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*for a sustainable future*

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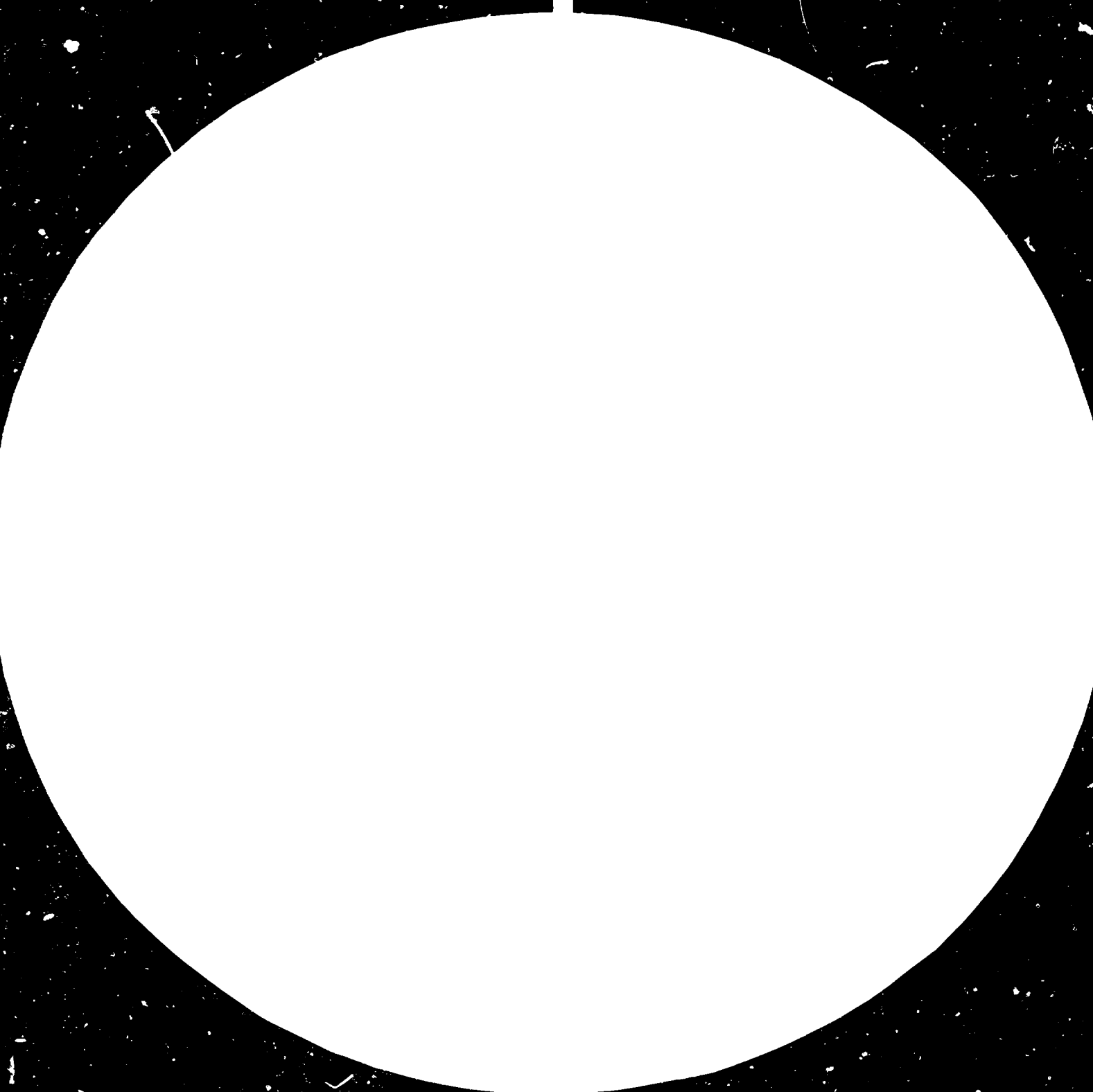
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FORMS AND CONDITIONS  
OF  
INTERNATIONAL CO-OPERATION  
INCLUDING  
LONG-TERM ARRANGEMENTS BETWEEN  
DEVELOPED AND DEVELOPING COUNTRIES  
AND AMONG DEVELOPING COUNTRIES THEMSELVES \*

(This background document is related to issue III)

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CHAPT. I

1.0 Introduction:-

The Third General Conference of UNIDO held in New Delhi in early 1980 has approved a Plan of Action for the restructuring of world industry in the context of establishment of a new international economic order. The Plan calls for an acceleration and active promotion of industrialization of the developing countries. This call reflects the strong desire amongst the developing countries to attain the objectives that had been laid down in the Lima Conference.

1.1

Based on the OECD figures, the total estimated production in 1976/77 of capital goods (mechanical and electrical engineering industries) was of the order of \$1,700 bn. (in current terms). The contribution of the developing countries in terms of added value was only about 4%.

1.2

To attain a figure of 25% of world production, as envisaged in the Lima Conference, is obviously a very big task for the developing countries and would require Herculean efforts. Achieving any measure of success in attaining this objective, or anything close to it, can be possible only, if there is a joint effort made in this direction both by the developing and the developed countries, duly supported and assisted by international organizations like the UNIDO.

CHAPT. II

2.0 Planning and development  
of capital goods industry:-

A characteristic feature of the planning for development in the developing countries, therefore, is the important role assigned to industrialization - and consequently to the capital goods sector which holds the key to industrialization. The strategic position occupied by this sector is because of:

- its marked impact on capital formation and employment generation;
- its ability to provide a spin-off for the entire manufacturing sector;
- its catalytic effect on the development of industrial infrastructure and acquisition of local skills and expertise; and
- its multiplier effect on the economy as a whole.

Importance of  
capital goods  
industries

2.1 The special features of the capital goods industries are the relative lumpiness of the investment, long gestation and recoupment period, and complex backward and forward linkages with other sectors of the national economy.

2.2 This is what makes it necessary to have a long-term planning with a time horizon of about ten to fifteen years.

2.3 This is why the programme for building up the capital goods sector has to be a part of a comprehensive national socio-economic plan so as to be able to effectively contribute to a harmonious development and integration with the national economy.

2.4 In the case of some of the developing countries, the state might be the only one capable of undertaking the necessary investment;

2.5 For some others, a combined effort may be needed by the state and private entrepreneurs;



2.6 In a few countries where the entrepreneurship is well developed, they might be able to play a major role in the development of capital goods industries:

2.7 In most of the developing countries, however, direct participation of the state would, perhaps, be the only way of achieving a rapid progress in manufacture of capital goods.

2.8 The multifacet nature of the impact of capital goods industry on the economic and industrial development makes it imperative that the developing countries plan centrally for the development of this industry. The first step, therefore, is for the governments of these countries to have a strong central planning and monitoring organization that would be capable of undertaking formulation of a long-term development plan.

Central  
planning

2.9 State participation in the planning and development programme would ensure a proper identification of the capital goods projects and an appropriate division of work between the public and private sector suitably co-ordinated with the plans for import of financial and technical resources and exports of goods and development of local expertise.

2.10 The central planning organization of the controlled economy developed countries and of some of the developing countries (e.g. India) could serve as models for adoption - with suitable modifications - by other developing countries. For this purpose, advisory assistance, if needed, could be obtained from these countries on a bilateral basis or through international organizations like the UNIDO.

2.11

Government  
participation

The Governments of the developing countries are already involved very closely with various aspects of industrial development in their countries. In the case of the developed countries also there is a long history of Government participation in industrial activities like public utilities - electricity, railways, telephone, etc. Sometimes they have established industrial undertakings with a view to counterbalance the power of private companies or for making them more dynamic. In other instances nationalization has been resorted to for social or strategic reasons.

2.12

Governments of some developed countries have, in various ways, been taking a growing interest in the advanced technology activities like electronic components, computers, aviation, nuclear energy, space, etc. They are doing so as they wish to avoid a total dependence on other more advanced economies. Sometimes their involvement becomes necessary because of the private sector not taking enough initiative in ventures whose profitability may be low or uncertain.

2.13

Another example of Government participation is when they intervene directly in certain traditional industries so as to prevent them from declining too rapidly. This is a sort of bailing out which is prompted by social needs or by the desire for improving economic efficiency. Instances are available where Governments have not hesitated to prop up industries which were threatening to close down on account of financial troubles.

2.14

The OECD report of Interfutures, "Facing the Future" of 1979 lists out a number of possible policy options which Governments might consider for adoption so as to improve the functioning of the international economic system without, in any way, impairing the efficiency of the world economy.

2.15

It envisages that intervention by the Governments of the developed countries in the industrialization

programmes will continue to increase. This may happen by their financing research and development activities and further linking it with the determination of priorities for research programmes and also production requirements (the State being an important buyer). Sometimes the size of the contracts with the developing countries may make it necessary for the Government of the developed country to become the main if not the only negotiator. Consequently, political relationships will play an increasing part in the competition amongst the developed countries in the international market for capital goods and intervention by the Governments in trade promotion will tend to further strengthen their financial and industrial role in the co-operation arrangement.

CHAPT. III

3.0 Concept and area of international co-operation:-

The developing countries are well aware of the fact that, for them to embark in isolation along the path of development, is fraught with serious problems and obstacles, and they must, therefore, obtain outside assistance in the execution of their plans for the development of capital goods industry.

3.1

The principal instrument for building up the capital goods industries in the developing countries is that of "international co-operation". This encompasses a total economic interaction between a developing country and its partner:

- An interaction that goes much beyond the sale or purchase of goods and services;
- An interaction that includes a set of complementary or reciprocally matching operation - in planning; in production; in development; in financing; in training; and in transfer of technology and trade.

3.2

This interaction takes place both at the inter-governmental level as well as at the level of the enterprises.

3.3

Besides the traditional type of co-operation like direct foreign investment, joint sector ventures and commercial transactions, it also involves a long-term and complex interaction with matching mutual performance and with the institutionalization of the system with long lasting interest in co-operation.

3.4

The field of international co-operation in the capital goods sector is a vast one. Some of the areas that it may cover are:- financing (aid or credit); training; establishment of vocational training centres and training institutions; development of infrastructure; purchase of equipment and exports; transfer of technology including build-up of indigenous know-how in design,

Area of International co-operation

engineering, research and development; redeployment of industries and restructuring of world capital goods production.

3.5

The developing countries may also have to seek co-operation in fields like planning and in the determination of the technological complexity of the equipment which is to be taken up for manufacture.

CHAPT. IV

4.0 Mutuality of interest  
and interdependence:-

International co-operation in world industry, especially capital goods industry, has undergone a gradual transformation from ordinary technical assistance to a much wider form of industrial interaction. This interaction now encompasses an increasingly complex area covering a mutuality of economic interest between the two partners, i.e., the developing and the developed country.

4.1

Mutuality of interest may lead to an interaction involving:

- purchase of industrial equipment and technology from the foreign country which may be further extended to include long-term technical assistance, designing of industrial complexes, and civil engineering;
- supply of finance, technology, plant and equipment may be undertaken by the foreign supplier in return for the products from the plant or other products from the developing country;
- a packaging of services and equipment may even result in part of these transactions being converted into different forms of investment;
- redeployment of industries from the developed to the developing country along with trade linkages for the products from the plants;
- a long-term training programme to help the developing country to absorb and assimilate the fast changing technology in the developed countries in the capital goods sector.

4.2

Mutuality of economic interest is, in other words, a growth of interdependence which binds together different countries and regions. This interdependence goes well beyond the mere economic framework and very often has political, military, cultural, social and institutional dimensions.

4.3

The developing and developed countries have two complementary conceptions of interdependence. For the developing countries dependence in the past has been one of the prime features of their political economic and cultural evolution. They now want this to be changed to an equitable interdependence.

4.4

Interdependence

The developed countries have recently discovered their dependence on certain developing countries mainly for economic reasons. Consequently, they are keen on emphasizing the reciprocal nature of the dependency. This envisages that while the developed countries may be assisting the developing ones in the field of technology, capital equipment, finance, training, etc., they would in turn be importing raw materials and goods from the developing countries. This increase in trade that will take place between the two sides as a result of the industrialization of the developing countries is not likely to seriously threaten the developed countries economies. In fact, the industrialization of the third world countries will open out their markets for supplies from the industries of the developed world. The ten new industrializing countries which have been able to develop a strong nucleus of capital goods industries during the last 10 years or so have continued to import capital goods from the developed countries and these imports have been sharply increasing in value. In 1970 the imports amounted to \$7.1 billion which increased to \$18.6 billion in 1977.

4.5

The World Bank report of 1979 shows that the exports from the developing countries to the developed countries by 1990 may be only about 5% of the developed countries needs.

4.6

The available evidence therefore points to the fact that for several years to come the developing countries, despite their ambitious programmes of capital goods development, would continue to depend on the developed countries for assistance and would not be in a position to provide any serious competition to the capital goods manufacturers in the developed world. Future developments would tend to further strengthen the economic and technological strength of the developed economies.

4.7

Role of  
Transnational  
Corporations

In the adoption of this concept of interdependence, the transnational corporations have a special role to play. With their depth of technical knowledge, aptitude for management, adaptability and ability to attract financial resources, they are a vital force in the redeployment and restructuring of world industry. The resources that they have at their disposal enable them to move into higher levels of technology as part of their long-term development programmes which would have a substantial impact on the restructuring of industries.



CHAPT. V

5.0 Long-term trends of development:-

The long-term trends of development will see an increasing interaction between the developed and the developing countries in the area of world industrialization. As in the past, technical progress, changes in demand, relative costs of various factors, strategies of major undertakings and Government policies will continue to modify the industrial landscape.

5.1

Constant interaction between industry and research will be creating a new generation of key industries the most important being the electronic complex including automation, data processing and telecommunications. Such developments will be having a marked effect on the economic activities of the system which would result in the world industrial relations system being subjected to various types of pressures. The interaction between the industrial forces in the developed countries is changing. At the same time there is a broader interaction involving the third world countries also.

5.2

Looking at the prospects for world industry at the sectoral level, some of the typical trends of the future international division of labour might be -

- a slowing down of rate of growth in the developed countries with the industrial investment increasing in those areas where profitability is high;
- important changes taking place in the production processes which would permit its fragmentation, with parts of it being transferred to new locations - perhaps in the developing countries;
- increasingly intense competition amongst the most developed countries so as to control the trend of the new international division of labour at a level of technology which matches their own production system;

and

- a growing tendency of State intervention (direct or indirect) in the process of internationalization of production and commercial competition and consequently on the social and economic management of the national productive systems.

5.3

The process of redeployment and restructuring of industry towards the third world is likely to continue in the next decade, although at a slower rate. This may not lead to any serious competition between the two sides because of the advantages that the developed countries have - that of technical innovation making extensive use of automation and the ability to produce goods that are very closely linked to the market requirements.

CHAPT. VI

6.0 Forms and conditions of international co-operation and long-term agreement:-

Adoption of the concept of international co-operation involves seeking out a partner who would be able and willing to provide the type of assistance needed by the developing country. The pattern of this co-operation may be of diverse nature, both with regards to the partner and the manner of assistance covering investment, supply of equipment and technological know-how, training, financial assistance, management, research and development and trade.

6.1 In most cases, the partner in this co-operation has to be a developed country that possesses the technical and financial capability and can provide the required assistance to the developing country. An interesting development has been the growing co-operation amongst the developing countries themselves, primarily in the field of management and training, and in some cases, transfer of an appropriate technology also which may be better suited to the conditions prevailing in the developing country.

6.2 Whatever be the form of co-operation, the developing country has to recognize the fact that it has to pay a certain price for the assistance that it is seeking from the foreign partner. Efforts that are needed, however, are to see that the price paid is not excessive and that other terms and conditions of the co-operation do not impose too heavy and onerous burden on the developing country.

6.3 A broad categorization of the co-operation form is as below:

- (a) with a developed country (market economy);
- (b) with a developed country (controlled economy);
- (c) with a developed country plus a more developed developing country;

- (d) co-operation amongst the developing countries;
- (e) with a financially affluent developing country;
- (f) regional co-operation.

6.4

These different forms of co-operation have been further elaborated in the following paragraphs. This elaboration depicts the advantages and disadvantages of different forms of co-operation and the difficulties experienced by the developing countries in the long-term contractual arrangements. The purpose of doing so is not to belittle in any way the extremely important role played by the developed countries in the uplift of the economically and industrially backward developing countries, but instead to focus attention on some of the important problems of the co-operation, so as to be able to try and find their solutions.

7.0 (a) Co-operation with a developed country (market economy).

This form of co-operation is of vital importance to the developing countries. These market economy countries of the North possessing vast technical and financial resources, have been extending a helping hand to the developing countries in their ventures for economic and industrial development.

7.1

A standard form of this type of co-operation has been through investment by enterprises - generally large companies - from the developed countries. This has been either through the establishment of a local subsidiary or a joint sector venture, with the partner from the developing country being a private sector company or a public sector enterprise. In this form of co-operation the operations of the enterprise normally continue to be effectively controlled by the parent company in the developed country.

7.2

This pattern has undergone a slow change over the years with the corporate control being gradually replaced by a non-corporate, non-equity structure. The legal standing is established on the basis of a contract but control can still continue to be exercised by the foreign company through non-corporate instruments of influence like equity being replaced by supply of loan/credit; direct control over the subsidiary being exercised through management contracts, technical assistance agreements and production sharing and/or service contracts.

7.3

Other forms of co-operation may be for various types of services - in a packaged or unpackaged form, for example, sale of industrial equipment and transfer of technology including technical assistance, design of industrial complexes, civil engineering works and other forms of interlinking which would ensure a continuous interdependence between the two parties.

Some examples of this type of long-term interaction are:

Long-term  
interaction

- (i) supply of technology and complete equipment linked with an exchange of products between the two countries;
- (ii) extension of contract including post operational assistance being linked with payment by the developing country in the shape of products from the plant;
- (iii) traditional form of investor's risk through foreign investment being replaced by means of performance guarantees given by the foreign contractor;
- (iv) the foreign contractor supplying a package comprising physical capital, technological know-how, marketing knowledge and management, involving a long-term tie-up.

7.4

Normally Governments of the market economy countries do not like to get involved directly in the long-term contractual arrangements for specific projects. There are, of course, some exceptions where because of the presence of strategic natural resources, inter-Governmental arrangements have been entered into. Co-operation by the Government generally gets confined to provision of aid or loan, issues connected with the investment climate, investment promotion, financial incentives and providing protection to the interests of its enterprises.

7.5

Institutional  
arrangement

Various institutions have been set up by the Governments of the developed countries which assist in promoting investment in the developing countries. Sweden's national role for technical development, agency for technical co-operation of Federal Republic of Germany, French Centre for Industrial Promotion in Africa, and the Overseas Private Investment Corporation in the USA are some of the examples of institutions which are carrying out promotional work by helping the enterprises

from the developed countries in taking up ventures in the developing countries.

7.6

Another interesting example is that of co-operation agreements signed by the European Economic Community with the African, Caribbean, and the Pacific Region countries in 1974 and with Algeria, Morocco and Tunisia in 1977 at the Lomé Convention. Similar agreement has been signed recently with India.

7.7

It is mostly the private companies - generally large sized companies possessing the resources and know-how - that have been able to co-operate with the developing countries in their programmes of capital goods development. There is no doubt that this has been of immense help to the developing countries but at the same time it has tended to create certain problems, political and financial, which the developing countries have not found it easy to tackle.

7.8

Turn-key contracts

Earlier, when the developing countries did not have much of a technological base or indigenous expertise, the best form of contractual arrangement was the turn-key contract which placed the complete responsibility on the foreign company for designing and executing the entire works. Unfortunately, such contracts sometimes suffer from certain shortcomings. The obligation of the contractor is normally limited to his ensuring that the plant functions properly on the date of the initial acceptance and that subsequent performance - or malperformance - of the plant is not his responsibility. Sometimes the payment to him is on a lump sum basis which tempts him to increase his profit margin at the cost of the quality of the plant. Inadequate attention to the training of local personnel is another factor which creates problems for the enterprises of the developing country in operating and maintaining the plant and equipment.

7.9

A serious problem that arises in such contract is regarding the guarantees for the quality of the project and its output. The contractual terms sometimes get worded in such vague terms that in case of a dispute, the contractor is invariably able to transfer the blame for the shortcomings on to the enterprise of the developing country.

7.10

Despite these drawbacks, the turn-key contract system has played a crucial role in the development of industries in the developing countries and has enabled them to obtain industrial plants of high technology levels. This system would, therefore, continue to occupy a prominent place in the co-operation arrangements between the two sides.

7.11

Contractual  
arrangement -  
unpacked form

Considering the problems of turn-key contracts, a number of developing countries have been slowly switching over to a more unpackaged form of contractual arrangement which emphasizes the development of indigenous capabilities and better utilization of local production capacities. This approach signifies that, for each type of co-operation, the developing country enters into a separate contractual arrangement, making it easier for the country to exercise checks and controls for ensuring the reasonableness of the agreement and its proper implementation.

7.12

In this unpackaged type of arrangement, while there is an increasing participation of the local expertise in the project implementation, it does not permit any compromise in the expected performance of the plant. The contractor's obligation continues to remain for providing the means as well as concentrating on the achievement of the results. Since his responsibilities with regard to the performance of the plant might continue for a long period, it ensures his taking more interest in the execution of the project including providing training facilities to the plant personnel.



7.13

The main handicap from which the developing countries suffer in such negotiations for contractual arrangement is their lack of expertise and the limit to their sources of technical and economic information. Their counterpart from the developed country, on the other hand, is either a multinational or a big company having enormous skills and extensive information sources at its disposal. In other words, it is an unequal match where the developing country or its enterprise can get out-manoeuvered by the enterprise of the developed country into acceptance of a contractual arrangement with disadvantageous or unfavourable terms.

7.14

To overcome this deficiency, the developing country has to concentrate on building up its own pool of experts. In this task, useful assistance could be provided by international organizations like the UNIDO. Another alternative could be for the developing country to have bilateral arrangements with consultancy organizations in another developed country or a more developed developing country which would be able to provide the required expertise.

7.15

The contractual arrangements often include clauses which are highly restrictive in nature and also involve payments which may not bear any real relationship to the actual cost that may have been incurred by the concerned enterprise of the developed country. These relate to issues like multilateral or horizontal transfer of technology, export rights, use of trade marks, patent rights, price to be paid for plant and equipment, training of personnel, etc.

7.16

Performance  
guarantee

A vital aspect of the contractual arrangement concerns the satisfactory performance of the plant. The foreign contractor needs to guarantee not only the quality of the equipment supplied by him but also the quality and quantity of production attained by the plant, consumption of energy and other important inputs, competitiveness of the output, cost of repair and maintenance and finally the profitability of the plant.

7.17

Most contracts do contain a set of performance guarantee clauses including provisions for liquidated damages and penalty suitably backed by bank guarantees or other forms of security. Although they provide a certain measure of security, very often they prove insufficient to protect complete interest of the developing country. A system of sanctions then becomes necessary for imposing the contractor's obligations. Unfortunately, the enforcement system and the judicial and arbitration proceedings make it difficult to find a quick solution to the problem. Ultimately all this brings no benefit to the developing country.

7.18

Developmental  
damage

The bonds and performance guarantees provided by the foreign contractor often prove insufficient for fully covering the obligations of the contractor. In addition they fail to take into account any developmental damage that may occur as a result of the failure or inadequate performance of the project. The economy of a developing country, particularly a least developed country, is highly vulnerable to the consequence of malfunctioning of a new industrial project. Its failure could create multiple damage to the economy - a damage which may not be easy to repair. The foreign contractor's guarantee ought to, therefore, cover such developmental damage also. It is not easy to make an advance assessment of this type of damage but while making the contractual arrangements an effort could be made to keep this aspect also in view while formulating the guarantees.

7.19

The training aspect and the obligations of the contractor in another important feature which sometimes get neglected. The guarantees should also ensure that adequate training is provided by the contractor to the personnel from the developing country.

7.20

Provision of such guarantees in the contractual system in clear and unambiguous terms would ensure

that the interdependency between the contractor and the enterprise of the developing country, is on a long-term basis with both partners sharing the risks and benefits accruing from the project.

7.21

Insurance consortium

If this system of guarantees places too heavy a burden on the contractor, he might get discouraged in the venture. Perhaps, to give him support, one could consider a method of backing the performance guarantees through some form of an insurance consortium. Such a consortium could be jointly funded by the financial agencies as well as the Government and enterprise of the concerned developed country. In some cases even the developing country could participate in the funding arrangement.

7.22

Governmental participation

Reluctance or non-participation of the Governments of developed countries in the contractual arrangements deprive the developing countries of the expert assistance and guidance that could be provided by the developed country in negotiations. Presence of a representative of the Government of a developed country would not only protect the national interest of the developing country but also help to temper the attitude of the foreign enterprise. Such an association would also ensure a more satisfactory and more complete implementation of the contract by the contractor thereby guaranteeing the success of the co-operation venture.

7.23

Participation of small and medium scale industries

The pace of development of capital goods industries in the developing countries could be speeded up considerably if there is a larger participation of small and medium scale enterprises from the developed countries. Their limited resources - financial and technical - and lack of international contacts make them more conservative in their approach and they hesitate to risk their capital in projects in strange foreign lands. Special incentives from the Government of the developed countries could

give these small companies the courage and confidence to enter into co-operation arrangements with the developing countries. This would also accelerate the redeployment and restructuring of world industry and the movement towards a new international division of labour. Such restructuring will have to be closely linked to the trade policies and exports from the developing to the developed world - issues in which the Governments of the two sides are vitally concerned.

8.0 (3) Co-operation with a developed country (controlled economy).

This form of co-operation is at two levels:

- (i) macro-economic - where the co-operation is at inter-governmental level; and
- (ii) micro-economic - where the enterprises of the two sides enter into specific project agreements.

8.1

The inter-governmental agreement through joint commissions identifies the main directions and fields of mutually advantageous co-operation in important sectors like economic, scientific, and technical. Assisted by various Working Groups, it analyses the major problems of co-operation between the two sides and the joint measures needed for stimulating trade, production, scientific and technical links and the co-operation aspects for dealing with the practical problems that may arise in implementing the schemes.

Joint commissions

8.2

Under this inter-governmental agreement, the CMEA partner often assumes direct obligation with regard to supply of credit, delivery of equipment and performance of the plant. The general terms of technical assistance providing for obligation and duties of parties in respect of various elements of technical assistance like payment terms, financing, training arrangements, etc. contained in the agreement become automatically applicable to the individual contracts that may be signed later.

Government obligation

8.3

Being closely linked to the development plans of the two sides, these co-operation agreements are necessarily of long-term nature and the period covered may range from 5 years to 10 years or even longer. This is particularly advantageous in the case of an industry like capital goods where investments have to be based on long-term programmes of development.

8.4

Restrictive  
clauses

An interesting feature of these agreements is that the CMEA partner does not insist on inclusion of restrictive clauses relating to export, use of trade marks, royalty, patent rights, etc. Furthermore, credit at highly concessional rates is often being made available to the developing country. Of course, this facility necessarily ties the developing country to procuring most of the equipment from the CMEA country. The disadvantage of this type of tied credit arrangement and its impact on the prices is well known.

8.5

Production  
compensation

The concept of "buy-back" or "production compensation" is being increasingly used in the contractual arrangement between a developing country and the CMEA partner, with the latter providing comprehensive assistance through supply of equipment, erection, and sometimes operation of the plant, while the cost which is covered by long-term credits is repaid through delivery of the output from the plant. Sometimes, such buy-back arrangement may extend even beyond the limits of loan repayment, thus providing a long-term market link between the two sides.

8.6

This barter-like arrangement has considerable merits, although it is not free from certain difficulties. A pre-requisite for negotiating such deals is a good knowledge of international norms and standards of industrial goods, its prices and anticipated future fluctuations. In other words, the developing country needs to have a well developed machinery for economic planning and administration. If this machinery does not exist, attempts to have such barter-like deals could run into serious difficulties.

8.7

Experience of developing countries has been that in such co-operation ventures with the controlled economy countries, no serious obstacles arise in obtaining technical information from the CMEA partner. Facilities also become readily available for training

of personnel and also in obtaining services of highly trained operators from the developed countries at reasonable costs. All these factors are helpful in taking the developing country closer towards its goal of technological self-reliance.

8.8

Concessional  
credit

Availability of credit at highly concessional rates with interest at about 2.5% per annum and a repayment spread over a period of 20 years or so and assistance for development of infrastructure are some of the advantages which accrue to the developing countries under this form of co-operation.

8.9

The controlled economy countries now have agreements with more than 78 developing countries for various types of projects. The general pattern however is that the co-operation is mostly in respect of large size projects. A reorientation of the policy through encouragement to the development of small and medium scale projects may yield better dividends.

9.0 (c) Co-operation with a developed country plus a more developed developing country.

This is a variation in the form of co-operation between a developing and a developed country.

9.1 Here advantages taken of the fact that some developing countries have attained considerable progress in industrialization and their facilities could, therefore, be utilized by the developed country in its co-operation programmes with the lesser developed countries.

9.2 Countries like Argentina, Brazil, Mexico, India and South Korea belong to the group which now has a wide industrial base and has facilities in fields of consultancy, training, production of various types of equipment, and skilled personnel. In some cases, they are even in a position to export their own technology - often of an intermediate type - which is perhaps more appropriate and better suited for the developing country.

9.3 The co-operation and contractual arrangement require the developed country to supply the technology and major equipment, sometimes including finance, and assisting in the implementation of the project. Some portion of the work, for example part of the equipment or training facilities or supply of technical personnel is undertaken by the more developed developing country. In some cases even the design and engineering work is done there because of the lower cost at which this could be executed.

9.4 This form of co-operation is being increasingly adopted by the developed countries, both market economy and controlled economy, in their co-operation arrangements with the developing countries. This is proving of advantage to all the parties concerned;

Advantages

- the developed country is able to get part of the work executed with the help of the more developed



developing country at costs much lower than what they would have themselves incurred;

- the more developed developing country finds this arrangement of advantage as it is able to find an export outlet for its supplies, design and manufacturing capacity and trained manpower;
- the developing country finds this combination useful as it is able to get its projects executed with lower investment costs.

10.0 (d) Co-operation amongst  
developing countries

An important development in the field of international co-operation is the assistance that is being provided by the developing countries to each other in their development programmes. Some of the developing countries like Argentina, Brazil, India, Mexico and South Korea have reached a stage of development where they possess a broad technological base and a well developed capital goods industry. This has been possible through a process of development involving import and assimilation of foreign technologies as well as a special emphasis on indigenous efforts. These countries are, therefore, in a position to provide assistance to the lesser developed countries in diverse ways like investment, transfer of appropriate technology, construction, training, contractual negotiations, etc.

10.1

Examples are available of such co-operation amongst the developing countries. There has been a direct investment generally through joint sector ventures which has also enabled local entrepreneurship to be developed. Construction organizations from the more developed developing countries have been executing works in the LDCs with close links with the local organizations, thereby encouraging the use of indigenous equipment and development of local expertise. Considerable training capacity is available in the more developed developing countries, a part of which is being utilized for training the personnel from other developing countries (for example training of Nigerian Steel Industry personnel in India).

10.2

Absence of local expertise sometimes handicaps the developing countries in conducting contractual negotiations with a foreign partner. This is an important area where co-operation amongst the developing countries has been of help to the developing country in negotiating better terms with the foreign partner from the developed country.

10.3

Technology in capital goods industry in the developed country is undergoing a rapid change and the new technologies are tending to become more capital oriented and less labour intensive. Some of the developing countries having problems of unemployment or under-employment may find it of greater advantage to obtain the earlier technology or an appropriate technology from the developing countries.

10.4

An important characteristic of this form of co-operation is that there is a closer bond of friendship and a stronger unity of purpose between the developing countries which not only ensures success in the co-operation but also leads to a speedy development of national self-reliance.

11.0 (e) Co-operation with a financially affluent country.

This is a variation of the earlier form of co-operation amongst the developing countries. Finance being a major constraint in the capital goods production programme, co-operation with a party rich in financial resources, like a member of OPEC, could be particularly beneficial to the developing country. This assistance could be obtained through direct investment or establishment of ventures by means of liberal investment policies. The other form of assistance could be in the shape of aid or loan with the technical part of co-operation being with a developed or another developing country.

11.1

This form of co-operation could, in several cases, be mutually beneficial, with the developing country using the financial assistance to establish its capital goods project and then in turn supplying its products for use in the country which is providing the financial help. These products could then be used in the establishment of industries in that country.

12.0 (f) Regional co-operation.

International co-operation, instead of being bilateral, could be regional or sub-regional or inter-regional covering a number of countries. As a concept the regional co-operation has merits, although its success or failure depends mainly on the prevailing political climate in the region.

12.1

An important feature is that it could help to strengthen the bargaining position of the region vis-à-vis the other partner who may be either a developed country or another developing country. The region could adopt a joint approach on important issues like investment policy, incentive schemes, etc., which could prevent the foreign partner from taking undue advantage of any unhealthy competition amongst the member countries of the region in trying to induce investments. A joint system of conflict resolution and a joint measure to control undesirable behaviour by the foreign partner in matters like restrictive practices, excessive payment for supply of equipment, transfer of technology, etc. could also be worked out on a regional basis.

12.2

The regional approach could also help in negotiating better terms on important issues like liberalization of trade or more favourable changes in the tariff policies of the developed countries.

12.3

A number of organizations are functioning today particularly in the African and Latin American regions which are promoting the concept of regional co-operation in the field of industrial development, finance and trade. For the lesser developed countries this type of regional co-operation may be of advantage. They could also think in terms of establishment of capital goods industries on a regional basis. Perhaps UNIDO could undertake surveys for considering establishment of capital goods industries on regional basis.

CHAPT. VII

13.0 Training and Research  
and Development:-

Import of foreign technology and its assimilation in the national system requires a concentrated effort on training programmes and development of indigenous sources for design and research .

13.1

The task of establishing indigenous research facilities for basic and applied works is not an easy one and involves enormous investment on which the return is low and uncertain. A private entrepreneur is hardly in a position to find adequate resources for this work and, therefore, the burden of providing the funds falls on the Governments of the developing countries. They have to find the resources either from internal savings or through financial assistance from other countries. Adoption of special taxation policies, for example as in Peru in South America, could help to raise resources for utilization towards research and development work. Financial and technical assistance has also been forthcoming from the developed countries both market economy and controlled economy.

13.2

Closely linked to the research and development programmes of the country is the facility for training of personnel. This involves a special emphasis on the development of manpower resources under a national manpower plan which would take into account the future needs, both short-term and long-term, of technical personnel of every category and level, available facilities and the additional capacities that need to be established.

13.3

Developing countries like India, Algeria, Brazil, Nigeria, etc have adopted this path of planned manpower development which has paid rich dividends.

13.4

What is being emphasized here is the importance of training and research and development in the context of capital goods industrial development and that unless a strong technological base is built up

quickly, the developing country will not become self-reliant and will have to continue to depend upon outside help for all its programmes.

13.5

Co-operation amongst the developing countries as well as with other developed countries could play a particularly important role in the establishment and development of facilities for training and research and development. International organizations like UNIDO would also be in a position to provide valuable help to the needy developing country by providing experts as well as arranging linkage between the interested parties.

CHAPT. VIII

14.0 Problems of financial constraint:-

A recent study carried out by UNIDO has revealed that for achieving the Lima target, developing countries will need a total investment in the manufacturing capacity of about \$1,411 billion in the period 1980-2000. The growth in the manufacturing investment is likely to be from \$56 billion in 1980 to \$427 billion in 2000 (at 1975 prices). Of this a substantial portion will have to be for the capital goods sector.

14.1

Considering the size of investment required, it will be extremely difficult for the developing countries to find enough resources from their domestic savings. A major portion of the financial resources may have to be found from foreign agencies and this could be in the shape of Governmental aid or loan and assistance from various commercial and international financial institutions. In some cases it may be possible to obtain credits through export financing agencies in the developed countries and through the Euro market.

14.2

The problem is not only of finding resources in adequate quantity but also that it is at a reasonable cost. The cost of financing has to be low enough to make the venture economical and financially a viable proposition.

14.3

Source of financing being mostly in the developed countries (exception - OPEC countries), they have to seriously consider the ways and means of helping the developing countries in finding adequate low cost funds for their programmes of capital goods development. This could be through provision of larger quantum of aid/loan, preferably in an untied form; special financing arrangements for infrastructure development and encouragement to financial institutions and small and medium scale industries through incentive schemes.



14.4

Project  
appraisal  
criteria

An issue closely linked to the question of financing is the assessment methodology for determining the viability or bankability of the project. Conventional methods preclude the possibility of a number of projects in the developing countries passing the test and consequently they would fail to qualify for any assistance from the financial agencies. Rejection of their claims in this manner would fail to take into consideration the socio-political aspects of the problem. Perhaps there is need for the financial institutions and the Governments of developed countries to adopt a more radical approach to the issue and work out a new criteria which would take into consideration a total quantification of all the social benefits which would accrue over a long period of time to the country, in case the project gets established. They may also have to think of special financing schemes and incentive measures which would help in the development of infrastructure facilities in the developing countries, give special attention to the problems of the LDCs, and encourage smaller second line banks to participate in investment programmes in developing countries.

14.5

Industrial bank

Establishment of an international industrial bank specifically for meeting the requirements of developing countries for industrial projects could be highly beneficial to the developing countries. A proposal to this effect is already under consideration of UNIDO but a final decision on this may take time. Meanwhile the developed countries as well as the financially affluent countries like OPEC will need to consider formulating special measures for removing the financial constraints that are facing the developing countries.

CHAPT. IX

15.0 Role of international agencies  
like the UNIDO:-

In their drive towards industrialization and rapid development of capital goods industries, the developing countries could draw heavily upon the expertise available with the international agencies like the UNIDO.

15.1

An intensive integral industrial investment and project service could be provided by UNIDO in all fields of capital goods programme development right from the project conception stage up to its implementation, The assistance could be in the form of experts, seminars, consultations and manpower training programmes.

15.2

In the field of international co-operation, the UNIDO's function would be as a catalyser and a co-ordinator for bringing the two parties together.

15.3

With regard to the contractual negotiations, certain models and manuals prepared by organizations like the UNIDO, World Intellectual Property Organization (WIPO), etc., already exist, which could serve as a guidance for the developing countries. In addition, UNIDO, in co-operation with other organizations like the Centre for Transnational Corporations (CTC), could provide expert advice on all matters concerning negotiations with the large companies for making contractual arrangement.

15.4

In specific cases, participation of a UNIDO representative in the contractual negotiations, where the parties are the governments of the developing and of the developed countries and the enterprises of the two sides, would be of help in ensuring the reasonableness of the terms of the contract and in protecting the interest of the developing countries.

15.5

The development of capital goods industries needs to be examined further on a regional basis. For this purpose, UNIDO could organize regional consultations and also could carry out survey for determining the possibilities of establishing industries under the Regional Co-operation concept.

15.6

UNIDO could also help the developing countries in the formulation of their co-ordinated policy with regard to their national manpower plan, incentive schemes and guidelines, etc.

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