

**SECRETARY-GENERAL'S SUGGESTION FOR A  
POSSIBLE INITIATIVE ON REGIONAL  
CO-OPERATION FOR RAPID INDUSTRIALIZATION  
THROUGH HARNESSING OF THE RESOURCES  
OF THE REGION AND INVESTMENT PROTECTION**

The need to give serious consideration to the question of regional co-operation with the object of promoting rapid industrialization and optimum utilization of the natural resources in the developing countries of the Asian-African region assumes urgency and importance in the context of slow progress of negotiations between the developed and developing countries in world forums and the widening of gap between their economies.

It would be recalled that most of the countries in the Asian-African region had been subjected to a colonial economic system which followed a basic pattern under which industrial activities were primarily concentrated around the metropolitan capitals with the colonies providing the raw material as also serving as ready markets for finished products of the home-based industries. Furthermore, processing and marketing of agricultural produce as also the exploitation of the mineral wealth were retained in the hands of companies or individuals in metropolitan centres. With the achievement of political independence, it was to be hoped that the economic emancipation would follow but even though more than two decades had elapsed since the process of decolonization had set in, the economic order continued to proceed on the same pattern. As a matter of fact, the economies of the newly independent nations followed a deteriorating trend primarily on account of low price level in commodity markets whilst the prices which the new nations had to pay for acquiring plant and machinery and know-how for their developmental projects as also consumer goods were sky-rocketed. These among certain other causes led to an alarming economic situation which had necessitated the convening of the Sixth Special Session of the General Assembly in the spring of 1974. That Session adopted the Declaration and Plan of Action on the establishment of a New International Economic Order (Resolution Nos. 3201

(S VI) and 3202 (S VI) which was followed by the adoption of the Charter on the Economic Rights and Duties of States later in the same year. [General Assembly Resolution No.3281 (XXIX)].

The Declaration on the New International Economic Order was conceived on a theme of new norms and practices for transforming a colonial economy into a balanced economic structure to suit the needs of the changing pattern of the world community, the major areas requiring immediate attention being the basic problems of raw material, the industrial growth of developing countries and transfer of technology. In the global consultations which followed the adoption of this Declaration, the importance of industry as a dynamic instrument of growth essential to rapid economic and social development was emphasized. Thus, the Lima Declaration and Plan of Action, adopted at the General Conference of the UNIDO in March 1975, contemplated that industrialization in the developing countries should be intensified to the maximum possible extent and as far as possible increased to at least 25% of the total world industrial production by the year AD 2000. This was unequivocally endorsed at the Seventh Special Session of the General Assembly held in September 1975. A meeting of Eminent Persons on Industrial Co-operation was thereafter convened by the Executive Director of UNIDO in Vienna in September 1976 to identify the means through which such co-operation could be achieved.

A series of consultations and negotiations have taken place during the past four years to translate into reality the objectives of the new international economic order in the field of industrialization as amplified in the Lima Declaration and Plan of Action both within the framework of UNCTAD and in various North-South dialogues. The Group of 77 as also the Non-Aligned Nations have given active and serious consideration to this issue in their ministerial meetings and have adopted declarations and programmes of action. These have helped to identify the areas where urgent and concerted international action was called for and to indicate the modalities through which this could be achieved. Despite these series of major



initiatives, the results achieved so far have fallen short of the expectations of the developing countries. At times serious doubts have arisen about results being at all achieved through a continuing dialogue between the developing and developed nations in global platforms. This has particularly been so following upon the scant progress made in UNCTAD V in Manila in May 1979 and the near failure of the Third General Conference of the UNIDO held in New Delhi in January-February 1980. This lack of progress could conceivably be due to the fact that too many matters and issues are attempted to be tackled at the same time within the world forums and also perhaps due to the magnitude of the problem when issues are sought to be resolved on a global scale. Whatever be the cause, it seems to be clear that the developing countries cannot be expected to wait indefinitely for advancement of their economic growth. It is in this light that the possibility of promoting co-operation between the countries of the region *inter se* could be conceived and earnestly pursued.

It may not be out of place to mention that regional efforts in other regions have become extremely fruitful such as those between the member States of the EEC and COMECON. In Latin America, regional co-operation has assumed considerable importance as evidenced by the establishment of Inter-American Development Bank in 1959 and the adoption of the Convention establishing the Latin American Economic System (SELA) on October 17, 1975. In the Caribbean, economic co-operation has been envisaged in the Treaty establishing the Caribbean Community on July 4th, 1973, the Caribbean Development Bank in 1970 and the Caribbean Investment Corporation in 1973.

A general survey of the economic structure and growth of the countries in the Asian-African region would go to show that their economies in many respects are complementary, as their resources, their needs and also their technological advancement take a varied form and pattern and this may augur well for the success of any scheme which is based on co-operation between them. It is with this objective that a brief analysis of the economic needs of the countries of the

region, the possible pattern of their economic growth and the measure of assistance that may be rendered by them to each other has been attempted. For this purpose, it might be appropriate to classify the countries in five broad categories, namely:— (A) Major oil-producing States, (B) Industrialized nations, (C) The developed of the developing, (D) The developing countries, and (E) The less developed.

In this paper greater emphasis has been placed on the role which the major oil-producing countries can play in a pattern of regional co-operation as they would appear to hold the key to any effective system which could translate into reality the purposes of the New International Economic Order in practical terms so far as the countries of the Asian-African region are concerned. The possible roles of nations falling in the other four categories are briefly discussed (and they would be elaborated in further papers to be prepared on this subject during the current year) hereunder.

#### A. Major oil-producing countries

Even though the prices which the consumer has to pay for petroleum are in a large measure attributable to the profits made by the internationally based oil companies, the oil-producing countries, members of the AALCC, have today sizeable funds at their disposal through a legitimate price obtained for the crude, which in the case of many of these countries constitute their only valuable natural resource. This group of nations through their control over the primary sources of energy and the funds at their command are today in a position to re-shape the location, distribution and growth of industries through a proper organisation of downstream activities in relation to their petroleum resources. They could therefore play a very crucial role in any scheme for co-operation aimed at the industrial growth and economic prosperity of the countries in Asia and Africa.

Under the existing pattern of organization of petroleum industry, the crude is normally sold in bulk to the major oil companies owned and controlled by industrialized nations in



the west. The crude is then processed in refineries set up locally by the oil companies themselves or transported for processing in their refineries located mainly in Europe or the United States. The transportation of crude or processed petroleum invariably takes place in tankers owned or chartered by them. The entire produce is then marketed at prices fixed through cartel arrangements between the groups of major oil companies. It will thus be seen that the entire downstream activities in the field of petroleum are now in the hands of oil companies whose profits have continued to soar over the years. This has primarily accounted for the present level of petroleum prices even though it has been usual, more often than not, to put the finger at the increase in the price of crude.

It is true that the major oil-producing States have derived substantial revenues from the sale of crude. A part of these has been employed in their own countries in building up infrastructure like roads, buildings, aerodromes, bridges and improving the system of communication as also in setting up small and medium scale industries to the extent economically feasible, whilst a part of the funds has been invested in the west in acquiring real estates and shares in industrial concerns. Consistent with their role as members of the Afro-Asian community, these States have assisted several countries in the region in their development programmes including building of infrastructure through concessionary lendings or by way of direct aid and assistance. Furthermore, some part of the investments made by them in the west have indirectly trickled down to the region in the shape of western sponsored economic assistance programmes. These are, however, small benefits as compared to what can be achieved through re-orientation of the policies and programmes by the major oil-producing countries towards their long-term benefits and certain consequential advantages for the developing countries of the region.

Now that almost seven years have elapsed since the oil-producing countries in the Asian-African region had succeeded in obtaining a share in the benefits accruing from exploitation of their natural resources in the shape of petroleum deposits, which had been denied to them so long under a colonial

economy, it would perhaps be opportune to focus their attention to the possibility of achieving some long-term objectives which would be of lasting benefit to their people and at the same time assist in the economic growth of the developing countries of the region. Such long-term objectives could basically have three possible approaches, namely :—

- (i) Undertaking some of the downstream activities in relation to their petroleum resources which are at present almost solely in the hands of the major oil companies;
- (ii) increasing the industrial potential within their countries; and
- (iii) diversification of investments.

The considerations which might weigh in favour of a new orientation in their policies and programmes are :—

- (a) the need to create tangible income yielding assets or sources of income for the future in order to sustain their economic growth and revenue earnings and to offset the effects of any future decrease in earnings from the sale of crude whether due to the exhaustion of the petroleum resources in certain fields, the location of new oil bearing areas in the exclusive economic zones of other countries or the development of alternative sources of energy as substitute for oil; and
- (b) the investment potential in traditional fields in western countries considering the fact that the saturation point for deriving optimum benefits from such investments has already been reached and also the political elements which are being introduced even in the matter of investments.

#### **Downstream activities in relation to petroleum**

If the major oil producing countries are therefore inclined to take a fresh look in the matter, nothing could be more promising than their undertaking some portion of the activities in the field of processing, transportation and marketing



of petroleum which are at present under the near monopolistic control of the major oil companies. This, no doubt, would have to be attempted progressively in stages and with the assistance of one or more of the technologically advanced countries whether within or outside the region. Undertaking of such a programme, even on a comparatively modest scale in the beginning, is bound to set in motion an entire chain of activities which would not only be beneficial to the oil producing countries themselves but to the other countries of the region as well. It would help to reduce siphoning of major share of profits to western countries, which is still the case, through control of processing and markets by the major oil companies. The organization, distribution and location of several classes of industries could be effectively oriented through this process. For example, the setting up of a refinery would not only help in the growth and location of a number of allied industries using petroleum by-product or petroleum waste in the vicinity but would also encourage the establishment of other industrial undertakings in the area due to lesser cost of petroleum consequent upon savings on transportation. The creation of such an industrial belt around the area where a refinery or processing plant is located would automatically help in building up the necessary infrastructure and also ensure the employment of a large number of people.

If the suggestion for undertaking a part of the downstream activities, which are currently in the hands of major oil companies, appeals to the oil producing member States of the AALCC or at least to some of them, it would be appropriate to begin with to reserve a certain portion of the crude raised within their countries for processing, distribution and marketing through a machinery under their control. It may not be practicable in the initial stages to take up such operations in regard to the entire supply of crude but the proportion to be reserved for the downstream activities by the oil producing States themselves could be progressively increased.

#### Location of Refineries

The oil producing States concerned may consider setting up of a refinery or processing plant within their own countries

to be managed by State-owned organizations. The capital required for such a project could probably be found from their own resources but assistance in the shape of technology and manpower would no doubt be necessary for construction, erection and commissioning of the plant and also for its operation. Some of this might need to be obtained from industrialized countries in the west but a great deal could be made available by the countries within the region particularly the countries which are developed or the developed of the developing. Obtaining of assistance through these sources might work out considerably cheaper and also assist in the progress of regional co-operation.

If the establishment of a refinery or processing plant within a particular oil producing country is not considered feasible economically or otherwise, or if it is felt that the construction of a refinery to serve the needs of more than one oil producing country would be economically more viable, the country or countries concerned may consider location of a refinery or refineries in a country or countries within the region for processing of crude which could be transported from countries participating in the project. Such a project could be conceived as a joint venture arrangement between one or more of the oil producing countries in association with the country where the refinery is sought to be located. These refineries could also serve the needs of other developing countries of the region whose oil deposits are not substantial and also the future needs of those whose exclusive economic zones may reveal the existence of oil bearing areas. The developed of the developing countries, which may have acquired some skill or technology in the field, countries with free trade zones, or those with stable political climate and liberal laws and regulations could provide appropriate location for such ventures.

As already indicated, the location of refineries or processing plants would give rise to the establishment of a number of complementary industries based on petroleum by-product or petroleum waste such as methanol plants, plants for manufacture of plastics and fertilizers as also certain other types



of chemical. In some cases it might be practicable to include such activities into an integrated programme under the control of a State-owned organization of the oil producing country where the refinery is located or as a part of the joint venture arrangement. In any event, establishment of such industries would assure a market for the by-products or the wastes and it would certainly be to the advantage of the country where the refinery is located by adding to their sources of export earnings and in increasing opportunities for employment. The location of other industries in the area due to availability of oil at cheaper rates, whether undertaken by the nationals of the State or by multinational corporations, would enure to the benefit of the countries where the refineries are located in several ways. These factors are bound to make the location of a refinery extremely attractive to the country where it is to be set up. There is therefore no doubt that if such a refinery were to be set up through joint venture arrangements in a third country the government is bound to take those advantages into account in creating stable conditions and affording protection for the investment.

### Transport

Petroleum would naturally need to be transported whether in the form of crude to a refinery or as saleable products for the market. If preference can be given to utilizing the available tanker tonnage within the region and the oil producing countries themselves consider acquiring some tankers through purchase or hire, it would lead a step forward towards the organization of a transport system owned and controlled by the oil producing countries jointly with other countries of the region. Nevertheless, to begin with, a good deal of reliance would be necessary on industrialized countries for transportation, but here again separate arrangements for transport for the crude of petroleum processed by the oil producing countries in refineries under their management and control would not result in diversion of profits to the extent as obtains at present with the entire downstream activities concentrated in the hands of the oil companies.

### Marketing

As already explained, marketing of petroleum now is done by the major oil companies and prices are fixed through cartel arrangements between them. It should be possible to arrange for marketing through this source in the initial stages in view of the fact that the oil producing States in the beginning would possibly contemplate undertaking downstream activities in regard to a portion of their petroleum resources. However, it might not be too difficult to create a regional market for sale of the product in the neighbouring countries.

To sum up, what would seem to be feasible in the immediate future is for the major oil producing countries to consider undertaking a part of processing activities under their control in regard to the crude through the setting up of a certain number of refineries in their own countries and/or in other developing countries of the region by way of joint arrangements between one or more of oil producing countries in association with the country in which the refinery may be located. This will help to accelerate the industrial growth of the countries of the region through attracting allied and ancillary industries and creation of greater opportunities for manpower employment and at the same time this would provide a lasting source of revenue for the oil producing countries themselves. One of the possible modes of such joint arrangements could be through the establishment of a company with equity participation by the joint venture partners with the management and control being shared between them. The State in which the refinery may be located could possibly share in the venture by providing land, infrastructure and port facilities and other ancillary requirements in the shape of water and power for the project. Technology and manpower could be arranged under contracts to be entered into with the company which is floated for the purpose. This aspect of the matter would be elaborated further if the suggestions for the establishment of refineries within the region under the management and control of oil producing countries in association with other developing countries appeal to them in principle.



### Industrialization within the country

The extent to which industrial projects could be undertaken in some of the oil producing countries may have some limitation due to the economic factors caused by non-availability of raw material or manpower within the country. However, in countries where this problem does not exist, their needs in the field of industrialization and the manner through which the same could be achieved would be identical with the problem of other developing countries except in regard to capital outlay. In any event industrial output for local consumption, which would do away with the need for importation of finished products in certain fields, could be foreseen as a long term perspective and activities in relation thereto will possibly be undertaken to the optimum limit. As a matter of fact, a number of countries are already engaging their attention on this matter and they have set up factories for cement and other building material which are badly required for building of houses and infrastructure. Some countries have even embarked on Iron and Steel Industry in collaboration with the industrialized countries including those from within the region. However, industrial activity in the field of production of goods for export purposes where raw material and/or manpower has to be obtained from abroad may become uneconomic for the present as it would be difficult to recoup the high costs of production in competitive export markets. Nevertheless, in relation to certain industries where the cost of energy represents a major component in the overall cost of production, such as aluminium, the undertaking of export oriented projects might be fruitful. Some part of the technology and manpower required for this purpose could well be made available by the countries of the region under appropriate bilateral agreements or commercial contracts.

### Diversification of investments

Although fairly substantial sums from major oil producing countries have been put into some of the developing countries of the region for the purposes of their development projects and building of infrastructure through direct aid and assistance

as also concessionary lendings, the question of investments in the developing countries of the region by the oil producing States in the true sense has not been given serious consideration—what is meant here is investment with the object of creating tangible assets for securing a source of income or profits for the investor. Whilst the present trend of assisting countries of the region on the existing pattern based on certain criteria would possibly continue, attention needs to be focussed on the question of possible investments being made by major oil producing countries in the other developing countries of the region for their mutual benefit. Such investments may well provide lasting sources of revenue for the investor country which would at the same time meet the needs of the developing countries including the developed of the developing in respect of their capital requirements for industrialization. Such investments in the present economic climate of the region could usefully be made in government projects under a government to government agreement or even in the private sector under an umbrella agreement with the government of the country where the industrial activity is to be undertaken.

The possibility of investing a part of the available funds in the developing countries of the region might well be looked at from the point of view of the advantage that might be gained in securing partnership in the industrial activities in a country of the region which could provide a steady and recurring source of income for the future and also the consideration that a judicious diversification in investments may prove to be more beneficial in the overall picture. From the point of view of developing countries, such investments are likely to be more beneficial to them than obtaining economic assistance in the shape of tied credits from countries outside the region.

There are several areas where direct investment or participation in industrial projects might be fruitful, such as those which may be oriented to produce goods and material needed for consumption in the country of the investor. In addition, investments may also be worthwhile in export oriented industries for which the economic conditions in a particular developing country are favourable in the shape of ready access to



raw material or cheaper labour. Projects which have as their objective the exploitation of the mineral wealth of a country and their processing is a field where the investments are bound to be profitable; investments could also be made by way of participation in tripartite ventures where the location of an industry in a particular developing country may be considered economic due to raw material supply and manpower but capital as well as technology has to be obtained from abroad due to the sophisticated type of process involved and the need for larger capital employment. Such type of industry, which may include Iron and Steel, manufacture of machinery or motor cars, electronic goods, shipbuilding, etc., which are confined at present primarily to industrialized countries are bound to be profit-yielding and participation therein is likely to prove to be profitable for the future.

#### B. *Industrialized nations*

Japan is the only major industrialized country in the Asian-African region which has developed advanced technology in various fields. The Republic of Korea is another country which has also been able to make remarkable strides in this direction within a short time span. They are now in a position to assist the developing countries in the region in the exploitation of their natural resources as also in the process of industrialization by imparting technology through technical assistance or joint ventures. Furthermore, both these countries have almost reached or are about to reach optimum point in the field of industrialization in their own countries and they could well benefit by participating in the industrial activities and developmental programmes in other countries of the region by transferring progressively to developing countries those industrial activities relating to production of intermediate materials, processing of raw material and manufacture of consumer goods for which the economic conditions in several of the developing countries are potentially better in the shape of cheaper labour and availability of raw material. Such a programme would at the same time be greatly beneficial to the developing countries themselves as this will set in motion a process of industrialization in the fields suited to their economies and this may also

help to resolve their continuing problems of balance of payments and unemployment in a more positive way than initiatives in spectacular areas. This would also be a means through which technology could be gradually and effectively transferred. It is a matter of satisfaction that some progress in these directions is already underway but there is a great deal of room for extending such spheres of co-operation. The contribution of the developed countries in a programme for regional co-operation could therefore conceivably cover three distinct and viable areas :—

- (i) Imparting of technology and provision of skilled manpower to developing countries;
- (ii) Participation in joint or tripartite ventures by employing capital or technology or both;
- (iii) Transfer of industrial activity concerning intermediate products, etc.

#### C. *Developed of the developing countries*

There are by now within the region a number of countries which may be termed as the developed of the developing, which have acquired skill in manufacturing goods of international standards in certain fields such as consumer goods, light machinery as also in the manufacture of chemicals, fertilizers, cement, etc. Some of them are rapidly progressing in their own industrialization programmes and are embarking in the field of heavy industry such as Iron and Steel, shipbuilding and also in sophisticated fields like electronics, car manufacture etc. Their real handicap in most cases is however the lack of availability of ready capital and they are therefore still dependant a great deal on tied credits from industrialized nations in other regions. Nevertheless, they seem to be in a position to assist the developing countries and those which are less developed by transferring progressively through joint venture arrangements the expertise in certain less sophisticated fields which can be more easily absorbed by the developing countries of the region. Assistance is also being rendered by these countries in