



**TOGETHER**  
*for a sustainable future*

## OCCASION

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



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

## FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

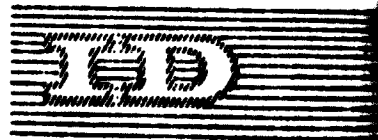
## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)



D03457



Distr.  
LIMITED  
ID/WG.111/1  
13 October 1971  
ORIGINAL: ENGLISH

United Nations Industrial Development Organization

Expert Group Meeting on  
Regional Industrial Co-operation  
Vienna, 6 - 10 December 1971

REGIONAL INDUSTRIAL CO-OPERATION:  
Alternative Approaches and Areas of Action <sup>1/</sup>

<sup>1/</sup> This paper has been prepared by the Secretariat of UNIDO in consultation with the Trade Expansion and Economic Integration Division of UNCTAD. It defines the topics which will be considered at the Expert Group Meeting and raises some important issues which need to be discussed.

11.11-007

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

Note to the reader of this paper:

The purpose of the Expert Group Meeting on Regional Industrial Co-operation is to permit an exchange of ideas. Representatives of five regional groups of developing countries have been invited to attend: The Andean Group, the Central American Common Market, the East African Community, the Magreb Permanent Consultative Committee, and Regional Co-operation for Development.

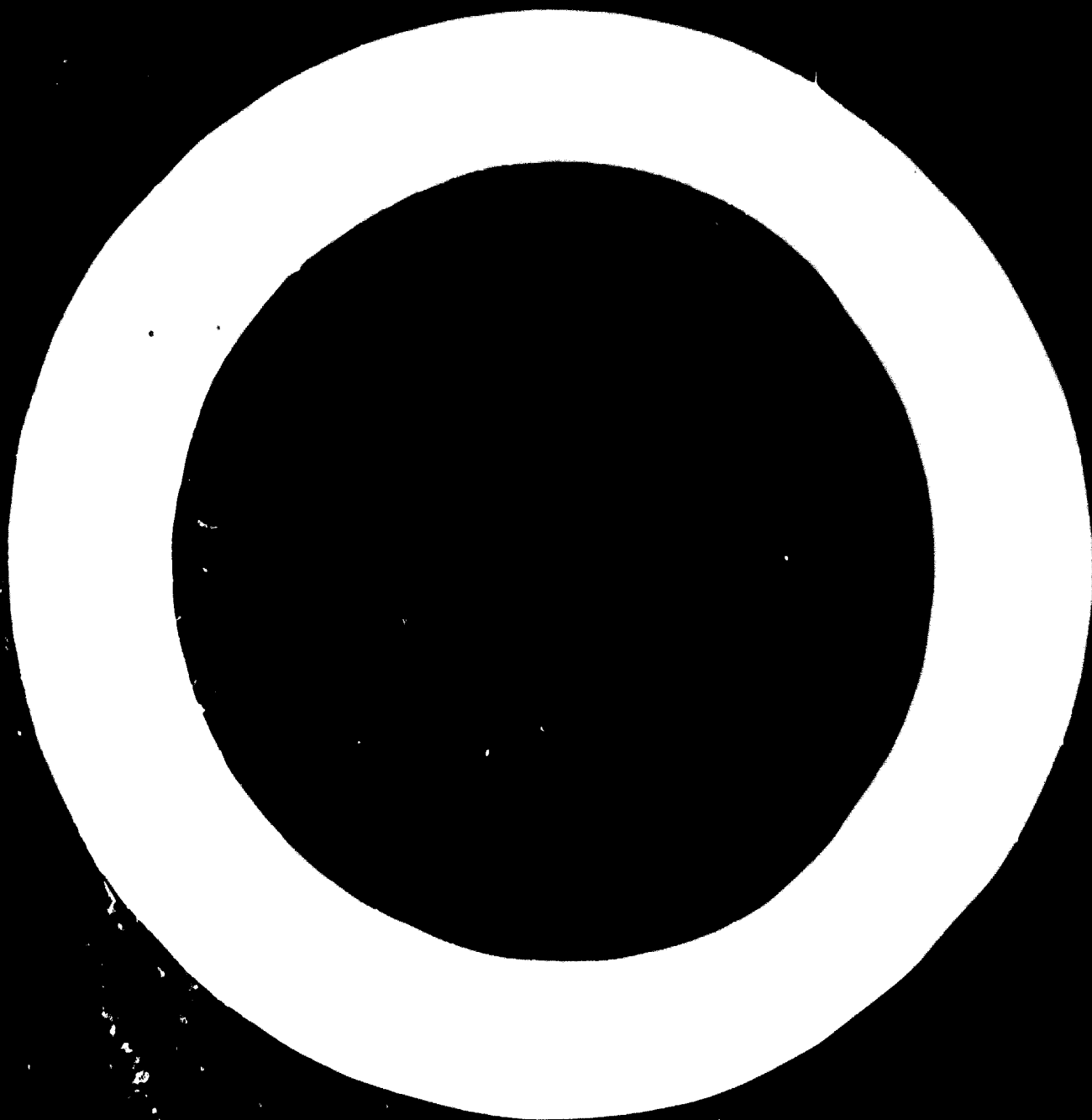
Discussion will be based mainly on the experience of these groups which are in fact "sub-regional" groups in the sense that they do not include all the countries in one continent. However, the experience of other regional groups will be considered where appropriate.

UNIDO believes that the Meeting will be most fruitful if the areas of discussion are clearly defined in advance. This "Issue Paper" attempts to define these areas and raise specific questions for the Meeting to consider. The Experts attending will be asked to prepare their answers to these questions prior to the Meeting itself.

This paper should be read in conjunction with a paper submitted to the Meeting by UNCTAD entitled Industrial Integration Systems (TD/B/355, 12 July 1971). The UNCTAD paper was prepared by a consultant, Havelock Brewster; it describes the different approaches adopted by a number of regional groups and identifies some of the common problems which have been encountered in implementing regional programmes of industrial development in the 1960s.

CONTENTS

|     | <u>Page</u>  | <u>Pages</u> |         |
|-----|--|--------------|---------|
| I   | INTRODUCTION   | 1            |         |
| II  | ESTABLISHING OBJECTIVES FOR THE REGIONAL PROGRAMME OF INDUSTRIAL DEVELOPMENT                   | 2            | 1 - 9   |
| III | ALTERNATIVE APPROACHES TO IMPLEMENT THE REGIONAL PROGRAMMES OF INDUSTRIAL DEVELOPMENT          | 4            | 10 - 26 |
|     | A. APPROACHES USED TO SHARE BENEFITS IN THE 1960s  | 4            | 12 - 16 |
|     | 1. Regulating the location of new regional industrial plants.                                  | 4            | 12 - 14 |
|     | 2. Measures favouring location in less-developed states.                                       | 6            | 15      |
|     | 3. Fiscal compensation as a means of sharing benefits.   | 6            | 16      |
|     | B. POSSIBLE NEW APPROACHES TO CO-OPERATION FOR THE 1970s                                       | 6            | 17 - 26 |
|     | 1. Criteria for measuring and sharing the benefits of co-operation.                            | 6            | 17 - 22 |
|     | 2. Three possible new approaches.  | 8            | 23 - 26 |
| IV  | SOME AREAS IN WHICH REGIONAL ACTION IS REQUIRED  | 10           | 27 - 47 |
|     | A. FORMULATING THE REGIONAL PROGRAMME OF INDUSTRIAL DEVELOPMENT                                | 10           | 27 - 33 |
|     | B. PREPARING INDUSTRIAL SECTOR AND PROJECT STUDIES   | 12           | 34 - 39 |
|     | C. FORMULATING A SET OF POLICIES TO IMPLEMENT THE REGIONAL PROGRAMME OF INDUSTRIAL DEVELOPMENT | 13           | 40 - 47 |
| V   | THE INSTITUTIONAL ARRANGEMENTS NEEDED TO IMPLEMENT ACTION IN THESE AREAS                       | 16           | 48 - 57 |
|     | A. THE ROLE OF THE REGIONAL SECRETARIAT  | 16           | 50      |
|     | B. THE NEED FOR A STRUCTURE OF REGIONAL ACTION   | 16           | 51      |
|     | C. ESTABLISHING PRIORITIES FOR THE VARIOUS AREAS OF REGIONAL ACTION                            | 17           | 52 - 57 |
| VI  | A LIST OF 20 SPECIFIC QUESTIONS TO BE CONSIDERED AT THE MEETING                                | 19           | 58      |



## I. INTRODUCTION

Developing countries have realized the economic importance for them of developing regional co-operation in the field of industrial development. However, the impact of regional co-operation on the industrialization of developing countries appears to have been very small so far.

Closer economic co-operation is expected to accelerate and broaden the process of industrialization. For most small and medium-sized developing countries, the enlargement of the market resulting from co-operation at the regional level both broadens the range of industries that can be established and allows manufacturing plants to benefit from the economies of large-scale production.

Whilst these benefits are widely recognized, their practical realization appears to have been a difficult task. The Expert Group Meeting is not expected to work out a generally applicable model of co-operation on industrial development at the regional level; instead it is expected:

- to suggest what might be an appropriate set of long-term objectives for regional programmes of industrial development and to consider the likely restraints on their realization;
- to examine the approaches adopted by different regional groups of countries in the 1960s when formulating and implementing regional programmes of industrial development, and suggest possible new approaches which might be adopted in the 1970s;
- to identify the areas in which regional action is required;
- to consider the institutional arrangements required to implement such action.

The third part of the paper will examine in detail regional action in the following areas.

- Formulating a regional programme of industrial development which identified priority industries where co-operation would be particularly effective and politically feasible;
- Examining the feasibility of the identified projects and agreeing on a technically feasible and economically sound distribution of manufacturing plants between different locations in partner states;
- Harmonizing trade, industrial and other policies formulated at the national level so as to encourage and facilitate the implementation of regional industrial projects.

## II. ESTABLISHING OBJECTIVES FOR REGIONAL DISCUSSIONS OF INDUSTRIAL DEVELOPMENT

1. Regional co-operation on industrial development is most likely to be successful if the partner states have reached mutual agreement on a set of long-term industrialization objectives for the region as a whole. If national objectives and plans are not modified to take account of these regional objectives, each partner state will continue to think mainly in terms of developing its own industrial sector rather than in terms of the industrial sector of the region as a whole.
2. The industrialization strategy of each partner state at the national level usually combines a further broadening of the process of import substitution with the development of export-oriented industries, including those which process local raw materials. Regional co-operation can change the balance of this strategy to the extent that the larger regional market offers scope for accelerating the process of import-substitution by making a broader range of industries feasible at an earlier stage of the industrialization process.
3. The first major objective of regional industrialization strategy can therefore be expressed in terms of producing a higher proportion of the manufactured goods required by the region within the region itself and importing less from outside the region. This can be called a self-sufficiency objective.
4. If self-sufficiency is pursued regardless of the costs of production, manufacturing plants to serve national rather than regional markets may be considered feasible. But if the objective is to build an industrial sector with costs which are as close as possible to costs in industrialized countries, a plant designed to serve the regional market is likely to be more efficient and hence preferred.
5. A second major objective therefore is that of establishing efficient industries which allow manufactured goods to be supplied



at competitive prices. If the efficiency objective is strictly followed, it provides the basis for a decision rule for approving or rejecting proposals for the establishment of new industries.

6. If the development strategy of partner states requires an increasing volume of exports, the industrialization strategy may have a third major objective - that of increasing exports of manufactured goods. This may reduce the level of industrial self-sufficiency that the region needs to aim at, but it will place a special premium on the efficiency objective for it requires that production costs in the region's industries are competitive in world markets.

7. The Meeting will have to consider to what extent these objectives were realized in the 1960s. It appears that although they were usually accepted as national goals by partner states in the 1960s, few regional groups translated them into an agreed set of objectives for the regional programme of industrial development. Partner states were not always willing to take the long-term view that extensive co-operation was essential if they were to develop a better integrated, more competitive and increasingly self-sufficient industrial sector for the region as a whole.

8. As a result, the development of industries which would have been feasible if implemented as regional projects was postponed or high-cost national plants were established which required higher levels of protection than a regional plant would have required. Many opportunities to make the industrial sector of the region as a whole more self-sufficient and efficient were not taken.

9. The Meeting will also have to consider what were the main obstacles and restraints to achieving more effective co-operation on industrial development. Were difficulties encountered in agreeing on a set of regional objectives, in transforming these into a regional programme of industrial development, or in implementing the regional programme once it was agreed?

III. ALTERNATIVE APPROACHES TO IMPLEMENT REGIONAL PROGRAMS OF INDUSTRIAL DEVELOPMENT

10. One approach to regional co-operation on industrial development is to create a free trade area or common market and leave it to business enterprise itself to work out what form co-operation should take. Under this model governments compete freely to attract industries to locate in their country, but there is no central regulation which decides which country establishes which industry. <sup>1/</sup>

11. Regional groups of developing countries have been reluctant to adopt such an approach because it leaves the choice of location of new manufacturing plants serving the regional market to business enterprises themselves. Instead they have tried to regulate the location of new regional industries as a means of sharing the benefits of co-operation on industrial development; in some groups, both this form of regulation and other measures have been used with the objective of correcting the existing imbalance in the level of industrial development of partner states.

A. Approaches used to share benefits in the 1960s

1. Regulating the location of new regional industrial projects

12. The approach used by regional groups to share the location of new regional industrial projects has usually been worked out as an afterthought; no provision was made for it in most of the Treaties establishing the framework for economic co-operation.

13. In Central America, a separate agreement was subsequently drafted called the "Regime of Integration Industries", but it has proved difficult to implement. <sup>2/</sup> In East Africa, the Kampala Agreement

<sup>1/</sup> This approach has been followed by the European Economic Community. Recently, the Secretariat of the Commission of the European Communities prepared some suggestions in a Memorandum entitled "Principles and general guidelines of an Industrial Policy for the Community". The main emphasis of discussion is on measures which will facilitate and promote co-operation between enterprises located in different countries rather than on the central regulation of the establishment of new industrial enterprises.

<sup>2/</sup> The agreement and the difficulties encountered are described in the paper prepared by Maxwell Brewster for UNCTAD on Industrial Integration Systems paras 51-60.

of 1965 set out which country would be granted the right to establish a few potential regional industrial projects which had been identified at the time; when the Treaty on East African Co-operation was signed in 1967 provision was made for a regional policy on licensing new industrial projects, but difficulties have been encountered in implementing it.<sup>1/</sup> In the Andean group of countries, some industries were allocated to the less-developed partner states (Bolivia and Ecuador) but the allocation of the location of other industries is still being studied; after studies have been made of selected sectors (or branches) of industry, the location of new projects will be the subject of subsequent ad hoc negotiations. In the RCD group of countries, co-operation on industrial development was launched by dividing responsibility for the study of about 50 specific industrial projects between the three partner states; as a general rule, the country made responsible for studying each project has been allowed to implement the project. A number of general rules were agreed for the establishment of these new regional industries,<sup>2/</sup> but negotiations on each project have proceeded on an ad hoc basis.<sup>3/</sup> In the Maghreb group of countries, studies of potential regional projects have been made by the regional secretariat; no formal mechanism appears to have been established for reaching agreement on their implementation.

14. Hence it appears that the allocation of industrial projects between partner states has been the subject of ad hoc negotiations in most of the regional groups. The economic criteria used to make the allocation (if any were used) have remained confidential. The criteria may have been as simple as the formula used in Central America which required that no country should have a second regional industry before each partner state had one of its own. If no criteria were used, the agreed package may simply reflect what was acceptable to all the parties involved at the time of the negotiations.

---

<sup>1/</sup> Some reasons for this are given in the UNCTAD paper, paras 75-77.

<sup>2/</sup> Agreement on the Promotion and Operation of Joint-Purpose Enterprises, RCD Secretariat, Tchern 1967.

<sup>3/</sup> See UNCTAD paper, paras 87 - 105.

## 2. Measures favouring location in less-developed states

15. In addition to regulating the location of new regional industrial projects, some regional groups have used indirect measures to encourage the location of new industrial projects in less-developed partner states. In East Africa, transfer taxes have been permitted with the goal of achieving balanced trade in manufactured goods between partner states. But recognizing that such a balance might be achieved whilst there is still an imbalance in the level of industrial development, the regional development bank has been directed by the Treaty to allocate a higher proportion of its lending to Tanzania and Uganda. In Central America, reliance was initially planned in the Treaty on more generous incentives for investment in the less-developed states; it has however proved difficult to implement these plans.

## 3. Fiscal compensation as a means of sharing benefits

16. Where the above direct and indirect measures were considered insufficient, a few regional groups resorted to fiscal compensation as an alternative or supplementary method of sharing benefits. East Africa tried this approach at one time; it appears to be the principal means of sharing benefits provided for in the Treaty of the Central African Customs and Economic Union (UDEAC). The subject has been examined in detail by UNCTAD.<sup>1/</sup> It is mentioned here so that the meeting may consider it as one part of the alternative mechanisms for sharing the benefits of industrial co-operation.

## B. Possible new approaches for the 1970s

### 1. Criteria for measuring and sharing the benefits of co-operation

17. Experience in the 1960s, then, suggests that no regional group found it possible to define in precise terms (a) how to measure the

---

1/ Fiscal compensation as a means of contributing to an equitable distribution of the costs and benefits associated with economic groupings among developing countries, a study prepared for UNCTAD by Professor P. Pöbsson, 31 July, 1970, document TD/B/322, UN Sales No. E.71.II.D.6. Available in English, French and Spanish.

costs and benefits of regional co-operation, and (b) what constituted an equitable distribution of costs and benefits between partner states. However, since most of the difficulties of reaching agreement on the approach to be adopted in implementing programmes of industrial development would be eased if these matters could be expressed in measurable terms, it seems worth considering what economic criteria might be used.

18. Various alternative ways of measuring the benefits can be considered. If a wide definition of benefits is to be used, balanced trade in manufactured goods with other member states can be considered as the principal goal; alternatively all trade in manufactured goods (that is including exports to third countries outside the region) can be the criteria. Both criteria have the defect that a balance in trade may be reached whilst countries remain at very different levels of industrial development.

19. If benefits are thought of in terms of new industrial production, the "value-added" in the manufacturing process of each new regional industrial project might be the principal criteria. This criteria has the defect that it ignores the benefits and costs of increased trade derived from increased production in existing industries as well as the benefits of lower costs achieved in larger plants. It is also difficult to implement because of the difficulty of defining what is a "new regional industrial project" and how "value-added" is to be measured.

20. Other ways of measuring benefits and costs have no doubt been considered by regional groups, as they have by UNIDO and UNCTAD. The Meeting may need to consider some of these. But the main focus of discussion should be directed not to theoretical concepts but to the practical problems of using these concepts to help governments of partner states formulate a politically acceptable mechanism for reaching agreement on the sharing of the benefits and costs of co-operation.

21. Co-operation on industrial development is not the only area in which benefits are realized; benefits in this field have to be considered alongside the other measurable benefits of economic co-operation in sectors such as agriculture, transport, power, etc.

22. Discussion at the Meeting may therefore show that economic co-operation is to a large extent an act of faith. The costs and benefits are significant but impossible to anticipate in advance. When viewed in this way, the problem of sharing benefits becomes not so much one of establishing and applying theoretical criteria, but one of devising an appropriate negotiating forum in which the necessary decisions can be taken at the regional level as and when required. <sup>1/</sup>

## 2. Three possible new approaches

23. Some of the issues which arise in devising a new approach have been considered in the paper prepared for UNCTAD by Havelock Brewster. <sup>2/</sup> This shows that it is extremely difficult to prepare guidelines which can be applied to the different circumstances faced by different regional groups. The Meeting should, however, consider whether there are some new approaches which might be considered; three specific proposals are suggested below to supplement those made in the UNCTAD paper.

24. Where partner states need to reach agreement on the allocation of a group of identified projects, the principle of asking partner states to make financial bids for the new regional industries might be considered. The auction would establish what value each country placed on obtaining the right to establish each industry. The bids could be administered by a clearing system which required outstanding balances between partner states to be settled either in cash or in trade in manufactured goods within a specified period.

25. A major obstacle to partner states reaching agreement on the establishment of only one plant to supply the regional market has been that all countries except the country in which the plant is established fear that they have foregone the opportunity to establish the industry.

---

<sup>1/</sup> The type of inter-governmental negotiating machinery used by regional groups and the role of the regional secretariat are considered in part D of this paper.

<sup>2/</sup> See Industrial Integration Systems, Chapter III, Guidelines for the solution of industrial allocation problems in regional groupings.

If, however, the establishment of the industry is based on purchase commitments which last for only 5 or 10 years, then one of the other partner states will have the opportunity to establish a competing plant at a later date. The Meeting might, therefore, consider whether greater use could be made of this approach and what rules need to be established to implement it. <sup>1/</sup>

26. If co-operation on the development of one branch of industry is useful and politically acceptable, it may be worth considering not only multi-national ownership but also a division of production (and hence investment and employment between partner states).<sup>2/</sup> A holding company with multi-national ownership and plants established in all partner states could be made responsible for supplying the regional demand for a selected group of products. Any decision on the division of production could then be based on technical and commercial considerations as well as the wishes of governments who could be given a majority of the voting rights on the holding company's Board of Directors. The Meeting might well consider the details of how this approach could be developed as a practical proposal.

---

<sup>1/</sup> See the UNCTAD paper paras 153 to 166 for a discussion of the time period, price arrangements and enforcement of such inter-country sales agreements.

<sup>2/</sup> It appears that by considering the entire manufacturing process of many industries, there is a real potential for sharing production by allocating to different countries different stages of the manufacturing process. Specialization can be arranged in many ways, including (1) the assembly of different models of the same product in different countries, and (2) the production of parts, components etc. in different countries.

IV SOME AREAS IN WHICH REGIONAL ACTION IS REQUIRED

A. Formulating a regional programme of industrial development

27. The previous section showed that regional co-operation on industrial development was most effective when a substantial number of potential regional projects were identified because this permitted implementation of a package of projects to be shared by partner states.

28. To identify the opportunities for new industries, some regional groups have examined the combined structure of the industrial sectors existing in member states and identified the gaps which needed to be filled. Where this approach was followed systematically for the whole range of manufacturing activities, a wide range of opportunities for new regional industries were identified. Where it was not followed, the range of potential new regional industries tended to be too small to satisfy the political need for an equitable sharing of new projects.

29. Co-operation was most effective when the branches of industry which were examined were those likely to produce new investment opportunities. Most regional groups therefore concentrated on studies of intermediate and capital goods industries, where there was little existing industry and new plants to serve the regional market were likely to be a sound first step in the development of the industry. Where planning efforts were concentrated on established industries like textiles, the study found fewer new investment opportunities; it also identified problems of adjustment if the benefits of specialization created by the regional market were to be realized.

30. Although the need to develop a more comprehensive regional programme of industrial development was often appreciated, most regional groups concentrated their planning efforts on a few branches of industry. The meeting might consider whether this more limited approach was due to

- (a) a political decision to attempt first only a partial approach,
- (b) the failure to define responsibility for studying each branch of industry<sup>1/</sup>, or

---

<sup>1/</sup> In some regional groups, it was not always clear whether the planning studies were to be made by individual governments, the regional secretariat or the regional development bank; in other cases it was not always clear which country would be responsible for examining each branch of industry or each project.



- (c) the lack of resources to undertake the necessary studies.

31. The desirability of harmonizing national plans for industrial development was accepted as an important step in formulating a regional programme of industrial development, but this approach was seldom implemented in practice. The meeting might consider whether this was due:

- (a) to the fear that projects identified in one country's national plan might be implemented by another country,
- (b) the fact that national plans either did not exist or were only prepared in the form of indicative plans which did not elaborate specific projects,
- (c) to the failure to establish appropriate inter-governmental machinery for implementing such a plan harmonization exercise.

32. Where governments had established only broad indicative plans for industrial development at the national level, they were forced to evaluate each proposal for a new project as and when it arose. For this purpose, a number of internal decision rules were presumably established for accepting or rejecting project proposals. The meeting will have to consider whether regional groups can rely on a similar approach and if so what criteria should be used to accept or reject specific project proposals. The criteria used for such decisions will presumably be the same as used by partner states in deciding what are the "priority industries" on which investment should be concentrated in their own national programme of industrial development.

33. The meeting, then, might concentrate its discussion on two central issues. Is it really feasible to prepare a detailed comprehensive regional programme of industrial development? And, if not, what type of arrangements should be made for deciding whether or not the region should accept or reject proposals to establish specific new industrial projects.

---

1/ Only in a few cases have the governments of partner states sponsored and paid for a joint regional study of the future development of one branch of industry. The studies made so far have usually been of specific projects rather than a branch of industry as a whole; they have been made by either potential sponsors of the enterprise, or by individual governments at their own expense, or by regional institutions using international assistance.

B. Preparing Industrial Sector and Project Studies

34. Once the outline of a comprehensive programme of regional industrial development has been prepared each sector of industry needs to be examined from the point of view of the requirements of the regional market. Such sectoral studies examine the pattern of future demand in the region and opportunities for arranging some specialization of production within the region so that different models of the same product are assembled in different countries, different stages of the manufacturing process are located in different countries, or the production of parts and components is located in countries different from those used for assembly of the final product.

35. A number of attempts have been made to formulate sectoral plans in this way. The Latin American Free Trade Association drafted "complimentarity agreements" covering a range of products in order to negotiate trade arrangements between member countries which would permit new production facilities to be both specialized and complementary. The initiative for drafting some of these agreements came from large multi-national corporations who wanted to plan the future development of their manufacturing plants in Latin America on a regional basis. However, most of the agreements cover only a few member countries of the Latin American Free Trade Association.

36. Other regional groups often omitted the stage of preparing sectoral studies and called straight away for the preparation of feasibility studies of specific projects. Both the Andean and RCD group of countries made the governments of partner states responsible for preparing feasibility studies of specific projects, although they also found a need to prepare some broader studies of certain sectors of industry. In East Africa, the regional development bank has made some sector studies with the help of UNIDO and the regional secretariat has commissioned others; these studies are expected to lead to the identification of potential new regional projects. In Central America and the Mahgreb, regional institutions have made studies at both the sectoral and project level with the help of UNIDO.

37. However in each regional group, each country has continued to protect its own interests by making its own studies of many projects. The Meeting will therefore have to consider how the

series of sectoral and project feasibility studies can be co-ordinated by regional institutional arrangements so that duplication of effort is avoided, all sectors of industry are eventually covered, and each study is approached from a regional point of view.

38. The Meeting will also have to consider how much detailed analysis the sector and project studies should contain. Should the sector studies merely be sufficient for the representatives of partner states to decide which country is to be responsible for implementing each project, or should they provide sufficient information to consider various alternative ways of dividing production between partner states? Should project studies be more like pre-investment studies sufficient to attract the interest of potential investors, or should they contain a more detailed analysis of the technical and economic feasibility of the project?

39. The Meeting might also consider how to ensure that these studies are completed quickly. In the ECD group of countries, there was little incentive for governments to complete studies of a project because allocation of responsibility for preparing the feasibility study virtually ensured that the country would eventually implement the project. In the Andean group of countries, a timetable has been specified both for the preparation of a feasibility study and for completing construction of the plants; the right of the country to implement the project has been made conditional on satisfying this timetable.

C. Formulating a set of policies to implement the regional programme of industrial development

40. A clear definition of a country's industrial policy at the national level requires the Government to clarify in advance which industrial projects it intends to implement itself under majority public ownership and control and which it intends to leave to the initiative of enterprises with predominantly private ownership. Furthermore, in the case of the latter category, the areas of industry which are open to foreign investment and the terms and conditions on which it is acceptable need to be defined.

41. The same holds true for a group of developing countries who wish to promote investment in industries to serve the regional market. In the 1950s, no regional group defined what might be called a regional policy on ownership, although the Andean Group of developing countries clarified its policy on foreign investment in 1970.

42. The Meeting will not be asked to consider what a regional group's policy on ownership should be (that is for the governments of partner states to decide), but only whether a joint clarification of regional policy is both desirable and useful.

43. Most of the regional groups relied on enterprises with predominantly private ownership to implement regional industrial projects in the 1950s. To be willing to invest in such projects potential sponsors expect the partner states to have a clearly defined policy on:

- (a) access to markets of neighbouring countries
- (b) protection from competing imports from outside the region
- (c) import duty concessions, and
- (d) incentives for new investment, etc.

The Meeting will have to consider whether or not the lack of an agreed regional policy in these and other areas of industrial policy has been an obstacle to the implementation of regional projects.<sup>1/</sup>

#### Access to regional markets

44. In the 1950s, very few regional groups created conditions in which the sponsors of new regional projects could feel satisfied that they would have access to the markets of neighbouring countries for a fixed period of years (say 5 to 10 years) or better still on a permanent basis. Where a common market was the agreed framework for co-operation (East Africa and Central America), governments reversed policy and implemented transfer taxes or other obstacles to free trade. Where a project-by-project

---

<sup>1/</sup> Other policy areas which appear to be particularly important are taxation of industrial enterprises and the harmonization of national policies on product design specifications.

approach to industrial co-operation was envisaged (RCD and the Magreb), sponsors of new regional projects had to rely on the negotiation of ad hoc agreements to liberalize trade and the subsequent willingness of governments to keep these in force.

45. Sponsors of new regional projects were not always sure of the level of protection which they would receive from competing imports from outside the region. Some groups were in the process of negotiating a common external tariff in the 1960s, but the principles on which this was to be established were not always clear; as a result ad hoc changes were not common. Where the level of protection was established as an average of the levels in partner states, the level of the common tariff did not always take account of the possibility that the larger regional market should promote lower costs of production requiring lower levels of protection.

46. Import duty concessions were offered by some countries as part of their national policy; a common regional policy, which was likely to have stability, was only implemented by some of the regional groups. The need for import duty concessions was seldom questioned; it might well be questioned on the grounds that this type of concession discriminates in favour of new enterprises and discouraged greater reliance on purchases of locally-produced supplies, be they capital goods, intermediate products or raw materials.

47. Investment incentives remained the same in the three countries of East Africa throughout the 1960s. An agreement on the harmonization of incentives was negotiated in Central America but never effectively implemented. Harmonization of incentives is being considered by the Andean group of countries. In other groups, different national policies continued to prevail. It appears that the scope for providing special incentives for regional industrial projects whose generosity varied so as to encourage investment in the projects to whose implementation the region attached the highest priority was only considered in Central America where the harmonized incentives would favour such projects.

V THE INSTITUTIONAL ARRANGEMENTS NEEDED  
TO IMPLEMENT ACTION IN THESE AREAS

48. The previous sections of this paper have identified and discussed some of the areas in which action is required to implement a regional programme of industrial development. This action needs to be co-ordinated by appropriate institutional arrangements and implemented by subsequent action at both the regional and national level.

49. The policy of a regional group is usually determined by representatives of the governments of partner states at the Ministerial level. In some groups, the main emphasis of the regional group's activities has been on industrial co-operation; but in others, industrial co-operation has played a less important role. In both cases, detailed preparation for policy decisions has been undertaken by one or more committees of senior government officials.

A. The role of the regional secretariat

50. The Meeting will need to consider what role the Regional Secretariat can play in helping governments formulate a programme of action in the areas described above and what type of institutional arrangements are required to ensure that decisions are taken by the governments of partner states as and when required. The role which the Regional Secretariat can play in formulating a programme of action depends on the responsibilities which it is given (or which it assumes) and the resources it is provided with. These factors have varied from group to group; so too has the support which partner states have given to the whole movement of economic co-operation.

B. The need for a timetable of regional action

51. The benefits of co-operation are usually difficult to measure and slow to materialize. Regional secretariats appear to have been most successful in sustaining support for the regional programme of action where clear plans have been made and governments are asked to reach decisions according to a specific timetable. A timetable determines which areas of action are to be accorded priority; it also shows that action

needs to be phased so as to allow time (a) to collect basic information, (b) to analyse this and produce a draft agreement and (c) to prepare a final agreement for approval by the governments. The timetable provides governments with a realistic assessment of the contribution their officials will have to make. Finally, it shows how frequently and at what level governments will need to send representatives to regional meetings.

C. Establishing priorities from the three main areas of regional action

52. The areas of action which the Regional Secretariat has to plan can be group under three headings:

- (a) Formulating a regional programme of industrial development,
- (b) Establishing regional policies to facilitate its implementation, and,
- (c) Action taken by other regional institutions.

53. The principal issues in devising appropriate arrangements for formulating a regional programme of industrial development appear to be:

- (a) how to divide the industrial programme into sectors which are manageable units for planning purposes, and how to allocate priorities for their investigation;
- (b) how to allocate responsibility for studies of the various industrial sectors between the regional secretariat, other regional institutions and the governments of partner states;
- (c) how to decide which projects should be investigated as regional rather than national projects, and who to make responsible for these studies;
- (d) how to include existing enterprises and other potential investors in the planning exercise.

54. The principal issues faced in drawing up a timetable of action to establish regional policies to implement the regional programme of industrial development appear to be:

- (a) how to establish priorities for the different areas of policy in which a new regional policy is required;
- (b) how best to arrange for specific proposals to be formulated, discussed and subsequently agreed by governments.

55. Action in the above fields may be organized and co-ordinated by the national secretariat; it may be assisted by the regional development bank and a separate regional industrial studies centre (if one exists).

56. International assistance may be obtained from UNIDO for preparing a regional programme of industrial development and studying individual sectors and projects, and from UNIDO (industrial policies) and UNCTAD (trade policies) in preparing the policy framework required to implement the programme.

57. There are a wide range of other activities in which action may need to be co-ordinated at the regional level; there are also a number of services for industry which may be most economically provided by a regional rather than a national institution where the partner states are small countries. The Meeting might consider whether a separate regional institution is a suitable way to perform the following tasks;

- (1) providing finance for industrial projects
- (2) investment promotion
- (3) export promotion
- (4) standardization of product specifications
- (5) industrial research



VI. LIST OF TWENTY QUESTIONS TO BE  
CONSIDERED AT THE MEETING

58. Discussion at the Expert Group Meeting is expected to concentrate on providing answers to some of the following questions. The Meeting itself must decide which questions can be usefully answered and which cannot. The list is only suggestive; it is not intended to be exhaustive. Other questions will no doubt be raised during the course of the Meeting.

II OBJECTIVES

1. Does effective co-operation on industrial development at the regional level require the formulation of a regional strategy of industrialization? What should be the principal common regional objectives of this strategy?
2. What are the principal obstacles and restraints in transforming this strategy into a detailed and comprehensive regional programme of industrial development?

III ALTERNATIVE APPROACHES

3. What have been the main obstacles to effective implementation of a programme of industrial co-operation in regional groups which did not liberalize trade within the region on all manufactured products?
4. What have been the main obstacles to regional co-operation on industrial development in regional groups which either have or are committed to liberalize trade with the region in all manufactured products?
5. Should regional groups continue to aim at negotiating a "balanced package" of industrial projects as the principal means of sharing benefits? Should the "balanced package" consist of projects in one branch of industry or cover a broader range of projects?
6. Can an improved definition of the cost and benefits of co-operation help partner states reach agreement on what constitutes a "balanced package" of industrial projects, or will it only be feasible to negotiate such agreements? Can an auction of potential projects help countries reach an agreement? At what level of decision-making should such agreements be negotiated?

7. Are medium-term (5 to 10 years) inter-country sales contracts a useful tool for helping countries to protect their long-term interests when agreeing on the allocation of regional industrial projects?
8. Is the suggestion of a holding company with multinational ownership and production units located in all partner states a practical approach for implementing co-operation in one branch of industry with a defined range of products? What type of studies need to be made to further investigate this approach? Who should make them?

#### IV. AREAS IN WHICH REGIONAL ACTION IS REQUIRED

##### Formulating the regional programme of industrial development

9. Should the formulation of a regional programme of industrial development attempt to cover all sectors of industry? Can it do so without the agreement of partner states to examine the need for harmonization of their national plans?
10. What criteria can be suggested to select industries suitable for inclusion in the regional programme of industrial development? What criteria should be used to determine the priority sectors and projects on which investment should concentrate and an appropriate time phasing for their implementation?

##### Making industrial sector and project studies

11. What type of information should be included in the study of the future development of one branch (or sector) of industry on a regional basis? Should the study consider technically feasible and economically sound alternatives for sharing production between countries based on specialization and complementarity?
12. What type of information should be included in studies of individual projects? Should there be a detailed study of economic and technical feasibility, or should there be just sufficient information to attract a potential investor? Will additional information be required for the negotiation of a "balanced package" of projects?

##### Formulating a set of policies

13. Is it useful and feasible to work out an agreed regional industrial policy on the ownership of industrial projects? Is it necessary to harmonize national policies on foreign

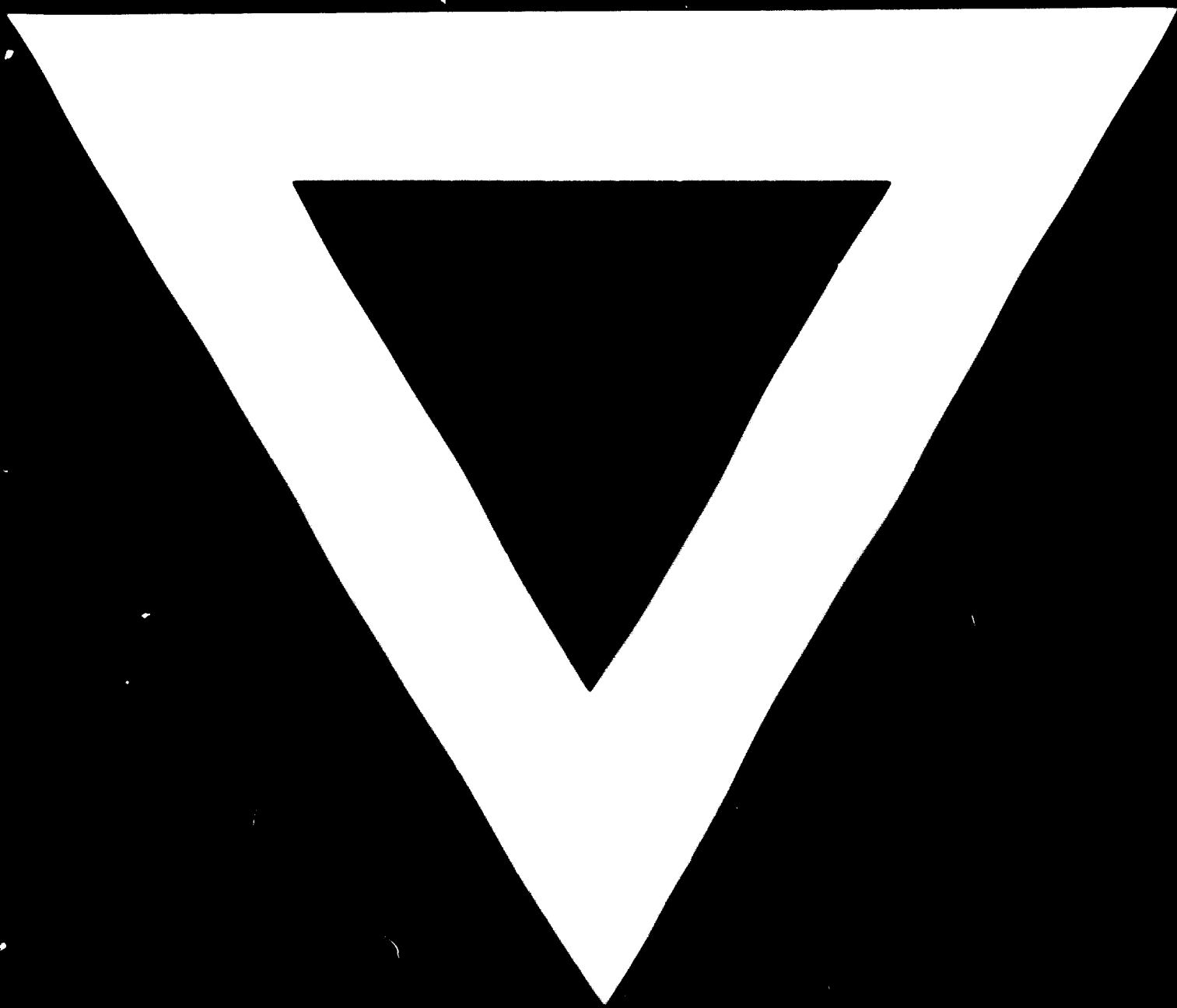
ownership and the terms and conditions for attracting foreign technical know-how and investment?

14. Is a regional licensing system required to enforce implementation and prevent abuse of an agreed "balanced package" of regional industrial projects? What are the advantages and disadvantages of such a system?
15. Given the need for guaranteed access to regional markets, can regional co-operation on industrial development be successfully implemented with arrangements for liberalizing intra-regional trade limited to only the products which are the subject of such co-operation or must trade in raw materials, parts, components, etc. be liberalized as well?
16. Can sub-regional projects be successfully promoted without establishing a common external tariff (a) for the final product, (b) for imported materials, parts, components, etc? What criteria should be used to establish the level of protection from imports from countries outside the region?
17. Is it worthwhile establishing a common policy on import duty concessions, (benefitting only new enterprises) or is it better to modify the tariff structure (benefitting existing as well as new enterprises)?
18. What principles can be suggested for formulating a common regional policy on investment incentives?

#### V INSTITUTIONAL ARRANGEMENTS

19. What role should the regional secretariat play (a) in formulating the regional programme of industrial development, (b) in preparing industrial sectoral and project studies, and (c) in formulating the set of policies required? Which activities should be given priority in the timetable of regional action? What kind of resources will the regional secretariat require to implement the suggested programme?
20. How frequently and at what level of representation should governments meet to implement the agreed programme of regional action? What kind of resources will governments require to play their part?





**4. 2. 74**