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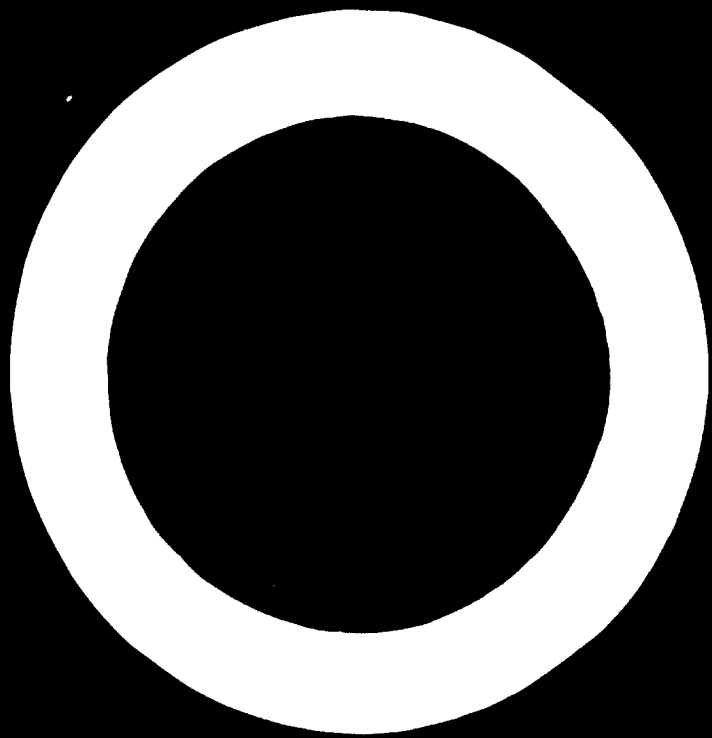
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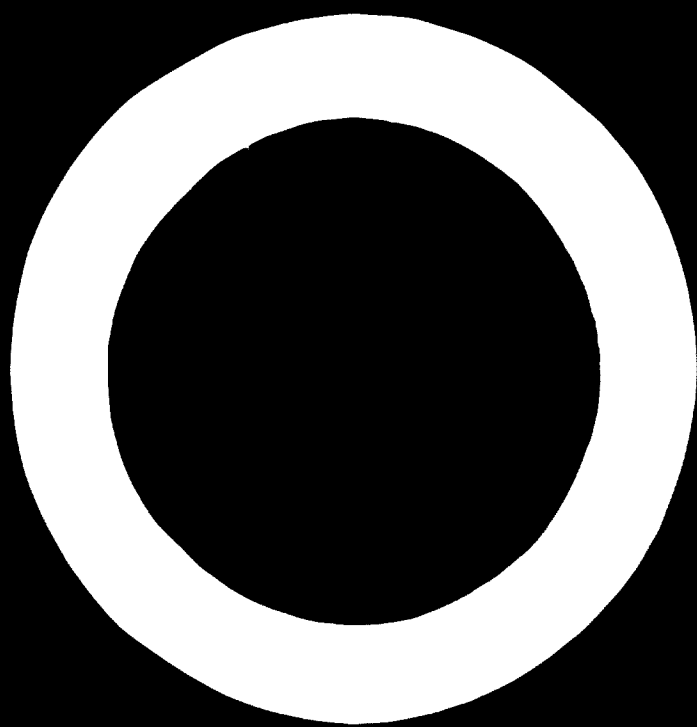
INDUSTRIAL
CO-OPERATION
BETWEEN DEVELOPED
AND
DEVELOPING COUNTRIES
FOR EXPORT

Report of Expert Group Meeting
Bucharest, 8-13 June 1970



UNITED NATIONS





UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
VIENNA

**INDUSTRIAL CO-OPERATION BETWEEN
DEVELOPED AND DEVELOPING COUNTRIES
FOR EXPORT**

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**UNITED NATIONS
New York, 1971**

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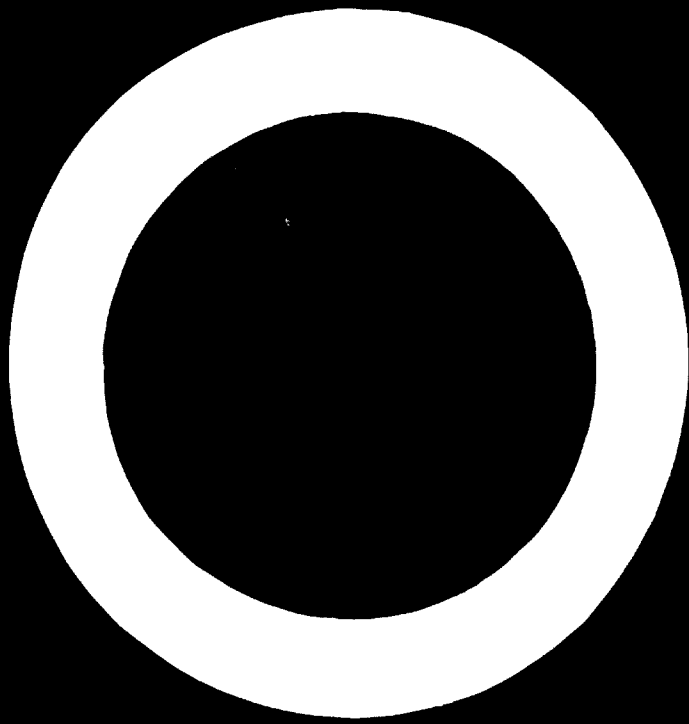
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Contents

	<u>Page</u>
Introduction	5
Promotion of export-oriented industrial co-operation	8
Suggestions for practical action by UNIDO	10
Advice to countries	10
Research	11
Education and training	12
Consultancy service	12
Promotional activities	12
Other questions	14

Annexes

1. List of participants	15
2. List of documents presented to the meeting	17
3. Industrial co-operation for exports between centrally planned economies of Eastern Europe and developing countries (prepared by the secretariat of UNIDO)	19



Introduction

1. The Expert Group Meeting on Industrial Co-operation between Developed and Developing Countries for Exports was held in Bucharest from 8 to 13 June 1970. The meeting was convened by UNIDO in co-operation with the Romanian Government with experts from eleven countries participating. A list of participants is attached as annex 1.

2. The meeting was opened on behalf of UNIDO by Mr. V. Kaigl, Deputy Director, Industrial Policies and Programming Division. Professor C. Murgescu, Director of the Institute of World Economy, Bucharest, was elected Chairman, and Mr. J. R. Caldwell, Operations Adviser, Uganda Development Corporation served as Rapporteur. Prior to its adoption, the draft report presented by the Rapporteur was amended by a drafting committee comprising Messrs. Banerjee, Hegraeus and Szczepanczyk. The resulting draft was unanimously approved by the participants.

3. In his opening statement, Mr. Kaigl stressed that the purpose of the meeting was to bring forth practical suggestions to enable the developing countries to overcome their chronic balance-of-payments difficulties and to develop their export industries in co-operation with enterprises from developed countries.

4. The specific aims of the meeting and the issues to be discussed were formulated as follows:

- (a) To examine the problems of international industrial co-operation between developed and developing countries and more specifically the relationship between this co-operation and the export performance of developing countries;
- (b) To define the practical means of achieving the expansion of manufactured goods exports from developing countries through international industrial co-operation, and to indicate the industrial sectors which offer the greatest

opportunities for this expansion. The identification of industry branches and their selection should meet these criteria and pre-requisites:

- availability of indigenous resources;
- existence of adequate markets;
- technology and skills;
- investment climate;
- export consciousness and marketing dynamism;
- adequate institutional structure and policies.

- (c) To stipulate the most fruitful methods by which UNIDO can help promote export-oriented industrial co-operation, indicating by examples the possible co-operative arrangements to be developed in technical assistance projects. To discuss specifically import substitution; marketing and export restrictions; incentives and import duties and quotas;
- (d) To review the experiences of a number of developing and developed countries, with special emphasis on the experience of the centrally planned countries of Eastern Europe;
- (e) To examine feasibility and desirability of export-oriented joint ventures as a means of raising the export potential of developing countries;
- (f) To recommend practical means of achieving the expansion of manufactured goods exports from developing countries through industrial co-operation agreements;
- (g) To facilitate UNIDO-sponsored feasibility studies of, and help with, the establishment of joint ventures and the selection of industry branches for technical assistance programmes in the fields of industrial specialization, unit cost reduction, quality improvement, export-oriented marketing, market research, advertising, packaging, the training of export-oriented personnel and management.

5. The Chairman, on behalf of the participants, expressed thanks to the organizers of the meeting for their preparatory work for the meeting, and stressed that the theme under discussion is of major concern to economic development in the contemporary world.

6. Industrial co-operation is still at an initial stage and it is a fact that in many developing countries and some centrally planned economies, the institutions, enterprises etc. do not yet possess the necessary information concerning all the possibilities for co-operation that present themselves today. The Chairman suggested that UNIDO could make a useful contribution in the field

of information. Information of this type would be of particular value to less developed countries by providing guidance which would help those countries to arrive at rational investment decisions and reduce the chances of mistakes prior to committing themselves to large scale investments in the industrial field. The Chairman further stressed that the meeting's function was to provide practical advice to UNIDO and to the governments and industries of developing countries on industrial co-operation at the enterprise level.

7. The agenda items were fully discussed in the course of intense and useful debate, in their generality and in considerable detail, by the experts from developing and developed countries - both those with centrally planned and with free market economies. It was felt that the experts would be able to brief the authorities of their respective countries on these discussions with particular emphasis on those issues that are of particular importance for their collaboration with respective partners.

8. Although the selection of industrial branches suitable for industrial co-operation for exports was discussed at length, no firm advice on selection was offered. The experts felt that it was undesirable to generalize, since conditions in specific countries and industries vary so much and no general criteria on selection are universally applicable.

9. This report indicates the general contents of the debate on practical suggestions for UNIDO's work in this field. Concrete suggestions for action by UNIDO are presented in the final section.

PROMOTION OF EXPORT-ORIENTED INDUSTRIAL CO-OPERATION

10. In discussing this agenda item, the experts laid particular stress on UNIDO's role in promoting export-oriented industrial co-operation. The general discussions are summarized in the following paragraphs.

11. UNIDO should assist developing countries to:

- (a) Select the industrial branches that will contribute most to the export capabilities of individual developing countries;
- (b) Explore the feasibility of establishing export-oriented joint ventures in such selected industrial branches;
- (c) When necessary, assist the Governments concerned to bring about changes in the structure of industrial branches that have export potential; and
- (d) Identify the causes of unsatisfactory production and export performance.

12. While discussing how Governments of developing countries can encourage the establishment of export-oriented industrial co-operation of various kinds, the following points were stressed:

- (a) Government requests to UNIDO for assistance in the establishment of new industrial units should be carefully examined for their viability in terms of export potential.
- (b) Upon receipt of a government request, UNIDO should identify the causes of earlier unsatisfactory export performance, suggest appropriate remedial measures, explore the feasibility of establishing an export-oriented joint venture, and assist the Government as necessary and upon request in drafting the joint venture agreement to ensure that the interests of the partners and particularly those of the host country are safeguarded.
- (c) Such systematic collection and distribution of information should be carried out by UNIDO. Furthermore, up-to-date information should be collected and made available on those parties in developed and developing

countries that are positively interested in industrial co-operation provided their requirements can be met.

13. The importance of UNIDO's initiating role was underlined. It was felt that such initiative could also be taken by UNIDO in cases where the trade balance of a specific developing country called for urgent measures to strengthen its export results.

14. It was agreed that UNIDO's advice and assistance should, in principle, be given at the Government's request. In specific cases, however, when information gathered by UNIDO in the course of other work suggests that specific collaboration schemes might be of benefit to the solution of their balance-of-payments problems etc., UNIDO should take the initiative to point out these facts to the Government and, if necessary, help in formulating a plan for the further investigation and implementation of a project. Practical examples of such collaboration are indicated in annex 3 to this report.

15. The discussions covered in detail the present technical assistance offered by UNIDO in the fields of production methods, quality control, costing, pricing, marketing, distribution, product adaptation etc. It was felt that such technical assistance could be enhanced by enlarged collection and distribution to the parties concerned of relevant information on:

- (a) Government agreements which contain clauses on industrial co-operation.
- (b) Regulations and laws concerning foreign investment.
- (c) Incentives and stimuli etc., granted to different branches of industry in developing countries, and with particular respect to export purposes.
- (d) Such products and/or processes which could benefit from various forms of international industrial co-operation.

16. Great stress was laid by the participants on the need for intimate co-operation between UNIDO and UNCTAD and other international organizations, to avoid duplication of efforts and to ensure full mobilization of accumulated experience and documentation.

SUGGESTIONS FOR PRACTICAL ACTION BY UNIDO

17. In addition to the general discussions of UNIDO's direct engagement in the furthering of export-oriented industries in the developing countries, a number of concrete suggestions were presented for consideration. These suggestions, listed below under eight major headings, are not evaluated as to their feasibility or priority, but are mainly suggestions for study and, if possible, implementation within UNIDO.

18. The suggestions were presented on the understanding that they might be implemented by UNIDO or by UNCTAD or in co-operation between the two organizations.

Advice to countries

19. It was recommended that UNIDO should spare no efforts to stress to the Governments of developing countries that even in the case of existing and fruitful co-operation with developed countries, through joint ventures or other forms of co-operation, they must not allow themselves to rely only on their collaborating partners for the marketing of the goods, and this particularly in third countries. Developing countries should also build up their own marketing efficiency abroad through the employment of experts who speak a practical language based on knowledge of production difficulties and marketing obstacles. This is true for the developed countries in their own sales efforts and even more so for developing countries, which face greater difficulties in so many aspects. Many of the experts stressed that advice to developing countries in these matters is a major duty of UNIDO.

Research

20. UNIDO should, if possible, expand its research activity in fields where the results are likely to improve its advice and assistance to developing countries for the expansion of their export industries. UNIDO should bear in mind that:

- (a) Basic research of theoretical character is necessary in order to permit a proper analysis of various models for collaboration between developed and developing countries and to evaluate the advantages and disadvantages of major forms of agreements and their implementation. It is necessary, however, to give even to the theoretical studies such directives as will give them a practical implication and make them reasonably useful as guidelines for the long term planning of UNIDO work. To this end, UNIDO should, in addition to giving practical directives, follow such research closely and keep in constant touch to ensure that its practical purposes are not dissipated.
- (b) In the course of the discussions a number of case studies were reviewed, with detailed attention to production and marketing obstacles and suggestions as to how these could be successfully overcome. In one case, material was presented in summary form concerning the experience of joint ventures between one developed country and one large developing country. The experts felt that it would be very useful if UNIDO could make similar research material available along parallel lines from the developing countries. It was realized, however, that a full-fledged study covering a number of developing countries at the same time would be impractical since the burden of work related to such studies was indeed exacting. A more promising approach might be to carry out such studies bilaterally since this usually made it easier to secure co-operation among the specialists engaged in the task.
- (c) Finally it was stressed that inadequate local market research or export market research for the venture in question is often the main cause of failure for joint ventures and other forms of industrial co-operation in developing countries. UNIDO cannot engage itself in this work, which is the sole task of the collaborating partners, but UNIDO could, through its information service, make the need for such studies a focal point and possibly provide guidelines to help in planning individual market research projects prior to investment decisions.

Education and training

21. The educational role of international organizations should include not only training facilities at the management level but also on-the-job training at the foreman level, for it is at this level that developing countries experience their greatest difficulties in arriving at production efficiency. Such training must necessarily take place on the shop floor. UNIDO's engagement should be advisory only.

Consultancy service

22. In the course of the meeting, UNIDO's present consultancy service was very positively commented upon. The additional suggestion was presented that UNIDO should investigate whether it is possible to engage specialists on production and export problems related to various forms of industrial co-operation in developing countries on a long-term basis. The truly qualified experts in this field, who are likely to have arrived at mature age, are often hesitant to put their experience at the disposal of international organizations without having sufficient personal security. As a result of this, the consultancy service can now not always include the best men for such qualified tasks. The offer of long-term assignments would have the effect of making more qualified experts available for such tasks.

Promotional activities

23. Numerous concrete suggestions were presented under this heading. The following general observation was shared by many participants. In all export work the major responsibilities remain with the seller and the buyer. Government officials, international organizations etc. can only help to initiate such work, promote contacts and provide guidance for successful implementation. A general recommendation to UNIDO was, therefore, that while the promotional activities of UNIDO should be carried further, the general planning of UNIDO's activities should lay emphasis on advisory and consultancy activities. It was evident that UNIDO, like other intermediary bodies, must refrain from

engaging itself in concrete trade agreements, in actual direct negotiations in the field of trade, industry etc., which must necessarily remain the full and sole responsibility of the parties concerned.

24. The Group suggested that existing UNIDO projects should be pursued as their success would facilitate industrial co-operation for exports. Among such projects are the following:

- (a) The newly launched Export Product Programme;
- (b) UNIDO's study of the utilization of excess capacity for exports in developing countries;
- (c) The work currently being undertaken in the field of international subcontracting;
- (d) A programme promoting inter-firm comparisons;
- (e) Quality control and testing facilities with a view to improving export product quality.

25. The importance of UNIDO's taking new initiatives has been dealt with in the report. The concrete suggestions for such a programme submitted to UNIDO are as follows:

- (a) Short SIS missions to identify and select the industrial branches that would contribute most to the export capabilities of the developing country could be sent to help preparing the request;
- (b) Sending of a team of experts to carry out the feasibility study on any proposed project to suggest a "viable" project plan;
- (c) Whenever the study involves a branch of industry of considerable importance and with great export potential, e.g., a regional or multinational project, UNDP Special Fund facilities should be used to provide a comprehensive long-term programme. Most important, such a project should contain a strong training bias to ensure that continuity and development would not stop once the international experts leave. For this purpose, fellowships, in-plant training facilities, seminars etc., would all have to be promoted by UNIDO.

26. It was suggested by some participants that UNIDO should adopt the role of an intermediary by bringing together the likely partners for joint ventures, subcontracting arrangements and any other forms of industrial co-operation. It was stressed, however, that although its involvement should include, if necessary, vetting of the viability of projects, final negotiations should be left to the partners themselves.

Other questions

27. Although the question of trade barriers in the form of discriminatory sea and air freight rates is outside the functions of UNIDO, several experts made a strong plea that UNIDO should use its influence to draw attention to the existence of these barriers, and keep the relevant international organizations alert to the problems.

28. Some participants suggested that UNIDO study closely, in co-operation with UNCTAD, the possibilities of promoting the creation of international refinancing facilities of suppliers' credits to importing countries and the question of export right franchise as related to collaborating ventures.

Annex 1

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Annex 2

LIST OF DOCUMENTS PRESENTED TO THE MEETING ^{1/}

- | | |
|-------------|--|
| ID/WG.47/1 | Co-operation between Yugoslavia and Developing Countries in Promotion of Industrial Exports |
| ID/WG.47/2 | Co-operation between Romania and Developing Countries in Promotion of Industrial Exports |
| ID/WG.47/3 | Co-operation between the USSR and Developing Countries in Promotion of Industrial Exports |
| ID/WG.47/4 | Co-operation between Hungary and Developing Countries in Promotion of Industrial Exports |
| ID/WG.47/5 | Co-operation between India and Eastern European Countries in Promotion of Industrial Exports |
| ID/WG.47/6 | Co-operation between the German Democratic Republic and Developing Countries in Promotion of Industrial Exports. |
| ID/WG.47/7 | The Feasibility of Repayment of Investment Loans in the Form of Manufactured Exports |
| ED/WG.47/8 | Co-operation between firms in Austria and Developing Countries in Promotion of Industrial Exports |
| ID/WG.47/9 | International Subcontracting in the Developing Countries |
| ID/WG.47/10 | International Business Co-operation: Experience of Pakistan |
| ID/WG.47/11 | Forms and Methods of Czechoslovak Economic and Technical Co-operation with Developing Countries |
| ID/WG.47/12 | Forms of Industrial Co-operation between Socialist and Developing Countries (Outline) |
| ID/WG.47/13 | Industrial Co-operation for Exports: Brazil and Developed Countries |
| ID/WG.47/14 | The Experience of Poland in Industrial Co-operation with Developing Countries |

^{1/} A limited number of copies are available upon request.

- ID/WG.47/15 **Export Promotion through International
Industrial Co-operation (Issue Paper)**
- ID/WG.47/16 **Industrial Co-operation between Socialist
Countries of Eastern Europe and Developing
Countries for Exports (Issue Paper)**
- ID/WG.47/17 **Selected Case Studies**

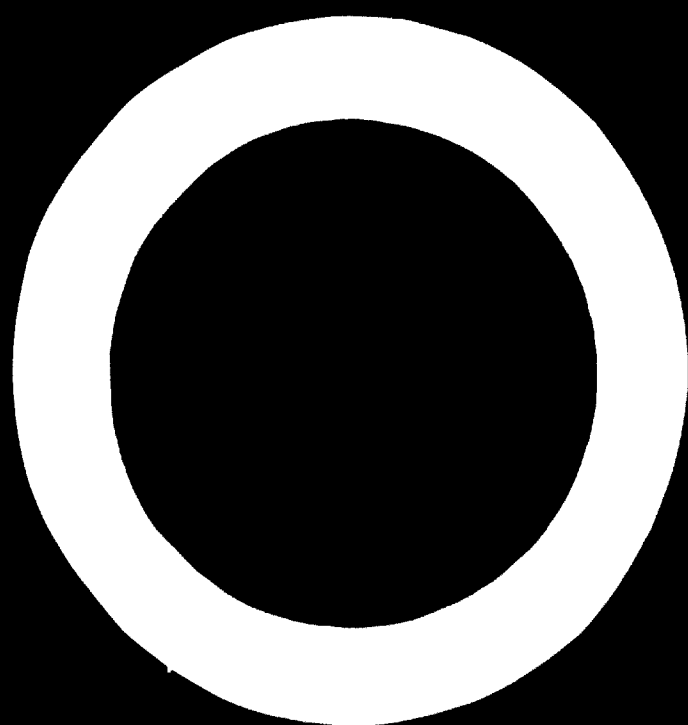
Annex 3

INDUSTRIAL CO-OPERATION FOR EXPORTS BETWEEN CENTRALLY PLANNED
ECONOMIES OF EASTERN EUROPE AND DEVELOPING COUNTRIES

Prepared by the secretariat of UNIDO

Contents

	<u>Page</u>
Introduction	21
Summary	22
1. BACKGROUND AND CRITERIA	24
Background of the project	24
The concept of industrial co-operation	26
Prerequisites and criteria	28
2. TRENDS, SCOPE AND FORMS	30
Expansion of trade between developing countries and centrally planned economies of Eastern Europe	30
Trends and scope of industrial co-operation	31
Forms of co-operation	33
3. MOTIVES, ADVANTAGES AND OBSTACLES	41
Motives	41
Advantages and obstacles	43
Obstacles to exports	45
4. PROBLEMS AND PROSPECTS	50
Problems	50
Prospects	53
Appendix A Summary of replies to UNIDO questionnaire	55
Appendix B UNIDO questionnaire	57
Appendix C Selected case studies	59
Joint venture between Industrija Motora Rakovica, Yugoslavia and El Nasr Automotive Manufacturing Company, United Arab Republic	59
Joint ventures between MEDIMPEX-Budapest and Indian partners	60
The experience of POLCOMEX, Warsaw in joint ventures	61



Introduction

The purpose of this paper is to discuss the problems of industrial co-operation between the centrally planned economies of Eastern Europe and developing countries as a 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 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, the transfer of technological know-how, joint research and marketing are becoming important factors.

It is expected that the various forms of industrial co-operation (delivery of complete plants coupled with technical assistance and credits, simple and complex specialization and joint enterprises) will lead to an increase in the industrial capacity and technological level of developing countries, a diversification and improvement of their economic and export structure, and an acceleration of the rates of economic growth in accordance with shifts in the international division of labour. For developed countries, co-operation in the sphere of production is one of the most promising ways to increase trade with developing countries by expanding their markets for capital goods.

From the point of view of promoting export-oriented industries and exports of manufactures from developing countries, it would be particularly important to determine the favourable conditions and forms of industrial co-operation that best contribute to the export potential of the developing countries and improve the efficiency of export-oriented manufacturing industries.

Special emphasis is placed on the investigation of areas where industrial co-operation can be expected to be mutually advantageous. Some of the specific obstacles and difficulties of industrial co-operation agreements for exports between developing countries and centrally planned economies are discussed.

Summary

The main conclusions in this paper are as follows:

- (a) 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 economies, although a marked upward tendency has been noticeable during the last few years. The problems are, however, quite similar to those arising in co-operation between centrally planned and developed market economies.
- (b) Most of the industrial co-operation agreements between partners from centrally planned economies and from developing countries are in heavy industry and infrastructure or other industries which are not quite suitable for exports at present. The main form of co-operation between developing countries and centrally planned economies is the supply of machinery and equipment coupled with technical assistance and credits. There is little evidence of complex specialization agreements or of subcontracting. Joint ventures are still very seldom, but a shift in emphasis is noticeable in this respect.
- (c) Industrial co-operation between developing countries and centrally planned economies is aimed mainly at stimulating import substitution. In many cases, the products manufactured under such agreements tend to be non-competitive on the world market in terms of price and quality. There are few joint marketing organisations and marketing policies; therefore, joint export operations are difficult.
- (d) The inadequate development of industrial co-operation between centrally planned economies and developing countries is a result of the following factors:
 - (i) Failure to co-ordinate the interests of the partners who are on different levels of economic development;
 - (ii) Failure to understand the nature of industrial co-operation and the advantages to be derived from it;
 - (iii) Deficiencies in the economic mechanism and the export machinery as well as inadequate export promotion policies and incentives;
 - (iv) Inadequate feasibility studies of the dynamic, comparative advantages of specialisation and co-operation in production.

- (e) The criterion of efficiency in establishing and implementing export-oriented joint ventures between enterprises in centrally planned economies and developing countries is coming to the fore as a result of the economic reforms in East European countries and the balance-of-payments difficulties of developing countries. The problems of costs, quality and prices, terms of delivery and service as well as export marketing policies are given much greater consideration in industrial co-operation between partners from centrally planned economies and developing countries. Consideration is also given to the problems of multilateral payments, stability of currency and institutional factors (fiscal incentives and subsidies, credit policies and foreign exchange policies).
- (f) It should be emphasized, however, that industrial co-operation agreements involve a strengthening of interdependence between the national economies, i.e. between the co-operating enterprises and branches. At the same time, they increase the risks from non-fulfillment of obligations by the partners. Therefore caution is exercised by other potential partners in similar ventures.
- (g) There are at present considerable possibilities for the further development of industrial co-operation between the centrally planned economies and the developing countries. Gradual promotion of the various levels of co-operation is expedient. The specialization of locally manufactured simple components can be gradually expanded to include more complex goods and eventually finished products for the domestic markets of both parties and for possible export markets.

1. BACKGROUND AND CRITERIA

Background of the project

The necessity of industrial co-operation agreements between the centrally planned 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 resolution refers to industrial branch agreements on partial division of labour between developing countries and developed countries with a centrally planned economy.^{1/}

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". 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 and prices), 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".

^{1/} See Proceedings of the First United Nations Conference on Trade and Development, Vol. I - Final Act and Report, United Nations (Sales No.: 64.II.B.11). Annex A.III.2, p.35.

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 bringing about 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 including restrictive provisions relating to the division of export markets in their collaboration agreements".^{2/}

The different emphasis in the resolutions stems from the different conditions and motives of co-operation of developing countries with centrally planned and developed market economies. In the case of industrial co-operation between developing countries and centrally planned economies, the emphasis is placed on long-term, bilateral or multilateral industrial branch agreements between the countries based on partial division of labour to create complementarity of the economies. In industrial co-operation between developing countries and market economies, the emphasis is to encourage the setting up of joint enterprises for producing goods required in developed countries and structural adjustments 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.

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 for the economically less developed

^{2/} Ibid., Annex A.III.6, p.40.

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 to provide import substitution. In most cases they do not effectively contribute to exports. The 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 exports from the developing countries.

The Expert Group Meeting was convened within the framework of this programme. It was focused on problems of industrial co-operation between developing countries and centrally planned economies of Eastern Europe. By bringing together potential partners in export-oriented industries, it is hoped that joint ventures will be formed that will increase the potential exports from the developing countries. UNIDO can help to overcome some of the obstacles to exports by technical assistance in the selection of industries that will contribute most to the export capabilities of individual developing countries and then by promotion of international export-oriented joint ventures.

The concept of industrial co-operation

A consistent definition of industrial co-operation is difficult to formulate. Industrial co-operation agreements are new phenomena particularly in comparison with traditional foreign trade and business transactions. They have not been given due attention in international economic literature.

In seeking as precise a definition as possible of industrial co-operation, the functional link and interdependence of the partners must always be stressed. The partners may deliver means of production to each other or perform services as reciprocal buyers and sellers. In this way "production" and the "market" become parts of a whole, even when only one of the partners introduces the production into the market. This especially holds true

if the agreement on co-operation includes both joint production and sales to third parties.^{3/}

Industrial co-operation pertains to all agreements concluded between two or more industrial enterprises or groups of enterprises in different countries. In other words, the focus should be on manufacturing industries and on the agreements between enterprises or groups of enterprises within those industries.

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 cannot be considered as industrial co-operation.

Industrial co-operation in its narrowest sense involves co-operation between industrial enterprises or between two or more countries in the production of one or several products with the same technology or the same division of labour.

In a broader sense, industrial co-operation implies the delivery of industrial equipment, construction of industrial plants or, in other words, investment activity and classical trade methods coupled with the extension of technical assistance by a country that exports industrial equipment.

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

- (a) Technological arrangements ranging from an exchange of know-how to joint research and development projects in specific fields;
- (b) Specialisation arrangements for deliveries of specified input or production of a specific output;

^{3/} M. Aleksić et al. (1967) Co-operation with Foreign Countries in New Conditions of Business and Import Liberalization, Foreign Trade Research Institute, Belgrade, p.6.

- (c) Delivery of machinery and equipment or entire plants combined with know-how by the suppliers;
- (d) Marketing arrangements providing for the use by one enterprise of the sales and service networks of the other enterprise or for the establishment of a joint network.^{4/}

Prerequisites and criteria

The main criterion for the establishment of industrial co-operation between developing countries and centrally planned economies is whether it contributes to a rise in productivity and maximum efficiency of production in accordance with the principle of comparative advantage. Unless the competitive position of manufactured exports both of developing countries and centrally planned economies on the world market is strengthened, there is no basis to expect that agreements on co-operation and division of labour will be successful in the long run. The potential partners would prefer to enter into agreements only with those enterprises that are capable of satisfying the demand for high-quality, low-priced goods. Economic reforms in the centrally planned economies have resulted in the criteria of effectiveness of production and foreign trade. Thus, the problems of costs, prices and currency stability should be given prime consideration when assessing the advantages of specialization and co-operation between industrial establishments in centrally planned economies and developing countries. Operating conditions in industries (costs and availability of raw materials, the level of wages, the improvement of production processes, the improvement of labour organization and the establishment of qualitative control of production) should be carefully appraised prior to entering an industrial co-operation agreement. Last but not least, the institutional factors (fiscal incentives and subsidies, credit policies, exchange rate policies and the system of marketing) affecting the export

^{4/} For more details, see Economic Survey of Europe in 1967, Economic Commission for Europe 1968 (Sales No.: 68.II.E.1) chapter II, section 7.

capacity on a macro- or micro-economic level should also be considered. Industrial co-operation should be welcomed only if its direction and aims coincide with the interests and requirements of developing countries and if it contributes to the solution of the key problems of their economic and social development.

2. TRENDS, SCOPE AND FORMS

Expansion of trade between developing countries and centrally planned economies of Eastern Europe

The problem of industrial co-operation among developing countries and centrally planned economies of Eastern Europe is part of the wider problem of promoting trade and economic relations with developed countries. Although the centrally planned economies of Eastern Europe account for a small share of world trade (11.5 per cent in 1965), they represent a large and rapidly developing economic system. Their trade with the developing countries was the most dynamic sector of world trade in the decade 1955-1965. It nearly doubled every five years. Exports from the developing countries to the centrally planned economies rose from \$580 million^{5/} in 1955 to \$1,404 million in 1960 and to \$2,815 million in 1965. The even larger increase in the imports of the developing countries from the centrally planned economies was from \$630 million in 1955 to \$1,445 million in 1960 and \$3,290 million in 1965. For the period 1960-1965, the annual rate of growth of exports from the developing countries to the centrally planned economies was about 15 per cent; the annual rate of growth of their imports from the centrally planned economies was 18 per cent.^{6/}

The centrally planned economies are a large potential market for manufactures of developing countries. The exports of manufactures and semi-manufactures from the developing countries to the

^{5/} Dollars are US dollars.

^{6/} Proceedings of the United Nations Conference on Trade and Development, Second Session (New Delhi), Vol.V - Special problems in world trade and development, United Nations, 1968 (Sales.No.: E.68.II.D.18), p.9.

centrally planned economies of Eastern Europe have grown even faster than those of primary commodities in certain respects. They were negligible in 1955; they had risen to \$192 million by 1962 and to \$558 million by 1965. If we exclude Yugoslavia from the developing countries, the corresponding figures are more modest, i.e. \$77 million in 1962 and \$212 million in 1965. This trade nearly trebled between 1962 and 1965. As a result, the share of exports of manufactures and semi-manufactures in the total exports of developing countries to the centrally planned economies of Eastern Europe rose from less than 4 per cent in 1962 to about 9 per cent in 1964 and nearly 10 per cent in 1965. ^{1/}

Trends and scope of industrial co-operation

There is a marked tendency for the centrally planned economies 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. There are advanced forms of co-operation such as industrial branch agreements, including co-production and long-term contracts which establish joint investments and marketing ventures.

It would be very difficult to quantitatively evaluate the impact of industrial co-operation between centrally planned economies and developing countries on their exports, balance of payments and productive capacities due to the lack of complete data and the methodological difficulties. However, there is a marked upward tendency in the establishment and implementation of industrial co-operation between developing countries and centrally planned economies during the last few years.

Poland has signed agreements on industrial co-operation with several developing countries. Under these agreements joint commissions of representatives of trade and industry investigate the possibilities of mutual industrial co-operation. If the scope of

^{1/} Ibid., p.11.

the proposed co-operation is wide, working teams from specific industries are established to detail the mutual services and the activities of each party. Such arrangements greatly facilitate contacts between particular firms and enterprises. An example 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, fishing, metallurgical, machine and chemical industries, especially the production of fertilizers.

Co-operation with Poland in developing the coal industry is of special significance for India. The geological conditions of the deposits in both countries are similar and the coal as a rule has to be dressed. Consequently Polish specialists are building a mine in combination with a coal washery. 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, licences, machinery and equipment.

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 increases. Second, Poland furnishes designs only for several "head" enterprises and undertakes the simultaneous training of Indian engineers. Designing of the other projects will be done entirely in India. Polish specialists will be invited as consultants when the need arises. 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 outlay of materials). One of the conditions is a minimum import quota of machinery and equipment from Poland for the coal washeries built according to Polish licences. Moreover, the equipment is to be imported only until the 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 Union of Soviet Socialist Republics) and other factories manufacturing coal mining and allied equipment and also the imports of these types of equipment.^{8/} The corporation was set up not only to co-ordinate domestic efforts with assistance from foreign sources but also to co-ordinate foreign trade relations with economic and technical assistance.

Nevertheless, cases of industrial co-operation between the 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 economies. Besides, co-operation between developing countries and centrally planned economies in the industrial sector lags behind the co-operation of market economies and centrally planned economies despite the rapid rate of growth.

Forms of co-operation

The specific form of industrial co-operation depends on many factors, especially on the level of economic development of each partner, the complementarity of the economies, the 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.

^{8/} Case Study on Trade and Economic Relations between India and the Socialist Countries of Eastern Europe, UNCTAD (TD/B/129) (mimeo.), pp.37-39.

Deliveries of machinery and equipment. The main form of co-operation between developing countries and centrally planned economies is the supply of machinery and equipment coupled with technical assistance. The assistance usually ends after the completion of the construction process, the start of an enterprise and the achievement of smooth production co-operation. This, however, can be considered industrial co-operation only in the widest sense. Moreover, most of these "turn-key projects" are in heavy industry and infrastructure which are not quite suitable for exports, or, if suitable, they do not represent manufactured products.

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 hydroelectric power station and a dam on the Arax River. All construction expenses are equally shared. Each country owns its part; the electric power and the water for irrigation are to be shared equally. The USSR finances its part of the complex, while the Iranian contribution is covered by Soviet credits. Iranian firms have been enlisted in the construction. In the long run, it is contemplated that a series of twelve hydroelectric stations will be built on the Arax River, 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 m³ of gas for export to the Soviet Union annually. A Soviet organisation is the general contractor; it will enlist Iranian firms as subcontractors. Payments to local firms will be made in Iranian currency; 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 organisations of the two countries 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 to 600,000 tons of steel and an engineering plant producing 25,000 to 30,000 tons of equipment and also to buy large quantities of goods on the usual trade terms.^{9/}

Industrial specialization. Specialization is one of the main forms of international industrial co-operation between enterprises. If planned and carried out in a rational way, it offers 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 countries and centrally planned economies.

Poland has gained the following experience in this type of industrial co-operation:^{10/}

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 developing country;

Co-operation in which Polish suppliers export machinery for which some components are produced in the developing country;

Co-operation with a partner in construction of complete industrial plants (the scope of co-operation depends mainly on the production and technical possibilities of the partner);

Co-operation in exports of complete industrial plants supplied jointly with a foreign partner to a third market;

Co-operation connected with the purchase of a licence or technology needed by Polish industry and followed by supplies of complete plants, machines and components produced by Polish industry for the firm from which the licence has been purchased.

The application of this form of co-operation between the centrally planned economies and developing countries is an important

^{9/} Innovations in the Practice of Trade and Economic Co-operation between the Socialist Countries of Eastern Europe and Developing Countries, UNCTAD, 17 June 1969 (TD/B/238) (mimeo.), p.59.

^{10/} Trade Prospects in Socialist Countries: Plans, Conditions, Policies, Approaches, UNCTAD (TD/B/246) (mimeo.), p.44.

factor in overcoming a number of practical difficulties in foreign trade and economic relations for the following reasons:

The ownership is not the subject of a special agreement and the partners retain their independence. The products of the two enterprises or the degree of their processing are subject to a foreign trade transaction;

The mutual dependence of the partners represents a development of the barter trade between the two countries.

From a financial point of view, the implementation of specialization agreements requires long-term planning of the relations between the specialized and co-operating enterprises, then the main task is to achieve a certain balance in the value of the mutual deliveries.

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

Agreements on sectoral division of labour are not the only economic relations between centrally planned economies and developing countries; therefore they need not be balanced. Balance should be achieved in the total economic relations between the

countries. It also includes other forms of long-term co-operation, current trade and, in some cases, the credits granted by the centrally planned economy. These agreements should be part of long-term programmes of economic co-operation with developing countries.^{11/}

Joint ventures. They 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 to secure his interests, while the developing country is assured a careful selection and management of the project. Moreover, the risk will be divided and the problem of transfer of foreign exchange is less acute than otherwise.

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

The partners derive mutual benefits from the production. Although there is not equal participation by the partners, a balance should be achieved of the value of their participation and in the distribution of income;

The output or any production of the joint enterprise is considered to be jointly owned and is jointly marketed on the domestic or export market;

In a ten to twenty year period, the enterprise will become the property of the developing country. Its purchase is effected by repayment with part of the output of the enterprise for a period of several years;

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

In planning the establishment of joint enterprises, the main task is to properly select the branches of industry in accordance with the level of development of the production and to determine the optimal location of the plant in the developing country. Prior to the establishment of a joint enterprise, it should be

^{11/} For details, see C. Prawdzic and I. Sachs (1967) International Trade and Development - Theory and Policy, Warsaw, pp.304-306.

determined to which extent the products or services can implement the following conditions:

Contribute to the improvement of the balance of payments of the developing country;

Bring about structural changes in the domestic economy;

Raise the technical level in the developing country on the basis of the production process and increase the skills of the manpower and the know-how of the managers.

The centrally planned economies have made relatively small direct investments (export of capital) in developing countries because they are in a rapid process of economic development and need capital themselves. The trend towards such joint ventures has accelerated recently, especially after the introduction of economic reforms in the centrally planned economies of Eastern Europe which emphasize the principle of profitable enterprises.

An example is the agreement between the Hungarian United Incandescent Lamp Factory and a private firm in Ceylon. The main clauses of the agreement are the following: The Hungarian enterprise invests £10,000 in the newly founded Tungram-Ceylon Company and 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 paid-up capital. After the expiration of five years, the Hungarian firm can assign its shares to the Ceylonese firm; the payment will be in equal rates during the subsequent five years. The Hungarian partner has granted a five-year credit on easy terms to enable the purchase of the machinery. The components 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 components. In addition to co-operation in the production, a joint marketing organization is planned.

This is a typical joint venture in which the partner from the developed country supplies the machinery, provides the plant with basic materials and semi-finished products, furnishes the technological documentation and arranges for the training of experts.

The partner from the developing country provides the real estate (ground and buildings) and the circulating funds. In addition to joint production, the co-operation agreement generally includes the establishment of a joint sales organization.

Terms of partnership. The most general terms are as follows:

The participants are independent and equal partners who voluntarily assume certain specific obligations and responsibilities to be carried out within an agreed period of time and to an appropriate standard;

The centrally planned economy (or its organizations) usually provides the assistance to developing countries that they cannot accomplish with their own resources, namely, preparatory work for construction of an industrial project (study of the construction site and sources of raw materials and design), delivery of materials and technological equipment which cannot be obtained locally, technical supervision of construction, planning and commissioning the project, organization of production, the transfer of technical documentation and know-how, and the training of local personnel. The government of the developing country or the agency it appoints provides a building site, organizes the production and delivery of local building materials, hires local personnel (experts and workers), establishes a building organization, provides administrative guidance of the work, ensures the financing of all payments in local currency and pays for the materials, machinery and equipment, and the services of the experts and workers from the centrally planned economies;

Developing countries may repay the credits through exports including the products of enterprises which have received the credit. The prices of equipment and machinery delivered by the centrally planned economies 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 short-term and other accidental price fluctuations of the world market.^{12/}

Usually enterprises in the public sector (state) have been the partners in joint ventures with developing countries. The few economic ties of private firms have usually been established directly between foreign trade organizations of the centrally planned economies and firms in developing countries. Technical

^{12/} Innovations in the Practice of Trade and Economic Co-operation between the Socialist Countries of Eastern Europe and Developing Countries, UNCTAD, 17 June 1969 (TD/B/238) (mimeo.), pp. 26-27.

assistance and performance of other services are given on the usual commercial basis. The contracts are based on the existing industrial co-operation agreements between the Governments, i.e. the terms of agreements are fixed and various questions are settled on behalf of and by authorization of the Governments. 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).

3. MOTIVES, ADVANTAGES AND OBSTACLES

Motives

The basic motives for domestic manufacturers to co-operate in production with other countries are:

Fuller utilization of capacities in order to expand production;

Faster development of techniques and technology of production;

Lower production costs and increased efficiency.

Increasing domestic and foreign competition forces industrialists to seek new markets for their products. The main reason for businessmen in developed market economies to enter production co-operation with enterprises in developing countries is primarily their desire to enter the market and/or the fear of losing markets in developing countries due to the protectionist and import-substitution policies of the latter. Another motive is the possibility to achieve lower costs in developing countries due to lower labour costs, especially in labour-intensive products. Industrial enterprises in centrally planned economies are prompted by similar motivations in establishing industrial co-operation with developing countries. By delivery of machinery and equipment coupled with technical assistance and credits, the firms in the centrally planned economies of Eastern Europe expand their exports of machinery and equipment which represent a substantial share of their total exports. Specialization on the basis of a long-term agreement on the division of production programmes is highly important 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 is a particularly

strong motive of businessmen in the developed market economies. However, the motive of commercial profitability is being given increasing priority with the implementation of the economic reforms in most centrally planned economies of Eastern Europe. Besides, it should be borne in mind that in industrial co-operation between centrally planned economies and developing countries the acquisition of raw materials in short supply is of greater importance for the partner from the centrally planned economy than in industrial co-operation between developed market economies and developing countries.

The partners in developing countries are motivated to establish industrial co-operation with both market economies and centrally planned economies by the desire to obtain the most up-to-date techniques and technologies and thereby improve the organization of work and production techniques and increase labour productivity. It is well known that external markets impose rigorous quality standards. Therefore, an important factor in industrial co-operation is the improvement of quality through better organization of work and up-to-date production technology.

The partners in developing countries also seek an alternative source of capital goods (machinery and equipment); centrally planned economies have proven to be more competitive in them than in consumer goods. New markets for the traditional exports based on the local resources of a developing country may also be opened. Joint ventures between developing countries and centrally planned economies are a source of capital for investment in infrastructure projects and heavy industry that are essential to effect structural changes in the economy.

In general, potential partners have an interest in establishing co-operation only when the sales price of the products which are manufactured jointly is lower or equal to their own production costs. It is assumed that all factors which can influence production costs are taken into account, such as the duration of runs, the efficient use of capacities, long-term credits, marketing and repeat orders. Co-operation, therefore, includes all the factors of economic importance.

The local enterprise should assess these factors prior to co-operation agreements with a foreign partner. For the local marketing of the production, a co-operating domestic partner could be important. If the domestic partner's prices are equal to those of the foreign partner delivered ex warehouse of the receiving partner, the choice of the partner is a difficult one and should be left to the discretion of the firm.^{13/}

Advantages and obstacles

The main advantage and justification of industrial co-operation is the possible international division of labour and 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 centrally planned economy to the partner in the developing country.

This aspect of co-operation may be of particular value because partners from centrally planned economies are apt to take into account the export output of the joint operation in their economic plans and therefore will have a vested interest in the successful operation of the joint venture. A further advantage to the developing country of industrial co-operation in export production is the possibility of using the sales promotion and service network of the partner in the centrally planned economy for the marketing of the manufactures of the joint operation. Sales and service of exports to centrally planned economies would be performed by the partner.

One of the main obstacles to industrial co-operation agreements between centrally planned economies and developing countries is the settlement of payments in non-convertible currencies which can be disadvantageous to both partners. For the developing country, the result of payment in non-convertible currency is that a portion of its exportable resources which could otherwise have

^{13/} For details see, M. Aleksis, op. cit., pp.62-66.

been sold on the world market for hard currency is diverted. For a centrally planned economy, the allocated productive capacity cannot be used to earn convertible currency.

As an example, Poland is currently building ships for Brazil in payment for its coffee imports. Poland thus uses a portion of its shipbuilding capacity which could be used to earn convertible currency.

The fact that the partners in centrally planned economies are state-owned enterprises tends to prolong the decision making, but it has the advantage of producing co-operation agreements which are fully backed by both governments (intergovernmental agreements) and thus ensure stable economic relations.

As stressed above from the point of view of promoting exports of manufactures from developing countries, joint ventures with developing countries promoted by the centrally planned economies of Eastern Europe tend to concentrate on heavy industry and infrastructure. The products of these industries produced in developing countries tend to be costly and often are non-competitive in world markets. The products are usually suitable for import substitution.

Another disadvantage is the difficulty of exporting the production of the joint venture to third countries because the marketing networks of state corporations in the centrally planned economies of Eastern Europe are rather limited in most cases. They confine themselves to the capital cities with very little representation in the interior. Marketing practices are generally outmoded.

State corporations, as a rule, are not too efficient in providing services. An owner of their equipment, especially in a developing country, has neither the knowledge nor the necessary channels to obtain required service. The unavailability of spare parts hampers local sales; this handicap will, unfortunately, also be experienced by the partner in the developing country.

Obstacles to exports

Even among developed countries, export success varies widely. Only through a high degree of specialization can the basic prerequisites of competitive prices, sufficient quality and quick adaptability to changing demand be achieved. It is not surprising therefore that developing countries experience difficulties in selling their manufactured products in world markets. Most of their incipient industries do not have the necessary structure, financial resources or export marketing know-how for successful exports.

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

Predominant orientation towards import substitution;

High production costs resulting in non-competitive prices due to high material input costs (the result of indiscriminate and excessive protection), restricted effective markets allowing for only uneconomical small-scale production runs, low labour productivity and high scrap rates and inadequate use of the existing installed capacity;

Varying quality;

Lack of export marketing, finance and know-how;

Insufficient or ineffective export incentives;

Restrictive trade tariffs and quotas;

Administrative procedures of complicated export documentation, slowness in credit financing and high credit costs due to internal inflation.

Import substitution. Attempts to industrialize rapidly inevitably place a strain on the balance of payments as a result of the increased demand for capital imports. Although investment in industry was usually intended to produce import substitutes to alleviate this strain, it has not happened in most cases. The import of manufactured goods especially consumer products has certainly been reduced. However, imports of intermediate products and raw materials have increased often at a far greater cost of foreign exchange than the saving effected by the import substitution. The major disadvantage of industrialization through high tariffs and low import quotas is that a bias is created against exports. Not

only have governments placed far more emphasis on saving than on earning foreign exchange, but their policies have increased export difficulties.

Although arguments in favour of import substitution policies are often very strong as far as exports are concerned, they are outweighed by many negative aspects. Developing countries must therefore reassess their attitudes towards these policies. Indiscriminate protection must be modified to protect only genuine import substitute industries.

Production costs. The main disadvantage of import substitution policies from the point of view of exports is the adverse effect on manufacturing costs. Indiscriminate and excessive protection raises material input costs and thus the manufacturer in a developing country is at a disadvantage in world markets. Production costs are also generally higher because the scale of production is often uneconomical. Small or restricted home markets do not allow local manufacturers to operate on a sufficiently large scale to obtain the full benefits of mass production techniques. Furthermore the low labour productivity and the widespread failure to use the existing installed capacity also increase the production costs of manufactured goods from developing countries; thus prices tend to be non-competitive in world markets.

Quality. It is closely related to prices. As long as the price of a product is relative to a given degree of quality, there is a market for it. However, in developing countries an inadequately trained labour force and inefficient quality control in manufacturing result in unpredictable and often unacceptable quality for international market prices.

Even when the physical characteristics such as product design, external finish, specification and reliability in performance are adequate and the price is right, exports of manufactured goods from developing countries meet a psychological barrier to successful sales. Prospective customers prefer to purchase from their established suppliers in developed countries rather than risk shortcomings that are very often imaginary. It has often been necessary

to sell manufactured goods even of very good quality from developing countries at a substantial sacrifice in price. A general improvement in quality and substantial investment in advertising are the only means of gradually overcoming the existing bias against manufactured products from developing countries.

Marketing. The greatest single problem that faces non-traditional exports from the developing countries is the lack of marketing know-how. Marketing philosophy and its various aspects are more difficult to transmit than the more tangible know-how associated with production techniques, quality control or accounting practices.

Most manufacturers in developing countries do not possess the knowledge of market requirements in potential export territories or the financial resources to exploit existing opportunities effectively. The inability to obtain credit, lack of contact, effective advertising, and knowledge in setting up effective distribution networks (fostering poor or non-existent service), unreliable deliveries and the inability to carry out market investigations all contribute towards the poor export efficiency.

Current competition requires a customer-oriented approach in international marketing; a company's product design and production policies must be geared to the specific demands of the customer. The successful company, especially in the capital goods sector, attempts to solve the problems of its customers and sells its goods as a by-product of these solutions.

This type of approach is of course completely unknown to the vast majority of manufacturers in developing countries. Nevertheless the aims of these companies should be to emulate these practices; without them, it will become increasingly more difficult to export any meaningful quantity of manufactured goods especially to developed countries.

Incentives and administrative obstacles. Insufficient or ineffective export incentives are another major obstacle to the growth of manufactured exports from developing countries. Although

there are many examples of insufficient incentives, far more prevalent are cases where adequate incentives are administered so inefficiently that they become ineffective. Prompt payment of the various incentives which are at present available would make the same incentives financially more attractive and therefore more effective.

In addition to the above-mentioned problems, there are a number of other obstacles to smooth and efficient export marketing. Foremost among them are the characteristic institutional complexities of export procedures of developing countries. Small companies do not possess and cannot afford to employ specialists in export documentation, drawback procedures and credit finance. Because of this lack of basic expertise, the existing highly complex procedures tend to frighten many potential exporters. It is highly desirable therefore to reduce export documentation to a minimum and to evolve a system which rewards the exporter almost automatically.

Import duties and quotas. Last but not least of the problems which developing countries face are tariff and quota restrictions. The highest rates of protection against their products are in fact applied by other developing countries, thereby hindering the expansion of exports between developing countries.

It is often claimed that effective protection which developed countries impose against manufactured imports from developing countries is far higher than their tariffs because the added value of products and especially the value added through labour is also included. This is particularly disadvantageous to developing countries as one of their main competitive advantages is the cost of labour. Under these circumstances, even very low import duties pose far greater obstacles to the exports of developing countries than to their competitors from developed countries.

In the vast majority of cases, however, manufactured exports from developing countries would not be competitive even if tariffs were abolished. Production costs are so high in many instances that they make the products non-competitive in any case, and the

existence or non-existence of tariffs is barely relevant. Quota restrictions have a far more damaging effect on the potential exports of developing countries because they restrict the export of competitive manufactured goods and thereby reduce the capacity to earn foreign exchange of the few products that are exportable.

4. PROBLEMS AND PROSPECTS

Problems

The developing countries in the process of industrialisation are faced with the following dilemma:

Reliance upon their own potentialities and efforts (autarkic or "closed" pattern of development);

Reliance upon foreign economic and technical aid by buying foreign licences and technical documentation or by entering into joint ventures with partners from developed countries (outward-looking or "open" pattern of development).

Both choices have advantages and drawbacks. Whether priority should be given to one or the other orientation of the economy cannot be given a simple and unequivocal answer. It depends on the stage of industrialisation of a given country, the size of the market, the extensive or intensive type of economic growth and other economic, social and institutional factors which cannot be dealt with in detail in this paper. The tendency towards diversification of the economy if carried to the extreme leads to inefficiency and autarky. In export-oriented production, a contrary tendency manifests itself towards specialisation of production which increases the dependence on the world market. As a matter of fact, import substitution and export-oriented industrialisation cannot be considered as isolated developments. They are natural phenomena in the general industrialisation of developing countries. Nevertheless, the trend towards an open or outward-looking development of the economy prevails in the long run, although at the initial stage of industrialisation it is rather the short-term considerations of import substitution and autarky that are predominant.

Leaving aside the non-economic factors, the reliance on foreign licences and documentation shortens the process of mastering complex products by 2 to 5 years. Simultaneous expenses on a new product (construction, tools, design of prototype and testing) are reduced 2 to 4 times on the average.^{14/} These data show that the integration of selected branches of industry into the international division of labour is preferable.

However, the international division of labour is carried out in conditions of unequal economic development in the various parts of the world. Price ratios, trade policy measures and other circumstances in the international market create a state of affairs where developed countries, as a rule, are in a considerably better position than developing countries. In these conditions, industrial co-operation as one form of external economic relations must be viewed in the light of establishing business relations between partners at different levels of economic development.

The partners in developing countries are the weaker party to the agreement; they must ensure that the continued dependence on foreign collaboration and investment does not impede the growth and development of indigenous technology and enterprises. The initial phase of the joint venture may be a licensing agreement of minor importance; it can later be replaced by a simple delivery agreement based on specialisation contracts. Further reductions in the share of the partner from the developed country will be possible in this way. The policy of gradually diminishing the 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 centrally planned economies in industrial co-operation with developing countries.

Partners in joint ventures from developing countries usually point out the following drawbacks in industrial co-operation with

^{14/} M. Sukijasović and D. Vujacić (1968) Industrial Co-operation and Joint Investment Ventures between Yugoslav and Foreign Firms, Foreign Trade Research Institute, Belgrade, p.17.

partners from developed countries:

- (a) Relatively high customs duties for parts, assemblies and subassemblies as well as manufactures which are the basis of the industrial co-operation. It is considered that these imports should be duty-free under the reciprocity principle;
- (b) Lack of the developed partner's interest in further credit or investment to maintain the competitiveness of the partner or beneficiary of technical documentation. Many of the problems could be solved by joint capital investments;
- (c) Insufficient engagement of both partners for the purpose of joint appearance on third markets. Closer business relations between the interested partners are considered necessary.^{15/}

Industrial co-operation on a micro-economic level is hindered by the following conditions:

Inefficient organization of work in relation to the demands of the co-operating partner from the developed country;

Inability to maintain schedules;

Inferior quality of products in relation to the export market requirements;

Relatively high prices of parts and assemblies made by the enterprise in the developing country as a result of the relatively higher prices of materials, power and transportation;

Insufficient development of the co-operating industry in the developing country.^{16/}

Joint ventures, specialisation, subcontracting and other forms of industrial co-operation between developed and developing countries involve a strengthening of interdependence 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 the case of inaccurate preliminary investigation and evaluation of the potential advantages accruing to each partner, joint ventures might create "white elephants", which are burdens to both partners. Therefore, measures should be taken

^{15/} Ibid., p.19.

^{16/} M. Aleksić, op. cit., p.73.

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. Export promotion policies and incentives should be reviewed to stimulate industrial co-operation for exports. Industrial management in developing countries is often disinterested and unaware of the potential export benefits and is content to concentrate on the local market. At the same time there are no government incentives to encourage an interest in export and to enable joint ventures in these countries to compete abroad on equal terms.

Prospects

It may be assumed that the co-operation of the Eastern European centrally planned economies with the developing countries for industrial exports will develop rapidly in the near future. There are two main reasons for this assumption. First, the relatively untapped opportunities to extend the scope of co-operation based on the complementarity of the economies; and, second, the increasing significance of market relations in the centrally planned economies which is likely to increase the interest of the individual enterprises in establishing new forms of industrial partnerships in accordance with the principal of profitability. Developing countries are becoming increasingly aware of the advantages of an export orientation of the economy through joint ventures.

The construction of individual industrial enterprises is a typical feature of the initial stage of co-operation, but in later stages 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 use of the natural resources of developing countries and the sale of the manufactured goods.

A gradual approach to the problems of industrial specialization among developing countries and centrally planned economies seems very advisable. This is actually the standpoint expressed in a document published by UNCTAD: "In the framework of such co-operation, 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."^{17/}

In order to extend co-operation as widely as possible and secure maximum effectiveness, it is essential to constantly improve the 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 and the establishment of a skilled technical service system.

The further development of industrial co-operation between the centrally planned economies and the developing countries can actively contribute to the solution of the problems of economic development and to the promotion of export industries and exports of manufactures from developing countries.

^{17/} Promotion of Imports by the Socialist Countries of Eastern Europe of Manufactures and Semi-manufactures from Developing Countries, UNCTAD (TD/B/C.2/21) (mimeo.), pp.24-25.

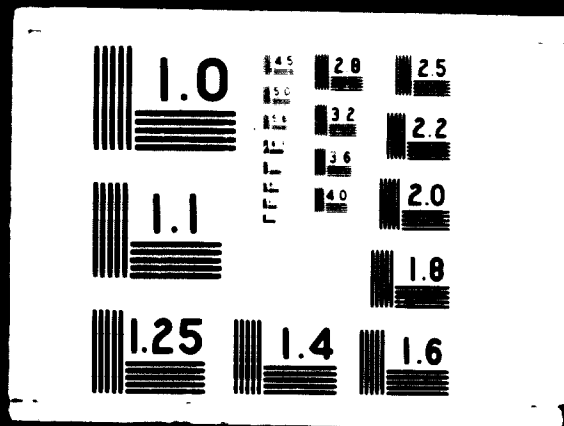


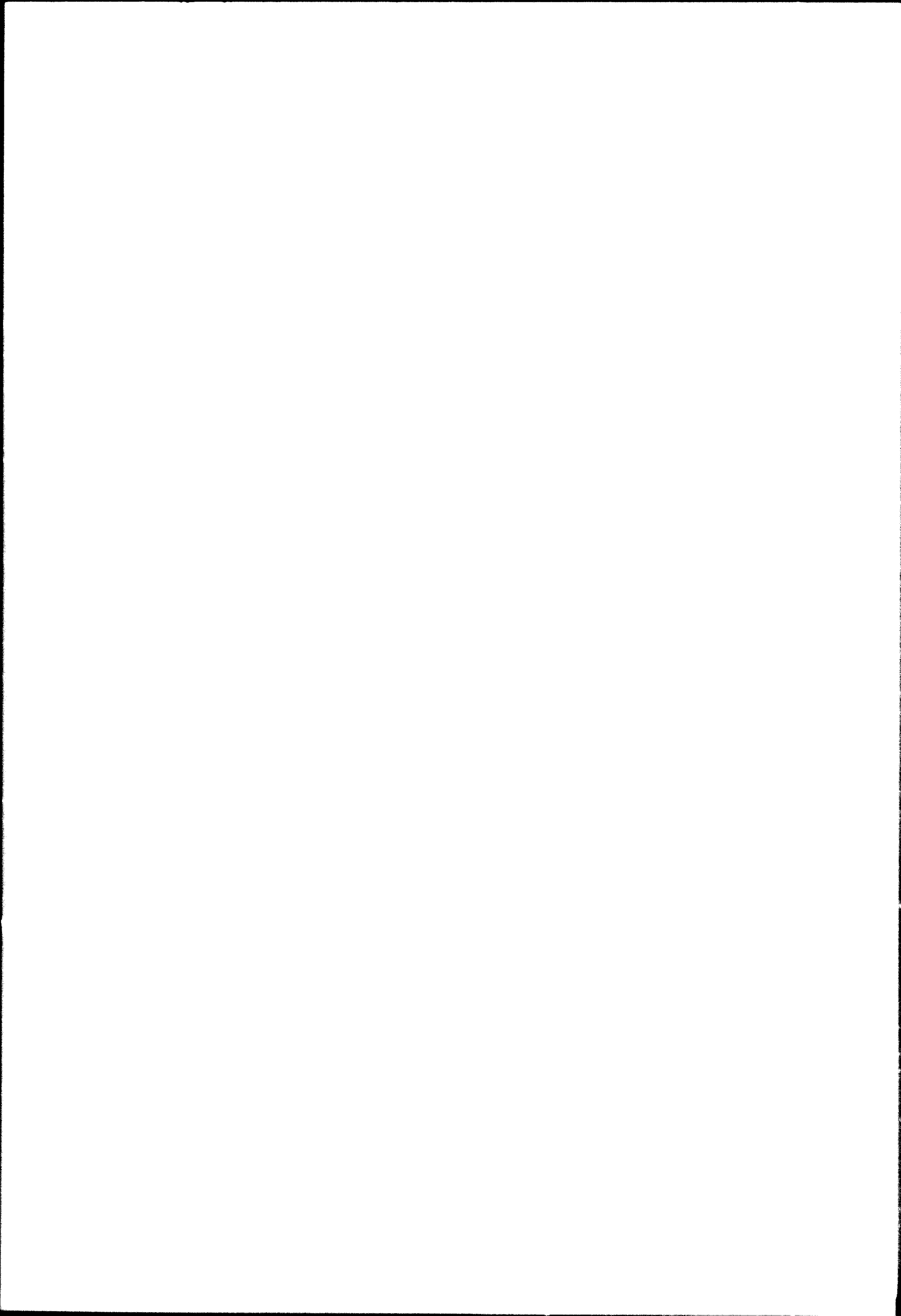
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Appendix A

SUMMARY OF REPLIES TO UNIDO QUESTIONNAIRE

In response to a questionnaire circulated by UNIDO among firms that have established some form of industrial co-operation, twelve companies replied (eight in India, one each in Ceylon, Malaysia, Iran and United Arab Republic).

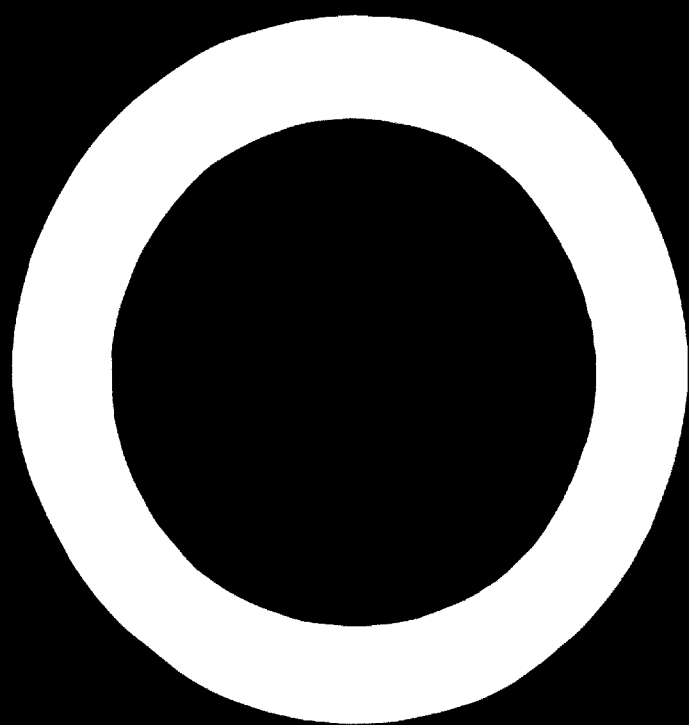
Nine of the joint ventures were oriented exclusively towards the domestic market. Exports constituted a small percentage of the total output of the other three joint ventures. There were no cases of ventures oriented exclusively towards exports.

The partners in developing and developed countries have different economic, commercial and financial motivations to establish industrial co-operation both at the macro- and micro-economic levels. Partners in centrally planned economies are motivated by a desire to export goods and thus earn foreign exchange, while import substitution seems to be the predominant motive of partners in developing countries.

The share of imported components in the joint venture is dependent upon the particular industry, the nature of the manufactured product and the stage of processing. The replies indicate that the values of the imported input (raw materials and components) are rather high.

Most of the replies indicated the following advantages from the joint operation to the partner in the developing country: increased technical know-how, improved research and design, advantages of world-known trade mark, expert advice and the service of experienced export marketing agents. The advantages to the partners from the centrally planned economies are increased sales of their products, machinery and equipment.

Most replies to the question of difficulties were focused on the obstacles arising from governmental industrial policies and foreign exchange constraints.



Appendix B

UNIDO QUESTIONNAIRE

Questions for joint operations

1. What is the name of the joint operation?
Name the partner in the developed country
Name the partner in the developing country
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 specialization agreements, subcontracting, 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 operation 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 viewpoint 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 countries;
 - (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 the developing country competitive on the external market (in terms of costs, prices and quality) and if yes, why?

Questions for joint enterprises only

1. What is the share of the partners?
 - (a) in equity capital
 - (b) in the Board of Directors, and
 - (c) in the management - (please specify in percentage)
2. What are the existing arrangements in the allocation of profits?
 - (a) share of reinvestment in total earnings
 - (b) share of the net profits remitted to the partners in the developed market economy or centrally planned economy
3. In what forms and under what conditions is the joint enterprise supplied by the partner in the developed country?
 - (a) raw materials
 - (b) intermediate products
 - (c) components
4. Does the joint enterprise supply the partners in developed countries with:
 - (a) components
 - (b) spare partsand under what forms and conditions? (e.g. specialisation, subcontracting etc.)

Appendix C

SELECTED CASE STUDIES

Joint venture between Industrija Motora Rakovica,
Yugoslavia and El Nasr Automotive Manufacturing
Company, United Arab Republic

A joint venture between the Industrija Motora Rakovica (IMR) and El Nasr Automotive Manufacturing Company (NASCO) produces and markets tractors and diesel engines. It was established on the basis of agreements between the Governments of Yugoslavia and the United Arab Republic on economic and industrial co-operation and between The Central Bank of Egypt and the Yugoslav Bank for Foreign Trade on credit policies.

Under the agreement, the Yugoslav state enterprise IMR grants licence rights and provides know-how and a part of the machinery, equipment and tools necessary for the production process. It delivers necessary components until local manufacture of them begins.

In order to help NASCO in the establishment of an independent service and maintenance organization, IMR provided the necessary technical literature. Training courses for tractor drivers and instructors were held both in the United Arab Republic and in Yugoslavia.

The motivation for IMR to enter into industrial co-operation with a partner in a developing country was the export opportunities for its production. IMR could not export to developed countries that produce similar products. Therefore about 50 per cent of its production is intended for export to developing countries.

IMR delivers only a small quantity of raw materials for the production of parts. NASCO buys raw materials on the local market and imports raw materials for forgings. The value of imported components from IMR is 75 per cent of the total value. The remaining 25 per cent is supplied by NASCO and local suppliers. There were difficulties in the attempt to use the free capacities of

other local industry. The construction of the factory was therefore delayed and the production is limited to assembly of the imported components.

The average annual production of 1,200 tractors is marketed locally in the United Arab Republic. Export efforts to neighbouring countries (Iraq, Sudan and Syria) have not achieved notable results.

The output is competitive on the external market in terms of quality. However prices are not competitive with those of other similar products because of the large investments, the small output and the high production costs. When NASCO produces all parts in the United Arab Republic, a positive development in prices can be expected.

Joint ventures between MEDIMPEX-Budapest and Indian partners

A joint venture between MEDIMPEX and Themis Pharmaceuticals of Bombay is for the manufacture of vitamin B₁₂ and other special drugs. The Indian partner holds 75 per cent of the shares and 25 per cent are owned by the Hungarian state enterprise. Under this agreement manufacture will start from an intermediate product and gradually Themis Pharmaceuticals will begin complete manufacture based on Hungarian manufacturing methods. Manufacture of vitamin B₁₂ in India has already begun. To set up this undertaking MEDIMPEX supplied Hungarian technicians. By training local staff in modern manufacturing processes, MEDIMPEX has assisted the Indian partner to reach the desired degree of quality in a relatively short period of time. This co-operation has increased the market of Themis Pharmaceuticals. It now supplies 25 to 33 per cent of India's needs for vitamin B₁₂. After the completion of the B₁₂ manufacturing programme an expansion in the product range is envisaged, e.g. including phenylbutazon and etionamid. The long-range programme includes additional products.

Another joint venture was concluded with Dey's Medical Stores of Calcutta. In the execution of this programme the Hungarian

firm CHEMOKOMPLEX joined MEDIMPEX. The joint venture is for the manufacture of chloramphenicol based on Hungarian know-how. Hungarian experts supervised the construction of the plant and trained the technical staff.

Further negotiations on similar projects are currently in progress with other Indian companies to expand this type of co-operation in the manufacture of special drugs. The Hungarian pharmaceutical industry has made a considerable contribution to the development of the industry in India by placing a great variety of manufacturing skills and techniques at the disposal of the Indian pharmaceutical companies. Several Indian companies, e.g. Martin and Harris, Therapeutic Pharmaceuticals and Unichem Laboratories, have launched new pharmaceutical products on the Indian market as a result of this co-operation. Biological Products Limited have started local manufacture of products such as pancreatin, peptone and pepsin based on Hungarian manufacturing methods and with the help of Hungarian technical assistance.

The experience of POLCOMEX, Warsaw in joint ventures

This case study is based on the experience gained by the Polish enterprise POLCOMEX in the years 1967-1969. POLCOMEX S.A. was founded in 1960 as a licenced representative enterprise for the promotion of Polish imports, management of consignment warehouses and technical servicing of machines and installations supplied by the represented principals. At the end of 1966, POLCOMEX began to investigate the problems of industrial co-operation with developing countries.

Soon afterwards POLCOMEX S.A. was granted the necessary authority and facilities, including banking credits, for the organization and management of industrial partnerships abroad. In the course of the three years of its operation in the organization of industrial enterprises abroad in the form of industrial co-operation arrangements, POLCOMEX has achieved the following results:

- (a) Analysis of more than 200 offers and proposals from 49 countries. After a preliminary investigation,

138 proposals were eliminated as unrealistic. Feasibility studies were carried out for the remaining 62 proposals from 30 countries;

- (b) Market research in 22 countries and more than a dozen technical and economic reports on the most interesting projects. The studies were carried out by experts in the various fields of production and lawyers specialized in financial and organizational problems;
- (c) Implementation of two projects in the capacity of partner with a 50 per cent share and two projects without participation in the partnership, but with participation in the organization of international co-operation on the basis of special agreements;
- (d) Partnership agreements on the organization of five new industrial plants in developing countries are expected to be concluded shortly;
- (e) Recent proposals and ideas concerning the expansion of its activity and harmonization with the national planned economy.

The proposals to form industrial enterprises in the shape of mixed partnerships were received by POLCOMEX mainly through Polish trade enterprises abroad. Polish enterprises exporting machines and installations inform POLCOMEX about inquiries for delivery of investment equipment if the placing of such an order depends on the Polish partners joining a partnership. It was only in recent years that the Polish party began to organize and participate in industrial partnerships. The main purpose of Poland's participation in such partnerships is the promotion of exports of Polish investment goods within the framework of international industrial co-production.

POLCOMEX receives a large number of proposals in the course of its activity in the developing countries. This activity consists, among other things, in preliminary negotiations with local partners who submitted proposals of co-operation, as well as in the study of the possibility of supplies and sales and the collection of data indispensable for the preparation of technical and economic reports.

The implementation of the agreements, the organization of the building site, the construction of factory sheds, the delivery of machinery and installations, and particularly the commissioning

of new plants, bring a further flow of new proposals from local partners.

At present the first 200 proposals and projects for co-production and other forms of joint ventures between Polish and foreign partners are being analysed. The relatively large number (200) makes it possible to establish certain general regularities, particularly as regards the degree of intensity of some phenomena, their essence and the general tendencies of their development.

The largest number of proposals received by POLCOMEX was from Africa (87 = 43.5 per cent) and Asia (55 = 27.5 per cent). The largest numbers of country proposals were submitted by Brazil, Ethiopia, Ghana, India, Iran, Lebanon, Mexico, Nigeria, Pakistan and Sudan.

POLCOMEX received a number of proposals from European countries, including Greece, Iceland and Ireland. A considerable majority of them was submitted by private individuals, mainly merchants and businessmen, particularly dealing with imports and wholesale trade in goods which they now propose to manufacture locally.

There are also proposals from persons who are not engaged in economic activities but who possess capital and are in the position to obtain the necessary concessions and licences. But the funds held by such persons are usually considerably lower than the minimum amount required for a given undertaking, while their lack of experience and determination makes the choice of a proper solution more difficult.

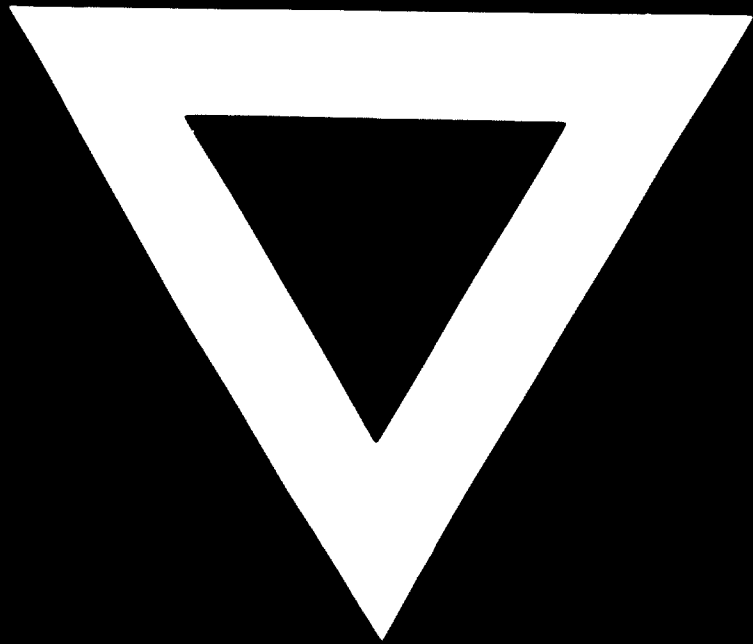
Proposals and projects initiated by state organizations promoting the development of industry in a given country, as well as by banks and large industrial enterprises usually have the best chance of implementation. Such projects are as a rule better planned, more consistent with local needs and possibilities, and their cost can be met from funds held by their initiators.

The classification of the above proposals for joint organization and management of industrial plants according to branches is given in the following table.

Quantitative analysis of proposals according
to branch of industry

	Total number of projects (a)	Percen- tage of total (a)	Number of projects under consider- ation (b)	Percen- tage of total (b)	Percen- tage of (b)/(a)
Deep-sea fishing	47	23.5	15	24.3	31.9
Metallurgical industry	40	20	18	29	45
Building materials industry	24	12	2	3.2	8.1
Food industry	19	9.5	8	13.1	42.1
Small-scale industry	16	8	3	4.8	18.7
Textile industry	13	6.5	8	13.1	61.5
Non-coal mining industry	13	6.5	0	-	-
Chemical industry	11	5.5	3	4.8	27.2
Sugar factories	4	2	0	-	-
Aviation services	3	1.5	1	1.5	33.3
Foundry industry	2	1	0	-	-
Electronic industry	2	1	0	-	-
Railway wagon assembly	2	1	2	3.2	100
Power industry	1	0.5	0	-	-
Electrical industry	1	0.5	0	-	-
Building machinery industry	1	0.5	1	1.5	100
Cable industry	1	0.5	1	1.5	100
Total	200	100	62	100	31





23. 6. 72