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R E P O R T

OF THE

MEETING OF

THE CAPITAL GOODS PROJECT IN MEXICO
(DP/MEX/72/014)

Vienna, 17 to 19 September 1975

id.75-7938

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

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I. INTRODUCTION

The Industrial Programming Section of UNIDO organized a meeting on the Mexican Capital Goods Project (DP/MEX/72/014), at the UNIDO Secretariat in Vienna from 17 to 19 September 1975.

The meeting was meant to review approaches and achievements of the UNDP/UNIDO assistance project up to the end of the present phase (II) and to discuss basic issues of the continued assistance during the extension phase scheduled to begin in October 1975. The meeting was also to review the experience gained in rendering such multi-disciplinary technical assistance in the field of industrial sector programming, experience that might be used in similar projects in other countries.

The rather informal sessions of the meeting consisted of short introductions to the various issues, followed by discussions. The meeting was attended by three Mexican officials, the Project Manager, the Senior Industrial Development Field Adviser and UNIDO staff-members. In addition, one representative each from similar capital goods programmes in two other countries attended the meeting. The list of participants and the agenda of the meeting are attached in Annexes I and II.

II. SUMMARY AND CONCLUSIONS

The meeting was a rare and valuable opportunity to have Mexican high level officials, the UNIDO project manager and UNIDO staff specialized in the various aspects of the capital goods industry, devote a few days on a full-time basis to detailed analyses and discussions on achievements, methods and plans of this rather important and in many ways exceptional project.

The focus of the meeting was on the substantive aspects of programming this subsector. The process of preparation, promotion and negotiation of investment projects was discussed at length. The experience gained in the Mexican case showed - at least within the given circumstances - that all the three basic issues of the process should not be treated separately, but that they should be carried out simultaneously as parts of an integrated process aiming at actual investment.

Special attention raised the question on the evaluation of investment projects from the national economic point of view. It was proposed by the Mexican participants and supported by the meeting that the UNIDO Secretariat would look further into this matter and prepare a short paper on cost-benefit analysis of capital goods projects.

The aspect of regional co-operation between Mexico and other developing countries in the region was brought up in the discussions. It was agreed that an attempt be made to establish a basis for such a co-operation by convening a subregional capital goods meeting in Mexico in 1976 with some selected countries.

The meeting was considered very useful and constructive. It gave a valuable impulse also for the recently initiated capital goods programmes in Pakistan and Turkey.

III. BACKGROUND *

It is increasingly being recognised in developing countries that the growth of the capital-goods sector is an essential link in the chain of industrial and technological progress and that rapid planned expansion of this sector represents a critical stage in the industrial growth of such economies. The machine-building sector is among the most dynamic sectors of manufacture, covering as it does the production of mechanical, electrical and transport equipment which are utilised as machinery and equipment in various production sectors. Such a wide coverage inevitably has considerable ramification in terms of forward and backwards linkages with basic industries and the engineering-goods sector. With expansion of a country's industrial base, the demand for machinery and equipment grows at an increasingly accelerated pace, resulting in the gradual growth of an adequate internal market for various machinery products. This tends to be accompanied by infrastructural growth and the development of resource inputs such as processed industrial materials, production of parts and components and a base of industrial skills and aptitudes. Despite the existence of such conditions, however, the transition to the manufacture of sophisticated machinery products is very difficult in most developing countries and requires considerable deliberative effort and programming. Because of sophisticated technological requirements and the complex nature of production in the machine building sector, the transition to such manufacture tends to be very slow and may get delayed indefinitely, if left to market forces alone. The comparatively higher capital outlays required, the larger gestation periods and the lower investment-output ratio in the early years of production which are often features of machine building enterprises, particularly in developing countries, also necessitates positive and deliberative measures for resource allocation to this basic sector.

The essential need for and the problems inherent in developing capital goods manufacture have assumed considerable significance in a number of countries in Latin America, Asia and Africa. Among the countries where the situation on this account has become increasingly

* This section was prepared by Mr. K.D.N.Singh, Project Manager

acute and even disturbing, is Mexico Here, the demand for machinery and equipment has grown and continues growing at a very rapid pace and the inadequate growth of the domestic capital-goods sector is constituting an increasing imbalance in the country's industrial structure. Inevitably, increased machinery demand has had to be met by rapidly increasing imports, resulting in a fast-growing burden on the country's balance of payments Apart from this, the continuing dependence on heavy machinery imports also has significant technological and socio-economic implications. Technologically, the development of the machine-building sector is an essential element in the further growth of technical knowledge and skills in precision and sophisticated manufacture, extending from upgrading of skills in machine operation to innovative developments and adaptation of new productive techniques in the engineering-goods sector From a national-economic viewpoint, the machine-building sector has to be viewed as a key, catalytic factor for the overall growth of the metal-working industry and has significant employment potential, both directly and indirectly through its multiplier effect on the expansion of feeder and ancillary industries. In the context of Mexico, both these aspects assume special significance.

The programming of capital-goods manufacture is a fairly complex task and must essentially be viewed as a long-term operation. The sector is very diverse in its coverage, extending from the production of small parts and components to large and sophisticated machinery products, involving high-quality casting and forgings, heavy fabrication, precision machining, heat treatment and a number of skilled techniques and operations. In most cases, the manufacturing facilities required are of a multi-purpose nature and the equipment, comprising for example of a large array of machine-tools, can usually be utilised for a wide variety of products. Programming in this sector consequently needs to cover not only the identification of specific machinery products whose manufacture can be economically undertaken, but also evaluate various production possibilities in terms of socio-economic costs and benefits so that the manufacturing priorities can be clearly defined, together with the appropriate product groups and ranges in each identified project. The investment priorities thus defined have, in the case of free-market economies, then to be dovetailed into an appropriate programme of investment promotion and mobilisation in respect of the identified machinery subsectors and projects. It is necessary that such sectoral programming be tailored to investment responses, though such responses can be channelised through significant policy measures and through public-sector entreprises, towards certain directions of investment and resource allocation. The construction of any sectoral economic model has necessarily therefore, to take account of this basic factor.

The overall objective of sectoral programming for this industrial branch should be to cover the significant production and technological gaps in the economy to the extent of economic feasibility and on a system of defined priorities.

It is against the above background that it is necessary to consider the programming of capital-goods production in Mexico and the project for such programming and development undertaken by Nacional Financiera, with the collaboration and participation of UNIDO. The objectives of this project have been to analyse the capital-goods production sector in Mexico, with the exclusion of the transport sector; to prepare projections of demand and domestic manufacturing capacity and in the light of such projections, to draw up and implement a development programme for the manufacture of various machinery products, the domestic production of which is viable and necessary for the country's balanced industrial growth. In it first phase (1972-73) the UNIDO-NAFINSA project analysed the present level and features of machine building in Mexico, principally through field surveys, plant visits to over 60 enterprises in the country and collection of a mass of data and material. At the same time, fairly detailed projections were made of domestic demand for a wide range of machinery products during the period 1976-1980. The methodology adopted was to project the growth of the principal machinery consuming sectors such as electricity,production and distribution, agriculture and irrigation, construction and mining, iron and steel, chemicals and petrochemicals, pulp and paper, cement and others thereafter to derive the growth co-efficient for each subsector and apply such co-efficient to the specific machinery items required for each particular branch. At the same time, projections were made of domestic manufacturing capacity for specific machinery groups and products. These projections were made from official data regarding existing production, census figures, data collected in the course of plant visits and data obtained from enterprises themselves as to their production and expansion programmes. While the field survey was not exhaustive, it has been fairly comprehensive and the projections of domestic production capacity are likely to be fairly realistic. The demand projections and the projections of domestic production highlighted the production gap for capital-goods during 1976-1980 which would necessarily have to be covered by imports. The figures were further cross-checked by direct extrapolation of past imports of machinery to projected imports during 1976-1980. As a result of these studies, the projected demand for capital goods, adjusted to 1974 prices and in some cases, to more recent growth co-efficients is presently estimated to be of the order of 300 to 320 thousand million pesos for the period 1976-1980. As against this, projections of domestic production of capital-goods in Mexico, also updated to 1974 prices and taking more recent programmes of expansion of the principal machine-building enterprises into account, indicate a figure of about 140 thousand million pesos (1974 prices) during the same period. The gap in production, is therefore, likely to be of the order of 160 to 180 thousand million pesos (1974 prices) during 1976-1980. It is further estimated that by 1980, machinery imports into Mexico may rise to over 45 thousand million pesos, with further imports of processed material and components to the extent of 10 thousand million pesos annually. These figures must be viewed as orders-of-magnitude only but are indicative of the very significant size and magnitude of the problem that is likely to face the country during the next five years. The gaps each year will necessarily have to be covered by imports of machinery, unless an extensive programme of machinery manufacture is undertaken during this period. While such a programme may not have a significant effect before 1980, it would at least ensure that the import bill during 1980-1985 would be substantially reduced. A more detailed projection for the periods 1976-1980 and 1980-1985 is currently under preparation by the UNIDO/NAFINSA group and should be ready by the end of the year. This would indicate the likely production gaps in respect of each of the principal capital-goods products and groups.

The UNIDO/NAFINSA project is presently in its second phase, which is intended to continue till early 1977. During this phase, a number of market and feasibility studies have been and are being prepared for the principal machinery products and groups. Twelve such studies covering various capital goods groups in the mechanical and electrical equipment sectors have already been completed and three others relating to steel plant equipment, machinery for chemical and petrochemical industries and production of hydraulic turbines in Mexico should be able to be completed during this year. The remaining studies, mainly relating to equipment requirements of specific industries would be completed during the first half of 1976. These feasibility studies constitute the basic material necessary for drawing up specific manufacturing projects and investment propositions, which can be promoted for implementation by interested entrepreneurs. The studies also indicate the nature and magnitude of additional investment required for each project and suggest directions of implementation, including possible technology sources in some cases.

IV. PROCEEDINGS

A. Opening session and review of the capital goods programme

In the opening statement, the Chairman emphasized the importance of the capital goods subsector in the industrial development process. It was mentioned that UNDP/UNIDO assistance to Nacional Financiera in programming the development of the capital goods industry is a multidisciplinary project involving planning and policies, project preparation, evaluation and promotion and negotiation regarding the supply of foreign capital and technology. This rather pragmatic and business-oriented approach has been very succesful and should be considered also for other UNIDO projects.

Based on an analytic description of Mexico's objectives and prospects in developing the capital goods industry and of NAFINSA's role in fostering this development, the UNDP/UNIDO project concept was reviewed in detail.

As was described, the project is composed of three phases:

PHASE I: Identification of potential projects

PHASE II: Detailed pre-investment studies, evaluations and negotiations

PHASE III: Institutional support to the operating capital goods plants.

The meeting discussed the choice of the basic steps of the programming exercise in phase I and II and stressed the importance of catering in the programme for the appropriate evaluation and selection of priorities among possible investment projects.

Answering a fundamental question concerning UNIDO's role and capability to assist Mexico - a country which itself possesses highly competent technical and planning skills - a Mexican participant emphasized that UNIDO's assistance is fulfilling an essential, catalytic role: UNIDO can assign expertise to concentrate on a full-time basis in a defined period on this specific planning task. Thereby the UNIDO expert team is inducing other required actions and decisions. It was also mentioned that since the start of the UNIDO/NAFINSA project, the development of the capital goods industry has moved more and more into focuss in the Mexican government's development policy.

3. Achievements and problems of UNIDO's assistance

Up to date, UNDP's contribution to the project amounts to about $ 700,000 of expert services covering the period 1972-1975. From the Mexican side significant inputs were made in form of competent counterpart support, involvement of Mexican officials, office and transport facilities and international travel of Mexican staff.

Project achievements up to date can be summarized as follows:

- economic analyses, growth projections of industrial branches were completed in 1972-1973;
- identification and formulation of projects relating to about 20 investment capital goods subsectors were undertaken 1973-1974;
- detailed project preparation and evaluation was done in 1974-1975;
- investment promotion and negotiations regarding acquisition of foreign know-how took place in 1973-1975.

The meeting reviewed some of the major inputs and achievements of the project.

As to questions of counterpart support, it was noted that the role of counterpart provision is for Mexican staff to:

- get acquainted with the techniques of project preparation;
- get acquainted with the individual investment projects for follow-up after the expert left, and
- render assistance to experts.

It was observed that to a relatively large extent counterparts were assisting experts in collecting data, arranging factory visits and other less qualified tasks whereby the training effect in specific technical matters may have been somewhat reduced. However, it was considered unavoidable to use the counterparts for these activities, because of the short time that the international experts have to their disposal for completing their studies.

The meeting reviewed the delivery of UNDP/UNIDO inputs and discussed above all the problems of finding suitable experts. It should be ensured that the experts possess the adaptability, the up-to-date knowledge and the constructive out-look required in this kind of project.

The basic question on the choice of using either individually recruited experts or sub-contracted consulting firms to carry out pre-investment studies was raised. A Mexican participant concluded that basically the use of consulting firms in this project may not be appropriate since they would tend to work outside the expert group, without proper integration. Indeed, it is essential feature and pre-condition for the efficiency of this project that the experts work very closely together in an integrated team. It was however suggested that an open-ended contract with a qualified consulting firm might constitute a possible solution. With such an arrangement the consulting firm would be able to assign their specialists to the project upon short notice as required. These specialists could be integrated with the rest of the project team just as individually recruited experts.

C. The Approach

The meeting reviewed the programming methodology of the project and discussed major issues.

It was explained that the capital goods in this project were defined as mechanical and electrical equipment and its major parts used as production equipment in selected branches (mostly industrial branches). Intentionally, the range of capital goods was herewith narrowed down and excluded equipment in non-selected branches (transport sector) as well as equipment not directly used in industrial production (office machines, etc.) or as auxiliary equipment (tubing, wiring).

The planning period was originally set to cover the years up to 1980. During the programming exercise it was, however, realised that for this particular task the period was too short. An up-dating of the initial projections and an extension of the plan period is therefore presently being undertaken.

In this connexion the question was raised whether not a complete scenario of the future, overall development prospects of the Mexican economy should have been drawn up to constitute the proper framework for the capital goods programme instead of confining the basis to an estimated growth trend of GDP. The economic uncertainties, the lack of data and of a detailed overall planning concept of the Government would, however, limit the possibilities of preparing a realistic scenario.

It was indicated that a crucial step of an exercise of this kind is the breaking down of total estimated investment outlays into groups and items of specific machinery and equipment. A stock-taking and elaboration of appropriate international reference data would be an essential task for supporting such planning exercises.

Summarizing the discussions on the adopted approach, it was stated that the programming methodology did not include sophisticated planning techniques covering, for instance, dynamic inter-industry relations. Nor was the capital goods sub-sector analyzed in details in its entireness. The approach was rather pragmatic using the basic data and information which could be collected within the time at disposal and focussing on actual realization of investments in selected fields.

D. The investment decision-making process

The meeting discussed the particular approach used in the project for preparing, evaluating and promoting the investment projects.

The entire investment decision-making process up to the final investment decision can be outlined as follows:

(i) Preparation of preliminary opportunity study and determination of general policies for investment

(ii) First technical and financial appraisal of project

(iii) Establishing initial contacts and giving preliminary information to domestic and foreign industrialists. Techno-economic assessment of domestic manufacturers' capabilities

(iv) Discussions with major potential customers

(v) Preparation of more detailed pre-investment study and giving detailed project information to potential investors

(vi) Review and evaluation of offers

(vii) Negotiations as to financial and other conditions for participation in project

(viii) Revision of feasibility study

(ix) Commercial and economic evaluation of project

(x) Final negotiation with all parties concerned

(xi) Investment decision

The specific features of the described process are that pre-investment studies, promotional activities and negotiations for one specific investment project are twinned with each other throughout this process.

The preparation of investment studies was thus not done in isolation from the possible investing partners. Instead, it was ensured that the concept and details of the investment projects were continuously adjusted in accordance with the requirements and interests of future clients and potential project partners. In this way the project studies were brought forward step-by-step with an increasing degree of completeness not only for the sponsor but also for the interested potential investors, thus ensuring that at the end of this process actual investment would take place and that the products would be accepted by the clients.

The concrete steps are as follows:

(i) Preparation of project "profiles" (brief opportunity study)

(ii) Identification of potential local partners through plant visits

(iii) Vienna investment promotion meeting

(iv) Contacts with additional foreign industries through embassies, etc.

(v) Visits to foreign companies

(vi) Letters of intent by interested potential partners

(vii) Preparation of detailed project studies

(viii) Forwarding of project studies to interested companies

(ix) Negotiations, project revisions, evaluation.

The meeting concluded that this chosen approach for preparing pre-investment studies largely avoided the problem frequently faced in other UNDP/UNIDO projects, i.e. the fact that pre-investment studies are prepared in great detail and in large numbers, in isolation of the potential investors. As a result, numerous pre-investment studies are kept on the shelves in government offices without any investment follow-up, until they are outdated. Potential investors usually wish to apply their own concept and calculations and to be involved in the finalization of the studies and would not easily accept the data and conclusions of an elsewhere completed feasibility study.

A review of past project activities shows that during the preparation of the pre-investment studies, relatively little effort was put into exploring the export market potentials. The reason was, for instance, that import data of other countries were not considered as sufficiently reliable indicators for a realistic assessment of export possibilities in this particular industrial subsector. Moreover, importers in other countries showed little concrete interest at this planning stage.

It was emphasized that a fundamental fact needs to be considered, that is, that no new capital goods industry could succeed in starting to export, unless it is well established in the domestic market and can demonstrate quality, reliability, good service, etc. It should be realized that the capital goods programme primarily rests upon the potentials of the domestic market. The export aspect should be applied whereever possible but there seems little scope at this stage of the programme. However, it may be able to achieve certain subregional complementarity and trade in capital goods through regional co-operation.

The project evaluation aspect of the decision-making process was reviewed by the meeting and regarded as very crucial for the project. Besides the commercial evaluation of the initial and complete pre-investment studies for Nacional Financiera, as project sponsor, project evaluation is being undertaken in the capital goods programme to assess the profitability from the national point of view and from the point of view of each of the potential partners. The meeting discussed the concept and approach of evaluating national benefits and costs. It was found that the investment projects in the capital goods may constitute a rather specific case for national economic evaluation and that the matter would require further thinking.

The meeting therefore proposed that the UNIDO Secretariat should prepare a brief paper on the appropriate application of national benefit-cost analysis in the capital goods subsector. Special consideration would be made to the Mexican conditions. The paper would thus primarily serve as a basis for the continued evaluation activities in the Mexican project, but it would no doubt be of relevance also for capital goods programmes in other countries.

The investment promotion activities of the Mexican capital goods programme constitute an essential part of the activities since projects of this nature need to be promoted very actively. It was, however, noted, that the financing of these investment project does not constitute the major problem. The main reasons are that the projects are backed up by Nacional Financiera and that there are also other domestic sources of finance. Moreover, Mexico offers an interesting market and other attracting conditions for foreign investment. The crucial problem of promotion lies therefore primarily in the field of technology collaboration.

The decision-making process involves also the difficult task of reaching final agreements between the three major parties involved in the investment, i.e. the domestic and foreign companies and NAFINSA. Furthermore agreements have to be reached with the major buyers of the potencial products. Indeed, the various public bodies in Mexico are large consumers of specific capital goods items (e.g. CFE - Comisión Federal de Electricidad - and PEMEX). The reaching of an agreement in principle regarding the purchase of planned, domestically produced capital goods is therefore an essential pre-condition for the feasibility of the investment projects.

It was interesting to note that according to the experience in this project, the Mexican Law on the Transfer of Technology (enacted in January 1973) provided a good basis for the Mexican side in the negotiations with foreign suppliers of technology.

The meeting concluded that the UNDP/UNIDO project was well designed to meet the requirements for investment promotion and negotiations of technology and finance agreements. However, this rather unique role of UNIDO technical assistance experts to directly participate - though in an advisory capacity - in this process could be successfully carried out mainly because of the close co-operation and confidence that the Mexican officials have with the project manager.

The Vienna investment promotion meeting

The concept and results of the meeting which was held at UNIDO HQ in October 1973 were reviewed and discussed.

The project manager gave a brief description of the promotion meeting which was attended by representatives of 32 important manufacturing companies in Europe and representatives from Nacional Financiera and the Ministry of Industry and Commerce.

A critical review of that meeting was undertaken. It showed that the selection of industrialists "was adequate but not complete" and that the investment projects should had been elaborated in somewhat greater detail. It was therefore concluded that, for similar future events, more exhaustive lists of industrial companies should be prepared. The "project profiles" would require some greater degree of detail to attract more interest of the industrialists.

On the positive side, it was observed that the meeting greatly stimulated the interest of European manufacturers in the Capital Goods Programme. In fact, the Mexican programme became quite known in European business circles. The initial contacts made at the meeting were to a large extent pursued by more detailed discussions at a later stage. An important aspect of the meeting was also that the Mexican delegation had the opportunity to see the first response and reaction of the companies to the proposed capital goods programme. This gave a first orientation for follow-up actions in the fields of project preparation and promotion.

D. Regional co-operation

The question of possible co-operation among the countries in the Latin American and Caribbean regions in regard to the development of the capital goods industry was discussed in the meeting. It was noted that the capital goods industry constitutes a particularly difficult economic subsector to establish at the purely national level and that substantial economies would be achieved through a co-ordination of development efforts. This main reasons are the usually large-scale of production required to make specific capital goods industries viable, as well as the relatively large requirements for financial and other resources. Co-operation between some neighbouring countries to achieve certain complementarity in the choice of capital goods industries, thus ensuring large markets, and favourable terms for the acquisition of foreign technology and finance would have a large impact on the development of the individual countries' development in this and related subsectors.

The NAFINSA/UNIDO project has so far not focussed on this issue in concrete terms. The meeting proposed that an attempt be made to initiating co-operation with a few selected countries. As a first step in this direction, a subregional meeting was proposed to be arranged by NAFINSA and UNDP/UNIDO in 1976 with five countries to exchange information and consider possible forms of collaboration in the fields of technology transfer, financing, subcontracting and trade.

A draft proposal for the subregional meeting is contained in the Annex III.

In connexion with the discussion on the aspect of regional co-operation, a Mexican represenťaitve remarked that little information is presently available on the capital goods industries in other developing countries. He suggested a thorough study be conducted on the structure, trends and plans of this subsector in other countries and called upon UNIDO to undertake this task.

ANNEX I

LIST OF PARTICPANTS:

Chairman:

Mr. F. Le Guay, Director, Industrial Policies and Programming Division

Lic. David Ibarra, Director Adjunto, Nacional Financiera S.A.
Lic. Carlos Basdresch, Gerente General, Nacional Financiera S.A.
Lic. Guillermo Fernandes de la Garza, Consejo de Ciencia y Tecnología
Mr. M. del Carril, Senior Industrial Field Adviser, UNIDC
Mr. K.D.N. Singh, Project Manager, UNIDO Expert

Mr. G. Dobos, Deputy Director, Industrial Policies and Programming Division
Mr. T.Trisciussi, Chief, Section for the Americas
Mr. B.Blasscaysayn, Officer-in-Charge, Industrial Financing and Investment Promotion Section
Mr. N. Ramm-Ericson, Industrial Policies and Programming Division
Mr. R. Aguilar Bolanos, Section for the Americas
Mr. H. Muegge, Industrial Programming Section, Alternative Chairman
Mr. J. Barnerias, Industrial Programming Section
Mr. W. Behrens, Industrial Programming Section
Mr. Y. Cho, Industrial Programming Section
Mr. R. Line, Industrial Programming Section
Mr. A. Miroshnichenko, Industrial Programming Section
Mr. V. Richardson, Industrial Programming Section
Mr. U. Loeser, Industrial Financing and Investment Promotion Section
Mr. E. Aguilar, Industrial Institutions Section
Mr. H. Janiszewski, Industrial Institutions Section
Mr. S. Padolecchia, Industrial Institutions Section
Mr. F. Soede, Industrial Institutions Section
Mr. N. Yamamoto, Section for Asia and the Far East
Mr. S. Leang, Engineering Industries Section
Mr. W. Oettinger, UNIDO/World Bank Co-operative Probramme
Mr. M. Al-Ali, UNIDO/World Bank Co-operative Programme
Mr. A. Canellas, UNIDO/World Bank Co-operative Programme

Mr. Ahmed Akdogan, State Planning Organisation, Ankara, Turkey

Mr. J. Prasek, UNIDO Expert, Programming of the Capital Goods Industry Project in Pakistan (IS/PAK/75/034)

ANNEX II

MEETING ON THE MEXICAN CAPITAL GOODS PROJECT

Vienna, 17-19 September 1975

AGENDA

Wednesday, 17 September

10.00	1.0 - Opening Session
10.30 - 12.30	2.0 - Review of the Capital Goods Programme 2.1 Mexico's objectives and prospects in developing the capital goods industry 2.2 NAFINSA's role, objectives and capacities in developing the sector 2.3 UNIDO's project concept
14.30 - 16.30	3.0 - Achievements and problems of UNIDO's assistance 3.1 Counterpart support 3.2 Delivery of UNIDO's inputs 3.3 Results of the Vienna Investment Promotion Meeting (October 1973) 3.4 Status of the identified investment projects
	4.0 - Planned action for the extension phase 4.1 Investment projects 4.1.1 Previously formulated 4.1.2 New projects 4.2 Required policies support

Thursday, 18 September

9.00 - 15.00 (Lunch break: 12.00 - 13.00)	5.0 - Approach 5.1 Definition of the capital goods sector 5.2 Branch projections 5.3 Identification and classification of technological and market potentials 5.4 Project preparation 5.5 Export market analysis 5.6 Regional co-operation 5.7 Project evaluation 5.8 Investment promotion 5.9 The negotiation and licencing process 5.9.1 Policy instruments
15.00 - 16.30	6.0 - Institutional framework 6.1 Relation with other Mexican authorities and institutions 6.2 Relation with other UNDP/UNIDO projects in Mexico; forms of co-operation

Friday, 19 September

9.00 - 11.30	7.0 - International generalisation 7.1 UNIDO's advisory role and functions in investment promotion and in the negotiation and licencing process 7.2 Capital goods projects in other countries 7.3 Regional co-operation in the capital goods sector
11.30 - 12.00	8.0 - Summary and conclusions
12.00	9.0 - Closing of the meeting

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ANNEX III

DRAFT PROPOSAL

CONSULTATION ON SUBREGIONAL CO-OPERATION IN THE CAPITAL GOODS INDUSTRY

I. BACKGROUND

With higher levels of industrialization, the demand for capital goods is increasingly significant. While a few of the largest developing countries (Brasil, India, Argentina) have succesfully embarked upon developing their own capital goods industry, the majority of these countries are predominantly dependent on imports from industrialized countries.

The special features of the capital goods industry constitutes major constraints for developing countries: the requirement of highly skilled personnel, high capital requirements, R and D requiremnts, sophisticated production techniques, unavailability of domestically produced components, instruments, etc. and lack of domestic design capacity are some of the constraints on the production side - while on the market side, the following difficulties can be observed: small domestic markets, consiming industries' preferences for imported machinery, strong competition (with various subsidies) on the international market.

In their efforts to develop their domestic capital goods industries developing countries would be able to achieve considerable advantages if mutual co-operation could be established in some of the following fields:

- selection of products for domestic manufacturing
- acquisition and development of technology
- finance
- trade
- subcontracting, including manufacture of components

In Mexico the development of the capital goods industries has been lagging behind in comparison with some other countries on similar levels of overall economic and industrial development.

NACIONAL FINANCIERA S.A., the Mexican government's official industrial development bank, has therefore initiated a programming effort to systematically identify, study, select and promote the development of capital goods industries. This subsectoral programming is being undertaken with the assistance of UNDP/UNIDO. So far no specific attempt was made in this exercise to contact the neighbouring developing countries for possible co-operation or joint approaches in the development of the capital goods industry in the region or sub-region.

In the First National Congress on the Capital Goods Industry in Mexico, held in August 1975, it was emphasized that regional co-operation would constitute a notable tool for exploiting economies of scale of operation, but that so far none of the existing instruments of integration had been very efficient.

A number of recommendations were adopted with regards to the co-operation among Latin-American countries, including the creation of multinational Latin-America owned corporations to undertake major capital goods projects and the establishment of relations among Latin-American companies engaged in the trade of capital goods.

In a meeting on the Mexican Capital Goods Programme, held in UNIDO, Vienna, in September 1975*, the issue of regional co-operation was again brought up for discussion. It was considered essential that a rather selective and specific approach be chosen for initiating concrete regional co-operation in this industrial subsector.

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* between officials of NAFINSA and CONACYT (Council of Science and Technology) and UNIDO

The proposed meeting is meant to lay the foundation for possible co-operation among Mexico and some of the neighbouring developing countries.

II. DESCRIPTION OF THE PROJECT

A. Aim

The aim of the subregional consultation is to establish working relations and determine principles for co-operation among the selected countries in developing the capital goods industries. More specifically, the consultative meeting aims at:

(i) exchanging information and data on the situation, prospects and plans of the capital goods industry in each of the participating countries

(ii) considering possible collaboration in the fields of technology transfer, financing, marketing and export

(iii) considering agreements for trade, joint-ventures and subcontracting of specific capital goods and their components

(iv) reviewing methodological and policies aspects of programming the capital goods industry at the national and subregional levels

(v) considering further UNDP assistance in this field on the national and/or sugregional levels.

A detailed Agenda is to be prepared by NAFINSA/UNIDO.

The consultative meeting is meant to be operational, i.e. involving discussions on possible business agreements. Therefore it is regarded essential that the meeting is kept at a rather technical and business level, and that the number of participants is limited.

B. Sponsors

The consultations will be sponsored and hosted by Nacional Financiera S.A. Co-sponsors are UNDP and UNIDO.

C. Participants

It is proposed that the following countries participate in the consultative meeting:

CUBA
GUATEMALA
JAMAICA
MEXICO
VENEZUELA

This proposed selection constitutes a representation of countries from the North, Central and South American regions including two Caribbean countries. While certainly more interested countries could be added to the list, the number of participants for this particular consultative meeting is intentionally kept low to ensure the desired operational character of the meeting.

Similarly, it is suggested that the number of representatives from each of the participating countries is limited - ranging between 5 to 10 persons.

Institutions

The consultative meeting aims at bringing together decision-makers from those national institutions which are directly involved in the development of the capital goods industry sector for the financial, policies, technical and operational points of view.

The choice of relevant institutions may be different in the participating countries, but generally it can be expected that the following institutions will be represented:

- Government authorities (Ministries of Industry and Trade)
- Banks (major development banks)
- Industry (major, relevant industries)
- Commercial associations

International organisations

The following international organisations would be invited to participate:

UNDP: Headquarters
Resident Representative

UNIDO: Headquarters
Senior Industrial Development Field Adviser
Project Manager, Capital Goods Project in Mexico

ECLA: Mexico

IBRD

D. Preparation of background papers

The following papers would be prepared and circulated to the participants before the consultations:

Country papers

Each of the participating countries would prepare a paper covering the following issues:

- The present size and structure of the capital goods industry in the context of the entire industry sector
- Basic demand estimates of capital goods
- Actual plans and policies for developing the capital goods industry. List of possible, potential investment projects.

The participating country should designate the institution(s) which is(are) to prepare the paper.

The UNIDO Secretariat will co-ordinate the preparation of these papers and circulate them.

Paper on possible forms and approaches for collaboration

This paper - to be prepared by a UNIDO consultant - will outline appropriate ways and forms of collaboration among national projects in the capital goods subsector.

Methodology

This paper is to be prepared by a UNIDO consultant. It will review the methodological aspects of programming and promoting the capital goods industry.

Paper on technology agreements

This paper, to be prepared by a UNIDO consultant, will highlight the possible forms, coverage and items of agreements with foreign suppliers of know-how.

E. Languages

The consultative meeting will be held in Spanish and English. Provision for interpretation facilities will therefore be required.

F. Time

The consultations will take place in mid 1976 during five days. The exact dates will be determined in due course.

G. Location

Mexico City.

III. COST DATA

The costs for the consultations will be composed by conference facilities, travel and per diem of participants, and consultant fees. The following break-down shows the approximate costs involved for each party:

Nacional Financiera S.A. (Mexico)

NAFINSA will provide for conference facilities including simultaneous interpretation English/Spanish (and *vice versa*)

UNDP

1. Air travel and per diem of one UNDP (HQ) officer and one UNIDO (HQ) officer. Approximately	US $ 2,500
2. Travel fees and per diem for the UNIDO consultants preparing the above-mentioned papers. Approximately	US $ 7,500
3. Air travel for the participants of the four countries to Mexico City and return. Approximately (US $ 1,000 are included for contingencies)	US $ 11,000
Total UNDP contribution	US $ 21,000

Countries participants

The countries participating will bear the cost of their own accomodation and boarding, as well as all other personal expenses in Mexico.

The countries will bear the costs for preparing the above-mentioned country papers.

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