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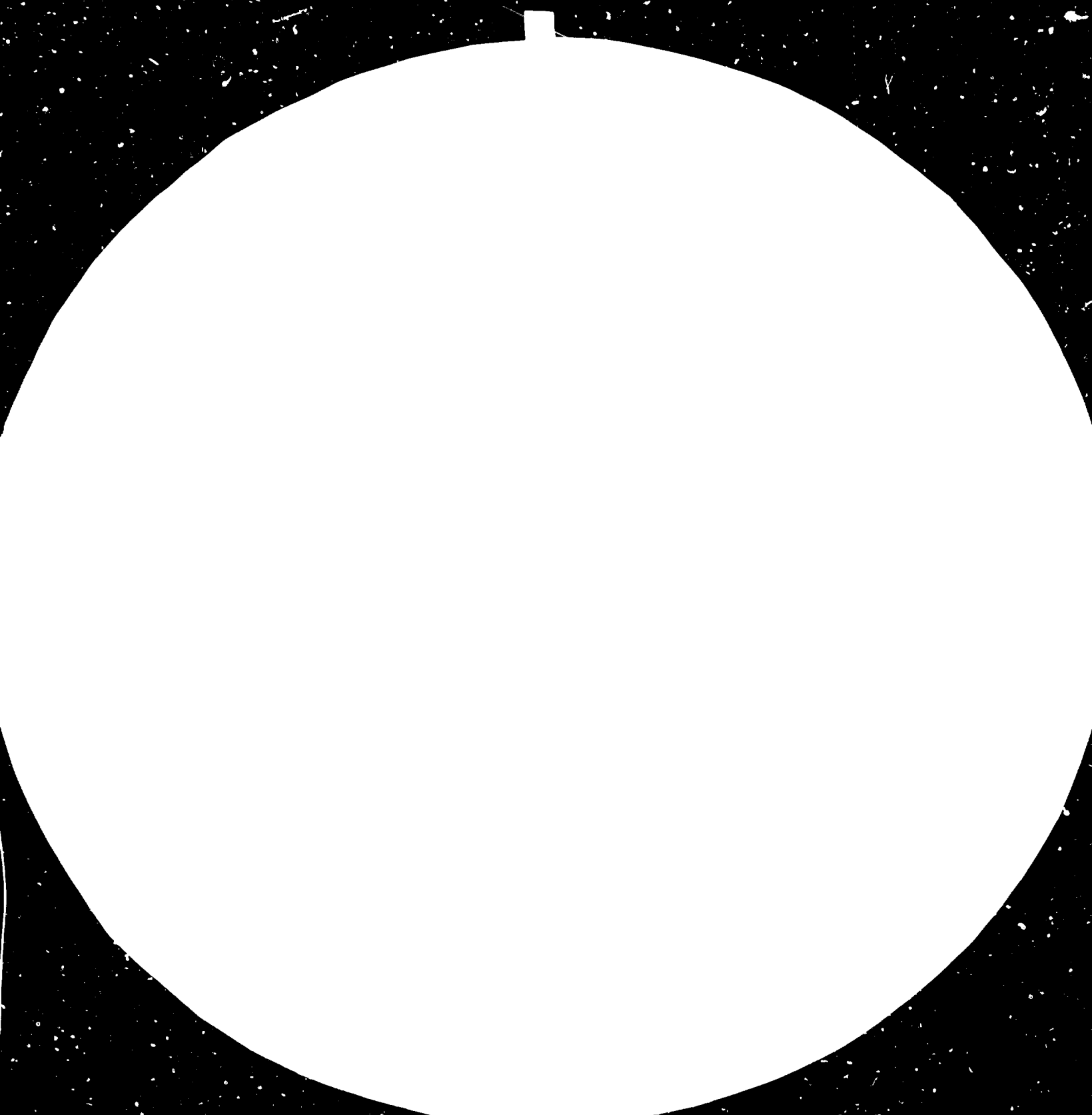
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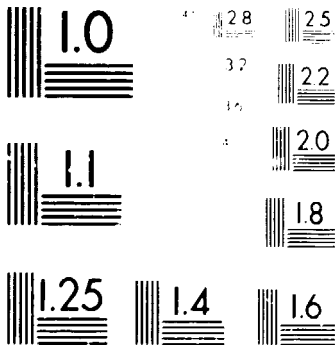
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MICROCOPY RESOLUTION TEST CHART

NATIONAL BUREAU OF STANDARDS  
 STANDARD REFERENCE MATERIAL 1010  
 AND RELATED TEST CHARTS 1-10

Item 5(i) of the provisional agenda

INTERNATIONAL CO-OPERATION, RELEVANT NATIONAL ACTIONS  
INCLUDING INDUSTRIAL POLICIES, AND UNIDO'S CONTRIBUTION  
IN CRITICAL AREAS OF INDUSTRIAL DEVELOPMENT 1985-2000:

Strengthening economic co-operation among developing countries

Background paper prepared by the UNIDO secretariat

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## INTRODUCTION

1. The present structure of international economic relations has not been favourable for the balanced and harmonious growth of the developing countries. The recognition of this fact has, inter alia, generated new needs for international co-operation based on the principle of national and collective self-reliance. In essence, this involves economic and technical co-operation among developing countries a form of international co-operation involving countries that have similar needs and that come up against similar obstacles in their pursuit of economic and social growth according to their own styles of development.

2. The determination of developing countries to achieve national and collective self-reliance has been strengthened in view of the harmful effects that the current economic crisis has had on the economies of the developing world and the stagnation in the global negotiations on international economic co-operation. Thus it is to be expected that co-operation among developing countries is bound to become, more than ever before, one of the focal points of a new international strategy for development.

3. The imperative need for economic and industrial co-operation among developing countries has been stressed in various international forums. For instance, the Programme of Action on the Establishment of a New International Economic Order envisaged measures to be taken by developing countries "to promote collective self-reliance among them and to strengthen mutually beneficial international economic co-operation with a view to bringing about accelerated development of developing countries (General Assembly resolution 3202 (S-VI), section I, 1 (b)). The Lima Declaration and Plan of Action on Industrial Development and Co-operation adopted by the Second General Conference of UNIDO further underlined the fundamental importance of co-operation among developing countries for the acceleration of the industrial development of developing countries and recommended various measures to that effect (A/10112, chap.IV). Moreover, the programmes of action adopted particularly at the Fourth Ministerial Meeting of the Group of 77, held at Arusha in 1979, the United Nations Conference on Technical Co-operation among Developing Countries, held at Buenos Aires in 1978, and the High-Level Conference on Economic Co-operation among Developing Countries, held at Caracas in 1981, have gone a long way towards providing a framework for international work in the field of economic and technical co-operation among developing countries. The Caracas Programme of the High-Level Conference on Economic Co-operation among Developing Countries convened by the Group of 77 in fact noted that: "It is all the more timely and necessary for the developing countries to strengthen the cohesion and solidarity among themselves". 1/ The Caracas Conference reaffirmed that economic co-operation among developing countries (ECDC) was not a substitute for global economic co-operation between developing and developed countries, nor did it exempt the latter from their responsibilities and commitments to the developing countries. At the same time it stressed that ECDC offered the opportunity to take full advantage of the actual and potential complementarities existing among the developing countries themselves. In this connection, the Caracas Conference underlined various priority fields of action in the areas of trade, technology, food and agriculture, energy, raw materials, financing and industrialization, all of which have a direct or indirect bearing on industrial development in the developing countries.

4. Regarding the industrial sector itself, it should be noted that both the Second and Third General Conferences of UNIDO, in the Lima and New Delhi Declarations and Plans of Actions, 2/ stressed the strategic importance of economic co-operation among developing countries in virtually all dimensions of the industrialization process: trade, development and transfer of technology, development of human resources, exploitation of natural resources, energy development, mobilization of financial resources, strengthening of institutions and policies, negotiations with developed countries and transnational enterprises etc. This points to the importance attached to industrial co-operation among developing countries (ICDC) as a unique element of ECDC and the crucial role it is expected to play in national and collective self-reliance. 3/

5. ICDC has been taking place increasingly but, for a variety of reasons, it has not reached its full potential. It is clear that future ICDC must go beyond trade liberalization for manufactured goods and extend into such areas as the harmonization of industrialization policies; joint investment programming; joint establishment of production units; physical and institutional infrastructure development; expansion of human resources and technological, energy and financial capacities; and, not least, strengthening the negotiating position of the developing countries vis-à-vis the developed countries in acquiring technology and other resources for industrial production, as well as in securing markets for their manufactured exports.

6. Given that the experience gained at a practical level in ICDC has so far been limited, there appears to be a need to examine those elements both conducive and restrictive that influence the interest of the various actors involved. Moreover, it is of crucial importance to determine the prerequisites for the formulation of a concrete programme of action in ICDC and the measures that need to be taken to this end.

7. It is appropriate to note here that industrial co-operation among developing countries is a horizontal concept and is therefore likely to cut across most, if not all, of the agenda items of the Fourth General Conference of UNIDO. Thus an attempt has been made to limit the present document to the more general problems associated with the subject and to outline the recommendations emanating from the High-Level Expert Group Meeting on Industrial Co-operation among Developing Countries, held at Bangkok, Thailand, in July 1983 in preparation for the Fourth General Conference. For further consideration of the subject, however, it is suggested that other documents prepared for the Conference be kept in mind. Cross references to those documents are provided as appropriate.

#### I. STATUS AND FUTURE PROSPECTS FOR INDUSTRIAL CO-OPERATION AMONG DEVELOPING COUNTRIES

8. Economic and technical co-operation among developing countries, including industrial co-operation, has reached a stage when it requires consolidation and expansion. Regional and subregional economic groupings of developing countries, such as the Andean Pact countries, the Association of South-East Asian Nations (ASEAN) and the Southern African Development Co-ordination Committee (SADCC), are living realities, and often the main

thrust of their structures and programmes has been in the area of industrialization. But although in some cases it is still too early to take stock, there is a growing realization that the actual achievements of economic groupings of developing countries have not matched original expectations. Modes of industrial co-operation within such groupings have developed mainly in two directions: the allocation of industrial activities among member countries and the expansion of production through joint ventures and the establishment of multinational enterprises. However, industrial co-operation has yet to be extended if it is to be able to exploit, to any appreciable degree, the advantages to be gained by making use of economies of scale, external economies, specialization of production and a greater degree of trade in manufactures. A global indication of the still small degree of industrial co-operation among developing countries is the fact that in 1979, according to figures derived from World Bank statistics, of the total manufactured products absorbed by developing countries (approximately \$US 290 billion), some \$US 260 billion, or about 90 per cent, came from industrialized countries and some \$US 30 billion, or only about 10 per cent, from other developing countries. 4/ On the other hand, at the enterprise-to-enterprise level in the developing countries, industrial co-operation, mainly in the form of joint ventures, appears to be increasing rapidly largely in a spontaneous manner; types of co-operation range from technical advice to the installation of complete turnkey plants. It is therefore important to institutionalize and accelerate the process with a view to achieving concrete results.

9. Industrial co-operation among developing countries is not to be considered as a substitute for North-South industrial co-operation. The two forms of co-operation are not antagonistic but complementary, and industrialized countries should therefore at the very least refrain from affecting ICDC adversely. In fact, the industrialized countries have in general indicated their support in strengthening and enhancing the effectiveness of co-operation among developing countries. This support was expressed inter-alia by the General Assembly in its resolution 3362 (S-VII), entitled "Development and international economic co-operation" and the United Nations Conference on Technical Co-operation among Developing Countries held at Buenos-Aires in 1978. It should be underlined that greater co-operation among developing countries in the field of industrial development can be expected to lead to the identification of common objectives, which will accelerate co-operation between rich and poor countries.

10. It should nevertheless be recognized that a certain measure of delinking from the North is necessary for a truly collective self-reliance approach to development on the part of developing countries to be achieved. Moreover, for South-South co-operation in the field of industry to be effective, it would need to be based on equality and mutual interest, in the true spirit of interdependence. Thus, access to technology, skills, finance etc. should be easier and the terms of availability should be softer. Last but not least, effective ICDC will require the will and commitment of sovereign States, and government action will be necessary to provide a suitable framework of co-operation in industry.

11. The High-Level Expert Group Meeting on Industrial Co-operation among Developing Countries, held at Bangkok in July 1983, 5/ was of the view that the development of a policy and institutional framework for industrial co-operation among developing countries would make possible the optimum use of



technological and material resources of developing countries for the mutually beneficial development of markets and trade in appropriate products. ICDC would thus be a measure of first resort and not one of last resort. Through a self-sustaining action programme of ICDC, the developing countries could enhance their technological capabilities and be able to make better use of North-South co-operation.

A. Spheres and modes of industrial co-operation

12. It would be useful to look briefly at the inputs needed for setting up and operating an industrial enterprise in order to examine the elements that singly or in combination comprise industrial co-operation and thus the linkages and mechanisms necessary for ICDC. The setting up of an industrial manufacturing unit consists of various stages: the conception and formulation of a project, the implementation through inputs of finance, technology, engineering and design consulting, the procurement of equipment and the training of human resource until it reaches the operational stage. At the operational stage, the manufacturing unit needs industrial raw materials, utilities and services, a labour force and operating finance or working capital. It also needs a market domestic and foreign for its products. An industrial manufacturing unit operates in surroundings that include government policy, strategy and planning framework, on the one hand, and physical industrial infrastructure: electrical energy, water, transport, communications on the other.

13. To sustain an industrial unit, a host of institutions are also needed, which form the institutional infrastructure. These include research and development institutes, engineering and design consulting firms, standards institutions, industrial safety units, productivity centres, industrial finance institutions, vocational training and academic institutions etc. No significant industrial manufacturing base can be sustained over a period of time without such a supportive institutional infrastructure. During the operational phase of the industrial manufacturing unit, several problems arise relating to the efficiency of operation, capacity utilization, market changes, product line diversification etc. These call for well-developed management consultancy capabilities.

14. There are four principal spheres of possible co-operation in the industrial field. They are:

- (a) Industrial development policies, strategies and planning;
- (b) Industrial manufacturing unit and its critical elements:
  - Finance
  - Technology
  - Engineering and design consulting
  - Capital goods and equipment
  - Human resources
  - Marketing

## (c) Institutional infrastructure for industry:

Research and development  
 Engineering and design consulting  
 Standards institutions  
 Industrial safety  
 Productivity centres  
 Industrial finance institutions  
 Management consultancy  
 Vocational training and academic institutions

## (d) Physical infrastructure for industry.

15. ICDC can take place in the spheres outlined above either through commercial channels (i.e., between public or private industrial enterprises) or non-commercial channels when the actors involved are not necessarily seeking a monetary reward or profit. Non-commercial activities in general are executed by governments and their agencies through different types of agreements, in a bilateral or multilateral manner, frequently with the participation of international organizations which provide part of the resources needed to establish co-operation flows. The two types of industrial co-operation non-commercial and commercial can be regarded as complementary. In many cases non-commercial co-operation sets the stage for commercial co-operation activities carried out by enterprises or gives commercial ventures information and technological and scientific inputs that enhance their efficiency.

B. Scope of industrial co-operation activities  
 between developing countries

16. Three main situations can be visualized, according to the level of industrialization of the co-operating countries, that generally define the scope of industrial co-operation activities between developing countries. These are:

(a) Countries at an early or incipient stage of industrialization.

The key problems at the early stage of industrialization relate to the building up of industrial production capabilities. The production of simple consumer goods may rely on existing resources and traditional technology; more complex industrial activities need outside technology, services, key personnel and possibly financing. Another key problem is building up institutional infrastructure in research, education, standards, engineering services etc. Strategies for coping with these problems may be:

- (i) Integration arrangements (free-trade area, common market) to provide enlarged markets, thus enabling individual countries to specialize and complement products among themselves;
- (ii) Simple consumer goods can be produced mainly with traditional or freely available technology. However, some outside technical assistance may be needed. This could be obtained from a more industrialized developing country;

- (iii) More complex activities will inevitably need outside contributions, and the question is whether this may be obtained from other developing countries at higher levels of industrialization rather than from developed countries. Governments and international organizations have an important role to play through studies, contacts, information and promotion policies; but the main actors are the enterprises, either public or private;
- (iv) ICDC can also help in developing the supporting institutional infrastructure, possibly at a subregional level, through non-commercial co-operation between government agencies, universities and various associations;

(b) Countries at different levels of industrialization. The key problems here are similar to those reviewed in (a) above, i.e., installation of manufacturing and institutional infrastructure capacities, and the strategies for coping with these problems would also be similar. But in a fairly large developing country that is starting to enter more complex industrial areas, an interesting possibility for co-operation may appear: the development of a complete industrial system. In this process one or more developing countries at higher industrialization levels may play an important role. A complete industrial system would comprise not only production facilities but also other actors that participate in the development of an activity or branch consulting, engineering and construction firms; capital goods producers; research and development organizations; education and training institutions; financial institutions etc;

(c) Developing countries at a relatively advanced industrial level. ICDC in this situation would be aimed at two key problems: how to profit from each other's industrial and technological capabilities and how to keep close to the technological frontier in different areas, particularly research-intensive ones. Strategies for coping with these problems would comprise, among others:

- (i) An enlarged market for industry and for technology, requiring actions within existing multilateral integration schemes and in some cases ad hoc bilateral arrangements;
- (ii) Joint efforts in research and development and in technology matters.

17. Whatever the level of development of the co-operating developing countries, the High-Level Expert Group Meeting Preparatory to the Fourth General Conference of UNIDO, held at Bangkok, emphasized that ICDC should not be based on arrangements similar to those for transfer of technology from developed to developing countries, which were regarded as inequitable. Such co-operation should be based on conditions of equality and mutual benefit. Appropriate guidelines for industrial co-operation among developing countries should be drawn up; UNIDO could play an important role in this connection.

C. The potential for and constraints to industrial co-operation among developing countries

18. The High-Level Expert Group Meeting on Industrial Development Strategies and Policies for Developing Countries, held at Lima in April 1983 <sup>6/</sup> pointed out that if the world economy grew only slowly in the years to come the countries of the South would necessarily have to rely more than in the past on their internal dynamics and the growth of internal demand than on world market forces to generate economic expansion. They would need selective import substitution, as appropriate, more internally originating technological development and more economic and technological co-operation among themselves. It was moreover recognized that such industrial reorientation or restructuring would be easier to implement for the larger countries and for those at relatively more advanced stages of industrial development. For smaller countries and those at a relatively lower level of industrialization, international co-operation, particularly via regional and other integration schemes, might be essential.

19. In line with the above trend of thought, the Bangkok High-Level Expert Group Meeting felt that ICDC could be more meaningful if the structure and pattern of industrialization took into account the human and material resource endowments of the developing countries, the basic needs of the population and the need to ensure an equitable distribution of income. Within such a policy framework, developing countries could help each other through the transfer of relevant technology and trade in appropriate industrial products. ICDC would thus become an important element in a new strategy of industrial development, which would need to be consolidated and enlarged.

20. As far as the potential for ICDC is concerned, present world conditions reinforce the need for such co-operation. First, it is being recognized increasingly at a political level that ICDC has become an imperative need if industrial growth and the economic and social benefits arising from it are not to stagnate or in some cases decline further. Second, the developing countries as one collective unit by now already possess considerable resources and technology for their industrial development. They have: (a) the raw materials minerals, fibres, coffee, tea, cocoa, sugar, cereals etc.; (b) technological and labour capabilities; (c) physical and institutional infrastructure; and (d) significant financial resources, if capital-surplus oil-exporting countries are included. Third, there is a significant measure of complementarity both in the resources and to some extent in the industrialization needs of the developing countries, given their various stages of industrialization, which with a proper stimulus could lead to mutually beneficial ICDC. Fourth, vast markets for industrial products exist in the developing countries; these markets could be exploited through ICDC and thereby lead to increased industrial capacity utilization or development of new capacity. As noted above for instance, of the total exports of manufactured products absorbed by developing countries in 1979, about 90 per cent came from industrialized countries and only about 10 per cent from developing countries. Finally, many developing countries share similar historical backgrounds and face similar economic and social problems. By and large they are ex-colonies and many have achieved political independence only

recently. They are moreover predominantly primary commodity producers whose export earnings depend on a few products, which render their economies vulnerable to developments beyond their borders. In an attempt to solve their problems, these countries have acquired a wealth of valuable experience in the industrialization process that could be shared among themselves.

21. Constraints to ICDC arise, first and foremost, from the lack of policies and mechanisms for effectively handling such co-operation as well as of adequate financial means and technical capability and, second, from the results of the historical past of developing countries. Examples of the former might be: lack of finance, particularly foreign exchange, to accelerate flows of technology, human resources and trade in manufactures; inadequate harmonization of industrialization strategies and policies oriented towards ICDC; lack of information systems on needs and capabilities to undertake ICDC; and lack of proper organizational and technical capability at the national, regional and interregional levels to facilitate ICDC. Examples of the latter might be: consumption and production preferences favouring products and technologies originating in the industrialized countries; the existence of institutional infrastructures, including academic, technological and financial facilities, that favour or tend to perpetuate historical patterns of developed/developing country co-operation; and, finally, the uncritical acceptance of the concept of the nation-state as an economic unit irrespective of its natural endowments or size.

22. All this points to a need for certain prerequisites for promoting an expanded and more effective flow of technology, capital and industrial skills for industrialization in the developing countries. The preparatory High-Level Expert Group Meeting on Industrial Co-operation among Developing Countries identified those prerequisites as:

(a) The formulation of policies and incentives conducive to industrial co-operation among developing countries that are integrated within overall national development plans and policies and are supported by considerations of equity and mutuality in the sharing of benefits;

(b) The establishment of appropriate mechanisms at the national, regional and international levels for the execution of such policies;

(c) The identification of promising areas or projects where cooperation would be particularly effective and would be of mutual benefit to all parties, as well as be within the capabilities of developing countries to implement.

Through their programmes, UNIDO and other concerned international organizations such as the UNDP and the World Bank could play an important role in assisting the developing countries to establish these prerequisites.

II. POLICY OPTIONS FOR PROMOTING INDUSTRIAL CO-OPERATION  
AMONG DEVELOPING COUNTRIES

A. The place of industrial co-operation among developing countries  
in national industrial policies

23. Most developing countries have an explicit or implicit economic and social planning apparatus in which industrial planning forms an important, in some cases the most important, component. The present global economic situation and unpromising prospects for industrial growth in the developing countries has not altered the conviction of most developing countries that industrial development plays a central role as an instrument of growth, in structural adjustment, in the mobilization of additional savings for investment and in the achievement of backward and forward linkages and a more equitable distribution of income.

24. The objectives vary from country to country and thus affect the policy instruments designed to achieve those objectives. Nevertheless, there are certain features of industrialization policies that appear to be common to most developing countries and that may be categorized as follows:

(a) The development of agro-related industries, either agro-processing or producers of inputs for agriculture;

(b) The full utilization and development of domestic resources, reflecting the principle of self-reliance and comparative advantage criteria with regard to the development of renewable and non-renewable natural resources, as well as human resources;

(c) The production of mass consumption or "basic" goods to satisfy the needs and raise the living standards of the poorest segments of the population;

(d) The development of the capital goods industry, in view of its vital importance for the process of vertical integration, higher value added and employment;

(e) Greater emphasis on export promotion policies, often combined with the objective of pursuing import substitution activities in a more selective and efficient way;

(f) Greater emphasis on equity and welfare objectives, manifested in the concern about employment levels; expansion of labour-intensive industries; training of workers; industrial-deconcentration and small and medium-sized enterprises; improved production and distribution of basic goods; and promoting the integration of women in the industrialization process.

25. The rationale for increasing the extent and the favourable characteristics of ICDC follows from the expectation that this will increase the technological capabilities and the industrial activity of the co-operating countries through national and collective self-reliance. Thus, ICDC should be

viewed as part of the developing countries' efforts to accelerate industrialization and should play a part in the execution of the above policies, although it should be recognized that it might well be a long-term process that will require considerable nursing and time.

26. However, industrialization strategies and policies usually have been formulated and executed by developing countries without regard to the process of co-operation among developing countries. Given the existing political will and a genuine commitment to ICDC, it is an opportune time to take stock of the present situation and to determine the significance of such a commitment in the industrialization policies of developing countries. A policy and legal framework to strengthen or establish proper institutional mechanisms that promote and facilitate ICDC can be effective only if it is fully integrated within the overall strategy and policies to promote economic and industrial development at the national level, and it should also be harmonized with similar policy frameworks of other developing countries.

B. Policy orientations of industrial co-operation among developing countries

27. It is difficult to prescribe particular policies for ICDC that are of general applicability to all developing countries, since a developing country's industrial strategy and policies, of which policies conducive to ICDC need to be an integral part, could be expected to vary according to the chosen style of development, the level of industrialization already achieved, geographical size and location etc. and policy responses to dynamic changes in the international economic situation.

28. Nevertheless, it is possible to consider certain orientations that such policies should take based on the guiding principles of solidarity, mutual benefits, diversity of forms and the achievement of concrete results. At a global level, policies should give expression and coherence to objectives and activities of international institutions and mechanisms that developing countries might consider establishing to take action on a collective basis to accelerate their industrialization. Policies should therefore be oriented towards:

(a) Strengthening the negotiating capacities of developing countries to obtain fair and equitable conditions from the developed countries in the transfer of technology and managerial know-how, finance, energy and capital and intermediate products for industrialization;

(b) Sharing information and facilitating the flow of human, scientific, technological, energy and financial resources between the developing countries;

(c) Increasing direct foreign investment between the developing countries, particularly for the benefit of the least developed countries;

(d) Increasing South-South trade in manufactured goods and requisite raw materials, while at the same time ensuring that the least developed countries do not become the new periphery for the industrial centres in the developing world.

29. At a bilateral, regional and interregional level, such policies should be oriented towards:

(a) Co-ordinating and harmonizing national industrialization plans and promoting regional industrial sectoral planning and programming;

(b) Establishing multinational industrial enterprises in key priority areas and based on the utilization of local raw materials;

(c) Promoting joint ventures between industrial enterprises, both public and private, of developing countries;

(d) Encouraging joint tenders and project development by engineering and design consultancy organizations in developing countries;

(e) Strengthening regional and interregional industrial and professional associations of the developing countries;

(f) Ensuring special treatment for countries in the initial stages of industrialization in the sharing of costs and benefits related to particular projects for ICDC;

(g) Developing financial co-operation for project development and industrial investment.

30. The preparatory High-Level Expert Group Meeting on Industrial Cooperation among Developing Countries, while identifying the broad policy orientations outlined in the preceding two paragraphs, also proposed a series of more specific objectives that should be addressed by policies to promote ICDC. The Meeting stressed that such policies of developing countries should aim at:

(a) Multiplying initiatives for ICDC. This needs information on opportunities for ICDC operations, a study of potential supply and demand and mechanisms for bringing together the likely participants in such operations;

(b) Making available financial support and incentives for projects for ICDC to the interested parties;

(c) Setting up projects involving ICDC that have positive features that will produce benefits to the countries concerned;

(d) Working out concrete proposals, which may include co-operation between public and private enterprises, co-operation between institutions that support industrialization and co-operation aimed at developing comprehensive industrial systems;

(e) Establishing technical co-operation networks among two or more developing countries;

(f) Formulating integrated programmes of industrial development in such fields as agro-industries and energy;



(g) Setting up networks of national manufacturing associations and chambers of commerce and industry to help in project identification and to promote contacts among entrepreneurs concerned.

31. The Meeting also called on the developed countries to provide support for programmes for ICDC, through various means, such as:

(a) Providing funds within their development assistance programmes for the promotion of joint industrial ventures and multinational enterprises of the developing countries, for technological research activities, for pre-investment studies and for actual investments;

(b) Facilitating separate procurement of equipment and technological inputs in investment projects they fund, in order to encourage importation of capital goods, engineering services and technology from other developing countries;

(c) Supporting the development of new schemes for export credit finance and guarantees by the World Bank and regional development banks;

(d) Supporting the establishment of a South-South bank in the light of on-going studies by the Group of 77;

(e) Increasing their voluntary contributions to the United Nations Development Programme (UNDP) and the United Nations Industrial Development Fund with a view to meeting the growing requirements of developing countries in relation to operations and programmes for ICDC.

### III. MECHANISMS AND INSTRUMENTS FOR PROMOTING INDUSTRIAL CO-OPERATION AMONG DEVELOPING COUNTRIES

32. This chapter provides an overview of mechanisms and instruments related to ICDC which have been or need to be put into practice at various levels: national, subregional, regional, interregional and global.

#### A. National level

33. Industrial co-operation among developing countries has, as mentioned above, mainly come about as a result of industrial joint ventures, in most cases between enterprises in the private sector. There are, however, some important aspects of industrial joint ventures that need to be examined. First, in many developing countries public sector enterprises or parastatal organizations have emerged as important industrial enterprises. The emergence of the public sector enterprises as potential partners in industrial joint ventures and the role they can play as instruments of co-operation is worth examining.

34. Second, there have been some well-known problem areas in joint ventures between enterprises in developed and developing countries. These essentially relate to:

Political risks and limitations: political dominance, neo-colonialism;

The concept of self-reliance: do joint ventures help or impede self-reliance?

Conflict of sharing of costs and benefits;

Conflict of management styles;

Problems of transfer pricing, over or under invoicing.

There is some concern, particularly among the less developed of the developing countries, that industrial joint ventures among developing country enterprises may not differ significantly from the traditional North-South joint ventures. Experience in this respect has been mixed. Keeping the principles of ICDC in view, the appropriateness of adopting guidelines for industrial joint ventures among developing countries is worth considering.

35. Another form that industrial co-operation at the enterprise level has taken is multinational enterprises. These have been particularly popular in the countries of the Andean Pact and ASEAN. However, problem areas have emerged in some cases and need consideration. One relates to the allocation of benefits who gets how much? Particularly in the case of vertical integration of industries, the question arises whether value added is an index of return on investment. Downstream value added is always much higher than in the earlier stages of industrial raw material conversion. However, the owner of the industrial raw material legitimately raises the question that if there were no raw material available, there would be no value added whatsoever. Another problem relates to horizontal integration, where components are manufactured in different enterprises in different countries based on comparative advantage. This system has proved effective as practised by transnational corporations, as seekers of efficiency, because individual enterprises are backed by central design, standardization and control systems. Alternative mechanisms have to be considered in the case of such operations among developing country enterprises, which often lack such centralized resources of the required magnitude.

36. The High-Level Expert Group Meeting on Industrial Co-operation among Developing Countries made a number of recommendations on measures that governments of developing countries could take at a national level where major efforts were required. These included, on the one hand, the establishment of national focal points for ICDC which may receive support and orientation from external institutions and international organizations. National focal points should collect information about the supply capabilities of their countries for ICDC, as well as their demands relative to ICDC, making this information available to other developing countries through the UNIDO Industrial and Technological Information Bank. They should also pursue initiatives for ICDC on a systematic basis. Governments may, on the other hand, enter into agreements for co-operation, which may be of a general framework type or relate specifically to certain programmes. A particularly interesting case is that of a "twinning" arrangement, which may bring together into a long-term cooperation arrangement industrial enterprises (mainly those in the public sector) or institutions that support industrialization (research institutes, engineering schools, standards institutions etc.) or may be directed to the development of a comprehensive industrial system for a given industry.

B. Subregional, regional and interregional levels

37. Regional and interregional industrial co-operation mechanisms can be effective instruments leading to the achievement of progressively higher degrees of complementarity, specialization and efficient use of resources. At present, ICDC at this level is being attempted mainly in the context of regional and subregional integration schemes directed towards the expansion of trade in manufactures, the allocation of industrial activities among member countries of a regional grouping and the expansion of production through joint ventures and multinational enterprises. However, it should be underlined that, as noted above, to date the actual achievements of the various subregional and regional integration schemes in industrial development appear to have been limited; consequently, there is at present a reassessment and reorientation process taking place in many of the schemes. The sharing of experience within a context of ICDC at an interregional level would appear to be useful for such a reassessment and reorientation process. 7/

38. The preparatory High-Level Expert Group Meeting on ICDC proposed a number of ICDC possibilities at the subregional, regional and interregional levels. These included:

(a) Mechanisms favourable to ICDC within integration schemes. These may include trade liberalization; industrial programming, leading to industrial complementarity among the participating countries; the setting up of multinational enterprises; joint projects on physical infrastructure (hydroelectricity, international roads and bridges, railways etc.); joint programmes for technology development; complementarity and co-operation in consulting and engineering services; co-operation in university education etc.;

(b) Technical co-operation networks linking similar institutions in different countries in "soft" technology areas, such as vocational training, engineering education, technological research, standards etc., and in "hard" technology areas as well, such as agro-industry, petrochemicals etc.;

(c) Joint technology enterprises that may provide technological know-how services and "packages" to the participating countries in areas such as iron and steel, electric energy production, non-ferrous metals, plastics etc. This type of mechanism may complement technical co-operation networks in a certain branch;

(d) "Clubs for industrial co-operation" such as found in ASEAN would be useful mechanisms for promoting co-operation between private and public sector organizations in specific industrial branches;

(e) Tax credit agreements may serve as a basis for the promotion of multinational enterprises within the framework of broad interregional economic co-operation;

(f) The exchange of experiences among economic groupings in different regions should be promoted; an important point is that of legal arrangements for the establishment of mechanisms and instruments for ICDC, such as multinational enterprises.

### C. Global level

39. Instruments for ICDC at a global level should have a twofold purpose: they should, on the one hand, provide support for activities in ICDC at bilateral, regional and interregional levels and, on the other, strengthen the negotiating position of developing countries vis-à-vis the developed countries in the acquisition of technology and other resources for industrial production, as well as in the securing of markets for their manufactured exports.

40. Many projects at the enterprise level that could be executed by cooperating developing countries are carried out by industrialized countries because transnational corporations and other organizations, such as plant and equipment suppliers in the developed countries, often undertake the preparation of feasibility studies on a free-of-charge basis. A "project development facility" for developing countries that would assist in the proper formulation and preparation of industrial projects, including pre-feasibility and feasibility studies and bankable project proposals, would provide a viable alternative to this. In fact the Third General Conference of UNIDO, in its New Delhi Declaration and Plan of Action, considered such a project development facility to be essential. The non-aligned summits also have considered and endorsed such a facility, most recently at New Delhi in March 1983. 8/

41. An "industrial project information system" would also help considerably in efforts towards increased ICDC. Such a system could collect and disseminate information through national focal points about industrial projects under consideration or in the planning stage in various countries, so that possibilities for ICDC could be explored at an early stage of industrial project planning and design. Thus, the chances of realizing joint ventures and operational level co-operation between enterprises in developing countries would be improved considerably. The UNIDO Industrial and Technological Information Bank could expand its scope to include such a service.

42. An essential factor in industrialization is the provision of adequate finance. At present the burdensome scale of external debt service charges, the widening balance-of-payments deficits and the threat of contractionary policies induced by conditions attached to International Monetary Fund (IMF) lending are issues that cannot be tackled by any developing country on its own. In the face of such a bleak outlook, the proposal made under the Caracas Programme of Action of the Group of 77 to set up an international bank for development in the South could constitute part of the response of the developing countries in their search for the new international economic order. UNIDO has made the proposal that countries join in setting up an international bank for industrial development. This proposal is still on the table. Its structures could readily be adapted to establish a "South-South development bank" to provide not only project financing but also viable mechanisms for promoting multinational industrial ventures between developing countries and rendering technical assistance on the matter. 9/

43. Finally, another essential instrument at a global level could be the establishment of a "third world economic secretariat" with the limited but

crucial objective of assisting the developing countries in their international economic negotiations and, more importantly, in promoting and realizing their enormous potential through co-operation among themselves, including in the field of industrial development.

44. It should be noted that the preparatory High-Level Expert Group Meeting held in July 1983 at Bangkok endorsed the above mentioned propositions for the consideration of the present General Conference. 10/ It is apparent that the role of UNIDO could be significant in providing assistance to establish such global mechanisms.

#### IV. PROMISING AREAS FOR INDUSTRIAL CO-OPERATION AMONG DEVELOPING COUNTRIES

45. As stressed at the outset, an essential element to give shape and form to a concrete programme of action for ICDC is the identification of specific functional, sectoral and project areas that hold promise and potential for ICDC. This is of particular importance for those critical requisites in planning and putting into operation industrial production units in the developing countries, namely, human resources, technology, energy, finance, marketing and industrial consultancy.

46. Since separate documentation on most of the above subjects is before the Fourth General Conference, this chapter will be confined primarily to, first, briefly reviewing certain possibilities for ICDC in each of the critical areas and, second, outlining the role of UNIDO in the light of its past work in promoting ICDC and the recommendations emanating from the High-Level Expert Group Meeting on Industrial Co-operation among Developing Countries, preparatory to the Fourth General Conference.

##### Industrial training

47. Trained labour with adequate and appropriate skills is one of the most important requisites for the operation of industrial production units. Considerable scope exists for increasing activities for ICDC that are already taking place in this area: industrial training in a developing country has the advantage that the training conditions, environmental factors and problems to be solved are likely to be similar to those in the trainees' country, and the cost can be expected to be less. The development of entrepreneurial, managerial and technical capabilities not alienated from developing country situations are in fact key areas of priority for the development of industry. 11/

48. One of the promising areas for ICDC in the area of human resources is the establishment of regional networks of training institutions and centres of excellence in the developing countries to provide a wide range of appropriate training and development programmes to suit the changing profile of industrial and technological needs in the developing countries. Through such networks, in-plant training programmes could also be organized more effectively in industrial plants of developing countries. 12/

49. The preparatory High-Level Expert Group Meeting on Industrial Cooperation among Developing Countries stressed the importance of development oriented education and training which could meet the specific requirements of developing countries and made a number of recommendations as to how this could be achieved through ICDC. (The recommendations of the Meeting that call specifically for the involvement of UNIDO in this and the other critical areas are outlined in the second part of this chapter concerned with the role of UNIDO.) The Meeting also pointed to the special needs of the least developed countries and, in this connection, recommended that guidelines should be developed for assisting those countries in extension services, the dissemination of information and industrial training including training for rural industries. Such guidelines should be based on sharing experience and pooling ideas of developing countries in this field. 13/

#### Development of technological capability

50. The development of a technological capability in industrial production is one step towards reducing the South's technological dependence on the North. In fact, without a concerted effort on the part of developing countries, the third world will become helpless observers of new and emerging technologies. As noted in the International Forum on Technological Advances and Development preparatory to the present Conference, "the emergence of technological advances would, in a sense, lead to a new phase of co-operation among developing countries. The problems faced by them in information collection, forecasting, assessment, selection, acquisition, adaptation and absorption of new technologies and endogenous development and application of such technologies, will have much in common and it is therefore necessary to exchange information on policies and experiences in this field. Co-operative programmes should extend beyond the exchange of information to collective negotiation and acquisition of technologies, setting up of common production facilities, technological institutions and programmes. More importantly, the developing countries may have to consider together a collective strategy for their response to technological change." 14/

51. As regards the strengthening of technological capabilities, the preparatory High-Level Expert Group Meeting on Industrial Co-operation among Developing Countries was of the opinion that networks of research and development institutions on a regional and interregional basis should be formed, and specific research and development programmes and activities should be evolved for undertaking joint research and development projects for which specific needs exist in one or more developing countries. Emphasis should be on development of relevant technologies.

#### Energy

52. Energy is another important input for the operation of industrial production units. However, developing countries have been encountering serious constraints in this field, which have had a direct and significant impact on the pace and direction of their industrialization. The major problem is that developing countries need to import considerable quantities of conventional fuels for industrial and non-industrial purposes. The high costs

for such fuels have in turn curtailed the availability of foreign exchange, thus restricting imports of capital and intermediate goods upon which the rate of industrial development depends. Energy promises to be an important area for ICDC, particularly new and renewable sources of energy. Components of such co-operation can be: joint projects, such as hydroelectric power for industrialization; joint research and development on new sources of energy, such as solar, biomass and others; and research and development requirements to improve the extraction, conversion and industrial application aspects of energy sources such as coal. 15/ The preparatory High-Level Expert Group Meeting on Industrial Co-operation among Developing Countries recognized the emerging opportunities for ICDC in the field of energy, particularly related to mini-hydro plants, equipment manufacture, design and consultancy services, operational management and training programmes.

#### Finance

53. There are good potentials for establishing linkages and network programmes of co-operation between regional development finance institutions in the developing countries that serve to attract and mobilize funds from the international finance market and channel them into the regional priorities of their respective programmes, including those related to industrialization. The preparatory High-Level Expert Group Meeting on Industrial Co-operation among Developing Countries felt that, should a South-South bank come into existence, it could provide assistance to the networks of regional development banks so as to enhance activities for ICDC. 16/

#### Trade

54. Important factors tending to inhibit an increase in trade in manufactures between developing countries are: uneven and biased information, inadequate communication and lack of marketing networks available to the industrial enterprise in developing countries. The preparatory High-Level Expert Group Meeting on Industrial Co-operation among Developing Countries was of the opinion that general trading organizations for developing countries, which have succeeded in linking domestic industrial firms to overseas buyers and sellers, would go a long way to overcoming such inhibiting factors. This would require that a system of general trading organizations (private or state-owned) in each developing country and a regional and interregional network with a collective system of information gathering be established.

#### Industrial consultancy

55. In view of its important role in designing and implementing industrial projects and transforming technologies into "technologies in use", industrial consultancy plays a crucial role in the industrialization of developing countries. The development of an indigenous industrial consultancy capability

could be enhanced through co-operation schemes involving the sharing of experiences, exchange of personnel, joint work on projects, joint ventures between consultancy firms in developing countries and exchange of information of relevance to the consultancy profession on a regular basis.

#### V. THE ROLE OF UNIDO

56. UNIDO activities to promote economic and technical co-operation among developing countries in the industrial sector began even prior to the United Nations Conference on Technical Co-operation among Developing Countries, held from 27 March to 7 April 1978 at Buenos Aires. The special interest of UNIDO in this field began with a proposal, submitted by the Government of Senegal to the first session of the Permanent Committee of the Industrial Development Board in 1972, calling for an exchange of experience between developing countries in the creation or development of small and medium-scale industries. Moreover, the Industrial Development Board, in its resolution 36 (VII) adopted at its seventh session in May 1973, invited the Executive Director "to establish as soon as possible and as a first stage, a concrete programme of operational activities for the purpose of promoting technical co-operation among developing countries, by the exchange of duly adapted technology, information and development assistance formulae in the field of industry, including small and medium-scale industries, industrial programming, industrial financing etc.". It also requested the Governing Council and the Administrator of the United Nations Development Programme "to consider the measures necessary to encourage this new form of co-operation and technical assistance". Finally, as mentioned at the outset of this document, the Lima Declaration and Plan of Action, adopted by the Second General Conference of UNIDO in 1975, attached great importance to economic and technical co-operation among developing countries and outlined a number of measures to be taken to promote industrial co-operation among developing countries.

57. As one of the first steps in the implementation of its programme, the UNIDO secretariat carried out a survey to define specific areas in which developing countries could offer technical co-operation for industrial development or would welcome such offers from other developing countries. In consultation with some 40 developing countries, a preliminary list of opportunities for co-operation was issued in May 1975, and it included some 360 specific offers of resources. Although this preliminary sample did not include information on a number of countries with important resources to offer, it nevertheless indicated considerable potential for co-operation among developing countries in a fairly wide range of industrial fields and offered a useful basis for further development of the programme.

58. The UNIDO programme for ICDC has five mutually supporting components:

(a) Organization of "solidarity" meetings, aimed at benefiting the least developed countries, and "round table" ministerial meetings;

(b) Promotion and development of joint programmes for specific industrial sectors;



(c) Follow-up of recommendations of the System of Consultations for ICDC and organization of regional Consultations;

(d) Exchange of experience and information on development, adaptation and transfer of technology;

(e) Support measures to the Caracas Programme of Action of the Group of 77, including substantive assistance in the organization of follow-up meetings.

59. The UNIDO programme for industrial co-operation among developing countries 17/ is primarily intended:

(a) To promote the spirit of solidarity and to increase the awareness of the necessity and possibility of economic and technical cooperation among developing;

(b) To encourage the developing countries to adopt policies and regulations favourable to economic and technical co-operation among developing countries in order to obtain maximum benefit from them;

(c) To promote special programmes for ICDC between regions, e.g., the Latin American region and African countries;

(d) To promote co-operation in specific industrial sectors, as well as specific projects, in order to strengthen the indigenous capabilities of the developing countries;

(e) To promote mechanisms of co-operation for Africa within the framework of the Industrial Development Decade for Africa.

60. The High-Level Expert Group Meeting on Industrial Co-operation among Developing Countries, preparatory to the present Conference, made a number of specific recommendations to strengthen and expand UNIDO activities in this field:

(a) There should be further expansion of the UNIDO solidarity meetings for the least developed countries, as well as support to the round table conferences organized within the framework of the Substantial New Programme of Action for the 1980s for the Least Developed Countries; 18/

(b) Expert meetings should be organized by UNIDO to explore ICDC in various industrial branches. UNIDO should promote or carry out studies that may help to foster and orient ICDC. In particular, a study should be conducted of subregional possibilities, for example on the experience of ASEAN industrial clubs, within the framework of industrial co-operation with a view to wider applications of this mechanism;

(c) Industrial investment promotion activities by UNIDO should be strengthened and should include joint venture arrangements for ICDC;

(d) There should be support for drawing up model agreements and standard contracts for such joint ventures;

(e) UNIDO should continue its work in identifying existing centres of excellence for training, assessing their capabilities and potential and developing technical co-operation projects to strengthen these centres to serve the national needs, as well as the needs of other developing countries;

(f) Developing countries, with the assistance of UNIDO, should carry out case studies for management and entrepreneurial development that are appropriate to their situation and exchange such information to evolve "appropriate training material" and "training systems";

(g) The impact of new technologies on developing countries should be assessed in depth and areas of co-operation should be identified. The Meeting noted the pioneering work of UNIDC in this area and urged that work should be continued and accelerated. Programmes for policy harmonization, as well as development of projects should be evolved among developing countries in these areas;

(h) The UNIDO Technological Information Exchange System (TIES) should be expanded, with focus on sectoral needs. The manner in which TIES could help the least developed countries should be developed and mechanisms based on the past experiences of the TIES system should be improved;

(i) Regional consultancy networks should be established to increase industrial consultancy capabilities in developing countries, and UNIDO should play an important role in this field;

(j) UNIDO should strengthen and expand the section concerned with promoting industrial co-operation among developing countries.

6i. In order to expand UNIDO's work in the area of ICDC, developing countries are invited to make special-purpose contributions (ICDC) to United Nations Industrial Development Fund.

Notes

1/ Report of the High-Level Conference on Economic Co-operation among Developing Countries, Caracas 13-19 May 1981 (A/36/333), page iii.

2/ Lima Declaration and Plan of Action on Industrial Development and Co-operation (A/10112), chap. IV; and New Delhi Declaration and Plan of Action on Industrialization of Developing Countries and International Co-operation for their Industrial Development (ID/CONF.4/22 and Corr.1), chap. VI.

3/ Industrial co-operation among developing countries is defined in this document as comprising economic as well as technical co-operation among developing countries in the field of industrial development and, as agenda item 5(i) implies, is concerned with strengthening both economic and technical co-operation.

4/ World Bank, World Development Report 1982 (Oxford University Press, 1982), pp. 132-133.

5/ See Report of the High-Level Expert Group Meetings Preparatory to the Fourth General Conference of UNIDO: Industrial Co-operation among Developing Countries, Bangkok, Thailand, 18-22 July 1983 (ID/WG.399/4).

6/ Report of the High-Level Expert Group Meetings preparatory to the Fourth General Conference of UNIDO: Industrial Development Strategies and Policies for Developing Countries, Lima, Peru, 18-22 April 1983 (ID/WG.391/12), pp. 18, 19.

7/ See Report of the ASEAN/Andean Pact Conference and Study Tour on Regional Industrial Co-operation, Lima, Peru, 11-23 October 1982 (UNIDO/IS/R.9).

8/ See draft Economic Declaration of Seventh Conference of Heads of State or Government of Non-aligned Countries, New Delhi, March 1983 (NAC/Conf.7/Doc.6/Rev.3), 11 March 1983.

9/ For a more comprehensive treatment of this subject see ID/CONF.5/13 prepared for consideration of the Conference under agenda item 5(c) "Mobilization of financial resources for industrial development".

10/ Report of the High-Level Expert Group Meetings Preparatory to the Fourth General Conference of UNIDO: Industrial Co-operation among Developing Countries, Bangkok, Thailand, 18-22 July 1983 (ID/WG.399/4), p. 18.

11/ See Accelerated Development of Human Resources for Industrial Development: Some Issues for Consideration (ID/WG.394/1). The document was one of the basic discussion papers before the High-Level Expert Group Meeting on Accelerated Development of Human Resources for Industrial Development, preparatory to the Fourth General Conference, held at Yaoundé, United Republic of Cameroon, 30 May-3 June 1983.

12/ For further elaboration on these subjects, see the Report of the High-Level Expert Group Meetings Preparatory to the Fourth General Conference of UNIDO: Accelerated Development of Human Resources for Industrial Development, Yaoundé, United Republic of Cameroon, 30 May - 3 June 1983 (ID/WG/.394/8), chap. IV; and ID/CONF.5/9 prepared for agenda item 5(a) of the present Conference.

13/ See also the background paper for agenda item 5(h) of the present Conference, "The least developed countries: implementation of the Substantial New Programme of Action" (ID/CONF.5/10).

14/ Report of the High-Level Expert Group Meetings Preparatory to the Fourth General Conference of UNIDO: International Forum on Technological Advances and Development, Tbilisi, USSR, 12-16 April 1983 (ID/WG.389/6), pp. 28-29. See also in this connection the background paper for agenda item 5(b) of the present Conference, "Strengthening of scientific and technological capabilities for industrial development in developing countries" (ID/CONF.5/6).

15/ See also in this connection the Report of the High-level Expert Group Meetings Preparatory to the Fourth General Conference of UNIDO: Energy and Industrialization, Oslo, Norway, 29 August-2 September 1983 (ID/WG.402/12) and the background paper prepared for agenda item 5(d) for the present Conference "Energy and industrialization with special emphasis on development and application of energy resources and manufacture of equipment" (ID/CONF.5/7).

16/ See also in this connection the background paper prepared for agenda item 5(c) for the present Conference, "Mobilizing of financial resources for industrial development" (ID/CONF.5/13).

17/ For more information and elaboration, the relevant parts on Industrial Co-operation among Developing Countries of other background papers for the Conference should be consulted. See also background paper presented to the preparatory High-Level Expert Group Meeting on Industrial Co-operation among Developing Countries, titled UNIDO's Activities for Promoting and Implementing ECDC/TCDC (ID/WG.399/3); and "Promotion of industrial co-operation between Latin American and African countries and organizations" (UNIDO/PC.75).

18/ Report of the United Nations Conference on the Least Developed Countries, Paris, 1-14 September 1981 (United Nations publication, Sales No. E.82.I.8), part one, sect. A.

