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COMPARATIVE METHODS OF DEVELOPMENT[1/]

by

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UNIDO and CIO have done me the honour of asking my advice on certain aspects of industrial development problems; I accept with all the more pleasure and gratitude especially as this theme is central to the preoccupations of the Industrial Promotion Society of which I am the managing director. How to contribute, -on an equitable commercial basis,- to the development of industrial projects abroad?

As this audience are professionals in the field of development I will not enlarge upon definitions and principles and will concentrate more fully on some conclusions illustrated by particular cases. My plan will be as follows:

1. I will underline the essential importance

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of the operators' participation in development by examining their roles, their motivations, and their problems.

2. I will give more or less typical examples taken from several countries, according to the nature and importance of foreign participation and their contractual methods.

3. To conclude, I will outline my point of view on the role an International Agency can play in the process of development.

I. ROLE OF THE OPERATORS

We term 'operators', men or firms who operate a given industry and who consequently :

- look for or acquire technological procedures,
- make commercial and economic forcasts,
- invest their own money or money that they have borrowed,
- buy equipment, surveys, services,
- and thus construct means of production,
- supply raw materials and energy,
- appoint and employ managerial staff and labour,

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- manufacture a produ t to sell it a a profit,
- supervise the safety and protection of human and ecological environments.

1°) No industrial project can be sound or profitable if it does not include a good operator, that is to say one who has already succeeded. Even the financing, -which is often considered the key to the project,- finds a solution when the problem of an operator is solved. As one of our Minister put it: "Give me good politics and I will give you good finances".

It therefore follows that for a given project, there are only three possibilities:

- either, the local investor is himself the operator; for example he builds an extension to his own factory;

- or, the local investor calls upon the services of an outside operator on a provisional basis (a management contract or technical assistance);

- or again, an outside operator can become a regular partner (joint-venture with or without

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financial participation).

One can present these observations differently if one compares the respective roles of the operator, the service companies, the machine builders, and the investor :

- the technological procedure is the basis of the project, including the operational experience connected to it;

- engineering and equipment can sometimes also be sufficient in providing operational experience, for example driving a car but this is certainly not so when it concerns a more complex whole;

- those in construction are not by themselves able or willing to offer assistance to management, training and development;

- service companies cannot provide operational assistance unless they themselves can rely, -and very heavily,- on an operator.

2°) We like to associate the word "Development"

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with that of "Cooperation", for development is always carried out as teamwork, multi-disciplinarian and often multinational. We will therefore also analyse what a local investor can ask of a foreign operator :

- advice in establishing sectoral or regional development plans, the identification and the feasibility of projects and, subsequently, the direction of the whole or of part of the project ;

- promotion which adds to advice a dynamic dimension and associates the operator with the success of the project : flexibility of procedure, and participation ... ;

- technological transfer involving : protection for the inventor, adaptation to local conditions, technical assistance of a pedagogical and possibly commercial nature ;

- Association with three main variants : the taking hold of participation, the mixed society of enterprise, the contractual association without contribution of capital (products in hand) ;

- the commercial agreement by which the operator has access to new sources of supply and assures an

outlet to the local investor, thus facilitating the financing of the project.

This is the kind of Cooperation which it is important to promote between industrialized societies and the developing countries, and without which the technological transfer will remain a pious vow and we will all have felt that our mission has failed.

3°) Since the operator has such an important role to play, the cheif aim is to motivate him. "Give me a lever, Archimedes once said, and I will lif the world". We now find a discrep icy between the number of valid projects on offer and the number of operators who are interested in these projects. This is because motivation leaves much to be desired ; it is paramount to isolate the causes of this situation and to supply remedies for it.

The advantages of the western operator in participating in a foreign project are, in principle :

- the possibility of "marginal" profit by the

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utilisation of his technology, his experience, his a sistance ;

- the opportunity to reach new markets by licence, franchise, or participation ;

- the growth of his technical and commercial verve by placing himself in competition ;

- the broadening of outlook of its managerial staff who would be able to take on greater responsibilities abroad ;

- improvement of his cost prices by accumulation and exchange of experience ;

- a higher standard with regard to the profession on a national and international level.

If all this appears attractive, the drawbacks of action abroad are none the less formidable, especially in periods of crises :

- Enterprise has immediate problems which require the complete attention of its management ;

- it does not have the technical personnel available for long term expatriation ;

- it is hampered by the difficulties of international implantation, in particular by certain legislative restrictions ;

- it meets its research costs better by the sale of products than by the tranfer of know-how ;

- it wants to avoid the competition of its own licencees on its own markets ;

- it shields its manufacturing secrets and cannot open itself to spreading them.

Some of these problems could be solved in the framework of "Working Cooperatives" constituted by several operators, some contributing the technology, others the men, yet again others the finance, with the "catalystic" help of service companies.

In our conclusions, we will try to propose a course of actions likely to stimulate the motivations of the operators.

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II. EXAMPLES

It is understood that we want to give here typical examples and not pass overall judgements on the economic behavior of various countries. One can easily find in the same country different methods for cooperation. Each project has its distinctive character.

1. Specialized Equipment (Pakistan)

It concerns a firm already in existance, with 5 to 6 years experience and which is trying to expand into new products. Here the operator is also the investor. It has at its disposal the infrastructure, the managerial staff, and sufficient experience to be able to choose and install machinery relative to its expansion.

Consequently, a foreign operator is not necessary ; technical literature, participation at

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at trade fairs, and if need be an appeal to economic and foreign delegations in the country, are sufficient means for the calling for bids. If necessary, builder's commercial agents will supply the additional information for the use of equipment.

2. Licence and Specialized Equipment (India)

Indian industry is sufficiently developed to be able to limit foreign contribution to a know-how state and to certain specialized equipment, and this only for projects which have reached a certain level of sophistication. The foreign operator will then only provide the procedure, the basic engineering, the supervision of specialized engineering, the training of specialists, participation in the critical phase, the communication of improvements, and limited technical assistance. A foreign firm will supply the specialized material and, possibly, the finance.

Local firms will do all the rest : specialised engineering, local equipment, and construction. Foreign involvement is the most reduced, which is excellent for the Indian economy but of restricted

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interest for the foreign operator and contractor. There is in fact, in international dealings, a minimum ceiling below which a firm is not motivated to accept the worry and lack of speed of a project. Foreign engineering companies, in particular, have a limited role to play in an Indian project.

3. Licence, Specialized Equipment, and Export (India)

This case is similar to case n° 2, with the difference that to have a strong economy the project must be the exporter. The local investor will consequently ask the operator or an outside service company to handle the excess flow of production.

The plan is not as simple as it sounds ; let us now give a list of the parties concerned :

- the investor and the local operator ;
- the foreign operator (licence, technical assistance) ;
- the foreign firm supplying the specialized equipment and ensuring, if need be, the finance ;
- the engineering company and the local contractors ;

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- the foreign service company ensuring exports.

4. Vocational Workshops and Technical Assistance (Pakistan)

Though rarely used, the case is interesting because there do exist in Europe workshops which are either too small or employing too much labour to sustain competition, whereas in developing countries the market is narrow and labour cheap. Local conditions being different, an old-fashioned workshop in Europe can be up to date elsewhere. It would not even be logical to import, at great cost, a high productivity workshop.

There are numerous possibilities of profitable business of this nature due to the constant reconversion of industry in developing countries. Naturally, the exportation of second-hand materials must be accompanied by technical assistance for construction and use. But the foreign operator takes over taking over the workshop always has at his disposal qualified specialists to make it function elsewhere.

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5. Turn-Key except for Construction

(Jugoslavia)

Even if the country is able to take an important part of the engineering and supply, it might be worthwhile for the investor to order all the engineering and the material from a contractor at a fixed price, even down to FOB. There are two main reasons for this : to save time, and to take advantage of foreign credit which is often easier to obtain than local credit. The foreign operator supplies the licence and the technical assistance through "turn-key" contract.

For example, it is well known that the Soviet Union who could without difficulty construct certain installations for herself prefers to acquire them "Turn-Key" except for the civil engineering and assembly which are done by local firms.

Note that the project is not necessarily carried out on a totally contractual basis but can be for the know-how and the engineering on a cost plus fee basis for the remainder (see case n° 6).

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6. Participati and Cost plus Fee (Jugoslavia)

Here we see the introduction of the idea of financial participation, actually on a limited scale due to the particular legislation in Jugoslavia. The marriage of Capitalism and Worker Management renders an actual day to day participation between the foreign operator and the managemnt problematic. The system is feasible if the joint venture is handled as a branch common to the two shareholders and taking into account their directives ; but difficulties are inevitable if there is question of a single self administering company where the foreign operator is treated as a hostage.

In the example given above, another difficulty arises from the fact that the factory is built by a local firm and that the foreign contractor, intervening only on demand, has no means of influencing the carrying out of the program. Whence delays and overflowing of the budget can arise.

7. Participation and Turn-Key (Saudi Arabia)

In countries with ambitious programs of industrial development and where there is a lack of

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managerial staff, the classical formula is the turn-Key policy for the construction part of the project. But a technical operator is just as necessary and it is normal for him to be an associate where capital and profits are concerned.

We are talking here, of a plan whereby the local partner and the foreign operator actually share in management, the latter ensuring the technical operation of the project and part of the commercialization. The Associates can, of course, be assisted, if they think it necessary, in directing the construction, in training personnel, and technical assistance, by service companies of their choice.

The building side of the project is vast and demands that the foreign contractor run important risks.

8. Products in Hand (Algeria)

This case requires no financial participation, units benefits which can be of interest to two different categories of companies :

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- the operators, for feasibility, technological transfer, assistance in exploitation ;

- the builders for the implementing of a turn-key project and the financing.

The difficulty sometimes lies in the investor's desire to deal with all his requirements in a single contract and to subordinate payment of the works to a satisfactory use of the factory. Now, this depends upon numerous local factors beyond the operator's control and specially to the builder who can hope to be freed of his obligations when the plant has been checked and signed for after the guarantee trials.

The carrying out of such a contract necessitates the good will of both partners. The risk of misunderstandings is great but can be diminished by clearly separating the builder's contractual obligations from those of the operator.

9. Pay as you earn (Pakistan)

When the financing of a project can only be guaranteed by the export of its production, one is

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tempted to choose a plan which includes :

- a contractor who builds the plant for a given price ;

- an operator who supplies the technology and technical assistance ;

- a commercial company which undertakes to export the production ;

- a bank who supplies the funds to the contractor under guarantee from the commercial company.

This system, called "Pay as you earn" or "Contract in hand", is in fact more complicated because :

- the Government of which the currency is not convertible will only release for reimbursement of foreign credits 50 % of the currency resulting from exportation ;

- the foreign bank does not accept directly the operator's and the commercial company's guarantee but requires it of the foreign Government which follows from the guarantee of the local Government ;

- the commercial company cannot commit itself to

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export a minimum amount of the products of a plant which will only function in three years time due to the instability of markets.

In fact, -and subject to the flexibility of the Authorities of both countries,- the "Pay as you earn scheme" represents a way of associating attributes of different kinds (technical, commercial, financial). This is a more complex refinement of the "Products in hand" system.

10. Global Promotion (Malaysia)

Projects spotted by a foreign operator, -for example, the transformation of local natural products into exportable goods,- can be promoted from A to Z, that is to say, include :

- the search for the local partner,
- the outline of the project's profile,
- the study of raw materials and markets,
- the choice of technologies and companies,
- the setting up of financing,

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- the selection and training of managerial staff and labour,
- the establishment of a local company with foreign participation,
- the construction of the plant and of its infrastructure,
- the management of the entire works and their commercialization.

In this case, if the operator and the foreign contractors cannot or do not wish to take on all the necessary requirements they can have recourse to an international promotion company who will negotiate with the local partner and the Authorities, will coordinate the various activities on account of the future company, prepare contracts, etc...

This is actually the most elaborate system and one which requires the most time and effort.

It will be noted that we have enumerated examples by order of increasing difficulty and that the tasks of the foreign operator become progressively more demanding with the increasing sophistication of the procedure. Consequently :

- either complex projects are undertaken solely by

the "Major Companies" to serve their international development policies; in this case they would combine the functions of contractor, operator, financier, and of commercialist ;

- or else the investors, the national and international Authorities will accept the undertaking and development of the projects, -on behalf of average operators,- by service companies.

Given the small number of large voluntary companies where international operations are concerned, it is desirable to offer possibilities to companies which may be smaller though none the less capable in their respective fields ; in this case a group of qualified firms will replace a larger one. In wanting to deal only with the Major Companies, one would lay oneself open to their domination and international cooperation would thereby remain insufficient and one sided.

III. SITUATION AND TRENDS

The present situation is evidently not satisfactory : the transfer of technology between industrial countries and developing nations is held

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to be an absolute necessity and yet its volume is inadequate ; numerous development projects do not find either a counterpart or finance ; wealthy and poor nations meet in organizations such as UNIDO or the NORTH-SOUTH Conference but they disagree on the steps to be taken towards progress. What should one therefore propose?

1°) To begin with, it must be remembered that significant human actions have always rested on moral or political objectives. Justice and altruism are vital to the development of international cooperation. Indeed, in most countries government action must take into account public opinion. If a country's politics do little else but express the sum of individual egoisms, it would be too short-sighted to be able to solve problems of any great importance.

Technological transfer is in fact a three way concern :

- the sharing out of industrial ownership :

When one has made great efforts and incurred great expense to descover and perfect new technologies,

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it is unnatural to want to share them, even for remuneration, with others who have not been able to or have not wanted to make the same efforts.

- the sharing of knowledge :

Knowledge also is wealth and if one strives towards a more harmonious world, one should also share it. If one does not train the engineers and workers of the country who will use foreign technology, one maintains another form of domination.

- the sharing of markets :

It stands to reason that if one places a technology under licence one loses an opportunity to sell one's products. Numerous firms are not ready, for this very reason, to participate in the development movement and this attitude is understandable.

Those who accept to transfer technologies, knowledge, and markets, have all the more merit as on the other side, developing countries often have a nationalistic attitude which is manifest in the limitation of rights, royalties, imports, by a restrictive fiscal system, by nationalization, etc...

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in short, by characteristic hindrances to technical and economic cooperation.

In our opinion one of the roles of an international development agency should be to remind all interested parties of their moral and political duty to contribute, through concrete measures, to the peace and harmony of the world. One should "liquify" opposition.

2°) In order to increase the motivation of foreign operators, we suggest first of all not to penalize them.

We have just mentioned the restrictive practices of certain developing countries : one can well understand that their goal is to favor local activity in the fields of research, engineering, investment, commerce, and to reserve, for their own nationals, the lion's share of the profits. This is one option, but not one of cooperation. It would be useful to remember this.

In other countries where foreign cooperation is desired, it is generally the large

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companies, especially the american ones, which make off with the big projects. Should one not open the way to smaller firms or whose national language is not English? It would be most interesting to expand the field of international cooperation by modifying "criteria of credibility".

Europe, East and West, does not have many large companies ; yet she has experience, know-how, technology, specialists, and international relations. For these qualities to come into their own it would be necessary, at first, to contend with a certain amount of descrimination unfavorable to it ; it should also be recognised that a group of medium-sized firms can be more flexible and just as prestigeous as a large company.

Of course, the more complex a development plan, the less candidates are there for the role of operator ; unless the role of service companies which devote their efforts to the promotion of development were to be recognised and esteemed. It is up to them to find the operators, to prepare their work, to round off, if necessary, their requirements, to make the project acceptable to them.

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One should also avoid confusing the role of operator with that of financier. We have described in Chapter I what we mean by operator : this is very important. It is natural that the operator participate financially in the new firm, but at what level? If it is question of reinvesting the payment he receives for his know-how, his studies, his assistance, you will have candidates and they will be at your service.

If, on the other hand, you ask the operator to contribute a considerable financial share, his reaction would also be to withdraw considerable profits and he would demand his management rights or his rights over supplies or over sales. Your project would then become a pawn on his chessboard of power politics.

3°) Finally, there exists economic and political incitements to finding serious partners for industrial projects in developing countries.

In the first place, the services rendered must be paid for at their just price. However, the latter is not equitably determined by savage

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competition. For example, the know-how of a true operator must be better paid than that, less considerable, of the firm which builds the machines. If, in the event of tenders being called for, comparisms are made incorrectly, a premium can be assigned to the less valid project.

In the second place, we do not see how it can be wrong to subsidize technological transfer if it needed a stimulus. If it is found to be more profitable or prudent not to take part in world cooperation, one cannot complain that there are not enough exports (from industrialized countries) or technologival transfers (for the benefit of non industrialized countries).

Lastly, candidates for the role of operator and cooperation promotion companies should be helped by the broadcasting of project-lists where foreign participation is called for, and by the official support of international agencies and Governments. Those who, on either side, put into concrete practice their duty in solidarity should be honoured.

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To conclude this exposé, I would like to

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correct the impression that I may perhaps have given that on the one side there are countries who give and on the other those who receive. The world is not like this : each is the under-developed in comparism to the other in a given field and, in my opinion, the moment is approaching when one will more easily find valid operators in the so-called developing nations than in wealthier countries. Cooperation is not a one-sided affair : some have the technology, other the specialists, still others the financial resources.

This is why we wish to work day by day at building a new economic order in which each one will play the role for which he feels he is best qualified.

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