, quality, delivery schedule, imports, etc. These disputes have to be resolved on a co-operative basis within the framework provided by the national chamber of commerce and industry. The solution can be effective only when the chamber is strong enough to command respect in the eyes of the businessmen.

Arbitration

9. Many of the chambers provide arbitration facilities in disputes between local as well as foreign parties. It appears, however, that these facilities are not made full use of. The chambers must endeavour to inculcate a greater commitment to the ideal of voluntary arbitration.

Competition

10. Disputes arising from business rivalries are nothing but expression of free competition. Chambers must not entertain such grievances and let the events take their natural course.

**V. CO-OPERATION WITH INTERNATIONAL INSTITUTIONS**

1. Since the Second World War there has been a greater accent on international co-operation, partly as a matter of necessity. The IMF has made for international monetary stability. The economic disparities between nations, and its explosive potential would have further aggravated, but for the world institutions, like IERD, IFC and informal arrangements, like Aid-India and Aid-Pakistan consortia.

2. In the field of international co-operation, the role of Chambers is evident with respect to the followings:

(a) Economic Bodies operating under the aegis of the UNO;

(b) International business organizations, like international Chambers of Commerce (ICC), Afro-Asian Organisation for Economic Co-operation (AFAECS) and the Confederation of Asian Chambers of Commerce and Industry (CACCI);

(o) Foreign chambers and similar business organizations.

3. The Chambers' relations with UN bodies are primarily indirect, that is, through national governments and international business organisations like the ICC which has a consultative status with United Nations and its agencies. The UN bodies have been providing specialised assistance of various kinds. The IHRD and IFC give long-term financial assistance. The UNDP and UNIDO have been helping industries in preparing project reports, conducting pre-investment surveys, providing technical training and also acting as a marriage bureau to bring together potential partners from different countries to forge specific industrial projects. Even now the UNIDO has to depend on national chambers in pursuing some of its activities. For instance, in regard to the Rabat Conference for promoting specific industrial projects in African countries and the recent Manila Conference relating to Asian countries, the UNIDO had to depend, though indirectly, on national chambers, like the Federation of Indian Chambers of Commerce and Industry (FICCI), both in identifying projects and in locating parties interested in setting up such projects. The Chambers can publicise and popularise these activities. Again, UNIDO is not yet sufficiently widely known to business communities in developing countries. This information gap can be made good by chambers. Therefore, the UNIDO should make available its literature and publications to national chambers on a regular basis.

4. The chambers have organised themselves vertically and have established organisations at regional levels like AFRASEC, CACCI, and also at international level, viz., the ICC. Such organisations along with UN bodies, help understanding of national policies, make assessment and appraisal of international problems, and evolve policies to improve international economic order. Although in Asia or Africa, regional groupings have not been set up on the lines of the European Common Market, some integration of economic policies for mutual benefit can certainly be evolved. This will make it possible to strengthen trade and investment relations and reduce the need for foreign aid.

UN bodies

UNIDO

Vertical organisations



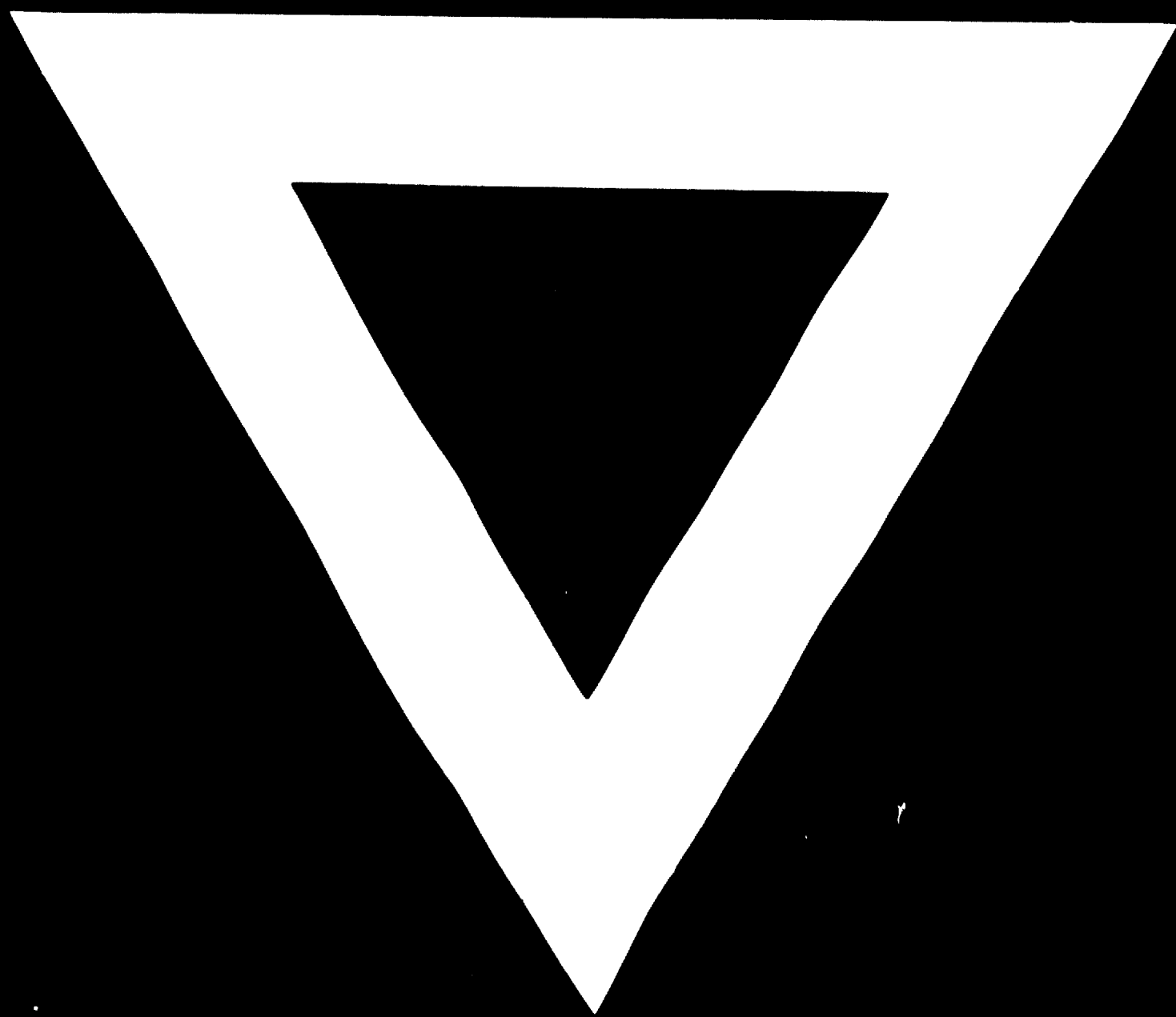
Bilateral  
contact

5. Apart from regional and international organisations, chambers of commerce and industry have to develop greater bilateral contacts. This helps not only keeping track of changing economic conditions in different countries, but also bringing nearer businessmen from different countries. This is really a necessary factor in promoting trade and investment. The FICCI for instance, has set up a Business Co-operation Committee with the Japan Chamber of Commerce and Industry. The Ahs Report on the visit of the West German Delegation to India early this year has endorsed the FICCI's suggestion to establish a similar committee in co-operation with the Federation of German Industries. Such arrangements can form a good working basis for larger trade, joint ventures for exports and investment in either of the countries or in third countries.

New social  
ethos

6. Developing countries which are making a bid to industrialise their economies have to function in an environment which is altogether different from the one which today's developed countries have to operate in their initial phase. Development now has to be properly co-ordinated and harmonised to avoid waste and promote the best use of resources according to national objectives. People are conscious of their right and of the responsibility of the State as also the business community. There is a tide of rising expectations. Social values have vastly changed. Business has to adapt to the new social ethos. Chambers of commerce and industry should, therefore, provide the leadership in meeting the new challenges.





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