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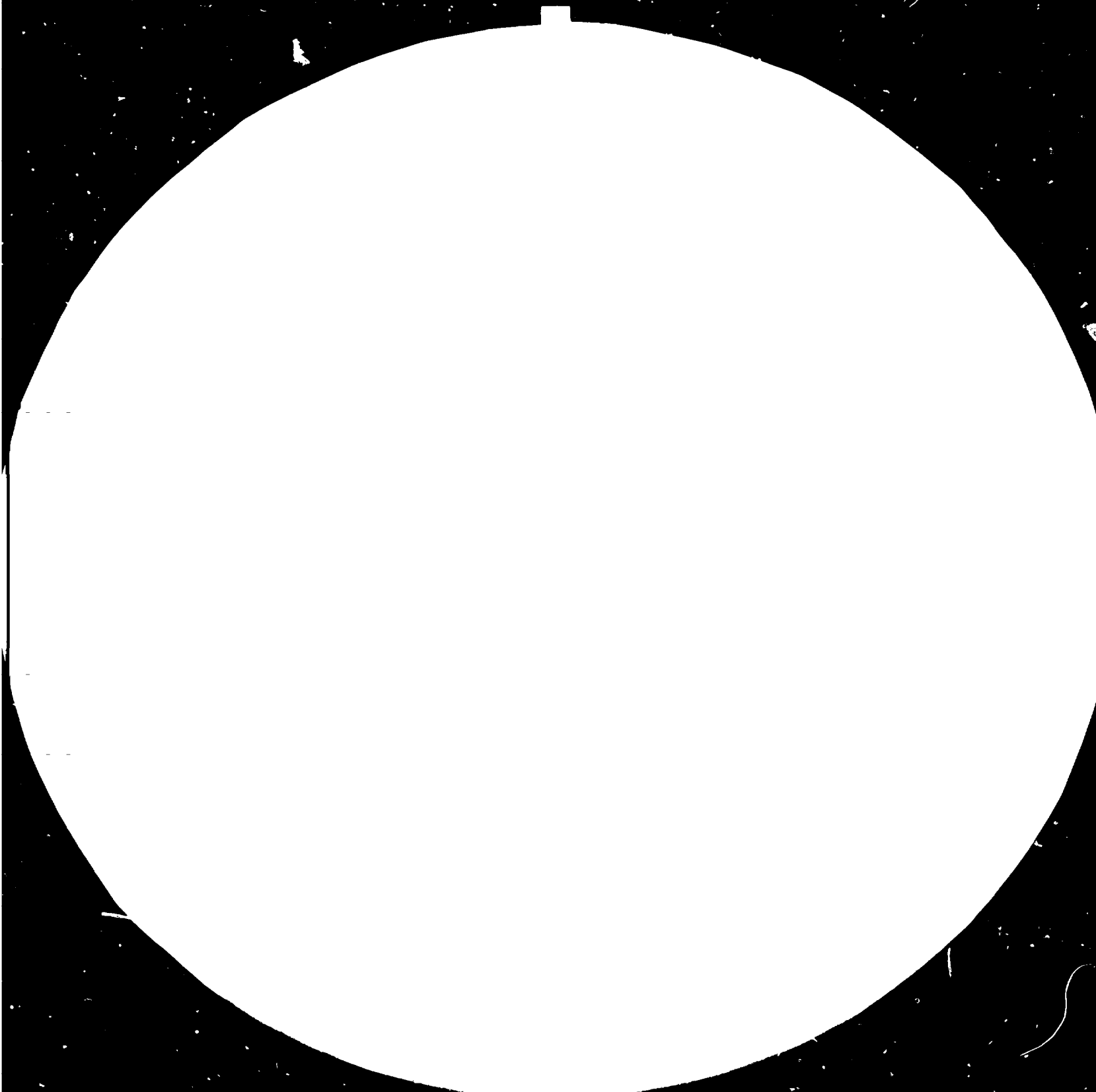
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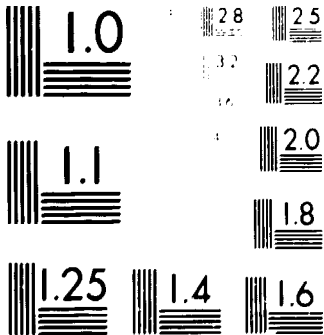
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"The Tenth Round Table of Developing Countries
Industrial Development and Co-operation among
Developing Countries from Small-Scale Industry
to the Transnational Corporations"

Zagreb, Yugoslavia, 15-17 September 1982

Industrial Development and Co-operation Among
Developing Countries

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938

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** IDC: Institute for Developing Countries.

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1. Introduction

The international pressures under which developing countries have to achieve goal of industrialization have hardly eased out. The slow growth rate witnessed by the developed countries has been the main factor for the decline in the demand for exports from developing countries. Another factor that must have affected the growth rate of industrialization among developing countries has been enormous rise in the oil prices.

Some of the better off developing countries managed to expand exports and borrow extensively in commercial markets. However, most of the poor and land-locked countries have come under the international pressures at the end of the decade in which they have made little or no progress. These countries have now to face the 1980s which have started badly for them with remote chances of improvement in either their trade or their aid prospects. Thus developing countries need to improve a lot in their domestic performance. But in the absence of enhanced support from the international environment they would hardly achieve even a slow rate of progress towards their goal of industrialization. The world in terms of economic

activity is expected to divide even more sharply between the have and have nots.

These problems highlight an urgent need for adjustment to be made both at national as well as international levels. The national policies need to be adjusted mainly on the principle that no help is like self-help. Measures within the national scope and actions/initiatives which the developing countries can adopt are spread over a wide field of economic activity and affect the whole spectrum of the country's industrial development. They embrace such activities as planning and strategy, setting up of financial and other institutions, elimination of social disadvantage, promotion of technology, and establishment of production facilities, inter-regional development, training and utilization of national resources.

At the international level there is an urgent need to redress the international economic order so as to achieve the New International Economic Order.

It is now being generally felt that the introduction of an open international economic system will inculcate the spirit of partnership between all concerned. It will also offer better chances of coping with the problems of balanced industrialization among the developing countries.

2. Economic Co-operation Among the Developing Countries

It has been observed that the economic co-operation among developing countries has not been as intensive as it could be. However, there are certain regional schemes which have proved to be instrumental in promoting trade and regional

economic co-operation. The Latin American Economic System (SELA), the Caribbean Community, the Andean Group, the Association of South Asian Nations (ASEAN), the Regional Co-operation for Development (RCD) and the Economic Community of West African States (ECOWAS) are notable examples.

Sectoral development programmes in the fields of engineering, petrochemical, metal working and automotive have been reported to be pursued by all members of the Andean Group of countries. Technical co-operation programmes among several countries of ECLA (Economic Commission for Latin America) have also been initiated in the region as well as in Africa. Regional co-operation among the member countries of ASEAN has also been quite extensive which included co-operation in the fields of trade, investment payment facilities, industrial development and technology. Similarly, RCD shows another example of institutionalized frame-work whose member countries are Iran, Pakistan and Turkey. Within this programme the various forms of co-operation include equity ownership in public and private sectors, off-take guarantees for the projects of joint enterprises, common pool of raw materials, adoption of common standards and the satisfaction of the requirements of the member countries on a complementary basis.

The Arab Common Market is another example whereby these countries contribute in terms of financial assistance to the lesser developed countries in Africa and Asia. The contribution of oil producing Arab countries towards the development/industrialization of developing countries has been quite substantial and steady during the last four years.

Today many countries in the Third World have acquired

sophisticated manufacturing capabilities and technical know-how, which they are in a position to share with other developing countries. Such countries are also offering turn-key projects and complete plants of various types. They can sell fertilizer factories, blast furnace, thermal power plant, consumer durables, engineering and consultancy services. They can even offer financial participation.

A number of bilateral, multilateral and regional agreements have been concluded on trade, joint ventures, investments, technical co-operation, training and establishment of industrial capacities, but they still fall short of expectations and requirements for international industrialization. The field is wide open and its further exploitation is needed. New channels, new modalities and catalytic instruments have yet to be devised.

3. Role of Financial Institutions in Financing Industrialization

The banks play a very important role as intermediaries. It is because open markets for primary securities are not always available to the investors in many developing countries. The banking system can promote investments through the following two means:

- (a) They can extend credits to investing enterprises in the private and public sectors by currency issues through the central bank, demand deposits of commercial banks or time deposits of savings bank;
- (b) Self-financed investment may be encouraged within industrial firms. In many developing countries small

enterprises do not have easy access to outside credits even from the banking system. To finance outlays for machinery or labour small scale entrepreneurs accumulate bank deposits prior to making their investments. Thus the economic attractiveness of building up and holding cash balances is itself important for self-financed capital accumulation in developing countries.

4. Specialized Credit Agencies and Their Role in Financing Industrialization

The government predominantly controls specialized credit agencies. Of 113 such agencies in developing countries 57 are fully publicly owned and 21 have majority government ownership. Only 16 are fully privately owned.* Of 54 institutions for which information is available on the amount of total funds earmarked or available for industrial purposes, 17 agencies allocate funds to industry, another 36 devote over 50 percent of their finance to industry and the remaining 11 earmark less than 20 percent for this sector. It is generally believed that the specialized credit agencies play vital role in terms of industrial finance.

In principle, deposit banks and the central banks are the main institutions for collecting resources from primary savers in the developing countries. However, the more deeply involved the government becomes in setting interest ceiling and allocating credits to priority users - placing reserve and investment requirements on the deposit - collecting banks - the more likely will be a proliferation of specialized credit

* UNIDO Financial Resources for Industrial Projects in Developing Countries Pl/61.

agencies, allocating subsidized loans in a quasi - independent manner. Such agencies can provide finances for export promotion, fertilizer industries and small business development.

Little government intervention is usually necessary to strengthen the institutional framework where there is competition among the financial institutions. It has also been observed that in many developing countries there is considerable conflict between private and social financial objectives. In such circumstances the development banks or corporations have been established to foster specific types of industrial investment. These agencies in such cases can act as distributors of government funds which may be provided at concessional rates. As long as the actual costs of such subsidies are recognized and kept within the acceptable limits, such financial institutions can also be used for supplying necessary technical expertise for evaluation of specific industrial projects. These institutions can also supply technical advice and act as a channel for distribution of higher scale foreign loans or grants obtained for development purposes. Another role of these institutions is to provide financial and accounting guidance to small scale entrepreneurs. It is often found that small scale entrepreneurs are not fully trained in accounting techniques and they may not be aware of the fact that proper book keeping and other control records could reasonably contribute to the quality of their output and help them in making financial decisions. In addition to money lending these financial institutions may also help the small scale entrepreneurs in terms of leasing of equipment, rental of industrial estates or the mass

purchase of supplies for distribution on credit terms. Such an assistance has been given by agricultural co-operatives in many countries and similar roles could be played by developing corporations, developing banks and co-operatives for the industrialization of the less developed countries.

5. International Co-operation for Financing Industrial Development in Developing Countries

Financing plays an important role in the industrial development of a country. Since the present domestic and foreign financial resources available to a developing country are insufficient for achieving the goal of industrialization, it is necessary to explore new avenues for the sources and forms of international financing to meet the requirements of developing countries. The financial assistance provided by developed countries so far has also failed to meet the targets assigned to them. Their contribution in terms of foreign assistance has rather declined in the past few years. Due to lending powers of bilateral and multilateral agencies, the pattern of developing borrowing has polarized. Concessional financing is increasingly concentrated on the least developed countries which is mainly oriented towards rural development and basic needs in the poorer countries. With the result other developing countries have to rely mainly on non-concessional resources with the consequences that industry even in the poorer country has become more dependent on international bank lendings, private foreign investment and export credits.

In addition the changes made by developed countries in their policies have also affected the domestic financial markets. These changes have serious repercussions for borrowers in developing countries.

In short, there is an increasing need for substantial rise in the flow of additional resources for developing countries on easy terms which would help them to achieve their goal of industrialization. A few actions are outlined below which need to be taken at the international/national level to help the developing countries in accelerating the pace of their industrialization process.

6. Actions To Be Taken by Developing Countries

- (a) In order to obtain maximum benefit out of the private foreign investment the developing countries should formulate plans and policies which should clearly define and regulate the role of investing foreign agencies. Before entering into contract with such foreign agencies a developing country must ensure that the intended investment would be complementing the national efforts for industrialization in accordance with the national economic objectives.
- (b) Another area which remain yet to be explored by the developing countries in terms of getting finances from outside is the mutual flow of resources between developing countries. A financially better-off developing country can help another less developed country on the basis of mutual help as an expression of solidarity and industrial

co-operation between them. Such a co-operation among these countries can be achieved in the following three ways:

- (i) A mutual crediting system can be established among the developing countries for their overall benefit.
- (ii) Flow of finances from a better-off developing country can be streamlined through industrial investments to be made by the former in developing countries.
- (iii) Another way of mutual co-operation among the developing countries could be promoted through direct co-operation between their financial institutions.

It is, however, of foremost importance that the developing countries should strengthen their national industrial development financial institutions.

7. Actions To be Taken by Developed Countries

Substantial increase in the flow of additional resources to developing countries need to be assured. Developed countries should help in the establishment of a North-South Global Fund for the promotion of industrialization among developing countries. The debts of the least developed and most seriously affected country should be written off. The fundamental reform of the international monetary system adopted by the Ministeries of Finance of the Group of 77 in Belgrade in September 1979 should be put into practice. Similarly the Official Development Assistance and the activities of the World Bank and other International Financing Institutions should be to a greater extent oriented towards the industrialization of all developing countries.

8. Establishment of Joint Developing Countries' Consultancy Agencies and Services

One of the important tools to accelerate the industrialization of developing countries is the establishment of a system of consultations among them. It is also an instrument for re-deployment of industries from developed to developing countries and restructuring of world industries in the context of the New International Economic Order. Such consultations among developing countries can be held on a permanent and continued basis. It is important that the consultations be represented at an official level, such that definite commitments could be made. This system of consultations can have a wide scope covering consultations of industrial financing, industrial technology, manpower development and other major topics. Similar consultations can also be held on regional and inter-regional levels at the request of some developing countries. Technical know-how is fairly well developed in some of the developing countries whereas there are other developing countries lacking this technical know-how. With the development of such institutions developing countries would benefit each other with a spirit of mutual co-operation leading towards their objective of industrialization.

9. Technological Co-operation Among Developing Countries

As of today many developing countries have only very limited ability to create technological capacities. In 1973, for example, less than 3 percent of the world expenditure

on research and development was undertaken by developing countries. For the period 1973 - 75 only 0.3 percent of the Gross National Product of developing countries represented expenditure on research and development as compared to 2.0 percent in developed market economies and 4.0 percent in the centrally planned economies of Eastern Europe. As early as 1968 the direct cost to developing countries on technology transfer and related payments exceeded \$ 25 billion and these costs have risen substantially since then.*

The dependence of developing countries on foreign technology is likely to continue at least for another two decades. It is also understood that the strengthening of indigenous technological capabilities is essential not only for selecting, acquiring, adapting and absorbing imported technologies but even more for developing local technologies. It, therefore, becomes all the more important for developing countries to devote greater attention towards framing their technological policies and plans. They are also required to integrate such policies and plans into their overall development objectives.

Presently the developing countries are facing many problems in acquiring foreign technology. In addition to having to make sizeable direct and indirect payments in scarce foreign exchange they have to adapt the technology according to their local needs. Some better off developing countries through experience, research and development have managed to develop either their own technology or have

* Special Report of the Executive Director, Third General Conference of UNIDO. New Delhi, 21 January - 2 February 1980.

successfully adapted the developed countries' technology to their domestic needs. Thus there could be a greater potential for co-operation among developing countries for technology transfer. The technology developed in a developing country would be best suited for their local conditions and equally beneficial for another developing country having similar economic conditions. Similarly, such co-operation would save a lot on transportation, etc. if the technology is imported from a neighbouring developing country. Mutual co-operation in this field is, therefore, strongly recommended for the developing countries.

10. Development of Human Resources

Much greater possibilities exist and efforts should be made by developed countries to assist the improvement of human resources available for industrialization in developing countries. In order to improve exchange of experiences and skills among developing countries it is necessary to enlarge and strengthen long-term programmes of co-operation among them, improve and coordinate existing 'centres of excellence' for industrial training and management and make available and improve existing training facilities for trainees from other developing countries.

At the national level the developing countries should attempt to have full involvement of their population, specially women and youth, and their integration in the development process.

In short it is now evident that there is a growing

need for co-operation among developing countries for their mutual benefit, but their efforts would bear fruit more rapidly if accompanied and facilitated by proper co-operation on the part of developed countries. Developed countries will also benefit a lot in return with the development of less developed countries as larger business opportunities will be created for the developed countries as a result. This seems to be one of the lessons that can be drawn from the spreading of wealth and industrialization within developed world during the last thirty years.



