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THE ROLE OF ESCAP IN PROMOTING CO-OPERATION IN INDUSTRY
AMONG THE DEVELOPING COUNTRIES OF THE REGION*

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Present stage of industrialization and the need for regional co-operation

1. For the developing region of the Economic and Social Commission for Asia and the Pacific (ESCAP), manufacturing was the fastest growing sector in the 1960s. Its rate of growth surpassed the rates of the industrially advanced countries and of other developing regions. Yet, this more rapid rate of growth so far has made only a small impact on the world economic situation since the ESCAP developing countries, although they account for about one third of the world's population, produce less than 5 per cent of world manufacturing output.

2. The contribution that manufacturing has made to economic development, however, may be underestimated if it is calculated simply on the basis of the value of its output or of the number of jobs it has provided. The manufacturing sector was unquestionably the dynamic force behind the diversification of the region's economy during this period, and its growth naturally encouraged the emergence of indigenous modern managers, entrepreneurs and skilled technicians. Alongside of the expansion of traditional industries, considerable strides were made in the development of basic industries and of those producing machinery and equipment. Thus, industrialisation apparently played a fruitful part in the region's economic development process. Such a conclusion should be viewed with reservations, however.

3. The behaviour of the factors determining industrial growth and patterns has not always been uniform, nor have these factors affected the various ESCAP countries at the same time and in the same degree. Consequently, industrial growth rates have been uneven; the industrialisation process has not taken place simultaneously throughout the region. The industrial sector has showed marked geographical concentration and great disparities in levels of productivity, costs and prices.

4. Still, whatever diversities exist among the industrial structures within the region, nearly all the countries of ESCAP are passing through crucial phases of their industrialisation processes, whose future is beset with formidable obstacles. Regardless of the prospects of individual countries, industry in all countries faces increasing development requirements and has urgent basic needs in respect of reorientation and structural change.

5. One such requirement is to evolve an increasing measure of regional economic co-operation, which seems to be a sine qua non if the region's industrialisation process is to continue and to accelerate in conformance with the new needs.

6. The target for the Second United Nations Development Decade is an over-all growth rate in GNP for the developing world of 6 per cent during the 1970s. An increase in the growth rate of GNP generally implies a higher growth rate of imports and an even higher growth rate of exports. The developing world as a whole can achieve such a large expansion of exports only through a rapid growth in its industrial exports. While a large proportion of these exports will be directed to the markets of the developed countries, the developing countries are also expected to provide a growing market among themselves.

7. Thus, while on the one hand the expansion of new industrial export lines is contingent on the decision of richer countries to provide real access to their markets, it is related on the other hand to co-operative activities among the developing countries. Such activities are an important requisite if the countries of the ESCAP region are to be more efficient and better able to develop capacities to produce intermediate and capital goods. The demand for such goods is bound to increase sharply if rapid industrial progress is to be pursued.

8. While many of the developing countries in the region have achieved a fast rate of growth of manufacturing output, the intra-regional trade in industrial goods has tended to decline in importance. With co-operative arrangements regional output could have met a growing demand. Some form of regional co-operation would at this time be the only means of achieving economies of scale in existing industries and of establishing new industries of minimum economic scale. In this context the ESCAP secretariat has been very active in assisting member countries with a view to helping them develop greater self-reliance in their industrialisation efforts. An important step in this direction has been the creation of the Asian Industrial Survey for Regional Co-operation (AIS).

The Asian Industrial Survey for Regional Co-operation

9. The formation of AIS was preceded by various studies and surveys that were conducted by several missions, fact-finding teams and expert groups with the purpose of identifying possibilities for establishing joint ventures on a

regional/subregional basis. Such investigations were carried out with respect to iron and steel, forest-based industries, fertilizers and allied chemicals, agricultural machinery, oils and fats and petrochemicals.

10. The AIS was subsequently undertaken as a first step in a comprehensive attempt to achieve regional co-operation. The first survey, completed after 18 months in March 1973, covered 10 countries, i.e. Cambodia, Indonesia, Laos, Malaysia, the Philippines, the Republic of Korea, the Republic of South Viet-Nam, Singapore, Sri Lanka and Thailand. The survey was projected to cover the period 1970-1985, subdivided into 1970-1975, 1975-1980 and 1980-1985.

11. The industries studied included those producing paper and pulp, petrochemicals, fertilizers, cement, plywood, sheet glass, electric cables and transformers, metal transferring goods and salt and its derivatives.

12. Although the possibility of co-operation between countries on single industrial projects is not excluded, the approach strongly advocated and elaborated by the AIS is the so-called "package approach", i.e. co-operation among several countries on a group of industrial projects. The main advantage of the package approach over co-operation on a single project is that it provides better opportunities for arriving at an equitable distribution of benefits among the co-operating countries. The survey analysed extensively the benefits and cost of co-operation in terms of investment, value added, employment, balance of trade and total cost of meeting the future demand for eight groups of projects; seven would assume economic co-operation and one would be an assembly of local projects and would not entail co-operation. The survey also contained suggestions for trade and other policies complementary to the implementation of schemes of industrial co-operation.

13. One important conclusion of the AIS may be quoted:

"Even when high cost projects are included in a package, the total delivered costs of the projects are less than their costs if purchased in world markets. With high cost projects eliminated from the package, the cost savings are even greater, of the order of 14 per cent of the total bill or some \$US 170 million/year by 1985 for the package designed for the entire AIS group of countries. Co-operation in planning and executing industrial projects would appear to yield economic benefits on a large scale."^{1/}

^{1/} Asian Industrial Survey for Regional Co-operation (United Nations, AIDC (9)/1, 1973), p. 99.

Problem of implementation of the AIS

14. The Asian Industrial Development Council (AIDC) at its last session in 1974 devoted considerable time to a discussion of the AIS report. More recently, the Meeting of Top Planners and Government Executives, Entrepreneurs and Representatives of Financial Institutions (May 1975) and the Committee on Industry, Housing and Technology (September 1975), in further discussion of the AIS report, reaffirmed the contribution made by the AIS towards evolving a common programme of action in settling up industries of regional scope. A more pragmatic approach, however, was recommended; it would involve two to four promising projects to be implemented by a small number of countries. These projects were expected to serve later as good demonstration models and possibly to be extended to larger packages encompassing larger geographical areas in the ESCAP region.

15. A criss-cross pattern of co-operation among countries would be possible according to the AIS methodology and could thus incorporate, with the necessary modifications, non-AIS countries, including the least developed countries.

16. The interest of the least developed countries could be safeguarded in the sense that they would need to make much less or no commitment or sacrifice pertaining to installed enterprises and productive capacity because of their underdeveloped industrial structure. They could have a wider choice than their prospective partners in selecting those industries that would be most suitable for broadening and strengthening their industrial base within a framework of regional co-operation and for a certain package of industries.

Project executive

17. In accordance with the recommendation made by the Top Planners Meeting which subsequently was endorsed by the Committee on Industry, Housing and Technology at its recent first session, it is expected that follow-up activities will be undertaken in the near future on implementing the projects identified by the AIS.

Association of industrial development banks and corporations in the ESCAP region

18. The Committee on Industry, Housing and Technology further endorsed a proposal for setting up an association to facilitate the promotion of regional

industries. The Governments of interested member countries under this scheme would designate a national agency to deal with the identification, promotion, development and monitoring of progress of regional projects. Such an agency, as part of the over-all national machinery dealing with inter-country co-operation, would also be the point of contact between the association and the Governments for resolving problems of co-ordination. The first meeting of the association would be convened to discuss its terms of reference and intra-regional arrangements for setting up regional industries.

Fuller utilization of excess capacity

19. The underutilization of industrial capacity is one of the key issues of industrialization facing many Governments of the ESCAP region. The harmful effects of idle capacity in terms of waste of capital and labour force are recognized. Based on a recommendation put forward by an ad hoc group of experts on fuller utilization of capacity, convened in 1973, a meeting of an intergovernmental consultative group of countries of the region is being organized to discuss intra-regional arrangements for the fuller utilization of excess capacity in industries. It is believed that export outlets within the region would increase if countries were prepared to give concessions such as tariff reductions, liberalization of trade for specific products, and others. The concessions would in turn promote fuller utilization of existing capacities.

20. In time other long-term arrangements with respect to the supply of raw materials, joint ventures, joint marketing, supply of skills and new technology might develop.

Intra-regional complementarity

21. Certain important industries in the region have attained a high degree of competitiveness and act as a brake on continued progress in these branches of industry. A higher degree of complementarity of industries within the region should therefore be a goal. In this regard, the secretariat of ESCAP planned to conduct surveys and set up fact-finding teams to assess various manufacturing activities which would include iron and steel, machine tools, engineering products, electronics and selected agro-based industries. The reports would then be submitted for the consideration of intergovernmental expert group meetings for the purpose of identifying and recommending areas for co-operation in inter-country specialisation, and of taking advantage of favourable conditions in different

countries and of technological advances to gradually open the way of competition. This would at the same time be a means of revitalizing the weakened industrialisation process in the region and of overcoming isolation.

Regional Centre for the Transfer of Technology

22. ESCAP plans to establish a Regional Centre for the Transfer of Technology. The main objective of the Centre would be to strengthen technical co-operation among the developing countries of the region through well-conceived institutional arrangements for the exchange of experience, and to reinforce the skills and competence that are essential in the transfer of technology. The Centre would thus assist member countries in the development and diffusion of indigenous technology, thereby reducing their present heavy reliance on imported technology. It would also help countries in their efforts to acquire foreign technology as cheaply as possible that would be suitable to existing resource and manpower endowments, thereby promoting a country's capacity for favourable negotiations with foreign interests. In addition, the Centre would promote the application of similar technological processes in the industrial enterprises of two or more countries and aid in the construction of new lines of division of labour among them.

23. Through sharing capital, profits and risks, co-operating partners from different countries become directly involved in the viability of an undertaking. The close co-operation implicit in such ventures would no doubt lead to the fruitful exchange of up-to-date technology and know-how.

24. More important, however, even in the absence of joint ventures, would be the promotion of technological arrangements involving an exchange of know-how, licensing agreements that are related or unrelated to marketing assistance, personnel training and joint marketing. It would also be valuable to seek technical service agreements, agreements on design and standards, and on joint research.

Regional Centre for Agricultural Machinery

25. This Centre, to be located in the Philippines, is to make a systematic evaluation of different methods and levels of farm mechanization in order to improve and adapt existing designs and to develop and manufacture tools, implements, equipment and machines suited to small farmers, with a view to increasing the level of productivity in the small farms. The Centre is now being established.

26. This Centre will assist member Governments in strengthening national agricultural institutes for developing indigenous technology and for encouraging technology transfers through the dissemination of information and consultancy services.

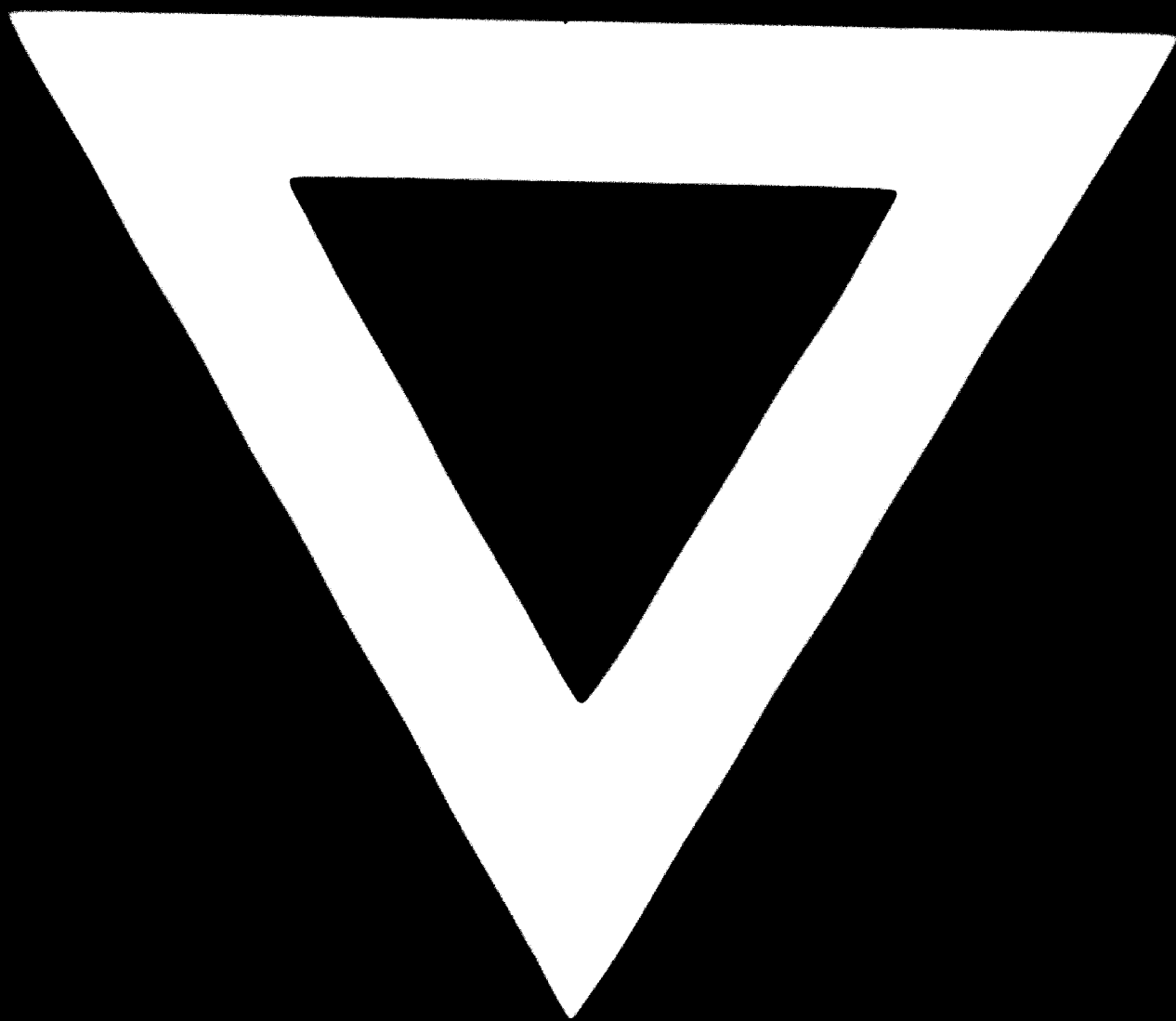
Conclusion

27. A brief account has been given here of selected ESCAP activities designed to promote co-operative action among the developing countries in the region as an integral part of efforts to assist member Governments in becoming self-reliant at the national and at the regional level.

28. Admittedly, the momentum for industrial co-operation and related trade liberalization has not yet attained a significant level. The ultimate decision on the selection of industries for regional co-operation will depend not so much on the logic and persuasiveness of the approach chosen as on the political, economic and other relations of the countries within the region and on their relations with countries outside the region. Given the strong political will among the countries for co-operation, it is hoped that in the near future an important change of climate will make for the actual realization of the regional projects that have been discussed and analysed at great length.

29. As may be gathered from AIS, economic co-operation - based on a package of regional industries as a first step - is neither a "love-thy-neighbour" policy nor a "beggar-thy-neighbour" device, but one of the objective means of satisfying the national interest of each of the countries involved.





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