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ENTERPRISE-TO-ENTERPRISE CO-OPERATION IN THE MANUFACTURING INDUSTRY *

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* The views expressed in this document are those of the author and do not necessarily reflect the views of the secretariat of UNIDO. Mention of firm name and commercial products does not imply the endorsement of UNIDO.
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Introduction

This paper was prepared for the ad-hoc Expert Group Meeting on co-operation between industrial enterprises from developed and developing countries (18 - 20 December 1989).

It has two main purposes: To provide the necessary background for an appraisal of the possibilities and constraints of Enterprise-to-Enterprise (ETE) co-operation in the light of past experience and to show ways on how UNIDO can use this approach to expand its activities and assist developing countries in their endeavours to strengthen competitiveness of their industry in the international context and to reduce unemployment.

With the severe time constraint, this study can only give a sketchy view rather than a comprehensive analysis of possibilities of promoting ETE - cooperation by UNIDO.

The first part of the paper will give a general background on ETE - cooperation and its various forms. The second part will deal with UNIDO's on-going activities with regard to ETE - cooperation and suggest ways on how to expand and diversify these programmes.

1. Experience in promotion of enterprise-to-enterprise co-operation

Some 15 - 20 years ago, investment in developing countries was seen mostly from the aspect of development aid. On the whole it was mostly the big, truly multinational companies which already at an early stage recognized the economic prospects the developing countries offered and pursued an aggressive investment policy there. Other companies would usually only try to sell their equipment and/or know-how but seldom consider an equity participation unless it was under the umbrella of an international or national aid- organisation, like International Finance Corporation (IFC) or Deutsche Entwicklungsgesellschaft (DEG) etc.

During the seventies the emphasis was on big, multilateral aid - projects. Although this increased industrial production capacity in some of the developing countries, many of these projects turned out to be complete flops for one reason or the other and are one of the causes of the debt problem that is burdening many of the third world countries today.

This rather painful experience led to a rethinking and rearranging of priorities. Improving efficiency in the industrial sector is important, not some spectacular investments. Huge turn-key projects generally are no longer what developing countries are looking for. Instead of pushing glamorous prestige projects, they opt for the more realistic approach of sector restructuring. In many cases little or no hardware is required but it necessitates technology, know-how and expertise, design, marketing, quality control et al.

Various models were followed and different reasons determined the industrial promotion policy in developing countries. There was the classic balance-of-payments rationale which usually led to import-substitution projects which would not have been viable without the protection that usually was granted to such industries. In other words it promoted projects which may have brought a financial return for the investor but no economic return for the country. Still, the inflow of capital combined with the saving of foreign exchange from imports that are no longer necessary are unfortunately still quite strong arguments with many Boards of Investment or other regulatory bodies.

Only when this policy proved to be insufficient and, in the long run, usually did not lead to the expected and necessary balance of payments improvement, industrial policy was amended to promote export-oriented

industries. However, this was an entirely different challenge for the entrepreneurs. Now they had to compete with their products internationally, in the free market. This meant they had to produce quality of an international standard at competitive costs. It also meant a shift in industrial promotion policy to those sectors, in which the country had a natural comparative advantage and where eventually the MVA could be increased.

One cannot emphasize enough, the fundamental difference between the concept of enterprise-to-enterprise co-operation and the traditional technical assistance or aid programmes. It has to be clear from the outset to all participants, i.e. the enterprises involved, but also the governments of the respective countries that any such co-operation is based on commercial reasoning. Companies do not exist for philanthropic reasons, they are there to make a profit. If an enterprise in an industrialized country or in a developing country for that matter, decides to enter into some form of co-operation with a company in another country, its sole motive will be the economic benefit it expects to derive from such a venture. It does not give aid; any assistance will have to be paid for either outright or out of future profits. Hence, there is no "donor" and no "recipient" in the traditional development-aid-terminology. The two enterprises engaging in this industrial co-operation are partners in a business venture and the governments, the institutions and UNIDO are there to facilitate this venture and possibly to provide safeguard against abuse and irregularities.

1.1 Type of co-operation

As general definition of enterprise-to-enterprise co-operation, as understood in the context of this paper, could serve: All transnational activities involving two or more enterprises from at least two different countries other than the mere import or export of goods. Although this definition may not cover all theoretically possible cases, it is sufficient for the scope of this study.

Although the majority of cases will involve privately owned companies, it should be pointed out that enterprise-to-enterprise cooperation is by no means limited to the private sector alone. There are many examples of co-operation between public-sector enterprises as well as private companies with public-sector enterprises. (E.g. the Spark Plan Fund with township-run enterprises in the PR China).

1.1.1 Direct Investment

The UNIDO - Industry and Development: Global Report 1988/89 acknowledges that the prospects for renewed private lending to indebted developing countries are not bright. The choice, therefore, for these countries was to increasingly mobilize other sources of external financing, especially foreign direct investment oriented towards specific projects. Most developing countries do not allow 100 % foreign ownership. In many cases they do not even allow majority foreign ownership, unless, the factory is located in a special export processing zone or at least that it is predominantly export-oriented. Hence, most of these industrial projects took the form of a joint venture, i.e. one or more foreign partners and one or more local partners providing the capital for an industrial project and all holding shares in the new company.

Direct Investment will be discussed in more detail in the second part of this paper.

1.1.2 New forms of enterprise-to-enterprise co-operation

During the recent years, new forms of international investment and co-operation gained in importance. In the traditional direct investment case, capital participation was the basis for partial ownership and control. The new forms break the link between ownership and control and substitute capital participation with contractual co-operation. It does not necessarily exclude capital participation, but it is no longer a prerequisite.

These forms became increasingly popular as they greatly diminish the risk for the investing company and therefore enable even small and medium-size companies to internationalize. This development occurred not only in developing countries, but takes place even in enterprise-to-enterprise co-operation between industrialized countries. As was observed by the OECD: "... while traditional forms of investment are by no means obsolete, international direct investment through wholly-owned subsidiaries can no longer be thought of as the typical way of engaging in international business" (OECD, Structural Adjustment and Multinational Enterprises, Paris, 1985).

Although the number of forms and combinations such co-operations can assume is almost limitless the most frequently recurring types are the following:

- technical collaboration
- license agreements
- know-how (technology) transfer agreements
- sub-contracting
- contractual joint ventures
- management contracts
- marketing agreements

As mentioned, very often several co-operation forms are combined, e.g. a license with a marketing agreement. In additions these will often be negotiated with innovative forms of financing, such as barter, buy-back, cross-licensing, counter delivery-contracts etc.

1.2. Multilateral promotion of enterprise-to-enterprise co-operation

Most of the multilateral enterprise-to-enterprise co-operation programmes are institutionalized and imbedded in some government supported project. They usually aim at cross-fertilization in R&D through common research, excharge of technology and know-how between companies in different countries, belonging to the same economic block or political alliance. Most of them are in developed countries, although there are a few exceptions or at least possibilities for developing countries-enterprises to participate.

Next to the American SDI-programme, the most important programmes were established by the EC and they are usually restricted to companies from EC-countries. A little more open is the EUREKA (European Research Co-ordination Agency)-project, which has at least one developing country - Turkey - as a member and generally seems to show a little more awareness of the necessity of technology transfer to developing countries. As an example of multilateral ETE co-operation, it will be described in more detail:

1.2.1 EUREKA:

EUREKA (European Research Co-ordination Agency) states as its goal "to increase the competitiveness of European industries on the world market by promoting projects of co-operation between enterprises and research institutes in the field of advanced technologies.

EUREKA-projects will relate primarily to products, processes and services in the areas of informations systems, robotics, telecommunications, advanced materials, automated production techniques, bio-technology, new technologies applied to environmental protection, transport technologies. The guide-lines which have been set up for EUREKA-projects are based on a "bottom-up approach". This means that the proposed projects originate with firms and/or research institutes, belonging to at least two different EUREKA-member-countries, which autonomously reach a co-operation agreement on a project . This relatively simple and flexible mechanism is particularly attractive to small and medium sized enterprises (SME) which have the opportunity of suggesting projects in areas where they are most competitive, and which can take advantage of the EUREKA information network in order to find the most suitable partners to meet the requirements of a project.

A company which has a project proposal, but no partner(s) can ask the National Co-ordinator or the EUREKA Secretariat for help and they will try to find partners by distributing the proposal to all EUREKA members. They also have a computerized database for proposals and projects. Similarly, if a company would like to join a project, the database will provide information on existing projects. It is then up to the company to contact the participants and negotiate with them the possibility of joining.

Information on projects and project proposals is also disseminated among members through regular publications and through "thematic symposia" aimed at the launching of specific technological cooperation projects.(EUREKA will also hold a seminar next year on the use of advanced technologies for developing countries !).

Participants in EUREKA projects are expected to find the funds they require themselves, either internally or by seeking appropriate financial partners, using private financial sources (capital market, loans) or any public funds made available to them by their respective governments.

1.2.2 EC Research Programmes

The EC has a number of Research Programmes aimed at specific sectors.
They are all closed to outsiders and therefore of limited interest to developing countries, with the exception of STD (Science & Technology for Development). It aims at promoting an increased scientific co-operation between the EC and developing countries. It comprises of two sub-programmes. The tropical and subtropical agriculture programme, which

covers the improvement of agricultural products, conservation and better use of the environment, agricultural engineering and post-harvest technology and production systems. The second sub-programme concerns medicine, health and nutrition in tropical and subtropical areas.

1.2.3 Multilateral South-South programmes

In view of the positive effects such multilateral co-operation programmes have, not only on transfer of technology but also on the development of joint industrial standards, eliminating existing technical obstacles to trade etc., it seems worthwhile to consider multilateral enterprise-to-enterprise co-operation programmes also for the developing countries. Regional programmes could either be based on South-South co-operation or include also developed countries. EUREKA, with its simple, decentralized organisation and its market-oriented programme could serve as a model.

1.3 Bilateral Promotion of ETE co-operation

The breathtaking speed with which technologies advance and change on one hand and its complexity on the other make it impossible for most enterprises, except maybe for a few giant conglomerates, to rely exclusively on their own R & D for their product development and process technology. The latest immediately becomes the state-of-the-art technology and thus the accepted standard for the whole sector of an industry. Companies are compelled to use it if they do not want to lag behind and loose competitiveness of their products. Their only chance, due to lack of time and resources, is to acquire the technology from outside and this in turn has created a surge in co-operations between enterprises in a great variety of forms. The most frequent for the purpose of transfer of technology are license agreements and know-how and technical co-operation contracts, but mergers and in a wider sense even hostile takeovers also fall into this category.

Although these activities can and do take place domestically (especially in a large, advanced economy like for instance the US) they increasingly do not stop at the border, but become true international enterprise-to-enterprise co-operations.

There are virtually countless organizations and institutions dealing with and promoting transnational ETE co-operation. Unlike the traditional investment promotion agencies, they are sometimes difficult to recognize,

because they use a great variety of names. They could be governmental, regional, part of a Chamber of Commerce or a professional association, but include also investment banks, venture capital or merger &acquisition companies and specialized technology transfer brokers. Lately there is a trend among all these institutions to co-operate closer with each other and to organize in associations, such as the European Association of Contract Research Organizations or the Association Europeenne pour le Transfert des Technologies, de l'Innovation et de l'Information Industrielle. Their range of services vary greatly. While some of them resemble more a management consultant, analysing the company's problems and suggesting solutions, others limit themselves to what seems to remain the most difficult of all tasks: finding and matching partners.

1.4. Co-operation between enterprises from developed countries

How important the promotion of ETE co-operation is considered by developed countries is shown by the fact that quite a few of them have created powerful national organizations to assist, in particular SMEs. It should be added that they do not always aim at transnational or international co-operations, but first of all, look for partners within their own country. However, as will be shown later, all of them have also an international programme.
Following is a brief description of the national organizations in Canada, Sweden and Finland.

Canada: The National Research Council of Canada (NRCC) operates research centres across the country and employs around 2.800 people. Although these centres also carry out some basic research, their main field is applied industrial research. The results are made available to Canadian enterprises via the NRCC's liaison -bureaus.

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The link with the business community is assured through a "Field Advisory Service". 200 Technology Advisers or Counsellors divide the territory into as many districts. The Counsellor visits all industrial companies in his district and informs them about the assistance the NRCC is able to provide.

The qualifications of these Counsellors are outstanding. Each Counsellor has a university degree in engineering or science and a minimum of eight years working experience in a technical capacity with a company. Candidates with experience in different fields get preference. In fact, the typical Counsellor is around fifty years of age and has more than twenty years of experience in industry behind him.

The high level of expertise of its Counsellors explains the good reputation the NRCC's Field Service enjoys among the Canadian industry.Visiting the company and talking to the management not only assures that NRCC and its promotional programmes are known to the industrial enterprises across the country. It also creates that personal relationship on which mutual trust is built. This is necessary, since the company reveals not only sensitive information on its technology, its competitive strengths but also weaknesses and strategic plans for expansion including enterprise-to-enterprise co-operation. An estimated 80 % of all managers are familiar with the institution of NRCC counsellors and to a varying degree with their technology advisory programmes

How do these NRCC counsellors work?

Any Canadian industrial company can request the assistance of the NRCC. Their wide experience helps them to solve minor problems, in particular organizational questions or relatively simple technical snags in smaller companies.
For financial assistance they direct the company to provincial or national institutions and explain what financial assistance programmes are available and under what conditions it would qualify. For the solution of specific technical or technological problems the Counsellor can draw on the often very specialised expertise of his colleagues from all over the country and request their assistance. Through the Liaison-Bureaus he also has access to all important technical databanks. If all fails, NRCC's research centres will work on a customized solution to the company's problem, sometimes in collaboration with a university.

In about twenty percent of the cases an international co-operation is requested. Through the so called Technology Inflow Programme, the Counsellor can put a request to the Technology Officers at the Canadian Embassies or Consulates and try to find the appropriate technology outside Canada. Vice versa, A Canadian company can offer its technology internationally through the Technology Officers at the Canadian Embassies.

Of particular interest in the context of this paper is the "International Technology Service". This service is available to all Canadian registered companies and aims at identifying newly developed technologies overseas and or potential partners, interested in technical cooperation with a Canadian firm or interested in buying Canadian technology. The Canadian Foreign Ministry disposes of a special fund to finance travelling expenses for

Canadian firms, trying to acquire foreign technology. 1986/87 the Canadian government thus paid in total 1.3 million Can$ to nearly 100 companies.

Sweden: Sweden has a well developed system to further innovations and technology. In the Swedish Central Bureau for Technical Development (STU) in Stockholm 250 people work either in research or as advisers. A countrywide network of advisory bureaus is staffed with close to 600 qualified technical advisers. For the development of new products or technologies a so called development fund provides assistance in strategic planning, marketing (whereby there is a special service institution for export marketing), financial planning, administration and organization etc.

International exchange of technologies is mostly channelled through "Technology Attaches" at the Swedish Embassies. Swedish companies can contact them directly and request them to either look for a particular technology to be acquired or try to find a buyer for Swedish technology.

STU's experience with a computerized technology-exchange programme has not brought any positive results.

Finland: The main organization of the Finnish technology promotion system is the "Center for technological Development" - TEKES, which operates along similar lines as its Swedish counterpart. It also acts as coordinating agency for the "Industrial Secretaries" or Attaches whose task is to find partners for Finnish companies interested in co-operating with a foreign firm. They also report on new technologies and these reports are published by TEKES and distributed to Finnish companies.

The conclusion to be drawn from these three examples is, that even developed countries consider it vital for the survival of their small and medium-sized industries to have access to outside technology. They will first try to obtain such know-how from within the country, either through their research institutes or from other companies. If this is not possible, such technology will be sought abroad. Governments are will assist the enterprise in its endeavour to find suitable technology elsewhere. Although technology is not the only reason why companies decide on a co-operation with a foreign partner, government assistance is largely concentrated on and often limited to this purpose.

1.5 Co-operation between enterprises from developed and developing countries

As was mentioned earlier, the New Forms of internationalization enable not only the large corporations but also SMEs to extend their activities to developing countries. The number is still small, but no doubt it is rising.

For the developing countries this is of great importance because SMEs represent a so far untapped source of capital, know-how and technology. Were it formerly the big corporations - of which there are only a few - which ventured to the developing countries, it is now the SMEs which constitute the bulk. The importance lies less in the amount of capital they invest in the developing countries but in the fact that the SMEs in the developing countries have a better chance to find a foreign partner who can provide them with know-how and technology, modern equipment, marketing expertise, market access etc.

Whereas in promoting ETE co-operation in developed countries the finding and matching of two suitable partners presents the main difficulty, the problems in North-South co-operation are vastly more complex.

In developed countries one can assume that the co-operating enterprises will have a more or less comparable structure. They work under a similar legal framework and in a familiar cultural environment. (The big exception is of course Japan to which many of the obstacles, problems and constraints of a developing country apply, in spite of its foremost position amongst the industrialized countries). This is entirely different, if companies from developed and developing countries want to co-operate.

One must distinguish between <u>developing country - initiated projects</u> and <u>developed country -initiated projects.</u> The type of co-operation depend on which side initiated the project. Following is an overview of the most likely combinations:

Developing country - initiated projects:

a) New industry >> Direct investment >> Joint venture
b) Expansion of existing production >>increase of production capacity by
>> adding new production lines
>> replacing old process through new, more efficient one, new technology
>> adding new products to existing production

Required from partner:
-technical know-how
-license
-marketing assistance, market access
-equipment

c) Problem solving in existing company >>
-Quality improvement
>>of product itself
>>of hygiene in plant
<<of safety in plant
>>of packaging
>>reducing defects etc.
-Productivity improvement
>> energy saving
>> making use of waste material or by-products
>> transport and reducing of stocks
>> manpower training
-Product development
>> new designs
>> export standards
>> brand-name licensing
-Marketing
>> agency agreements
>> buy-back arrangements

Required from partner:
-technical expertise and experience
-know-how package
-management-assistance
-use of partner's marketing & distribution organization

ad a - New Industry: This is more or less the classical direct investment - industrial project. A project proposal is submitted and in most cases - if for no other reason than shortage of funds (especially in hard currency), which is necessary to import equipment -equity participation by the foreign partner is requested. Hence, the most likely form of co-operation will be a joint-venture. The joint-venture-agreement will clearly define the rights and obligations of each partner.

Although the agreement is relatively simple to draw up (UNIDO has published a guide with standard clauses for JV-agreements (Manual on the establishment of Industrial Joint-Venture Agreements, Sales No. E.71.II.B.23), the risk for both parties is high. The lead-time from the

beginning of the planning stage until the factory goes on stream is usually more than two years and could be much longer, front-up investment is high and the capital is tied up for the whole period Although feasibility studies can help, they can never eliminate the risk. Too many factors can change from the time the feasibility study was conducted to the time construction starts to the time the factory is ready and production actually begins.

Many investors were caught in the recession of the early eighties, many saw their projects flounder due to unforeseen delays because of new regulations etc. Hence, foreign investors have become more cautious.

UNIDO has assisted developing countries in the promotion of direct investment through a special programme, called Industrial Investment Programme (see IDB.4/33, Sept. 1988 The function of the Programme is to help developing countries to expand - within the framework of their own policies and priorities - their industrial production by mobilizing the financial, technical, managerial and other resources required for implementation of investment projects through any legitimate form of business oriented industrial co-operation between project sponsors in their countries and suitable foreign partners.). The Industrial Investment Division and its IPS-networks were successful in initiating a great number of industrial projects and finding foreign investors (see Annual Report of UNIDO 1988, page 54 to 56, para 30 et al.)

There is no doubt that it is necessary to establish new industries, especially in those developing countries where the industrial base is still very thin and therefore joint-ventures with direct investment will continue to play an important part in co-operations between enterprises from developed and enterprises from developing countries.

ad b - Expansion of existing production: If the joint-venture - direct investment required the strongest commitment from a foreign partner, co-operation in an expansion-project could take on any of what is called "New Forms" of co-operation, and this means that the link between the two co-operating enterprises is weaker The risk shifts markedly to the entrepreneur in the developing country. If there is no equity investment from the foreign partner, it will be all the more important to make sure that the foreign partner is serious, technically competent and of good faith. This may be very difficult for the entrepreneur in the developing country to check. It might be helpful to the developing country-

company if UNIDO could provide technical assistance in the negotiations of the final contract.

ad c -Problem solving in existing companies - This carries some of the same elements as in the expansion projects. However the field of cooperation is usually very specific and narrow and in most cases it should be possible to negotiate an agreement whereby any remuneration to the foreign company would depend on the results. The difficulty seems to lie more in finding the optimal, best qualified company for the job at hand and then get it interested in doing it under some form of co-operation agreement.

Developed country - initiated projects:

a) Direct Investment

- 100 % foreign-owned subsidiary >> no co-operation
- joint venture with local partner >> transfer of know-how or technology is not necessarily a major element. E.g. the joint venture could serve the purpose of getting better market access through control of the local distribution organization.

b) Offer of transfer of technology and/or know-how:

- Turn-key project >> emphasis is mainly on sale of engineering and equipment; the co-operation component is weak, often limited to contractual obligations such as training, maintenance and service and sometimes management of the plant during a certain period. Coercing the general contractor into taking a minority share in the project (usually between five and ten percent) has not proved to be an effective means to change the buyer - seller relationship into one of true partnership.- Joint venture with technology and/or know-how transfer >> is the strongest form of cooperation. The interest in the success of the venture is mutual, the partnership complementary. Because the foreign entrepreneur risks his own capital, he will be highly selective with regard to the country, where he invests (investment climate), as well as with regard to the local partner.

- License agreements >>
- Know-how agreement >>
- Franchising >>

They all have in common that the foreign entrepreneur does not have to put up any capital. His only risk is, that he does not get paid for his technical know-how. In countries, where output or sales are difficult to control and verify, he will request lump sum payment instead of royalties. This means an extra financial burden and considerable risk

for the developing-country- enterprise. The value and the chances of success for a well- known franchising system may be relatively easy to calculate, but to gauge the risks and the sales-potential of a hitherto unknown product is almost impossible. These forms of co-operation require really trustworthy partners on both sides.

- Subcontracting >> has become a very important form of enterprise-to-enterprise co-operation not only between developed country and developing country enterprises but also as South-South co-operation. The form is either agreements which lay down in detail both partner's obligations and contributions (e.g. supply of designs, blueprints, production- know-how, raw materials or semi-finished parts etc.) or contractual joint ventures. The subcontractor must produce to the rigourous specifications of the principal. The advantage for the subcontractor, apart from the profit of course, lies in the transfer of production know-how, modern techniques, combined with long term arrangements which permit controlled expansion. The strict quality control forces the company to achieve an international standard for its products. Many companies which started as small subcontractors have become large producers and exporters in their own right. The main factor in subcontracting is the wage differential. It is no exaggeration to say that the rapid economic growth of the Southeast-Asian NICs has been based on subcontracting. Since subcontracting is extremely flexible, it will always gravitate towards the relatively lower wage country which can still achieve a certain quality and productivity standard, necessary to produce certain goods. This will give these countries a chance to reduce unemployment, earn foreign exchange and teach their people basic industrial skills.

Risks for the subcontractor as well as the principal remain generally within the limits of ordinary commercial transactions.

1.6 Co-operation between enterprises from developing countries (South - South)

The most important source of foreign capital and modern technology for developing countries are enterprises from the industrialized countries. In recent years however, South - South investment and technology transfer has increased considerably. For some developing countries the NICs rank among the top foreign investors. In Southeast-Asia the NICs still play a large role as subcontractors, but at the same time they are subcontracting out to the lower-

wage countries in the region like Thailand, Philippines, Indonesia and recently Sri Lanka, Vietnam etc. They assume the role of pioneers. Where entrepreneurs from Europe and America shun to go, usually because they judge the country to risky, entrepreneurs from the same region, perhaps because of a more intimate knowledge of the country and a different evaluation of its politico-economic situation , will be prepared to put their money into industrial ventures or at least will attempt some low-risk form of cooperation. But activities of developing countries are not always limited to neighbouring countries or regions. Brazilian entrepreneurs, for instance, have shown their business acumen in quite a few projects in Africa.

There are other reasons why South-South co-operation is very promising and should be encouraged and promoted. Industrial production in developed countries is geared to the "rich" markets. Products are sophisticated, of high quality and designed for Europeans, Americans or the very demanding Japanese consumer. These products often do not fit the requirements in developing countries. They are first of all too expensive for the average consumer. Probably they are not suitable because of different climatic conditions, too sensitive or not robust enough for the harsh conditions (e.g. vehicles which have to travel over bad roads), do not take into consideration different physique (garments, shoes), religious and or cultural differences, eating habits and tastes etc.

The same often goes for technologies and productions processes. The capital-outlay for a fully automated machine will be amortized in a short while if labour costs are high, but would presumably not make sense with the low-wage structure prevailing in developing countries. A highly sophisticated continuous production process will be optimal under near perfect conditions, but produce only defective articles in a country with fluctuating and frequently failing power-supply, impure water, hot and humid atmosphere, low-grade raw materials etc. There are many more examples of this sort.

Here the tested technology applied in developing countries and proven successful must be considered superior. The entrepreneur in the developing country has the experience in how to cope with all these difficult circumstances which would stall any "Western" plant and probably render its manager helpless.

If the product is sells well in one country, it is evident that the chances are good that it will also be bought by the people in the neighbouring country, if conditions there are comparable.

Highly successful joint ventures and other South-South cooperations have been established particularly in the garment industry (mostly subcontracting), agro-based industry, fishery, wood working and furniture industry, machinery and machine-tool production and recently in the electronics industry.

The handicap entrepreneurs from developing countries face when they wish to expand abroad is first and foremost their lack of experience in international business. In many developing countries capital export is forbidden or very restricted and loans are difficult to obtain or only at very unfavourable terms. International and regional Developing Finance Institutions may be able to ease this problem. Last but not least, a bias against "inferior" developing-country-technology has to be overcome.

1.7 Type of industrial sector

Formerly a principal motive for investments in developing countries was control over the supply of raw materials. For this reason a great share of foreign investment is found in the mining sector and also in the agro-based industries. There are indications that foreign investment in these particular industries is not growing as rapidly as in the past, in fact, in some countries it is falling off. These industries are still expanding in developing countries, but typically with local entrepreneurship. Co-operation with foreign enterprises in these sectors will therefore focus on transfer of technology, licensing, technical assistance etc. Particularly in the agro-based and related industries there should be scope for growing South-South co-operation.

Investments and co-operations serving the purpose of market penetration are not concentrated in any particular sector of industry. One can find examples of almost any kind of manufacture.

A different case altogether is the relocation of production to a developing country in order to benefit from the low labour costs (subcontracting falls into the same category). With changing technology the sensitivity to wage differentials is either increasing or decreasing in certain industrial sectors. Generally speaking, if a production process can be fully automated, low wages will not be an incentive. Typical examples are the "ghost factories" in Japan, where on or two supervisors control an entire factory, run by computer-controlled robots and machine-centers. Spinning mills, for instance which twenty or thirty years ago employed hundreds of low-paid workers are now so highly automated that they require only a

skeleton staff. Wage-levels will therefore no longer be a decisive element in the selection of plant-location.

Ideal candidates for relocation in low-wage countries for subcontracting are those industries whose degree of mechanization have reached a certain level but cannot be fully automated. The most prominent example is of course the garment industry. One other case should be mentioned here for curiosity's sake: A renowned Japanese company formed a joint venture in Thailand for the production of alpine skis!

A few years ago the semiconductor industry started moving to developing countries. Meanwhile, new, automated production processes led to a reversal of the flow of investment in this sector. A continuing shift towards developing countries is to be expected in the shoe industry, metal working, electronic components and assembly of electrical and electronic goods, car assembly, furniture and wood working industries, diamond cutting and precious stone polishing, certain branches of the machinery and machine tool industry, to mention just a few.

One word of caution. As we must all realize, industry can have a detrimental effect on our environment. In the absence of uniform standards, UNIDO has an immense responsibility to counsel and advise developing countries and its companies on the possible long term effects of certain industrial processes and recommend only such technologies which avoid altogether or at least minimize any harmful effect on the environment.

2. Constraints and obstacles in enterprise-to-enterprise co-operation

There are objective constraints and obstacles in enterprise-to-enterprise co-operation and subjective ones, i.e. depending on the judgement and evaluation of the individual enterprise. One can distinguish between macro-economic constraints which comprise such general factors as the global economic situation, Dollar-parity, oil-price fluctuations etc., more specifically the legal and economic conditions in a country and micro-economic or enterprise-specific constraints. Finally, the biggest obstacle is probably, how to find and match the right partners.

It would be futile to attempt to list and explain all possible obstacles. Those mentioned below are the ones frequently encountered and either

directly affect investment and co-operation projects or seriously influence the decision-making process of an enterprise.

2.1 Macro-economic constraints and obstacles

2.1.1 - in the capital and/or technology transferring country

Some industrialized countries have restrictions on exports of certain equipment and/or technology. The most prominent of these are the COCOM-rules under which exports of certain high-technology equipment and know-how are barred to certain countries. There are also examples where countries prohibit their nationals any economic activity in certain other countries and consequently no co-operation between enterprises of these countries is possible.

More frequent is the case that capital export is not permitted or is at least hindered. Although OECD countries have to a large extent liberalized capital transfers (OECD Liberalization Code), some countries are more restrictive than others. The more so, if it is a developing country with a shortage of capital and foreign exchange. This very often narrows the scope and type of South-South co-operation to the various forms of contractual co-operation without capital participation. It should be mentioned however, that some developing countries have also become important foreign investors.

2.1.2. - in the host country

Although some of the constraints are relevant only where a transfer of capital is involved, others equally affect contractual forms of co-operation such as licensing, franchising, subcontracting etc.
Before any decision with regard to an industrial co-operation can be taken, there will be an evaluation of the so called "country risk". Among the factors weighing strongly against a country are:

- Political instability with the immanent risk of sudden changes of economic systems or policies.
- Risk of deterioration in a country's political and social climate which might affect labour relations, security of people and property
- Breakdowns or bottle-necks in the infrastructure. This applies mostly to the energy-sector. Frequent power failures are common occurrence even in many of the more developed third world countries. They can wreak havock with some of the more sophisticated production processes, like plastic-extrusion, not to speak of electrically powered smelters etc. Even a simple operation like sewing comes to a standstill.

Low wages will not compensate for rejects and the loss of production time and will probably render the country uncompetitive, even for sub-contracting. Equally disruptive could be water cuts. Long delays in ports,breakdowns in communication and transport could seriously endanger the economic survival of a business venture. -Disparities between written law and its implementation
-Omnipotence of bureaucracy
-Shortage of foreign exchange which could affect the issue of import licenses for equipment, raw materials and spare parts.
-Prevalence of theft and pilferage
-Safety of personnel

Next to the "country risk" which evaluates present conditions and expected or probable future development there are negative factors which could be called "disincentives". These include:

-Slow customs clearance process- in some countries it takes literally weeks to get a shipment cleared by customs. Meanwhile high storage fees are levied, pilferage occurs. Certain goods deteriorate if exposed too long to unfavourable climatic conditions (high temperatures, humidity), such as certain chemicals and pharmaceutical products, electronic components, foodstuffs and of course even machinery. Delays could result in the interruption of production and consequently to delays in delivery, possibly penalties or loss of future orders. Subcontracting in fashion goods with extremely short delivery times becomes simply impossible under such conditions.

- Taxation- Tax holidays to new ventures are of little consequence when they are offset by high personal personal taxation or other high taxes. Some countries (industrialized ones too) tax the company and the expatriate personnel with their world income. Some countries put a ceiling on license fees, royalties and know- how payments, yet at the same time subject them to a hefty withholding tax.

-Minimum-investment - Indonesia's investment law, for instance, stipulates that the minimum amount for any foreign investment must be one million US-Dollars. Under certain conditions this amount can be reduced to 250.000 Dollars. In comparison, of all joint-ventures which were started in Poland last year, 30 % ha a foreign investment component of 50.000 Dollars or less. This example shows clearly that minimum investment requirements will reduce foreign co-operation in quantity and quality. It effectively excludes most medium-sized and

all small companies,although they have recently proved to be the most dynamic and active in international co-operation.

-Bureaucratic maze- Many projects died a slow death because they never passed through all the red tape to get approval, or the foreign technicians and managers never got their work permit, or no one wanted to go there because exit-visa regulations made foreign personnel virtually prisoners of that country. This discourages not only investments but also technical assistance agreements.

The list could be continued. the point remains that foreign companies will take into account "country risks" and "disincentives" before they even look at any incentives.

Another factor on which depends lastly whether manufacturing of a product is feasible and profitable is the level of labour productivity. This is determined by the level of education and local skill as well as by motivation.

2.2 Micro-economic constraints and obstacles

The most crucial factor for the failure or success of a project will be the choice of partner. There will be certain prerequisites that are common to both sides, like honesty, competence, solid financial situation of the company etc. But matters are more complex. Each partner takes different risks and might have a very different conception of the project and/or goals of the planned co-operation. The constraints to co-operation on enterprise-level are more intricate, sometimes less tangible. At times they are characterized by a basic distrust of a partner whose culture, mentality, business practices etc. are all unfamiliar and whose motives are sometimes called into question. Often the anxieties are groundless but sometimes they are well-founded.

For a company in a developing country it might prove quite an obstacle to assure that it does not pay for equipment which is either not working, not suitable or over priced. This is even more difficult to assess for process technology or production-know-how. With little or no international experience and scant opportunity to visit international fairs in different parts of the world, the entrepreneur has no means to compare and judge the merits of the technology it is offered. For larger projects one can request feasibility studies, technical reports and maybe even invite international bidding. Such precautions and procedures, by no means foolproof either, would simply be too costly if for instance a meat-processor wants to improve his packing facilities or a textile manufacturer wants to reduce energy costs in his plant.

There are other hurdles to jump before a project can be implemented. No matter what kind of co-operation is envisaged there will be the need for financing. Banks have very strict guide-lines for project-evaluation, particularly if the project is carried out abroad. As a rule the banks request

- financial statements (three years back to present)
- detailed project description
- corroboration that budgeted costs are realistic
- proof that the project has been approved by local authorities (most license agreements are subject to government approval) and major permits have been issued (e.g. building permit)
- in case of investment projects, proof of adequate financing - generally, investment banks request that 25 % of total costs are in equity.

If one of the partners is unable to comply with the bank's request it will be difficult to obtain outside financing and the project will probably not get off the ground.

3.Possible solutions to problems and constraints

Solutions have to mirror the problems. Therefore, problems encountered on a macro-economic level can only be eliminated or at least alleviated if governments are willing to improve the investment climate. The first target should be the "disincentives", some of which could be remedied through simple administrative reforms. It would change the "disincentive" into an incentive if, for instance, the applicant would have to deal with only one government-department. This department could in turn liaise with all other departments and authorities to obtain all necessary permits for the applicant (The applicant being either the local or the foreign partner or both jointly) -from Board of Investment approval to residence and work permits for the expatriate staff, tax concessions and contracts with electricity, water and telephone authorities. Parallel to it, maximum delays should be fixed within which each department must either approve or reject a request.Thereby long bureaucratic delays would be avoided.

Similar measures could be taken to speed up customs clearance procedures.

All these measures are not theoretical inventions but have already been implemented by a number of developing countries .

Confidence building measures should be taken, such as incorporating investment guarantees in the investment code, concluding bilateral investment protection agreements or enacting laws for the protection of intellectual property rights. Any government must realize that the potential investor or co-operation partner from the developed country or from another developing country will most likely be a private entrepreneur who feels no obligation to take his business to any particular country. A hostile attitude towards the private sector will obviously scare away private entrepreneurs.

As was mentioned earlier, the ultimate motive for the foreign enterprise to enter into a co-operation agreement is profit. Assurances of free transfer of profits (and eventually repatriation of capital) are therefore a sine qua non. Double-taxation agreements are an incentive since a greater share of the profits will actually accrue to the company.

Minimum investment requirements are anachronistic. They favour big projects by big companies only. A study by an investment bank (Direktfoerderungen fuer Investitionen und Innovationen - Theorie und praktische Anwendung, Oesterreichische Investitionskredit AG, 1989) revealed that in the US in 1984 more than half of all new jobs were created by enterprises with less than 20 employees and 90 % (!) by enterprises with less than 500. Many countries have recognized the potential for economic growth and employment and the innovative force of the SME sector and actually target their promotional efforts at the SMEs.

Minimum investment requirements also would preclude a step-by-step approach from low-risk ETE co-operation to high-risk models like joint-ventures with rising amounts of capital investment. One of the constraints mentioned in the previous chapter was the mutual distrust or lack of confidence in the unknown partner and in the country, paired with unfamiliarity of the other's culture, business practices etc. The gradual development of a relationship between the two partners will help to overcome all disparities. The first steps may be very loose, low-risk forms of industrial co-operation. When both partners have gained experience and built up mutual trust, they might feel confident enough to invest larger amounts of capital. Such a prudent approach is in the interest of both partners and advisable wherever or whenever technology permits it.

When financing is required, either in the form of substantial loans for equipment supply or for capital investment in the case of joint ventures, closer co-operation with financial institutions from a very early stage on could result in better projects and shorten the lead time between project

proposal and implementation. The financial institutions could screen the project and evaluate its merits and suggest changes to meet the criteria for financing. Since all banks apply more or less the same criteria it makes no difference which bank is involved in the planning stage. Eventual participation will have to be negotiated according to the terms offered, making use of the possibility to obtain concessional financing from national or international organizations.

Finding and matching the right partners:

Even the best things do not sell by themselves! Yet effective marketing has become so complex with the globalization of the marketplace and the diversification and specialization of technology that many companies, especially SMEs, cannot cope with it.

To fill the need of providing a marketplace for technology and know-how, many technical Trade Fairs have created a forum for technology presentations. There are even specialised fairs, such as Technova in Italy or symposia where hundreds of companies participate. Chambers of Commerce on one hand, Boards of Investment on the other, organize group travels for their members to present project proposals, new technologies and know-how and establish contacts with potential partners in selected countries. These organizations also publish and mail out information bulletins.
Private companies, investment and technology brokers, subsidiaries of investment banks are all trying to bring together partners on a commercial basis.

It was once thought that databanks will provide the answer to the problem. No doubt that they have their value, but they can be useful in a limited way only. Broadly speaking there are three categories:

- Offers & opportunity databases:
  These databases are the type most often referred to when technology databases are mentioned. They focus on commercially available opportunities through licensing or other means. However, many focus on pre-market research ideas, whose commercial potential will be
- Business information databases:
  They are directory type focussing on individual companies or text retrieval services, for example based on the business press. They are likely to be up to date and carry company specific information.
- Technology monitoring databases: They contain information on specific items of technology (equipment or new products) which have entered commercial use.

The databases alone cannot be used to match partners, but they can provide a powerful tool as immediately accessible source of information for organizations dealing in enterprise-to enterprise co-operation and technology transfer promotion.

The variety and complexity of modern technology change suggests that traditional methods are becoming less efficient and appropriate but there is clearly no single best solution to the problem on how to find and match the right partners.

4. Possible role of national and international non-governmental organizations

National and international organizations dealing in technology transfer, technical co-operation, investment promotion and all other forms encompassed by national or transnational enterprise-to-enterprise co-operation are proliferating. Some of them are agencies under a Ministry, some are autonomous but government supported and of the many private ones, some are profit oriented whereas Chambers of Commerce, Federations of Industries and the like, generally see themselves as non-profit service organizations for their members. Their efficiency and effectiveness vary greatly. Some might be very specialized, representing only a few companies in a very narrow field or covering only a small region and others like WASME (World Assembly of Small and Medium Enterprises) aspire, as the name indicates, to global activities.

UNIDO can effectively make use of such organizations as coordinating agencies. There are millions of enterprises in the world and it needs a very well structured network of organizations to assure a reciprocal flow of information to reach as far as company-level. If UNIDO wants to expand its enterprise-to-enterprise co-operation programme, it needs to obtain reliable information on suitable companies and on the other hand disseminate information to potential partners. It would be futile for UNIDO to attempt to work with all organizations, but it should take stock of them and establish in each country a working relationship with three or four of them.

a) Chambers of Commerce:

These are basically regional (city, district, province, country) organizations, comprising all or most sectors of the economy. In countries where membership is not compulsory their position is not always very strong

and the administration occasionally not efficient. On the other hand there are countries like Austria and Italy where the Chambers of Commerce permeate every sector of the economy and where they dispose of considerable funds. They develop their own activities and programmes to promote "internationalization" of their members.
There is probably no country in the world which does not promote international co-operation in one way or the other. However in centrally planned economies it may have been quite limited. Even in countries with a rather closed economy a trend towards increased international co-operation, even allowing private sector activities, can be observed.

It is interesting to note that in these countries the Chamber of Commerce assumes an important position in promoting and facilitating enterprise-to-enterprise contacts.

Cooperation with Chambers of Commerce will provide the regional structure for UNIDO to link up with enterprises. The problem will be to decide on how far down in the regional structure the contact should be maintained (national, provincial etc.). This will depend on the territory covered and whether or not the regional Chamber is authorized and equipped to deal with international affairs directly.

b) Federations of Industries/Associations of Manufacturers

If the Chambers of Commerce are organized on a territorial basis, Federations of Industries (FOI) or Associations of Manufacturers (AOM) usually are organized by sectors and sub-sectors of industries. With some notable exceptions (e.g. Japan) their overall influence is not as strong as that of a Chamber of Commerce, but - because of homogeneity of interests of its members - they can wield considerable power on specific issues through lobby groups. Membership is mostly facultative and often comprises only the medium and larger companies.

For information or contacts in some sub-sector of industry, FOI/AOM may be a better source than Chambers of Commerce. FOI/AOM generally are more familiar with the production programmes of their members.

c) Professional Associations:

These could be a target group for UNIDO's ETE co-operation programme. Instead of approaching a single enterprise, UNIDO might initiate a project with an association which will have better means to finance it and can delegate specialists for each required field as experts. The ultimate

goal would be that the initial contacts and the relationships that are developed on expert-level will eventually involve the companies which delegated these experts and lead to direct enterprise-to-enterprise co-operation.

d) Consulting /engineering organizations:

Consultant engineers have their place more in technical assistance programmes. However, there might be cases where they could contribute to tackle specific engineering problems.

e) Investment Banks

Although they cannot be classified as organizations in the same sense as Chambers and Federations, they should not be overlooked considering their increasing role in international co-operation. Their international network and their co-operation within the "Club of Investment banks" make them a prime source of information. They will be approached by companies in the early planning stage of an international co-operation project and since they would eventually finance or co-finance these projects, one can rightfully assume that these projects are sound. Close co-operation with the major investment banks could provide UNIDO with a wealth of high-quality project proposals.

5. New activities to be undertaken by UNIDO

The traditional activities of UNIDO are primarily aimed at providing direct technical assistance via recipient governments. Technical cooperation has centred mainly on support to institutional strengthening of development institutions. Furthermore UNIDO organizes promotional activities for the transfer of technology, investment promotion, as well as global consultation meetings for partners of the industrial development process. UNIDO undertakes also supporting activities through the provision of industrial and technical information, statistics and by carrying out studies on sectoral, regional and global levels.

The innovative activities have supplemented the scope of UNIDO's assistance to the developing countries through direct enterprise-to-enterprise co-operation between partners from developed and developing countries.

UNIDO is unique in this respect, since it is the only UN organization which can develop projects directly with industrial enterprises from developed as well as developing countries. ETE co-operation can be

developed without the time consuming procedure applied to traditional activities, requiring financing from UN resources which therefore have to be transmitted through official governmental channels.

Operational problems are not the prerogative of large-scale enterprises or major institutions. They are very much a fact of life for SMIs. UNIDO's work programme, therefore, has placed emphasis on assisting this group of industries to realize their full developmental potential. This will be achieved through investment promotion and through innovative forms of ETE co-operation. The ETE co-operation programme is to provide an additional mechanism to initiate industrial co-operation activities and to provide technical assistance, when traditional funding from UN funds is not available or not sufficient. The main advantage for the participating enterprises is, that an impartial and non-profit agency like UNIDO acts as a middleman, providing its expertise and its field network for the promotion of ETE co-operation activities and projects. UNIDO's international reputation can open new business avenues and initiate industrial co-operation agreements.

ETE co-operation activities are based on the needs of the participating enterprises. They may be implemented through one of the following forms:

a) Self-financed fact finding missions or studies, through a trust fund contribution to UNIDO provided by companies or federations of companies interested in expanding co-operation and new business opportunities in developing countries.

The trust fund could provide the means for an exploratory mission to advise the recipient government and/or industrial enterprise(s) on the type of technical assistance needed, or to establish the first contacts for further development of direct industrial co-operation with the recipient enterprise(s). The source company or federation of companies proposes the objectives, activities and the timing of the mission, which will be carried out as a UNIDO mission in co-operation with the recipient government and/or enterprise(s). The experts can be nominated and provided by the source organization.

The follow-up phase can either be additional technical assistance activities or direct negotiations on industrial co-operation between the enterprises involved. Part of these activities may be financed from or in combination with resources from UNDP or UNIDO.

b) Third party trust fund projects funded by a company or a federation of companies for promotional activities aimed at transfer of technology.

In order to promote the transfer of appropriate technology to the developing countries, UNIDO undertakes joint promotional projects with the supplier of the technology and related equipment. The promotional activities are carried out in the form of workshops, seminars and study tours, financed by the donor organization. UNIDO uses its expertise and field network to identify and to invite key industrialists and decision makers from the developing countries, who could ensure an appropriate follow-up to the promotional activity, either by technical assistance or by direct industrial cooperation activities. These promotional activities may result in direct co-operation agreements between the source organization and enterprises from developing countries, thus benefiting all parties concerned.

c) Self -financed technical co-operation projects for enterprises or industrial organizations from developing countries. Under this arrangement, the beneficiary bears the cost of the technical assistance and deposits the required funds with UNIDO under a Trust Fund agreement.

These self-financing trust funds provide resources for management and rehabilitation of industrial plants, provision of experts and training, to undertake diagnostic appraisal studies or to procure equipment on behalf of the recipient company. With UNIDO's expertise and world wide contacts it is able to provide high level experts at competitive salary scales, arrange low-cost training programmes or procure equipment at favourable conditions.

d) Industrial Partnership - Industrial Co-operation for Development Scheme. This scheme makes use of a global fund, established by a special purpose contribution to UNIDO from a donor government.

Under this scheme, UNIDO assists enterprises in developing countries with technical assistance for rehabilitation, modernization and expansion of existing plants and to enter into co-operation with partners from developed or developing countries.

6. Recommendations

Enterprise-to-enterprise co-operation in this new approach has been promoted by UNIDO since it became a Specialized Agency in 1986. During this relatively short period several projects were carried out successfully (see Annual Report of UNIDO 1987, IDB.4/10 and 1988, IDB.5/10). These

results are encouraging enough to think of means and ways to expand and improve the programme.

In order to do so UNIDO will have to apply a more business-like approach. Without renouncing its purpose, i.e. to assist the developing countries in their endeavours to industrialize, it must make clear to all participants that this scheme would be for mutual benefit and not for charity.

This actually may help in motivating companies from industrialized countries to consider investment or industrial co-operations in developing countries. A strategy how to reach potentially interested companies should be worked out.

Emphasis is on involving SMEs in the co-operation promotion. This should not exclude large enterprises. Since large enterprises imply usually big projects, collaboration with other international organizations could be envisaged in such cases, notably the World Bank which has its own ETE co-operation programme, called twinning concept, and IFC. Possibilities of collaboration with other organizations such as the Asian and the African Development Bank and the International Trade Center (ITC) could also be explored.

Co-operation with economic institutions and organizations which would act as coordinating agencies should be strengthened. Joint programmes and projects, using some of the promotional funds such organizations frequently dispose of, could be established. These could be workshops, seminars and missions to selected developing countries with high co-operation potential.

Means and ways should be discussed on how to expand South-South co-operation on an enterprise-level.

All in all, for UNIDO to be successful, it will have to convince entrepreneurs that it can be pragmatic and flexible and dispense with cumbersome bureaucracy. UNIDO will have to be careful as to promote only such projects which can be considered commercially viable and offer both parties the chance for economic benefit and/or profit.

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