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TODAYS' WORLD ECONOMIC ENVIRONMENT

Belgium, Brussels
2-6 December 1974

by

Etienne Cracco
Director
International Management Research Centre

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INTRODUCTION

THE WORKSHOP OBJECTIVES

About thirty Industrial Advisers are fielded by UNIDO in developing countries. Their mission is to advise Governments of developing countries on specific industrial development problems. They have also to assist Governments in their request for assistance.

They are the link between UNIDO and developing countries, and provide a coordination link with the regional institutions, in particular the Regional Economic Commissions.

They must be in a position to advise Government agencies and economic sectors of the countries not only for what concerns their plans, but also for what concerns surveys, consultancies, expert missions, industrial supplies, etc......
Their role is therefore significant and requires a high level of professionnal competence, that has to be continuously updated.

The objective of this workshop, "Today's World Economic Environment", that Belgium has offered to organize since 1971, is to keep Industrial Advisers informed of new problems that exist, at a world-level, in economic, industrial and financial levels, so as to keep them abreast of their knowledge.

As a result, an occasion has been provided to have the Industrial Advisers meeting during a few days, during which they would be in a position to get re-acquainted with some major problems, as presented by some experts, in economic, financial, and industrial matters. They will exchange ideas and discuss outstanding problems.

This paper is a resume of the discussions that took place during the week. The Centre is thanking Mrs. S. VERVALCKE, Ms. I. LORENZO, Mrs. GODENS, Mrs. MATHIEU, Mr. VAN HAEVERBEKE, Mr. LALOUX for their helps in the organization of the week. The Speakers and the Experts who have devoted their time to this workshop have generously contributed to the success of this first pilst experience, could they find here our most grateful recognition.

LIST OF PARTICIPANTS

A. UNIDO FIELD ADVISERS

NAME	COUNTRIES' RESPONSIBILITY	NATIONALITY
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CUENDET	Field Adviser (Ouagadougou) Dahomey-Ivory Coast-Niger Togo- H. Volta	Switzerland
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BLIN	Principal Adviser, EEC Commission
BROWN	Adviser, OCDE
CARRIERE	Personal Adviser to the President, OCDE
CLAES W.	Former Belgian Vice-Prime Minister
KODRICH	Principal Administrator EEC
COSTIS P.	General Manager, Proex S.A.
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de la SERNA J.	Adviser, Belgian Enterprises Federation
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JASPAR	Adviser, Belgian Union for non ferrous metals
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LALOUX D.	Belgian Ministry of Foreign Affairs
MASONI	Adviser, World Bank
MEEUS Ph.	General Manager, Petrofina S.A.
MELA	Assistant, U.L.B. (University of Bruxelles)
MELCHIOR	Assistant, U.L.L. (University of Liège)
MEULEMANS L.	Adviser, Belgian Ministry of Finance
MICHEL H.	President, "Cooperation and Development", "Commission" UNICE
REMICHE B.	Member, Law and Economy Research Center, U.C.L. (University of Louvain)
SEDA F.	Ind n sian Ambassador in Belgium
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VAN HAEVERBEKE	Principal Administrator, EEC

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Mrs Simone VERVALCKE	Director Multilateral Cooperation AGCD
Mrs Marie-Claude MATHIEU	External Adviseress AGCD
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de POSSON Alexandre	Associate Member CRGI
MALI Eberhard	Observator UCL
VANDERLIP Kelvin	Observator UCL
REID FRANK	Observator UCL

TODAY'S ECONOMIC ENVIRONMENT

CHAIRMAN: Mr. Dominique LALOUX

CONFERENCES:

Commodities and Inflation

Mr. Pierre COSTIS

Oil and the Energy Problem

Mr. CLAES

Vicomte DAVIGNON

Mr. MEEUS

EXPERTS: Mr. BEDOYA

Mr. CRACCO

Mr. JASPAR

Mr. MELA

TODAY'S ECONOMIC ENVIRONMENT

COMMODITIES AND INFLATION

Various factors do influence the recent rise in sugar prices, the speaker, Mr. P. Costis, told the groups. Low stocks and high demand are at work but also low confidence in currencies. As for other commodities, instability in the monetary sector lead to hoarding of sugar. The oil crisis has also introduced a disturbance factor in sugar deliveries, with high demand after the first slow-down. Oil exporters wanted to hold commodities, and, basically, oil was swapped for sugar. Another unforseen demand came from Japan when saccharine was banned. Finally, despite higher prices. there was lower output in production, mainly due to bad weather conditions. Statistics show an 11.3 % decline in sugar beet crops by the producing countries from Western, Eastern Europe and the United-States. In the future there are some factors that could weaken sugar demand. These are the increased use of artificial sweeteners and of naturel ones other than sugar. One should not under-estimate the elasticity effects of prolonged high prices over sugar demand. In conclusion, Mr. Costis points out that the most destabilizing influence on the sugar market could also come from speculation.

OIL AND THE ENERGY PROBLEM

After the commodity problem, come the major concern: the oil crisis. Several personalities from industry and governments discussed the matter. The role of the oil companies is the "redistribution of the cards" in the international economy, argued Mr. Meeus, General Manager of Petrofina. First of all he insisted on the need to understand the major factors surrounding this industry. There is a large amount of risk involved, one does not find petroleum at every streets corner. The characteristics of the product results in very expensive means of handling and transporting. There is a large geographical and technical diversification, oil being rarely produced where it is consumed. All of this means huge and highly capital intensive investment. Banks don't want to get involved in this type of financing, thus the consequent need for financing them from retained earnings and equity. This also means high fixed costs while operating costs of these investments are low. Finally we come to the major justification for multinational companies in the petroleum industry: the geographic complexity for satisfying the different needs stimulate the multinational role of those companies in developing the international exchange of goods which is equally beneficial for developed and developing countries.

Mr. Claes, Minister of Economic Affairs during the oil crisis, entered into the relations between producers and users and mainly the reasons for which Arab oil producing nations are taking more and more control of their own future. There are four major families of shifts; the changes introduced by the decolonalization process, the use in awareness for control over raw materials, the new leading elite acquainted with Western systems of education and the nationalistic feeling created by the Arab-Israeli wars. The changes in the producer's policy have major impacts upon the financial market such as currency adjustments function of oil consumption and the increase of the liabilities towards the oil-producing countries. These actual or potential liabilities lead to political impacts, the world structure of power with the shift in the balance of forces. No substitute to oil has so far been found, the first solution for consumer' countries is in reducing oil consumption, simultaneous increases in production of natural gas, even coal production combined with development program of nuclear energy. This might give consumer countries more bargaining power in the finding of a political solution. In the particular case of the EEC, the first priority should be given to the search for unity as it is their weak point in the negociations.

Minister Claes' final observation, shared by the Vicomte Davignon, points out the need for cooperation and negociation between the consumer and producing countries. The Europeans and Arabs have to open the dialogue quickly, since industrialized, underdeveloped and producing countries are all in the same shaking boat. The first enemy is the rise of inflation which might swallow all achievements if not taken care of. The recycling of funds "petro dollars" has to be put into operation, however it needs a transitory period for a long-term solution. So far there has been no plan or pratical implementation of such a recycling process which has to be dealt with at the inter-governmental level.

The main conclusion of the Question and Answer period was in the need for a proposal aiming at long term solution of the problem. One of these solutions was the transfer of know-how and technology from industrialized countries to developing areas. That could lead to a better international distribution of resources, even if it is often quite complicated. The present slowdown should enable parties on both side to overcome the inequalities of overproduction on one hand and shortages on the other.

FINANCIAL PROBLEMS AND ENERGY

CHAIRMAN: Professeur Henri de BODINAT

CONFERENCES:

The Impacts of the Oil Crisis
Mr. AVRAMOVIC D.

The 1974 Annual Meeting of the FMI
Mr. D'HAEZE

The Petrodollars: an outlook
Mr. DE VEUSSER
Mr. MASONI
Mr. MEULEMANS

EXPERTS: Mr. COSTIS P.
Mr. DE VEUSSER.
Mr. MICHEL H.
Mr. CRACCO E.

FINANCIAL PROBLEMS AND ENERGY

THE IMPACTS OF THE OIL CRISIS

The recent rise in the price of oil is having financial repercussion and affecting the development of nations in a wide variety of ways. We can break the oil exporting countries into three categories:

1. Those countries which are underdeveloped, have large populations and can spend the hard currencies earned from oil exports on capital and consumption imports immediatly. These countries benefit immensely from their new source of earnings and do not accumulate currency reserves. They account for one fifth of the estimated 1975 world earnings from oil exports of $ 70 billion (i.e. Indonesia, Nigeria)

2. Middle income moderate size countries (Iran, Algeria, Venezuela) which willl take three to five years to increase imports sufficiently to have a balanced external budget. These countries account for three tenths of the $ 70 billion (1975 surplus)

3. Low population states such as Saudi Arabia and the Emirates, earning one-half the worlds oil export revenues, which they perhaps will never be able to spend entirely on domestic consumption. These latter states are at the heart of the recycling problem. They will accumulate between $ 300 billions and $ 600 billions by 1980.

If the arab countries' surplus earnings are not reinjected into the world economy a decline in investment and consumption will take place affecting both the developed and underdeveloped countries. The solution must come from a transfer of funds from surplus countries to nations in deficit. There is a strong resistance on the part of some countries towards creating additional liquidity in the face of today's inflation.

SOLUTIONS TO THE FINANCIAL PROBLEMS

Transfer of liquidity can be done through loans, investments, and aid. Both the IMF and the World Bank are trying to get funds from the Arab states for loans to the deficit countries. There is some fear that the private banking sector cannot absorb many more short term deposits to be relent long-term. If the IMF is able to change its structure sufficiently to become a large intermediary in the recycling process some care must be taken not to allow the deficit industrialized to borrow funds needed even more critically by the less developed countries.

While Western institutions are coping with the current problem, the Arab states seem to be moving in the direction of setting up their own recycling institutions. These are aimed at:

1. Providing direct government-to-government loans. These might have to be guaranteed by a supra-national body, especially for the LDC's. Support of LDC's can be accomplished through long terms loan, low interest rates and guarantees from financially sound countries.

2. Investing petrodollars in industries, distribution systems or raw materials (currently sugar) abroad. Most effort seems to be spent investigating such possibilities in the well developed countries.

3. Aiding countries traditionally in need of foreign capital. Such direct aid is lagging far behind the first two categories. This is an area where international pressure may help increase the flow of funds towards the deficit countries, and aid given by western institutions to the arabs could also be an important factor in their ultimate use of petrodollars.

THE OIL CRISIS AND THE "HAVE NOTS"

U.N.I.D.O. can take advantage of the "oil crisis" if the states with long term oil surpluses become interested in helping the LDC's. Arab-controled multinational companies might be set up using existing technology and some management assistance to develop domestic raw material industries and value-adding industries outside of the industrialized world. Unfortunatdy the Arab states might never decide to take such riska with their capital in which case the diversion of revenues from the new deficit countries, which have in the past provided some assistance at least, might spell a period of decline for world-wide industrial development aid.

The instability of the worldwide monetary system from inflation rapidly fluctuating commodity prices and floating currencies is increased by the surplus funds of the oil exporting countries. Additional problems are many. First, LDC's without oil resources are using up their reserves of foreign capital at a rapid rate. Unless the recycling mechanisms mentioned above take these countries into account they will soon face a crisis of major proportions. On the other hand petrodollars flowing towards these countries would allow them to speed the pace of their development by increasing the flow of technology and machinery from the industrially more advanced countries. The South America countries are advantaged in this respect versus India, Bangladesh and portions of Africa which have no oil reserves of their own. Secondly, money and technology are not the only assets needed to spur industrialisation. The social and educational infrastructure must be made favorable as well. Third, the instability of world commodity prices due in part to speculation with petrodollars affects long range planning and the types of industries which various LDC's should favor. Such uncertainly usually translates into delays. Fourth, policy differences between agencies as UNIDO, the World Bank and the IMF the oil-surplus states may cause conflicts between these agencies, duplication of effort, or an emphasis on winning the favor of the oil states at the expense of other LDC's.

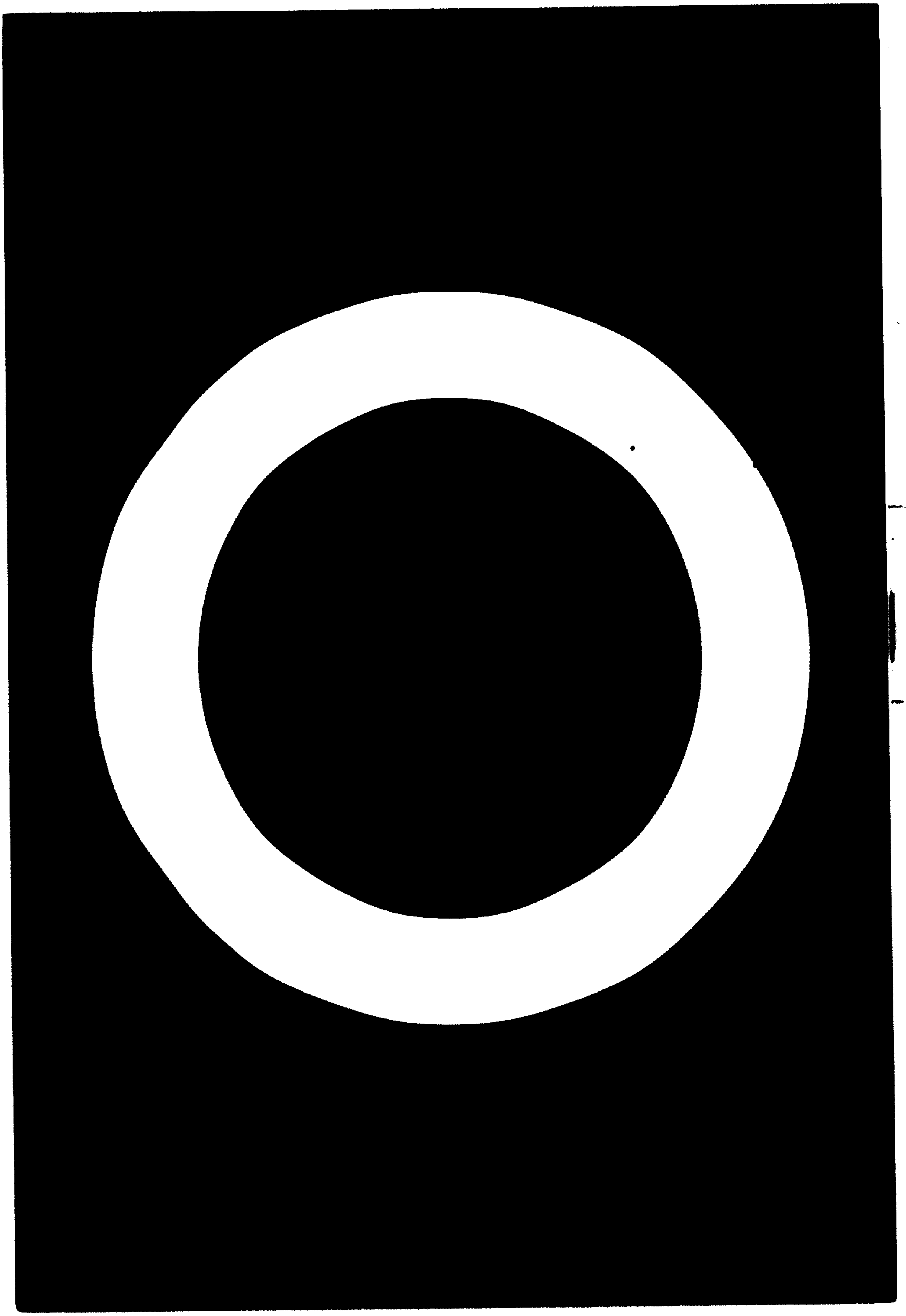
THE OIL BOOM: FOR HOW LONG?

A point of contention is the length of time the oil exporting countries might be able to keep the price of oil as high as it is today. In favor of high prices is the high wealth already accumulated by some nations. These can simply refuse to sell more oil at lower prices. This is the opposite of most raw material exporters who cannot afford to stop exporting without wiping out their foreign currency reserves. Lower prices might be forthcoming if the elasticity of supply of oil is high. The huge efforts which the multinational oil companies are making to develop new oil field supports this thesis. It is unlikely, however, that oil prices will ever fall to their previous low levels.

One means with which the industrialised countries mitigate the tranafer of wealth to the oil exporting countries is by allowing the price of their exports to climb and by reducing the purchasing value of their currencies. This tactic is openly opposed by most governments in their public statements but it must contribute at least indirectly towards a softer attitude on inflation. Rising prices of capital goods and food will lower the surpluses of the arab oil exporting states somewhat, but will have a much greater negative effect on countries which do not have oil or have large populations as the prices of their imports rise. Inflation aggravates the need for a recycling mechanism aimed at the LDC's needs, and for increasing their oriented sectors.

THE NEW WORLD RESPONSIBILITY OF THE OIL EXPORTING COUNTRIES

The diversion of income from oil importing countries to oil exporters places a great responsibility in the hands of those states which were previously helpless to participate in solving the problems of the less developed countries. Today they need all the help available to become aware of the possibilities their currency reserves give them in investing in the development of the "third world" from which they themselves are emerging. UNIDO is in a unique situation to provide such assistance if the recycling system, the needs of the developed nations, and the desire of the Arab states to help all allow the flow of funds into industrial development to increase.



PROGRAM

TRANSFER OF TECHNOLOGY: IS IT POSSIBLE

CHAIRMAN: Ambassador FORTHOMME J.

CONFERENCES:

Transfer of Technology

A Governmental view : Dr. CRAVINHO

A Private Enterprise view: Mr. BENOIT

Foreign Aid and Transfer of Technology

Ambassador Franz SEDA

EXPERTS: Mr. BERNARD

Mr. BLIN

Mr. BROWN

Mr. de CROMBRUGGHE

Mr. de la SERNA

Mr. DUPONT Ph.

Mr. GOVERS

Mr. GROSJEAN P.

Mr. JASPAR

Mr. LAHAYE A.

Mr. MICHEL

Mr. REMICHE

Mr. SIMONS

Mr. CRACCO

TRANSFER OF TECHNOLOGY: IS TRANSFER OF TECHNOLOGY POSSIBLE?

TRANSFER OF TECHNOLOGY "THE NATIONAL VIEWPOINT"

The market for technological transfers (TT's), stated Dr. Cravinho is very peculiar by the characteristics of the buyers and sellers. The market is extremely imperfect and unbalanced in favor of the holders of technological processes. Price and quantity of TT's are determined not by the relative bargaining positions of buyer and seller. The seller frequently holds a monopoly on the TT's, and his position is strengthened by the buyer's general lack of technical knowledge. The result is a very weak bargaining position for the buyer which prevents him from commanding the technology he really needs. Rather he is forced to accept that which is available at a price over which he has little control. In the end, he pays too much for technology not adapted to his particular needs and environment if indeed it is at all appropriate.

The unnecessary expenditures which result from these market conditions are enormous. Most are indirect costs resulting from over-pricing of TT's especially when tied contracts are involved. This over-pricing may cost under-developed and least-developed countries $ 2-3 billions per year, a tremendous drain on the ressources of these countries and their funding agencies. Another costly area is the very frequent inclusion of export restriction clauses in TT's contracts. Royalty terms and single source of supply clauses also lead to very unfavorable situations.

The incidence and severity of these problems varies from country to country. Dr. Cravinho cited a U.N. study indicating that over 90 % of TT's contracts engaged by Peru, Mexico and Chili included export restriction clauses, most of which were total prohibitions of exportation. By contrast, only 6 % of TT's involving Israeli firms were so restricted. Dr. Cravinho's conclusion is that differences in buyer bargaining power are responsible for these differences between countries. However, it should be noted that these differences could well result from differences in the nature of the technology being transferred and from other factors particular to the countries involved (existing state of industry, capacity of absorption, etc.........).

Dr. Cravinho's thesis is that governments of under-developed and less-developed countries can and should act in several fashions to ameliorate their weak bargaining positions: First, legislation should provide a legal framework within which certain contract clauses can be prohibited such as most export restriction clauses. Similarly one could restrict single source of supply clauses and one could place ceilings on royalty levels.

Secondly, governments should act to increase and distribute technical information. Development and creation of institutions which gather and distribute information on existing technologies, consult with domestic firms during their negociations, and perform contract by contract analysis and approval was also suggested. Dr. Cravinho acknowledges the inevitable bureaucratic ineffeciencies and delays which would result from governmental approach following contract by contract analysis. It is his thesis that the benefits will outweigh the costs. Buyers of technology should pool their information on prices, sources and needs, in order to increase the availibilities of information.

Under this philosophy, foreign direct investment is good if it brings to a country benefits which could not be obtained by any other means. Nevertheless it involves loss of governmental and local control which should be avoided if at all possible. The sale of "ideas" for stock participation links the "idea capital" with the risk capital. However said Dr. Cravinho, no risk is involved in idea capital and thus remuneration should not be linked to returns. In the cost-benefit analysis of transfer of technology one should include protectionary measures. Prospective tariff structures can result in a negative value added when the opportunity cost of selling products domestically at prices above world market prices is included in the analysis.

TRANSFER OF TECHNOLOGY: "THE INTERNATIONAL FIRM'S VIEWPOINT"

From the viewpoint of firms investing in developing countries, Mr. Benoit illustrated Bekaert's investment experiences in Ecuador and Chili. In Chili, it was strictly low technology transfers. The following environmental factors have operated to create this situation:

1. Small domestic market.
2. Unsuitability of initial products for this market
3. Need to develop new technology to use local raw materials which gave positive technological flowback from Chili to Bekaert.
4. Lack of skilled and semi-skilled labor which resulted in the creation of a training school.
5. Political environment: Bekaert cooperated fully with Allende Government, negociating means of protecting investment returns after turning over controlling interest to the government. After Allende's fall all agreements were put into question in an atmosphere of total uncertainty. The subsequent result is no new investment, nor does Bekaert desire to resume having controlling interest. They cannot assume the risk of changing their policies with each change of government which might be prejudicable to the firm.

By contrast, a recently negociated agreement with Ecuador involves the security of a four way agreement among Belgian firm and government, Ecuadorian firm and government. As another contrast, M. Benoit cited the greater stability in Venezuela which has allowed them to transfer their technology for an entire range of their products from low to high technology. Still, because of the uncertainty and risk associated with investment in South America, Bekaert demands a 15 % minimum ROI. This presents an obvious problem for countries wishing to curtail private industrial bargaining superiority with legal agreements, etc... as recommended by M. Cravinho. The example was cited of the Andean agreement limiting repatrition of ROI from foreign investments to 14 % and its resulting effect of preventing capital from flowing into the country.

TRANSFER OF TECHNOLOGY: THE FOREIGN AID VIEWPOINT

Another philosophy of transfer of technology, presented by Mr. Seda: "The foreign aid viewpoint", stresses the use of TT's as a tool to obtain foreign aid. In this opportunistic framework the increase in industrial and technical capacity of the country is a goal secondary to that of obtaining foreign aid.

The successful application of foreign aid depends on proper expertise and courageous leadership. Knowledge about the country's state of development, of growth, and of administrative resources is essential. Quite often there is a lack of coordination of programs among all aid-giving countries and international organizations, and incompatibility of the various technical systems and experts offered. One participant suggested that this problem results directly from the opportunist philosophy itself. To correct this lack of coordination, several actions could be taken:

1. Industrial agreements to redistribute industrial capacity according to particular resources of the developing countries
2. Increased use of TT's systems such as
   a. joint-ventures - bringing managerial and entrepreneurial skills
   b. working contracts (all investment owned by government)
   c. management contracts
3. Research should be stressed as channel of TT's especially regarding adaptation of technology to local conditions.

TRANSFER OF TECHNOLOGY: COMMENTS

Several members of the industry focussed the importance of patent rights as stimuli of research and development. Inter-developed country competition relies on technical advance for which patent rights are essential. Developed countries and their firms cannot provide free access to technological developments and expertise. Whereas Mr. Cravinho's arguments were directed primarily at state of the art technology, the needs of developing countries are frequently for older technology of lower levels. For TT's, some members doubt if there is a common knowledge which can be transfered operationally to least-developed countries without compromising technically expert firms. Further this industry members tended to disagree with the opinion that TT's involves no risk. The wider issues of transfer of technology, stated Mr. Brown from the OECD, worth desserving attention have not been touched. These are:

1. The political and social context of TT's

2. Countries' capacity of absorption of TT's

3. National educational and scientific policies and how they influence and can influence industrialization

4. Selection of industries to be developed, based on criteria of income distribution, and

5. The degree of integration (desired and possible) of industries in LDC's.

PROGRAM

REGIONAL ECONOMIC INTEGRATION

CHAIRMAN: Mr. VAN HAEVERBEKE

CONFERENCES:

The Andean Group Experience
Mr. BEDOYA

The EEC and the Developing Countries
Mr. KODRICH

The EEC at a turning point?
Dr. DUQUESNE de la VINELLE

EXPERTS: Mr. CARRIERE
Mr. MELCHIOR

REGIONAL ECONOMIC INTEGRATION: THE STATE OF THE ARTS

THE ANDEAN GROUP

The Andean Group pursue three major goals: the promotion of harmonized and balanced development, the acceler tion of economic growth of the region, the improvement of the living onditions.

Four kinds of instruments are developed to reach those goals:

- The industrial planning including selection and allocation of priority industries such as metal and mechanical, petrochemical, automobile
- The common customs tariff will be effective in 1975
- The physical integration of industries favoring the two weakest countries (Bolivia, Ecuador)
- Several measures toward harmonizing and coordinating development. The two most important being a Common Market treatment of foreign capital, trademarks and licensing agreements, and a control of retention of profits in the region (14 % repatriation limit).

After an economico-socio-demografic presentation of the Andean countries, Mister Bedoya described the method of partitioning the benefits of these cooperative efforts. Most important was the ability of the Andean Group to learn from the LAFTA experience. The criteria for distribution of benefits were developed through a process of political negociating based on consensus,with strictly economic and logical reasoning. The agreement involved the surrender of some government authority to the group, plus the establishment of rigid time-tables. In the development of project proposals, the Commission accepts or rejects decision but has no power of modification. These aspects work together to insure progress toward the group goals.

Because of the nature of the industrial states of these countries participants have suggested that what is involved is more a coordination of cities than a coordination of countries. This presents in fact fewer problems than would a similar effort in Africa.

THE EEC AT A TURNING POINT?

Mr. Duquesne de la Vinelle, rector from the FUCAM provided a framework of analysis of the regional European development process and its cumulative nature leading to a better understanding of the process of regional development, pinpoints dangers and needs.

When,between the two wars, the policy of European governments was to have each its own way and move alone, the international economy was caught in a sort of vicious circle. Barriers to trade grew at each stage and took ruinous proportions in the thirties, when a financial crisis coming on top of a recession precipitated the complete collapse of international economic relations and entailed most dramatic consequences all over the world. The lesson is that the refusal to accept interdependence, coordinated policies and common rules did not lead, as intended to more independence and better control of the overall situation and to a collective disaster. The process proved cumulative because each development contained the seeds of the next one.

The analysis of international economic policies after World War Two shows a similar pattern. Whenever some progress was made in the direction of integration, the very success of the operation modified the situation in a way that made further integration desirable in other words, the feedback of a certain degree of integration is the need for more integration. This is the main lesson of European experience in general and more particularly of the Common Market experiment? Should the process be reversed there is every likelihood that each move towards disintegration would spread the seeds of more disintegration.

Presently therefore there is considerable evidence that Europe lives under conditions of unstable equilibrium.

If this interpretation is correct it deserves considerable attention. It is a quite new feature in European history. Prior to World War One there were admittedly a few traditional rules (such as keeping currencies convertible) by which major countries usually abode. But apart from that they were, as it seems, able to behalve as fully sovereign and independent powers and a stable equilibrium in international economic affairs seemed to be well established. The evidence available suggests that this is no longer the case. What is the reason for this tremendous change?

A possible answer is that national states of West European size are being outgrown by the requirements of a modern economy based on modern science and technology under the constraints of social policies attuned to contemporary needs: they might be historically obsolescent in much the same way as feudal principalities were obsolescent when the first national states were established some four hundred years ago.

The practical conclusion of the Duquesne de la Vinelle's analysis are as follows. First, there can be no policy without a policy-making body. There can be no regional development policy without a body to develop such. Second, the super-position of a common European regional currency is more likely than the substitution for all individual currencies.

THE EEC AND THE DEVELOPING COUNTRIES

The main links between E.E.C. and developing countries following Mr. Ködrich are financial. The European Development Fund (E.D.F.) gives free subvention to those countries. Rather than taking the initiatives and suggesting projects to local governments the EDF follows the desires of the countries leaders in allocating its ressources. These governments may have good intentions, but some lack the experience needed for the optimisation of industrial investments. The EDF may form a team of industrial experts but some feel that such assistance could come from UNIDO.

Most of the funds allocated toward development projects by the EDF remain unspent. There are few concrete results to show for the numerous studies made of various regions. In order to increase private investment, a less developed country must create conditions receptive to private foreign investment or must undertake to develop the industry itself. UNIDO experts are in a position to point out such opportunities. A coordinated effort with the EDF would add financial lacking to technical evaluation produced by UNIDO experts. On the contrary, the lack of coordination between UNIDO and EDF is likely to produce some playing-off of agencies by opportunistic governments. Between the EDF desire to accomodate the wishes of local governments and UNIDO's regional approach a compromise position might be worked out on a country by country basis which could be acceptable to both sides. While such coordination is burdensome it is probably overall less costly that to have two agencies working in opposite directions. The unused studies produced by the EDF for possible funding could be source of valuable information for the Arab countries with large financial surpluses. The same is true for UNIDO studies if local governments concerned agree to their dissemination. This would increase the information available to potential investors beyond the traditional aid agencies. Another means of insuring greater use of industrial development studies is to allocate investments funds to the studies at their inception. This would reduce the delay between the conclusion of a study and the allocation of funds to a particular project.

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