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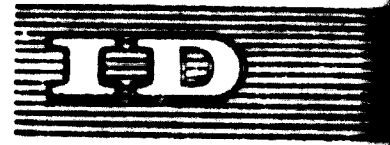
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Expert Group Meeting on
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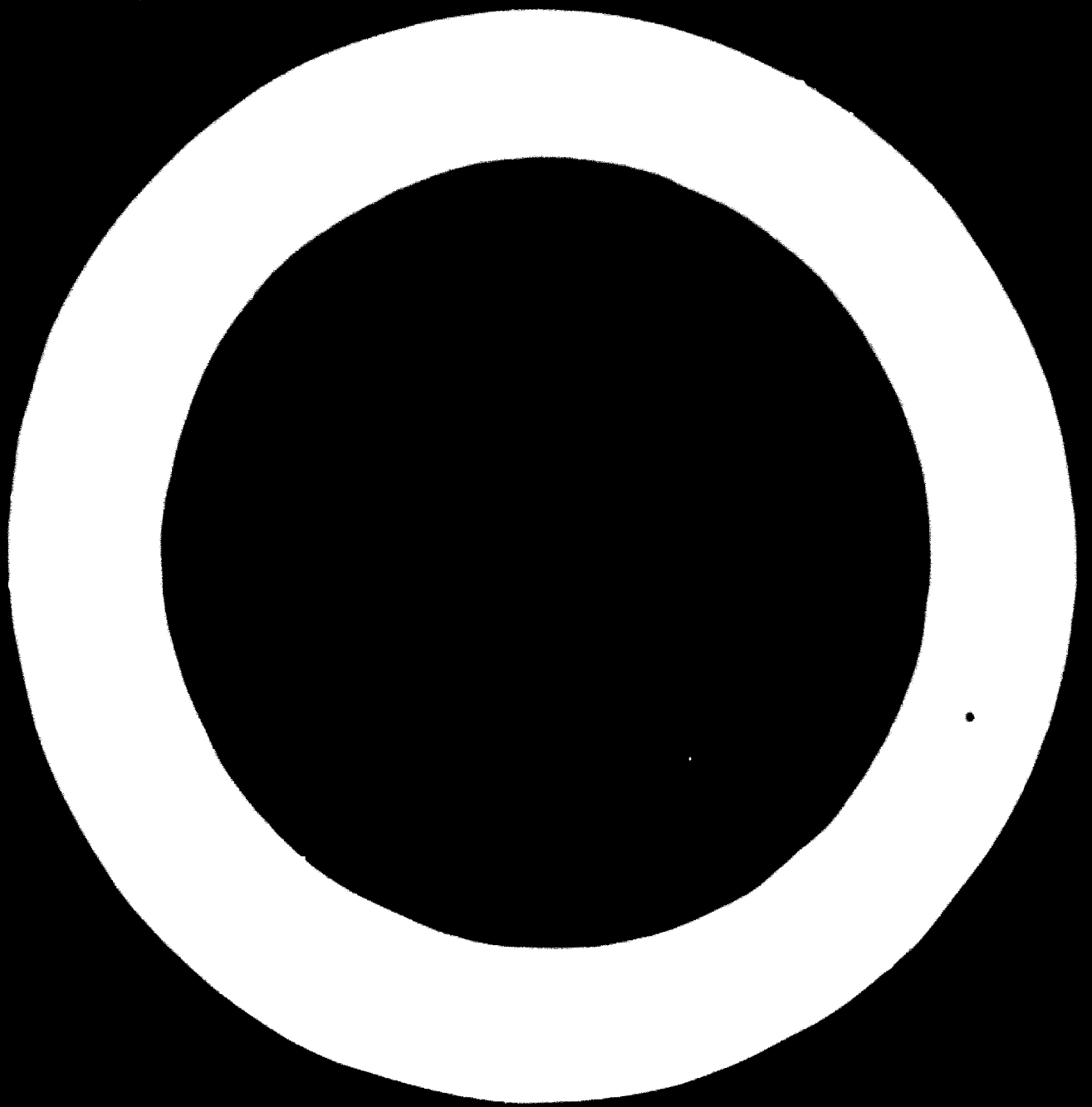
DRAFT REPORT ✓

Summary of Principal Conclusions and Suggestions

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SUMMARY OF PRINCIPAL CONCLUSIONS AND SUBMITTALS

1. UNIDO, in co-operation with UNCTAD, convened a meeting of experts to consider regional co-operation among groups of developing countries in the field of industrial development. The meeting, held in Vienna from 6 - 10 December, 1971, was attended by representatives of three regional groupings, United Nations advisers to two other regional groupings, and two independent consultants. These experts attended the meeting in an individual capacity. Therefore, the findings of the meeting reported below do not necessarily represent the views of the regional secretariats or the governments whom they serve. Staff members of the UNIDO and UNCTAD secretariats also attended the meeting.
2. It was noted that the meeting had been convened at a time when a new momentum had been developed in a number of the regional groups who had been invited to participate in the meeting. Messages from high level officials of these groups who were unable to attend the meeting expressed their support for the meeting and their interest in the outcome.
3. In his introductory address, the Executive Director of UNIDO, Mr. I. H. Abdel-Rahman, noted that the increasing interest in economic co-operation among developing countries was beginning to produce positive results. However, in the field of industrial development, the results so far had been disappointing. The meeting should be realistic and recognize the constraints on co-operation. The spirit of co-operation had taken generations to develop in the industrialized countries and some wavering of spirit, some ups and downs, and some rough political bargaining were only to be expected before the full benefits of co-operation were realized. The United Nations had given high priority to supporting regional organizations and UNIDO would continue to offer both advisory services and assistance in the conducting of feasibility studies of regional industrial projects. However, whilst there was much to be gained by combining national markets and pooling resources, regional groupings should not forget the need to develop a capability to supply international markets outside the region.

4. Mr. Le Guay, the Director of the Industrial Policies and Programming Division of UNIDO, indicated that the meeting was intended to permit an informal and frank discussion and exchange of experience among the responsible executives representing regional groups on the basis of which areas of action might be identified. This could help also the interested international organizations better to understand the practical problems of developing co-operation in the field of industrial development and what kind of assistance they looked for from the United Nations. Mr. Delgado, Director of the Trade Expansion and Economic Integration Division of UNCTAD, welcomed the opportunity for co-operation with UNIDO which this meeting provided.

5. The meeting discussed a wide agenda which considered alternative approaches to regional industrial co-operation and identified the areas of action for the Regional Secretariat and partner states. The meeting did not try to evaluate past experience; rather it identified and noted the constraints, problems and difficulties which regional groups had faced and considered possible ways of overcoming these difficulties. The principal conclusions of the deliberations of the meeting are summarized below.

Principal conclusions

6. Regional industrial co-operation aims at utilizing the resources available in regional groupings of countries in such a way as to increase the cohesiveness of the economies concerned, and, by this means, both to accelerate their economic development and to increase their ability to control the rate and structure of their development. Many developing countries are involved in existing schemes; others are concerned currently in the formation of new groups. The meeting noted that despite the fact that the benefits of regional industrial co-operation were widely recognized, results had so far been disappointing.
7. The meeting reviewed the reasons for these disappointing results. Regional co-operation for industrial development could only advance where it is clearly seen to be in the interests of each member of the group. The major problem is that whereas the chief benefit to the region of a well-articulated regional programme of industrial development is of a long-term developmental character, its impact effects are often seen as resulting in an immediate loss of opportunity to develop desired industries.
8. In most regional groups, industrial co-operation has commenced with trade liberalization, on the assumption that this would contribute to economic development in part through promoting more rapid and broader industrial development. However, experience demonstrates that trade liberalization is not a sufficient condition for effective industrial co-operation. Nevertheless, it was generally felt that commonly some degree of trade liberalization was a pre-condition for co-operation on specific industrial projects.
9. The meeting recognized that the difficulties were partly related to the differences in, and the character of, underlying national development strategies, implicit or explicit, on which regional industrial co-operation is superimposed and which necessarily conditions its present character. Other difficulties would in any case have arisen whenever the need to adapt national policies other than trade policies was not properly taken into account. In some instances, this may have

occurred because of a desire to advance co-operation on the basis of what could for the moment be achieved, leaving recognized problems to be resolved later once the basis and habit of co-operation had been established. The meeting, however, suggested that the incentive to resolve these policy problems was lessened once full trade liberalization had been achieved. It was not felt surprising that in relation to the formation of new groupings and in relation to negotiations for the widening of existing groupings, a satisfactory solution of these policy problems has been made a condition of progress on industrial co-operation and further trade liberalization.

10. The meeting felt that in relation to decisions in the area of industrial co-operation, political and social considerations were in practice frequently given more weight than purely economic factors. The meeting only dealt with technical, economic and administrative constraints and concentrated its attention on the following aspects:

1. the difficulties involved in examining potential future industrial development in a group of countries in sufficient detail for an appropriate and agreed programme of action to be developed far enough in advance;
2. the difficulties of establishing a mechanism for allocating selected industrial plants which is both efficient and acceptable to the different member states;
3. the widespread adaptation of national policies required to implement programmes of regional industrial development;
4. the efforts required to fulfil these tasks in a short space of time and the limited resources available at the level of both the regional secretariats and member governments.

1. Formulating a regional programme of industrial development

11. The meeting recognized in principle the merits of articulating a regional strategy for industrialization but considered that there were considerable practical difficulties both in defining and adapting the contents of such a strategy at this stage. It was therefore felt that, without losing sight of this objective, a pragmatic step by step approach to formulating a regional programme of industrial development was both more feasible and more useful. Discussion therefore concentrated on the characteristics of the sectors or branches of industry which might be given prior attention.
12. So far the attention of regional groups from this point of view has tended to focus on industries in which for a variety of reasons, production facilities did not already exist; in the industrially more advanced regional groups, this meant industries producing intermediate and capital goods. Considerations explicitly or implicitly taken into account, were: whether the industries were ones in which regional plants could achieve significant economies of large-scale production; magnitude of investment in relation to the resources of one individual country; the possibilities and limitations of dividing production without serious loss of efficiency; the part played by the industries in the overall development strategy of the region (e.g. tractors and irrigation plants); the linkage effects of new industries; their contribution to stimulating further growth; and the implications of the rate of technical change in the particular industry.
13. It was pointed out that opportunities for beneficial industrial co-operation within the region were not confined to industries enjoying economies of scale. In many industries, where these economies were not important, opportunities for complementarity and specialization existed and called for careful analysis before embarking on their development. These analyses should be carried out with the political needs of allocation in mind.

11. It was felt that the information required by governments for the purpose of negotiating a decision in principle on the allocation of new industrial plants would be less detailed than that required by a full investment study and would take into account broader considerations than such a study. It was suggested that *inter alia* it would be useful if governments could be provided with an assessment of the economic and fiscal effects (from the national and regional standpoints) of three alternatives: (a) continuing to rely on imports, (b) establishing national plants to serve national markets, (c) establishing a regional plant to serve part or all of the regional market. These assessments would take into account alternative capital and operating costs. It was recognized that the suggestion raised difficulties of ascertainment which would need careful consideration.

2. The allocation of regional industries

15. It was noted that a variety of approaches and mechanisms had been used in an attempt to influence and/or regulate both the allocation of completely new industries established to serve the regional market and investment in new plants in existing industries. The aim of these measures has been to achieve an acceptable balance of new industrial development among the partner states, which takes account of the existing imbalance in the level of industrial development.
16. One approach has taken the form of an attempt to introduce a system of regional control over the location of major new industries; indirect measures have also been used such as differentiated tax incentives and directives on the allocation of financing for new regional projects. Another approach has taken the form of restricting access to the regional market for a period (through selective trade liberalisation) to new regional industries whose location has been agreed by partner states.
17. The meeting did not have sufficient information, nor did it consider there was sufficient experience to permit it properly to evaluate direct approaches among which the licensing of new industrial projects is one. It was nevertheless felt that despite recognised drawbacks of such methods there could be a potentially useful role for direct controls provided (a) that the objectives of the mechanism used was clearly defined and agreed, and (b) that machinery and procedures for rapid decision taking could be established.
18. As regards indirect measures, the meeting felt that these should be reconsidered from two standpoints: first, as a mechanism for effecting the allocation of industry within the region, but secondly and equally important, from the point of view of achieving developmental objectives. As to the use of incentives on a differential basis for influencing the distribution of industry within the region, it was noted that though this has been done at the national level in both developing and industrialized countries, (with some evidence of considerable effect where they were strong enough), little use had been

so far made of the device in regional groupings. Interest in this field was noted however, and attention was drawn to cases in which new agreements had been reached. Experience in using the allocation of financing for new regional projects is extremely limited, but this was felt to be a potentially powerful instrument to achieve allocation goals. The meeting also felt that there was considerable scope for using selective trade liberalization and varying levels of external protection as a mechanism for allocating projects in new regional groups.

19. Apart from refining and improving the approaches and mechanisms described above, the meeting considered other instruments. Although many proposals have been made, there was only sufficient time to consider two:

- 1) ways of improving the prospects for negotiating a balanced package of new industrial projects;
- 2) the possible uses of multi-national companies as an instrument for regional industrial co-operation.

20. Some of the groups represented indicated that they were examining new mechanisms for promoting agreement on a balanced package of industrial projects. In this connection, it was noted that it had been found difficult to negotiate a balanced package if projects in only one branch or sector of industry were considered. It was also found that the speed with which this approach could be implemented depended on the preparation of adequate sector-wide pre-investment studies.

21. The meeting recognized the centrality of the distribution of costs and benefits of regional industrial co-operation and in this connection noted that there were two aspects to the problem of obtaining agreement on the benefits resulting from the allocation of an industrial plant to a country. The first aspect was to estimate the impact of the project on value-added, employment, foreign exchange earnings and savings, etc. The second problem was that countries may have different social and economic objectives and therefore place different weights on these benefits. Whilst the regional secretariat could and perhaps should participate in the first calculation, only individual governments are in a position to make the second.

22. The meeting considered whether the resolution of this problem might be aided if the right to establish a new industry in the case of industries that were not "tied" to a particular location, were to be given to the highest bidder. The object of this proposal would be to establish an operational indication of the value attached by that country (and others) to securing a particular regional industry, whether for the purpose of reaching an agreed allocation of a package of projects or perhaps to establish a source of compensation. This idea was felt to be interesting, but subject to immense practical and theoretical difficulties. It was felt, however, that the practical utility of the idea might be improved if bids were made not in terms of cash, but in terms of the industries a country was prepared to forego at least for a time, in order to secure a particular industry.
23. It was suggested that further work was required to develop a systematic approach to measuring costs and benefits which was likely to prove acceptable to partner states.
24. The use of multi-national corporations as an instrument for implementing industrial co-operation was considered from two standpoints: first, as a device for administering agreed inter-governmental decisions on the establishment and location of specific industries or processes. In this case, such a corporation might conveniently provide a means of sharing the benefits of co-operation through appropriate employment and profit sharing policies. It was recognized, however, that difficult problems of pricing would have to be faced. The proposal was also considered in relation to the possibility of establishing a multi-national company involving private business interests which would operate subject only to certain general directives concerning the balance within the region of its operations. The object of this proposal would be to promote efficient complementarity and specialization in relation to a small number of technically linked products. The meeting recognized that this pushed aspects of the allocation problem to a level at which decisions might be better influenced by the detailed consideration of the commercial and technical implications of sharing production and processes between member countries. At the same time, it also recognized that this might not be an appropriate level at which to resolve conflicts of

interest between governments and the business interest which had promoted the project. It was felt that the use of multi-national corporations in these and other ways should be examined in considerably more detail with a view to assessing their operational implications.

25. It was also suggested that other devices, such as long-term inter-country sales contracts, should also be considered in connection with these problems.

3. Adaptation of national policies to achieve regional objectives

26. The trade policy framework for regional co-operation in groups of developing countries has taken three main forms:

1. liberalization of trade to facilitate specific regional industrial projects;
2. the establishment of a free trade area, sometimes by phased stages;
3. the establishment of a common market.

27. The need to adopt national policies in fields other than trade is directly related to the form chosen and the degree of co-operation desired in industrial development. Here limited co-operation for specific industrial projects is initially in question, the need for policy adaptations is minimized. In the case of more far-reaching forms of co-operation for development, the requirements were recognized to be more extensive. The meeting considered four principal areas:

- (i) national tariff structures;
- (ii) national fiscal incentives;
- (iii) a variety of non-tariff obstacles to effective regional co-operation;
- (iv) national policies towards foreign capital.

28. (i) The group recognized that the structure of national tariffs or common external tariffs where they exist, had a vital bearing on regional industrial co-operation since the magnitude of costs and benefits and their distribution are substantially determined by the character of industrial development which particular tariff structures promote.

29. In this connection, it was felt to be particularly important that criteria for establishing the overall level of the tariff should take account of the opportunities which the regional market offers for specialization and larger production runs and the desirability of keeping costs at a level which would permit exports to countries outside the group. It was noted that in one recent case, the principle has been accepted that the regional external tariff should be lower than the average of pre-existing national external tariffs.

30. In the same connection, it was noted that tariff structure frequently had the effect, that, as a result of low or zero rates on raw materials and intermediate products, industrial development was biased towards the final stages of production and assembly. It was felt that a reconsideration of tariff structures was called for, with a view to promoting more appropriate sequences and a deepening of industrial development, whether or not national tariffs are harmonized in any particular case. In such an exercise it would, of course, be necessary to take into account the fact that tariff revenue generally contributed a high proportion of budget revenues.
31. It was recognized that import duty concessions whilst useful, may have distorting effects and that an agreed policy on their use was desirable, since they must be viewed as a highly selective and discriminatory modification of the tariff structure.
32. (ii) In relation to national fiscal incentives it was recognized that similar distorting effects may arise from the form in which they are provided. It was therefore felt that there was a similar need for restructuring the system of industrial incentives applied in many countries. It was considered, for example, that in this restructuring, the value of incentives granted might be geared to the industry's contribution to value-added, employment, foreign exchange savings, etc. It was also recognized that national fiscal incentives have a direct bearing not only on the level and character of investment in the region, but also in particular upon its distribution within the region. From this standpoint, regional agreement on the kinds of incentives to be offered was vital. It was noted that harmonization of fiscal incentives did not necessarily mean uniformity and that some groupings were considering the possibility of introducing differentiated fiscal incentives for the purpose of diversifying the location of industry within the region. It was recognized that these suggestions raised a number of problems which needed to be investigated.
33. (iii) It was noted that a great variety of non-tariff obstacles to effective regional industrial co-operation existed in some groupings. The meeting had time to discuss only a few of these, namely, the effects

on trade and investment patterns of divergent national systems of commercial legislation, monetary restrictions and foreign exchange practices. It was felt that these and other aspects of policy should be examined to ensure that their effects were consistent as far as possible with the developmental objectives of regional industrial co-operation.

34. (iv) The meeting also discussed the question of national policies in relation to the role of foreign, domestic, private and public capital participation in the "national" industrial sectors, and in relation to specific multi-national projects supported by the regional group. It was felt that this was a particularly sensitive area in which divergences of policy based on the political and social convictions of national governments (which are subject to change) might pose obstacles to effective industrial co-operation in certain key areas. It was also recognized that substantial divergence in national policies in this area could give rise to other difficulties since they could materially affect the allocation of outside investment between different member countries.

35. In relation to regional projects of a multi-national character, it was felt that a uniform policy with respect to participation would be difficult to arrive at in the early stages of integration but that an ad hoc approach, resting on a regional agreement reached in each specific case, was necessary. The meeting felt that apart from this, some broad harmonization of national policies could be both useful and important. It was recognized that the possibility of taking action in this field would vary from group to group, and that in some instances, there were difficulties. The group nevertheless noted with great interest the progress which had been made in this sphere within the Andean Group.

Institutional Arrangements

36. The meeting recognized the importance of institutional arrangements for the effectiveness of regional industrial co-operation but had time only to briefly review existing arrangements in the various groups and to note similarities and differences. In this connection, it was recognized that both procedures and priority areas of action differed from group to group according to the stage co-operation had reached and to its agreed scope.

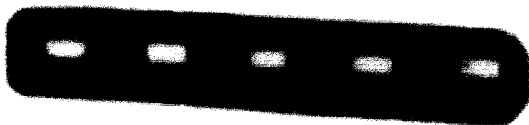
Suggestions

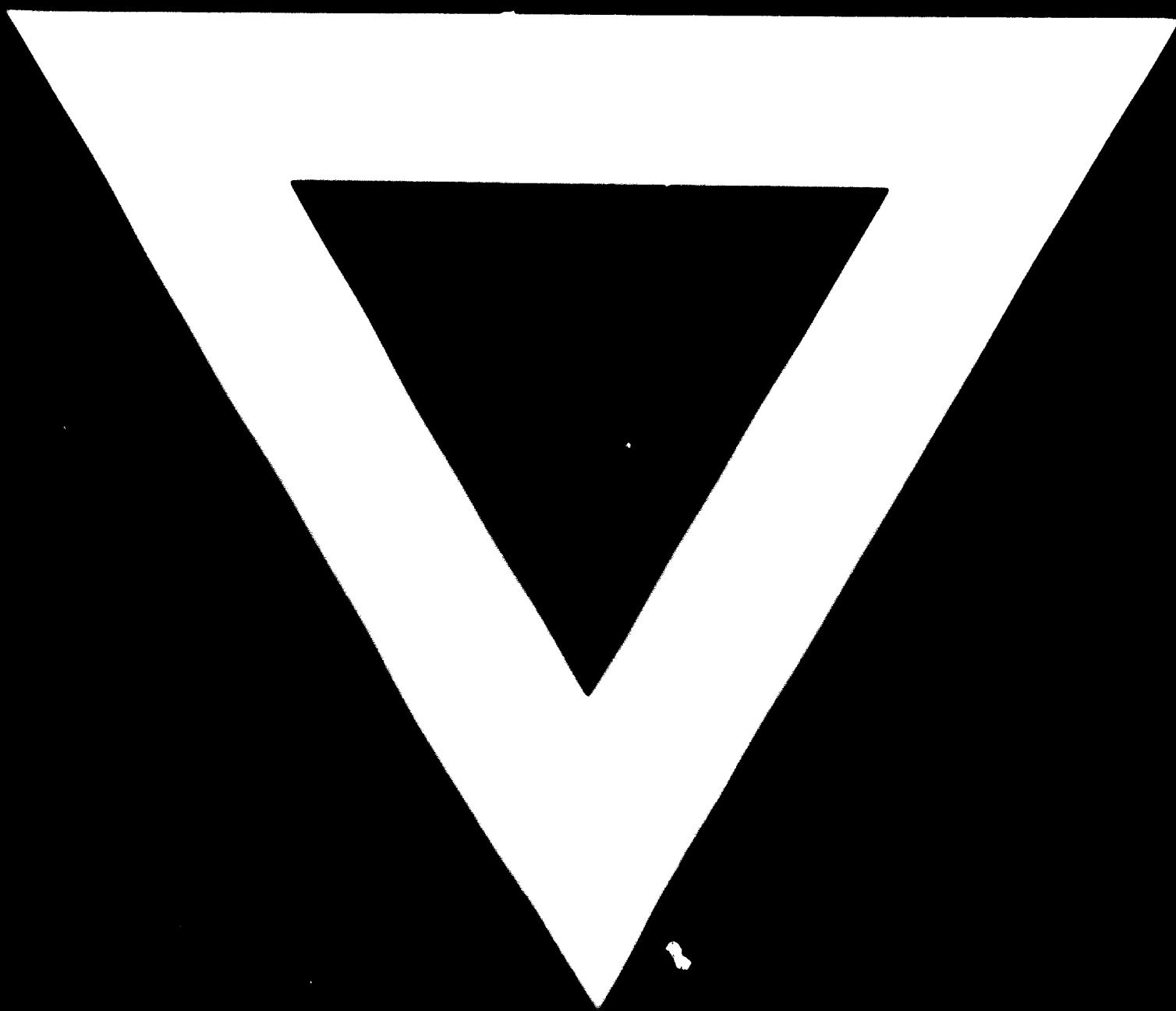
37. Participants and consultants from the five regional groups represented felt that the Meeting was extremely useful. They derived encouragement and stimulation from the exchange of ideas and experience on the programme of action for co-operation on industrial development.
38. The participants proposed that a second meeting should be convened in the second half of 1973. Whilst they appreciated the need for this first meeting to cover a broad agenda, the second should concentrate on a very few aspects of regional industrial co-operation. The intervening period would show whether a breakthrough can be achieved in the establishment of multi-national industries. Also by this time, there should be a larger number of regional groups with relevant experience to contribute to the meeting.
39. The participants found that the personal contacts between secretariats made at this meeting were extremely useful. Recognizing that an on-the-spot visit could improve their understanding of the activities and operations of other regional groups, they recommended that UNIDO and UNCTAD should arrange such visits and if possible finance them. Other arrangements for an exchange of information between regional groupings should also be made during 1972 and 1973, so that both existing and new regional groups could benefit from the experience on regional industrial co-operation which has been accumulated so far.
40. Participants from regional groups felt that the meeting had been so useful that they would suggest to their Secretariat and member governments that in future each group should make a token contribution to the expenses incurred by UNIDO in promoting a better understanding of regional co-operation on industrial development.
41. The type of technical assistance required by regional groups was discussed. In addition to advisory services designed to strengthen the secretariat and the conducting of pre-feasibility studies of industrial sectors and projects, international assistance would be useful for establishing and/or strengthening other regional institutions for industrial financing, investment promotion, industrial standards,

industrial research, industrial information and export promotion. UNIDO and UNCTAD should be prepared to expand their programmes of assistance to regional groups in these areas; the regional groups should attempt to identify their needs well in advance.

42. The meeting recommended that in addition to the areas requiring further research identified in the report, UNIDO should systematically develop information on the economies of large-scale production of specific industrial products suitable for manufacture in regional plants. Such product evaluations should include an evaluation of the broader implications of technological change for the scope of international economic co-operation.

43. Finally, recognizing that the establishment of new regional industrial projects would involve a substitution of exports from industrialized countries, the meeting recommended that relevant UN organizations should study the implications for regional groupings of the actions taken by international corporations by price policies and other means, to retain their market share.





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