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Expert Group Meeting on the Establishment  
of Multinational Production Enterprises  
in Developing Countries

Vienna, Austria, 25-28 November 1985

REPORT\* (Meeting on multinational  
production enterprises)

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## INTRODUCTION

1. The Expert Group Meeting on the establishment of multinational production enterprises in developing countries was held at Vienna, Austria, from 25 to 28 November 1985. The meeting was attended by 12 participants (see Annex I).

## BACKGROUND

2. The importance of economic and technical co-operation among developing countries has been recognized in a series of resolutions and declarations of the United Nations General Assembly, UNIDO's General Conferences and other international fora. Among the several mutually supporting components of UNIDO's programme on ECDC/TCDC namely the organization of Solidarity Ministerial Meetings in least developed countries, the preparation and organization of Round-Table Ministerial Meetings on specific sectors, the promotion and development of joint programmes for specific industrial sectors, the follow-up of conclusions and recommendations of Consultation Meetings and the support measures of the implementation of the Caracas Programme of Action on economic co-operation among developing countries, the promotion and development of multinational production enterprises and enterprise-to-enterprise co-operation among developing countries is an already established programme of the Section for Economic Co-operation among Developing Countries.

3. The Expert Group Meeting on the establishment of multinational production enterprises in developing countries was the first practical manifestation of UNIDO on the implementation of the programme on this subject, which is being carried out within the spirit of the General Assembly mandate which, in its medium-term plan for the period 1984-1989 specifically refers to the fact that: The programme for the establishment of multinational production enterprises in developing countries aims in particular at the more rational use of existing and potential natural resources, the expansion and diversification of production capacities, the encouragement of specialization and the identification of industrial complementarity.

## I. CONCLUSIONS AND RECOMMENDATIONS

The meeting agreed upon the following conclusions:

4. The documentation prepared by UNIDO defines well the phenomenon of multinational production enterprises in developing countries and gives a qualitative distinction between the new forms of economic co-operation among developing countries like these types of undertakings vis-à-vis activities performed by transnational co-operation; it addresses the major parameters for the establishment of such enterprises aimed at the creation of a mechanism for promoting such undertakings and identifies the most important criteria for the achievement of the objectives of such enterprises.
  
5. The approach used for the preparation of this meeting including all the direct and indirect actors that may contribute to the successful establishment of such enterprises was a correct one and the objectives of such an exercise were fully achieved, namely:
  - that general managers of existing multinational production enterprises have fully shared their experience with the participants in the meeting;
  - that well-identified cases for the establishment of such enterprises either on a regional basis or otherwise, have been formulated;
  - that the input of consulting companies from developing countries to the preparation of projects, especially those of a great capital intensive nature, was explained to the participants;
  - inputs from international and regional organizations such as UNCTAD and the Andean Group were duly taken into account during the discussions;
  - that the mechanism of financial inputs for clearing up difficulties of setting up such ventures was exposed;
  - that the importance of the pre-phase of the research component was also present.

6. The establishment and development of South-South multinational production enterprises constitutes a major important aim for developing countries to secure their economic independence and progress. Furthermore, these types of enterprises allow the developing countries to extend further their co-operation and to ameliorate their relations at all levels.

7. The subject is of great importance for developing countries since it addresses at the same time all the essential elements of co-operation involving either private or public enterprises at industrial, commercial, technological and financial levels.

8. One of the main obstacles which had not been given sufficient attention for developing these types of undertakings is the lack of courage and confidence of developing countries in their own capabilities and resources.

9. There is an enormous lack of information in developing countries regarding:

- a) experience gained by other developing countries in these types of ventures;
- b) feasible opportunities for creating such ventures;
- c) the laws and regulations of the countries concerned whenever partners want to establish such undertakings.

10. These types of arrangements can be undertaken on a public-to-public, private-to-private, or mixed type arrangements.

11. Taking into account the previous experience of developing countries and the corrective measures being introduced within certain economic groupings,

it is recommended that the following definition of multinational production enterprises should serve as the basis for further work on this matter:

12. Multinational production enterprises among developing countries are undertakings essentially confined to equity arrangements among two or more developing countries or their nationals to increase their industrial manufacturing output and/or encouraging national resources development through a process of mutual and concerted actions for creation, expansion and/or better utilization of their production potentials as well as fostering their intra-trade flows and bargaining position in the world market. They should guarantee reciprocal benefits from economies of scale, specialization and resources complementarities. Moreover, and in order to clearly define multinational production enterprises among developing countries versus transnational corporations which emerge mainly in the North, the fulfillment of the following criteria is required:

- a) The terms of distribution of the benefits, exercise of control, access to technology and other relevant resources of the venture should be based on principles of equal treatment of all investors.
- b) Contribution to the achievement of specified national goals and needs previously set up and defined by the parties concerned.
- c) Promotion and contribution for the investors technological build-up and strengthening their bargaining power vis-à-vis the outside world.
- d) Contribution to better use of available local resources as well as for the setting up of conditions for the economies of scale and specialization.
- e) Facilitating other forms of economic co-operation among the developing countries concerned, such as the involvement of consultancy services from developing countries.

In light of the above, the meeting adopted the following recommendations:

13. There is a need to eliminate the psychological barriers existing among potential partners in developing countries and, as provided by this meeting, opportunities for contact should be carried out on a regular basis.

14. UNIDO, in co-operation with other international, regional and national organizations (such as UNCTAD, the Andean Group and national associations of entrepreneurs) should select and identify opportunities for these types of undertakings and provide a forum for discussion of specific projects in accordance with the above definition of multinational production enterprises.

15. UNIDO, in co-operation with the appropriate organizations, assist developing countries - at their request - to prepare a clear legislation on this matter, taking into account the work already done by other international organizations, such as UNCTAD.

16. UNIDO, in co-operation with the appropriate regional groupings, assist in the conception of the projects and their insertion in a sound industrial development policy, to avoid that projects originally estimated at a given cost will not increase costs by double after their implementation. Furthermore, this assistance should prevent that final costs of manufactured products will not be unreasonably high, as is the case in certain examples which had bad experiences of this nature.

17. UNIDO assist developing countries, either in the preparation of feasibility studies through direct involvement or by monitoring - at the request of developing countries - feasibility studies prepared by other partners.



18. UNIDO supplies expert advice on installation, technical and financial management during the first phase of the operation of the venture ensuring in this way the complete mastering of the technology and full capabilities of running such ventures.

19. UNIDO, in co-operation with other United Nations agencies such as UNCTAD, provides, through study tours and other types of exchange of experience including training in contract negotiation, the possibility of interested responsible people for such projects in developing countries to increase their knowledge of financial, technical, commercial and managerial aspects for the running of such ventures.

20. Taking into account the experience of FINEP, Brazil, that among other activities provides national enterprises with the basis for establishing linkages with foreign companies/Governments, UNIDO, in connection with this programme, should make all efforts to promote this type of set-ups in other developing countries.

21. In order to involve more actively consultancy companies from developing countries especially in those projects where the engineering component is of utmost importance, a directory of such companies existing in developing countries should be compiled and widely disseminated in the developing countries.

22. UNIDO, in accordance with its resources and in co-operation with other appropriate agencies, prepares guidelines for the establishment of multinational production enterprises, taking as a basis the major elements in the establishment of multinational production enterprises agreed upon by this meeting.

23. These general guidelines could, at a certain stage and in accordance with similar experiences of this type organized on a sectoral basis, be transformed into sectoral guidelines for the establishment of multinational production enterprises.

24. UNIDO informs the World Bank and Regional Development Banks on:

- a) the conclusions and recommendations of this meeting;
- b) suggestions to them to support all activities towards the establishment of joint ventures and multinational production enterprises in developing countries, whenever they finance important projects in developing countries;
- c) the need that they give special attention to these new ideas such as the concept of multinational production enterprises among developing countries.

25. UNIDO forwards to UNDP the conclusions and recommendations of this meeting and suggests that they give special attention to this new form of undertakings in the allocation of their regional and interregional funds.

26. The appropriate support in terms of financial resources should be given by the authorities concerned in the United Nations system to this new activity and that wide distribution of the conclusions and recommendations of this meeting be ensured.

## II. CONCRETE RESULTS EMERGING FROM THE MEETING

27. Exchange of views on successful experiences by analyzing the several ways and their difficulties to achieve the establishment of the enterprises.
28. Preliminary discussions between a participant interested in establishing this type of venture and another participant who might be associated in the preliminary phase of the preparation of the feasibility study for the establishment of a multinational production enterprise in Africa.
29. Contacts established by a participant from Africa with the appropriate UNIDO technical departments for the advice and follow-up for the next phase in the preparation of a feasibility study in order to ensure that the establishment of such an enterprise will be initiated in a proper manner in accordance with similar experiences of UNIDO in this sector in other developing countries.
30. Co-ordination with UNIDO, UNCTAD, the Andean Group and the Research Centre for Co-operation with Developing Countries on the follow-up actions to be made within this programme of promotion of the establishment of multinational production enterprises in developing countries.
31. Consciousness of the importance of organizing these types of forums and ways and means which promote and facilitate the creation and the implementation of multinational production enterprises among developing countries.

### Main Items to be Included in Guidelines for the Establishment of Multinational Production Enterprises in Developing Countries

32. For the establishment of multinational production enterprises, four main basic elements would have to be taken into account:
  - A clear political will of the parties concerned;
  - Complementarity which must include the supply of raw materials, technology, market and financing;
  - Contractual modalities for designing and implementing projects (turnkey, cost reimbursement, etc);
  - The main characteristics of the contracts to be established between the different partners.

As far as the last point is concerned, there is a need to prepare and study the following main aspects, always taking into account the advantages of using consultancy organizations in developing countries:

- a) Laws of the host country where such a venture is going to be established;
- b) Analysis of existing rules and regulations in terms of fiscality imports and exports;
- c) Analysis of existing rules and regulations in terms of transfer of technology;
- d) Market study;
- e) Feasibility study;
- f) Financing study.

In order to define the agreements to be concluded by the parties, the following main elements will have to be specified:

- a) The governmental decree specifying:
  - the establishment of the society and its definition;
  - the aid for obtention of credits;
  - guarantees in terms of transfer and remittance of profits;
  - the guarantee of commercialization and definition of a price formula in order to guarantee rentability of the project;
  - fiscal exemptions concerning investment benefits and advantages;
  - the concession of land and the supply of utilities at economic conditions;
- b) The agreement among the partners stipulating:
  - the objective of the company;
  - the capital and its distribution among the partners;
  - the mechanism for looking for credits and the priority given to the partners to supply them;
  - rules of management of the company with the composition of the Board of Directors, General Assembly and their respective powers;
  - nomination and degree of power of the responsible managers;
  - distribution of benefits, costs and risks;
  - procurement of raw materials in the country of origin of the partners;
  - any priorities to be given at competitive conditions;
  - construction of the plants and priority to be given to the existing competence of one of the partners.

The above elements, which might be enlarged upon, are mainly referred to in order to cover the following aspects which are important in the establishment of such ventures:

- comprehension of the disparity of the laws which exist in each country of the partners concerned;
- the mechanism of negotiation and fixing the selling price of the final products;
- the mechanism of negotiation and fixing the prices for the procurement of raw materials;
- the guarantee of the above prices;
- the clear definition of the role of the different partners during the design and implementation of the project.

### III. ORGANIZATION OF THE MEETING

#### A. Opening of the Meeting

33. The meeting was addressed by the Chief of the Section for Economic Co-operation among Developing Countries who welcomed the participants to the meeting. He thanked the participants for attending the meeting and referred to the fact that this meeting had been organized in co-operation with UNCTAD for which consultations had been held between the two Organizations and complementarity of actions was being sought to optimize the programme of multinational production enterprises for the benefit of developing countries.

34. The Chief of the Section for Economic Co-operation among Developing Countries referred to the fact that the ultimate objective of the meeting was to create a basis for promoting economic and technical co-operation among developing countries with a view to accelerating their economic and industrial development.

35. He further said that taking into account the work done by other sister and regional organizations which had been studying the institutional and commercial framework under which these types of undertakings could be established, it was UNIDO's view that this approach should be carried out on a sectoral basis as set done in the document prepared for the meeting, namely "Multinational Production Enterprises in Developing Countries: Overview and Programme of Action." To this end, the first pre-occupation of UNIDO was to define the phenomenon of multinational production enterprises among developing countries vis-à-vis other types of enterprises also called multinational/transnational enterprises which mainly originated in the North and to identify for this meeting on the one side experienced persons in these types of undertakings and on the other side potential initiators of such ventures.

36. The representative of UNCTAD, from the Division for Economic Co-operation among Developing Countries, declared that his organization attached great importance to the programme of multinational production enterprises and joint ventures. He said that the development of trade and production co-operation in the form of multinational production enterprises and joint ventures among developing countries had been inhibited by a number of factors including a lack of information on possibilities for the establishment of such enterprises, a lack of understanding of the legal and technical requirements for the establishment of such projects, a shortage

of national or sub-regional/regional agencies competent in the identification, promotion and financing of such projects and indeed, a general shortage of financial, managerial and technological resources among developing countries.

37. He also stated that it was essential not to lose sight of the fact that the objective was the realization of concrete projects and that multi-national production enterprises, joint ventures and even development banks were not ends in themselves. They should generate development and trade expansion among developing countries. It was for this reason that UNCTAD in co-operation with UNIDO had been placing great emphasis on the multi-national enterprises through applied research as well as operational activities.

B. Election of the Chairman

38. The meeting decided to elect as Chairman Mr. Mahmoud Bouhacene, Deputy Director, Arab Engineering Company.

C. Adoption of the Agenda

39. The meeting adopted the following agenda:

1. Opening of the meeting
2. Election of Chairman
3. Adoption of Agenda
4. Presentation of experience on the establishment of multinational production enterprises in developing countries
5. Identification of problems and constraints affecting such establishment
6. Programme of action (including the definition of multi-national production enterprises among developing countries and the main items to be included in guidelines for their establishment)
7. Conclusions and recommendations
8. Adoption of the conclusions and recommendations and the programme of action

D. Adoption of the Conclusions and Recommendations

40. The conclusions and recommendations, the concrete results which emerged from the meeting including the main items to be included in guidelines for the establishment of multinational production enterprises among developing countries were adopted by consensus on Thursday, 28 November 1985 at the closing session of the meeting.

E. Closing Session of the Meeting

41. During the closing session of the meeting, the Chief of the Section for Economic Co-operation among Developing Countries of UNIDO thanked the participants for their efforts in contributing to the success of the meeting. He underlined the fact that the results of the meeting could only have been attained through the high level of the participants and the quality of their discussions.

42. The conclusions and recommendations as well as the main items for guidelines on the establishment of such enterprises and also the bilateral discussions undertaken by the potential initiators of these types of ventures either with UNIDO or with other participants clearly showed that the objectives of the meeting had been fulfilled beyond expectations when considering that the main objective of the meeting had been to test the approach to be followed later on while promoting the establishment of multinational production enterprises at the national, regional and international level.

43. He promised the participants that within the limited resources of UNIDO, he would ensure the implementation of their conclusions and recommendations.

44. Several participants expressed appreciation for the initiative undertaken by UNIDO in co-operation with UNCTAD and expressed the opinion that the sectoral approach proposed by UNIDO was a correct one and that great expectations arose from this meeting for the future establishment of multinational production enterprises, which were so valuable for developing countries, and that hopefully, the policy bodies of UNIDO would support such a programme.

45. The Chairman of the meeting thanked all the participants for their contributions to the discussions and their positive approach as well as to those involved in the planning, organization and servicing of the meeting. He then officially closed the meeting.



#### IV. SUMMARY OF DISCUSSIONS

46. Most of the participants emphasized the importance of the role of multinational production enterprises among developing countries due to its major implications on ECDC/TCDC. They further referred to the fact that the essential element of co-operation was to develop and practice exchanges between partners in the industrial, commercial, technological and financial domains and that this form of co-operation through multinational production enterprises among developing countries simultaneously involved the above areas.

47. One participant directly involved in the negotiations and establishment of two multinational production enterprises involving several countries referred to the fact that the fundamental aspects for the establishment of such enterprises were: the political will either at enterprise or country level as well as the complementarity, which should basically take into account the supply of raw materials, technology, market and financing. He further stated that in his view, the development and establishment of South-South multinational production enterprises constituted the only way for developing countries to ensure their independence and progress, contributing to an extension of co-operation and an enhancement of relations between the countries or enterprises involved.

48. Another participant declared that the main problems encountered so far in establishing and operating multinational production enterprises were the result of a clear gap between declarations and actions. He referred to the fact that the "top down" approach (inter-governmental) followed in most cases for the creation of such enterprises should be complemented and in some cases replaced by a "bottom up" approach (firm level, enterprise level), in order to achieve concrete results. He further said that widespread dissemination of information on business opportunities as well as on laws and regulations of the respective countries was necessary for the successful initiation and establishment of such enterprises.

49. Another participant stated that in his efforts to establish such types of ventures, the main constraints found were the absence of comprehensive project studies, analyses and programmes for execution (feasibility studies), lack of support from some development banks for such types of ventures and in some cases, inadequate sources of funds and inefficient technical and financial management. He concretely referred to the fact that a given

project estimate escalated from 9 billion CFA to 18 billion CFA, causing an increase in the per tonne estimated price from 2,500 CFA to 25 000 CFA. He stated that this was mainly the result of a poor project concept as well as inefficient technical and financial management.

50. Another participant referred to the intention of three countries already associated in a regional scheme to enter into a common project in order to increase the rentability of production through the pooling of their respective markets and - what was more important - to secure through joint purchase the raw materials required for the formulation and packaging of drugs.

51. Another participant said that in accordance with his experience, the basic elements to be taken into account in the establishment of multinational production enterprises were mutual benefit and equality.

52. A participant representing a multinational consulting company comprising of ten developing countries referred to the fact that since investment from the North in the South had diminished during the 1970's, the new concept of transfer of technology had become of utmost importance and the mastering of these technologies was today the key problem for the need to design and implement policies of national technological developments and the creation of an industrial environment including engineering/consulting and design services, equipment and construction companies. He went on to say that thus, local engineering consulting services had a vital role to play in the conception and implementation of these projects.

53. A representative of a regional organization made a detailed analysis of the type of multinational production enterprises being promoted in that region and referred to the enormous difficulties to initiate such projects ranging from financial and managerial aspects to the psychological barriers still found among entrepreneurs in the region.

54. A participant referred to the experience of his Agency in financing national entrepreneurs to seek co-operative arrangements of the type of multinational production enterprises abroad.

Annex I

LIST OF PARTICIPANTS

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Annex II

LIST OF DOCUMENTS PRESENTED AT THE MEETING

1. Enterprise to Enterprise Co-operation among Developing Countries:  
Elements for a Global Strategy (UNIDO/PC.99)
2. Multinational Production Enterprises: A preliminary overview  
(UNIDO/PC.121)
3. Multinational Production Enterprises in Developing Countries:  
Overview and Programme of Action
4. Resumé of UNIDO's Activities to Promote Industrial Co-operation  
among Developing Countries