



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

ID/CONF. 1/G.12

USSR ACADEMY OF SCIENCES

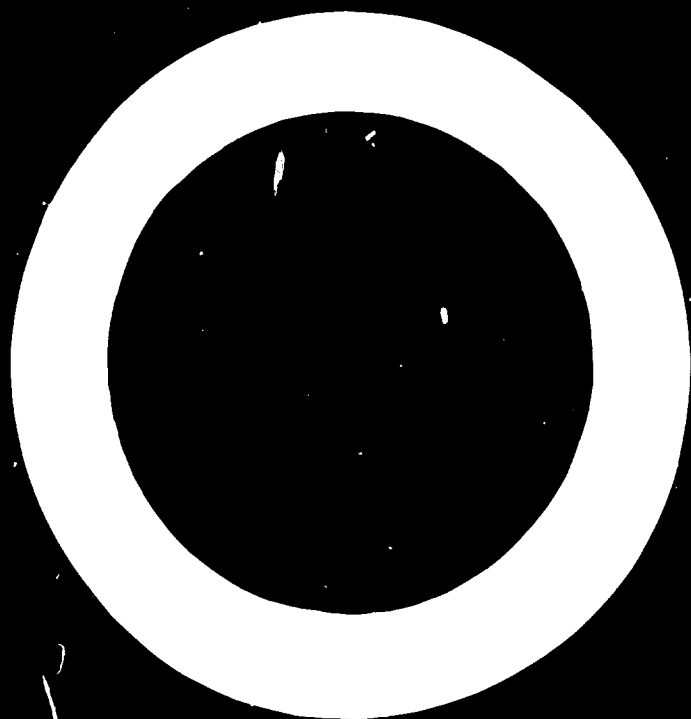
INSTITUTE OF THE WORLD ECONOMY AND INTERNATIONAL RELATIONS

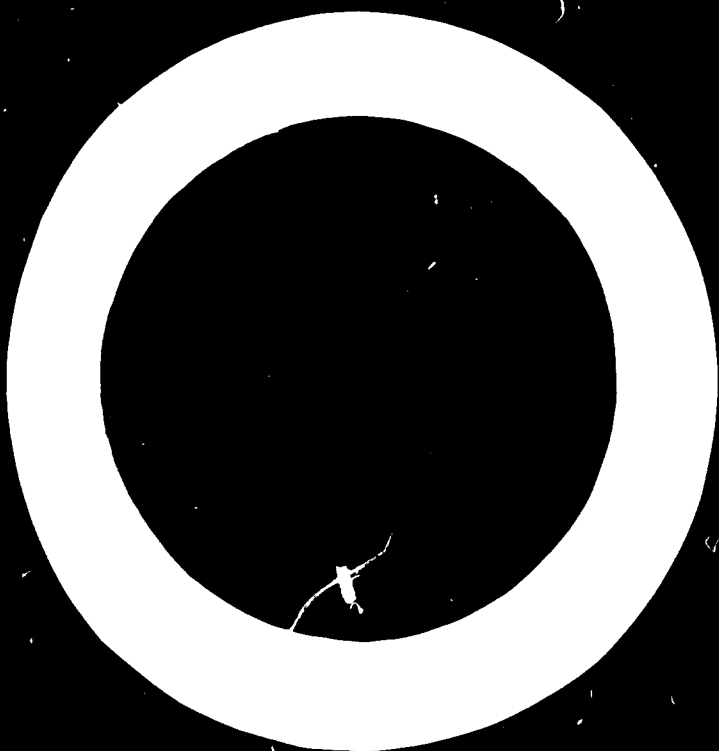
**DIVERSIFICATION OF ECONOMY
AND THE STRATEGY
OF INDUSTRIAL DEVELOPMENT**

This paper has been distributed by the United Nations in its original language, Russian, as document number ID/CONF. 1/G. 12 for the International Symposium on Industrial Development.

D01731

1973 05 13





USSR ACADEMY OF SCIENCES

Institute of World Economy and International Relations

DIVERSIFICATION OF ECONOMY
AND THE STRATEGY OF INDUSTRIAL DEVELOPMENT

Moscow 1967

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

1. The problem of overcoming the economic backwardness of Asian, African and Latin American countries requires a considerable growth of their general economic potential. It is inconceivable to build up a modern economy without substantially raising the national productivity of labour. The experience of many countries shows that this rise can be attained by expanding the technical basis of economy and also by broadening the social division of labour, that is, by creating an extensive complex of interconnected industries in which the central place is occupied by the processing industry, and primarily by the production of machines and equipment thus allowing to re-equip a country's entire economy. This implies a break-up of the obsolescent colonial economic structure of the developing countries and the establishment of a new, multi-sectoral harmonious structure of the economy with an advanced industry and up-to-date agriculture. Thus, diversification is an important aspect of economic development. It creates the necessary locomotive impulses; makes the economy of the "third world" countries less vulnerable to unfavourable external factors and strengthens their positions on the world market. At the same time only a large-scale diversification of economy can produce a general rise in the productivity of labour and ensure (by building new branches) the growing able-bodied population with jobs.

2. Diversification of the economic structure is secured primarily through industrialisation. In the narrow sense of the word, industrialisation means growth of the processing industry and in the final count the production of machines and equipment; in the broad sense of the word it means the maximum introduction of industrial methods of production into all branches of economy. Industrialisation results in the creation of modern branches of industry conforming to the requirements of technical progress.

a/ The term "diversification" is applicable not only to the economy as a whole, but to its individual branches, too. As regards diversification of industry proper, its purpose, apart from everything else, is to deepen the specialisation and co-operation in the production of specific types of finished articles and, consequently, ensure the necessary proportionality between different branches at all stages of development. Diversification of agriculture implies the development of an extensive and highly productive plant-growing and cattle-rearing complex capable of satisfying the growing requirements in food and in industrial raw materials.

b/ With regard to foreign trade, diversification is identified with broadening export nomenclature. In this respect diversification during the first stage may be limited to expanding the variety of exported goods. But the ultimate purpose is to improve export, that is, to raise the quality of goods shipped out of the country and to increase the export of finished articles.

3. Diversification of the economic structure is an urgent task for the developing countries. But there is no

and cannot be a single formula determining its scope, rates, forms and methods acceptable to different countries. Everything depends on the concrete conditions obtaining in each given country, including the size of its territory, natural resources, level of economic development and commodity production, accumulated national wealth, the structure of production funds, the size of the population and labour reserves and the degree of participation in the system of the international division of labour. In large countries with their big populations it is possible to diversify economy on a greater scale. In small countries with their more limited resources and a high degree of dependence on the external market there are less possibilities for diversification, and priority is given to diversifying export items production. The scale of diversification in these countries in large measure depends on how the advantages of regional and subregional economic co-operation are utilized and on the choice of optimum variants of specialization and combination of production within the framework of this co-operation.

4. The promotion of economic development by means of diversification is not confined to breaking up the old economic structure and the creation of new branches; it is essential to preserve the required optimum proportions between economic branches at all stages of development. As these proportions are ascertained major emphasis should be made on taking into account both the current and perspective goals. It is important correctly to determine the key industries at every stage of development and single out

those which should be given priority. Obviously, to achieve the necessary proportions, the results of foreign trade and its influence on the structure of the resources which are at the disposal of a country should be taken into account. Foreign trade plays an exceptionally big role in determining economic proportions in small countries that are more dependent on the world market than the big countries are. Therefore their crucial problem is that of instituting effective control over their foreign trade operations. Still, regardless of a country's size, optimum proportions can be secured only on the basis of economic planning which establishes a proper correlation between industry and agriculture, between industry and transport, between the processing industry and power economy, between the heavy and the light industry, between large-scale and small industry, and between industry catering to domestic requirements and industry producing articles for export.

a/ The problem that arises in this connection is that of establishing special criteria to be used as a standard for achieving these optimum proportions. It is particularly important for the developing countries to make economic progress with the minimum of expense, without overstrain or a slackening of the planned rates and to avoid upsetting the general perspective for their development. It goes without saying that such criteria can be determined for various economic branches. Of immense significance, in particular, are the criteria of rational combination of capital investments with the different periods when they are recouped, of the best proportions between capital-consuming and labour-consuming types of production, of the

profitability of various industrial or agricultural establishments in turning out production to replace imported items, and so forth.

b/ In determining the perspectives of diversification and in selecting the optimum variant of the order of priority for the branches of economy, it is also necessary, where possible, to conduct extensive geological surveying, compile a water and land cadaster and draw up an amalgamated material and financial balance. Subsequently, as the economic structure becomes more involved and the necessary data is accumulated, these investigations can serve as a basis for effecting a transition to more complicated forms of analysis-- to the elaboration of perspective inter-branch balance and a dynamic model.

5. The observance of correct proportions in industrial and agricultural development acquires very great significance in the process of industrialization. Violation of these proportions causes the appearance of weak spots in economy, produces overstrain and in the long run leads to a deterioration of the general conditions of economic growth. Precisely such a situation arose in recent years in some developing areas as a result of insufficient attention to agriculture, particularly to the social aspects of its development, and also as a consequence of a demographic boom and accelerated urbanization which was not accompanied by an adequate growth of food output. Confronted with a serious food crisis, many developing countries are concentrating attention on agricultural production. Yet the accent on agricultural development cannot replace the

fundamental course of effecting an all-round industrialisation of the developing countries.

a/ Historical experience shows that to promote agriculture it is necessary first and foremost to effect radical agrarian reforms of the archaic institutes of land-ownership and land-tenure on a just democratic basis. This includes abolition of the parasitical system of landlord property rights, middlemen-extortioners and speculators, the eradication of shackling rent relations, creation of material incentives for the peasants, unification of peasants into co-operatives and the establishment of large farms producing a high marketable surplus. Agricultural development necessitates mobilisation of funds and large capital investments, a part of which might come from direct labour investments. It is likewise essential to teach the peasants to read and write, to give them a knowledge of modern methods of plant-growing and cattle-rearing, and to supply agriculture with an adequate number of agronomists, livestock experts and efficient and honest executives. Finally, no small role in raising agricultural production is played by the development of industries that will supply agriculture with implements and fertilisers and process agricultural produce.

b/ The pattern of agricultural production, the degree and extent of its diversification, the correlation between plant-growing and cattle-rearing, and between food and industrial crops, are all problems whose solution, naturally, depends on the concrete conditions in each given country. At the same time the demand for food or agricultural raw

materials cannot be the sole argument for giving priority development to this or that branch of agriculture. It is important to take into account the natural conditions and the habits of work of the population, on the one hand, and the possible advantages arising from the economically justified participation in the international division of labour, on the other. It is likewise necessary to take into account the correlation between production expenses and the prices of imported foodstuffs, with due consideration, naturally, for their perspective changes. At the same time some developing countries have the natural desire to secure independence in the matter of food supply and no longer be dependent on the advanced capitalist countries which sometimes use the developing countries' shortage of food to achieve their own selfish aims.

6. What industries--the light or the heavy--should be given priority at the outset of industrialisation? Specialists have different opinions on this issue. Some give preference to the light industry, others say that heavy industry enterprises can be built as early as at the initial stage of industrialisation. Both courses, undoubtedly, have their positive and negative aspects. The experience of the U.S.S.R. and some other countries shows that there is no need for every country to go through consecutive stages, from the development of the small, light industry to the creation of the big, heavy industry. By drawing upon modern scientific and technical achievements it is certainly possible in some cases to build not only light but also heavy industry enterprises even during the first stage of

industrialisation. This course accelerates development insofar as it promotes the technical rearmament of other branches of economy. Much also depends on the size of a given country and its specific features. For most countries, apparently, the problem is that of finding the optimum correlation between both groups of branches at each stage of development by taking into account their limited resources and the pattern of the demand for basic manufactured goods. When determining these proportions the technical and economic peculiarities of one or another group of industrial branches have to be taken into account.

a/ Many light industry branches process local agricultural raw materials thus stimulating progress in agriculture. The growth of the light industry makes it possible gradually to reduce the imports of consumer goods and thus save foreign currency which is very much needed for the purchase of capital goods. Light industry enterprises, as a rule, do not require large capital investments and it is easier to train personnel for them. Investments in the light industry are fairly quickly recouped and then lead to an enlargement of the general accumulation fund. The size of the capital in terms of one work place is smaller in the light than in the heavy industry. Considering that the production of consumer goods requires more labour outlays the light industry enterprises play a greater part in promoting employment. It is also important not to leave out of calculation the bonds between some light industry branches and the traditional handicrafts and domestic industry. Finally, light industry enterprises can bring

is a profit even when the consumer market is not too extensive. Consequently, all countries are fully capable of developing their light industry. This prospect is particularly appealing to small countries. But all by itself the promotion of the light industry cannot create conditions ensuring a rapid rise of labour productivity on a nation-wide scale.

b/ The most dynamic factor of economic progress are industries manufacturing machines and equipment. They are the motive force of technical and economic progress and create conditions for raising labour productivity in all branches of economy. It is possible to achieve a general acceleration of economic growth only by giving priority development to the production of capital goods, if not in one country then in a group of countries united by bonds of economic co-operation. This is borne out by the theory and practice of the advanced countries. The growth of the heavy industry is, of course, accompanied by certain difficulties. It requires large capital investments recoupable after long periods, expensive imported plant, a large number of highly-qualified specialists, and wide consumer markets, considering that only very large enterprises are profitable. Moreover, the faster scientific and technical progress, the bigger, as a rule, are the optimum sizes of profitable enterprises. It becomes necessary to build groups or complexes of interconnected enterprises. The heavy industry requires much more capital than manpower and therefore at first plays a relatively smaller part than the light industry in promoting employment. But all these problems by no means detract

from the heavy industry's beneficial influence on economic progress. They only create the need for a particularly careful assessment of the requirements and the possibilities of one or another country at all stages of development.

c/ Today only a few and the biggest developing countries such as India, Brazil, Pakistan and Indonesia, have the real possibility to build up a key heavy industry complex producing the required economic effect. At every stage of development it is tremendously important correctly to determine the key, specific branches with an eye to the international division of labour and its development trends. Of course, in the initial stage much depends on what natural resources a country has at its disposal. In the oil-producing countries, for example, it is possible to build groups of up-to-date petro-chemical factories. In this case the size and the trends of development of the national markets can serve as a corrective factor. Later on natural resources will not exert such a powerful influence on the sectoral structure of industry. A much greater role will be played by such factors of industrial progress as the increased economic potential of a country and the capacity of its market, production links within a given industrial complex and the demands of the world market. As regards small countries, the creation of heavy industry enterprises there largely depends on the possibilities, the scale and rates of development of regional and subregional economic co-operation. In conditions of such co-operation many countries can utilise the fundamental advantages arising from the more intensive development of the heavy industry.

d/ We cannot endorse the views of those economists who assert that industrialisation of the "third world" countries should be limited to the promotion of light industry and infra-structure. By maintaining this stand they either intentionally or unintentionally attempt to substantiate and to perpetuate the economic backwardness of the developing countries, something that would inevitably preserve them as objects of exploitation by the advanced capitalist countries. Such views cripple prospects for further economic growth, and fetter the enthusiasm of the champions of economic independence.

7. An important problem is to achieve a proper correlation between large and small-scale production. The strategy of industrial development necessarily has to be worked out with due consideration for two cardinal factors. First, the developing countries are confronted with the problem of rapidly boosting the social productivity of labour. Second, they have to ensure the able-bodied population with jobs. There is and will be for a long time yet a definite contradiction between these two imperatives. There are a number of ways to resolve this contradiction. From the point of view of historical perspective a decisive role in reconciling this contradiction has to be played by higher labour productivity in key industries coupled with greater employment through diversification of economy and promotion and expansion of new branches. But often, owing to limited resources, this course will not fully solve the problem of employment. Apparently, therefore, in some instances growth of employment will have to be assured

through the establishment of small enterprises requiring small capital investments and where the productivity of labour will not be very high. Owing to the historical traditions deriving from the development of handicrafts, enterprises of this sort may have good prospects for marketing their produce. Naturally, handicrafts and the small-scale industry can be used as a means for drawing more labour and natural resources into economy thus increasing the general volume of production and boosting employment. In this connection the problem of employment of the rural population, particularly between the seasons when farm work is at its height, merits serious attention. It is obvious, nevertheless, that by this way alone, or primarily by this way, it will be impossible to ensure a genuine economic upsurge and a growth of production and to assure the latter a chance to compete in the world market. Practice shows that if attention is concentrated only on small-scale production this might lead to an ineffective use (from the point of view of raising labour productivity and creation of new work places) of the already limited accumulation fund. Small-scale industry frequently requires subsidies and grants which diverts funds from being invested in the development of modern large-scale industry. Moreover, if contemplated in perspective, priority, or exclusive development of labour-consuming types of production does not provide a radical solution to the problem of employment. It can be solved only if there is a general substantial rise of the economic potential of a country (or a group of small countries) on the basis of large-scale industry. In view of the above it is expedient to introduce organisational

measures to stimulate and heighten the effectivity of small-scale production such as co-operation and specialisation of small-scale and handicrafts industries producing consumer goods for internal consumption and for export. Alongside of this it is possible to encourage the development of small enterprises turning out half-finished products or making parts of equipment for large-scale industry in conformity with long-term contracts. This creates prerequisites for such small enterprises gradually becoming a sort of workshops of large factories. Analogous results may be obtained by consistently pursuing a policy of filling up industrial estates with more homogeneous or mutually-supplementing workshops. As these workshops are outfitted with efficient equipment, employ larger numbers of more qualified personnel and expand ^{in size,} / they may become an integral part of a large enterprise. This is one of the probable ways of the development of small-scale production into large-scale enterprises. Likewise, of great importance are such problems as providing the small-scale industry with an adequate number of qualified executives, supplying it with raw materials, equipment, tools, organising repairs and maintenance, and the like.

8. Specific peculiarities attend the diversification of those developing countries that are greatly dependent on the export of one or two types of foodstuffs or raw materials. Their economies are highly sensitive to the fluctuations of prices on agricultural products and raw materials on the world market. Their welfare depends directly on the demand for their goods and frequently on those foreign monopolies

that control their production and sales. Yet it would have been inopportune to relax attention, particularly during the first stages of economic development, towards the production of these commodities which are the chief source of foreign currency for many developing countries. Their export branches have been formed in corresponding natural conditions (climate, soil, minerals) and as a rule have a higher productivity of labour than in the economic sector catering to the internal market. It is also natural to take into account the level of employment in the export branches, the work habits of the local population and the existence in some countries of large capacities for the primary processing of raw materials. What is most important, however, is that the traditional export branches of the developing countries account for a considerable part of their national incomes. Hence, the logic of economic development dictates the need to neutralise the negative consequences of specialisation in the production of only one type of commodity, on the one hand, and the maximum and efficient use of the existing export branches for accumulating resources, for speeding up the development of other branches of economy and accelerating economic progress, on the other hand. It will probably be best to use the receipts from the sale of traditional exports not only, and perhaps not so much for modernising their production, but also to make substantial investments into other branches of economy, including the processing industry and thus diversify the entire economic structure.

9. Objectively the industrialisation in the developing countries has an anti-import trend, i.e., it results in the replacement of the imported goods with locally-produced items. The establishment of the corresponding branches to replace imports is often regarded as an important measure tending to weaken a country's dependence on the world market.

a/ Still, this does not signify that any replacement of import by domestic production should be considered economically justifiable. In order to pursue an anti-import policy many factors have to be taken into account. It is of primary importance to ensure proper co-ordination between the existing and the newly-created enterprises, and particularly to keep industrial enterprises fully supplied with raw materials and fuel, otherwise it might turn out that the currency saved by curtailing the imports of finished goods might be either fully, or to a large extent be brought to naught due to increased outlays for imports of the required raw materials, fuel, or half-finished products. It is just as important to calculate the general volume of investments in the basic and circulating funds, including foreign currency expenditures, and the period of recoupment of the planned investments. Finally, it has to be stressed that, as a rule, profitability of producing commodities to replace imports cannot be achieved through building individual, scattered factories. It requires the construction of a large group of interconnected enterprises. If this is not done it may happen that instead of cutting down its foreign currency outlays a country will have to increase them.

Moreover, non-complex industrial development lowers the economic efficiency of industrialisation. Thus, once again it is the question of observing proper proportions, this time between the import and the "anti-import" branches of economy.

b/ When working out and carrying through the policy of creating industries whose output would replace imported goods, it is doubtful whether it would be correct merely to compare direct expenditures with the outlays for the import of one or another commodity. It is in the national interests of the developing countries to demonstrate a broader approach to the solution of such questions. It will benefit the economy as a whole not only to take into account the difference between production outlays and the cost of imports of identical or similar commodities, but also to assess the influence each of these variants exerts on the national income of a country. If a planned type of anti-import industrial production can ensure (at present and better still in the future) a bigger growth of the national income as compared with the one which might result from equal investments in the export branches, then its development is economically justified even when the cost of the corresponding imported items is lower (it has to be borne in mind that this correlation will change as labour productivity at national enterprises increases). In this connection special attention has to be attached to a study of the cumulative impact of the newly-established industrial enterprises on other economic branches and spheres of public activity, as well as their effect on increasing the general

volume of production and income, on the total currency outlays, on the changes in the social structure of society, on increasing employment and the improvements in the structure of the internal market.

10. As the developing countries build up their industry, the more obvious become the shortcomings arising from promoting industrialisation merely by setting up industries producing goods to replace imported commodities. Such an approach to industrialisation leads to difficulties connected with co-ordination and mutual supplementing of enterprises. Moreover, to ensure the profitability of enterprises producing articles to replace imported commodities, they often have to have capacities which transcend the limits of the internal market. Consequently sales difficulties, which are a basic obstacle on the road to industrialisation, frequently can be surmounted only by simultaneously expanding the internal market and increasing exports. On the one hand, this might imply the need to accelerate the growth of the internal market through the enforcement of deep-going social and economic changes and primarily the agrarian and tax reforms, which lead to a more equitable distribution of the income, greater involvement of available labour and natural resources and the stepping up of the general rates of economic growth. On the other hand, it is natural to seek a way out of the situation by taking all measures to promote the export of manufactured goods inasmuch as this ensures an economically justifiable scope of production and makes it possible to expand production outside the limits of the internal solvent demand.

Alongside of this the development of export pulls industrial production in the young countries up to the level of world standards and is conducive to the introduction of the achievements of the contemporary scientific and technical revolution. Without exporting manufactured goods it is often absolutely impossible for the developing countries to accumulate the foreign currency resources they need and to improve their position in the system of the international division of labour.

11. Particular attention has to be focussed on promoting regional and subregional co-operation of small countries. The advantages of such co-operation consist in that it permits to pool funds for financing the construction of large industrial projects, more efficiently utilise natural resources and qualified personnel, enlarge the market capacity and, consequently, boost sales. At the same time possibilities are ensured for increasing industrialisation rates, since conditions are created for altering the order of priority development of individual branches of industry and for accelerating the commissioning of heavy industry enterprises. The diversification of the economy of a region can be carried out on the basis of inter-state co-operation and specialisation with the best results being obtained by co-ordinating national economic development plans or programmes. In doing so it is very important to combine the interests of one country with the interests of the economic association as a whole. The effectivity of economic co-operation in many ways depends on the socio-economic policy of the participating countries and, in

particular, on their attitude to foreign capital. The latter factor is especially significant because the imperialist monopolies are endeavouring to capitalise on the developing countries' inclination for economic integration.

a/ There may be different forms of regional economic co-operation, such as construction of integrated industrial complexes catering both for the inter-regional and the foreign market (depending on the nature of production). They include the joint establishment of the economic infrastructure of the given region (transport, power engineering, waterways, and so forth) with due consideration being given to the siting of new industrial enterprises and also to the formation of areas specialising in marketable agricultural crops. No small advantages may be derived from joint sales (on the internal and world market), elaboration of a single foreign trade policy, and so forth.

b/ The construction of integrated industrial complexes may be accomplished on the basis of both vertical and horizontal integration. Complexes which are created in line with the principle of vertical integration, i.e., when all consecutive stages of processing (from the raw material to the end product) are performed within a single complex, individual enterprises of a given region can specialise in the production of half-finished products for the key enterprise turning out the finished product. The formation of complexes according to the principle of horizontal integration (production of diverse commodities using a common raw materials and technological base) can, evidently, be carried out either in places where mineral resources are worked, in

areas of specialised farming, or on the basis of big power engineering complexes. Integration of production makes it possible to build large modern enterprises possessing a high degree of competitiveness not only on the internal, but also on the foreign market.

c/ If national economic complexes within a large area are established on the basis of inter-state agreements and financed by the signatory states, it will be necessary to set up an intra-national (but by no means a supra-national) apparatus for co-ordinating the economic development of individual countries. Thus, the sale of commodities produced by integrated industrial complexes orientated on the internal market, calls for the conclusion of inter-state agreements, including agreements on deliveries and prices. Another important step towards this sort of regional co-operation is the solution of the problem of equitable distribution of the benefits proceeding from industrialisation.

12. For diversification to be successful a considerable part of the country's resources has to be mastered and utilized in conformity with the urgent requirements of economic development. At each stage of development it is necessary to determine the most effective economic proportions and to see to it that they are observed. The solution of the many-sided and complex problems of diversification cannot be ensured by the market mechanism, but only by a purposeful, consistent activity of the state.

a/ The creative functions of the state in this matter begin with the elaboration of economic plans and consist of measures ensuring the fulfilment of these plans including

the state's direct participation in the construction and exploitation of enterprises. Planning is precisely the means on whose basis the state can define and secure effective economic proportions. This activity implies a profound and all-round study of the sum total of internal and external social and political conditions and their interconnection and interaction for the purpose of working out a sufficiently flexible and dynamic economic policy.

b/ An important aspect of planning in the developing countries is its multifold influence on the formation of the internal market. Fulfilment of economic development plans increases the economic potential and enlarges the market. This is achieved through enforcement of socio-economic reforms ensuring the transition of the backward natural economy to commodity-money rails. Democratic reforms (more uniform distribution of income, and others) change the pattern of the consumer demand and, in particular, result in the formation of a more extensive consumer goods market. Consequently, a consistent policy of diversification of economy calls for serious socio-economic reforms which, in turn, influence the market mechanism and create conditions conducive to successful economic development. On the other hand, by its fiscal and budget policy the state can set up the required proportions between consumption and accumulation.

c/ By taking into account the great economic significance of individual heavy industry branches and their multiplicative effect on economy, the state can, in some cases, begin setting them up even if there is a lack of solvent demand for corresponding types of commodities in

the private of the co-operative sector. In doing so the state manufactures the necessary commodities for production purposes, partially subsidises their sales and assumes the losses incurred. This way it somewhat broadens the narrow limits of the existing sales market and creates prerequisites for accelerating its subsequent development. In the developing countries, however, such a policy can be conducted within narrow limits only. The weak financial basis which the state has at its disposal makes protracted subsidising of the newly-established enterprises a dangerous undertaking insofar as it may fatally affect the accumulation fund and on the competitiveness of export. One of the most complex problems which comes to the forefront while the strategy of industrial development is designed is that of determining the number of non-profitable enterprises that a country can afford to maintain and the period of their functioning. In every country the correlation between profitable and non-profitable sectors depends on concrete conditions. Many tasks—the training of personnel, development of new areas and the creation of new branches—often cannot be solved on a profitable basis. Nevertheless, every possibility has to be used to secure the maximum profitability and efficiency of each individual enterprise.

d/ To promote diversification the state also actively influences the pattern of foreign economic ties. It does so primarily by instituting rigid control over foreign trade whose development has a tremendous impact on the establishment of general economic proportions. A lever for regulating foreign trade is the state's policy of protectionism. It is

obvious that without protective tariffs and definite financial support it is practically impossible for the developing countries to set up new types of industrial production. Yet the need for protectionism and subsidies cannot push into the background problems connected with increasing the effectivity of domestic production and making the work of enterprises profitable (with only a few temporary exceptions). The opposite breeds parasitical sentiments, slows down technical progress and preserves outdated production methods. Taken together all this prevents production from rising to the level of world standards, hampers the export of manufactured goods and lowers the general economic effectivity of industrialisation.

13. No matter how significant the economic and technical methods of diversification may be, they do not exhaust all the means for surmounting economic backwardness and for achieving economic independence. The success of diversification depends not only on correctly determining optimum variants, the order of priority development of individual branches of economy and the size of enterprises, but in an equal degree on social and political factors. This means concentrating the basic sources of accumulation in the hands of the state, which acts in the interests of the entire people, subordinating the interests of individual producers to those of society as a whole, creating incentives for the toiling masses, drawing them into conscious and active participation in state affairs, and educating the people in the spirit of labour enthusiasm. It goes without saying that the ways of social rearing of

society are complicated and difficult. In effecting them the nation has to muster all its forces and often suffer temporary sacrifices for the sake of building up a modern economy and ensuring high living standards. But history has incontrovertibly proved that this is the only correct way.

14. The experience of the Soviet Union convincingly demonstrates the significance of profound socio-economic reforms in accelerating economic progress, and the importance of purposeful state guidance over the reorganization of the backward structure of economy. Industrialization in the U.S.S.R., which was carried out on the basis of a broad system of state planning, sharply boosted economic growth rates. Public ownership of the basic means of production enabled the state to design and carry into life scientifically argued economic development plans. In drawing up the five-year plans both the general perspective and the concrete economic tasks to be fulfilled at each stage were taken into account. The plans envisaged a differentiated approach to the relatively advanced European part of the country and to the backward borderlands, and were fulfilled thanks to ^{the} will and energy of the people. The Soviet people consciously complied with the need temporarily to slow down the rates of consumption growth in order to ensure the required rates of accumulation, for the sake of building up an independent and flourishing economy and consolidating their political gains in conditions of a hostile encirclement. Subjected to an economic blockade and constantly threatened with a military attack, the Soviet Union had

to do everything in its power to step up the growth of heavy industry, including defence plants, and work to achieve self-sufficiency in the basic products for production and consumption needs. Relying on its own resources, the Soviet Union, within a relatively short historical period, turned from an economically backward country into a leading industrial power where there is full employment and a steadily rising standard of living.

15. In their struggle for economic independence, the developing countries have loyal and powerful allies in the person of the Soviet Union and other socialist countries that render them constructive political, economic and technical assistance. The economic ties between both groups of countries are expanding from year to year to their mutual economic benefit. And although the share of the socialist countries in the foreign trade of the developing countries is still small, its rates of growth are surpassing analogous indices with regard to the advanced capitalist countries. Such an extension of the circle of contracting parties and the processes this fact engenders are yet another indicator of the diversification of the economy of the developing countries.

16. It follows from the above that diversification is an extremely involved and manifold process in the course of which many factors have to be taken into account and a choice has to be made between the various alternatives. Diversification is not an aim in itself but a means for passing the efficiency of economy and the national productivity of labour. It is inevitable that various

countries use different concrete forms and methods of diversification. In some cases, possibly, the interests of economic development will dictate the need to refrain from carrying out diversification during the initial stages. On the whole, if regarded in broad historical perspective, no country will be able to overcome its economic backwardness without diversifying its economy. Largely conducive to successful diversification is pursuit of a flexible and scientifically-grounded economic policy which rejects routine approach and stereotype measures, but takes into account the varying conditions obtaining in different countries at each stage of their economic development. Diversification can become a truly important factor for accelerating economic progress if it is carried out on the basis of a sober appraisal of the actual possibilities of one or another country and if more complicated problems are solved gradually while the country accumulates strength and experience. One of the central problems of diversification is that of skilfully combining the course of creating a new highly productive economic structure with the country's economic potential and observing optimum proportions between different branches of economy in the process of development.

Заг. 1088. Трп. 600. Тун. Нис-са кумару СССР.



→ 1731



Distr.
GENERAL

ID/CONF.1/G.12 SUMMARY *
28 August 1967

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

INTERNATIONAL SYMPOSIUM ON INDUSTRIAL DEVELOPMENT

Athens, 29 November - 20 December 1967

Provisional agenda, Item 3(a)

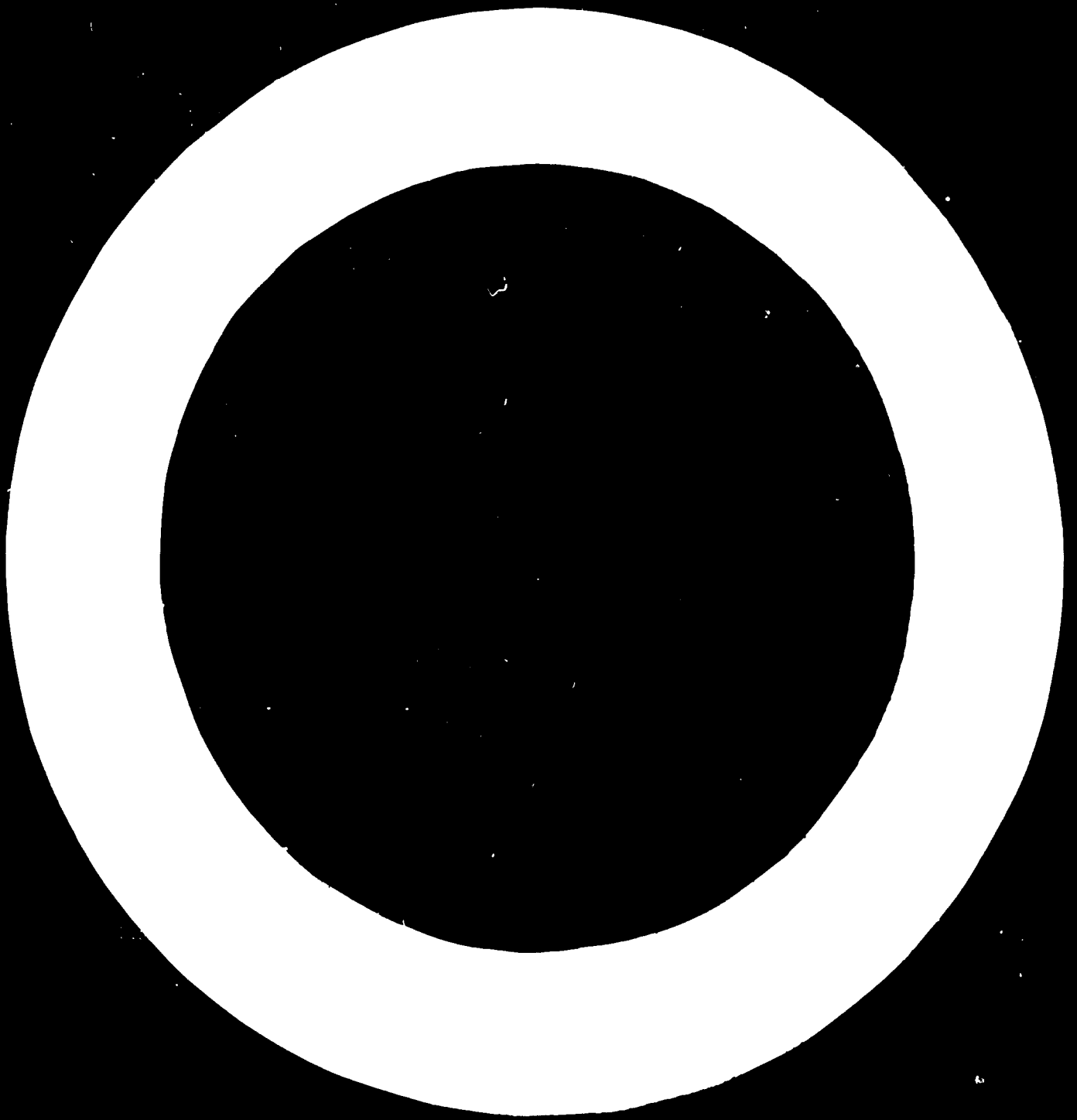
DIVERSIFICATION OF THE ECONOMY AND STRATEGY
OF INDUSTRIAL DEVELOPMENT

SUMMARY

Submitted by
The Government of the Union of Soviet Socialist Republics

* This is a summary of a paper issued under the same title, as document ID/CONF.1/G.12.

GE.67-18393



1. To liquidate economic backwardness in developing countries of Asia, Africa and Latin America requires significant growth of the general economic potential of these countries. Creation of a modern economy is inconceivable without a major increase in national labour productivity. From the experience of many countries it has been found that this can be achieved through an increase of technical potential of the national economy and an increased division of labour, i.e. through creation of a complex of interdependent industries. The central place in this complex is occupied by manufacturing industries. First, industries that produce machinery and equipment must be developed in order to fortify the national economy of a country. The old economic structure should then be changed to make way for a new structure composed of various industries because diversification of economy is one of the most important aspects of economic development.
2. Diversification of the economic structure is achieved in the first instance through industrialization. In a narrow sense, industrialization means development of manufacturing industries by supplying them with machinery and equipment. The term "diversification" may be applied to a national economy as a whole, or to its individual branches. In relation to foreign trade, the term "diversification" refers to widening the assortment of exported goods.
3. Diversification of economic structure is a pressing responsibility for developing countries. There is no single formula covering the scope, tempo, form or method of diversification. Each aspect depends upon specific conditions within a country.
4. Economic development through diversification requires not only a change of the old structure and creation of new industries, but also an optimum balance between branches of the national economy at every stage of economic development. Special criteria must be evolved to arrive at an optimum balance. Economic progress at the lowest possible cost, and at the same time avoiding a lowering of the planned rate of development, are especially important to developing countries. To determine the prospects of diversification and optimum priorities requires large-scale geological prospecting, water and land cadastre, and a consolidated raw material and financial input-output analysis.

5. Of great importance to the process of industrialization is close observance of the correct proportions of industry and agricultural development. Evidence suggests that agricultural development requires a radical transformation of archaic institutions of land tenure to place it on an equitable democratic basis. Of no small importance in increasing agricultural production is the development of industries to supply implements and fertilizers, and industries for processing agricultural products. As for the structure of agricultural production and the degree and scope of its diversification, the solution of these problems depends upon local conditions. A demand for certain foods or agricultural raw materials must not be the only reason for the development of those branches of agriculture that produce such foods or raw materials.

6. When a country begins a programme of industrialization it is faced with the question of whether to develop light or heavy industry first. Both procedures have positive and negative features. Experience in the Union of Soviet Socialist Republics and other States indicates that a country does not need to pass through consecutive stages from small-scale light industry development to large-scale heavy industry. Using the advances of modern science and technology, some countries construct, even at their initial development stage, enterprises of both light and heavy industry. Many branches of light industry can be used to process local agricultural raw materials. This procedure creates a favourable influence on the progress of agriculture. Development of light industries permits gradual curtailment of imports of many consumer goods and results in savings of foreign currency to purchase capital goods.

7. The branches of industry that produce machinery and equipment are a dynamic factor in economic progress. Acceleration of general economic development is possible only where there is a high rate of production of capital goods, if not in the individual country, then at least within a group of countries which have common ties through economic co-operation. This has been proven in theory and practice in developed countries. Only a few large developing countries, such as India, Brazil, Pakistan and Indonesia, can create a major complex of modern heavy industry and obtain from it profitable economic results. In small developing countries, the creation of heavy

/...

industry enterprises depends in large measure on regional and sub-regional co-operation and on the scope and rate of development of such co-operation. One cannot agree with the viewpoint of some economists who believe that the process of industrialization of States of the "third world" should be confined to light industries and infra-structure.

8. The ratio between large-scale and small-scale production is another important consideration. The strategy of economic development must give consideration to two cardinal factors. First, developing countries must face the task of greatly increasing productivity of labour. Second, employment should be ensured for those who can be gainfully employed. These two factors are in conflict with each other.

9. Diversification of an economy that has a high degree of reliance on exports of one or two primary commodities has unique problems. The logic of economic development requires, on the one hand, that the negative effects of specialization based on a single commodity export be neutralized, and on the other hand that existing export industries be used with a maximum effect for accumulation of resources for speedier development of other branches of the economy and acceleration of general economic progress.

10. The industrialization process in developing countries frequently adheres to anti-import policy; in other words, it seeks to substitute semi-domestic products for imported goods. However, the substitution of locally produced goods may not be economically justifiable. Before adopting an anti-import policy, many factors should be taken into consideration. When implementing a policy to create import-substitution industries, considerations other than comparison of direct costs with expenditures on imports should be fully explored.

11. As the industry in developing countries progresses, disadvantages of an approach to industrialization which restricts its activities to creating import-substitution industries become more apparent.

12. Economic co-operation among smaller countries on a regional or sub-regional basis should be explored by developing countries. Forms of regional economic co-operation vary. Some countries develop integrated industrial complexes with production oriented to both inter-regional and external markets. Integrated industrial complexes may operate on the basis of both vertical and horizontal integration.

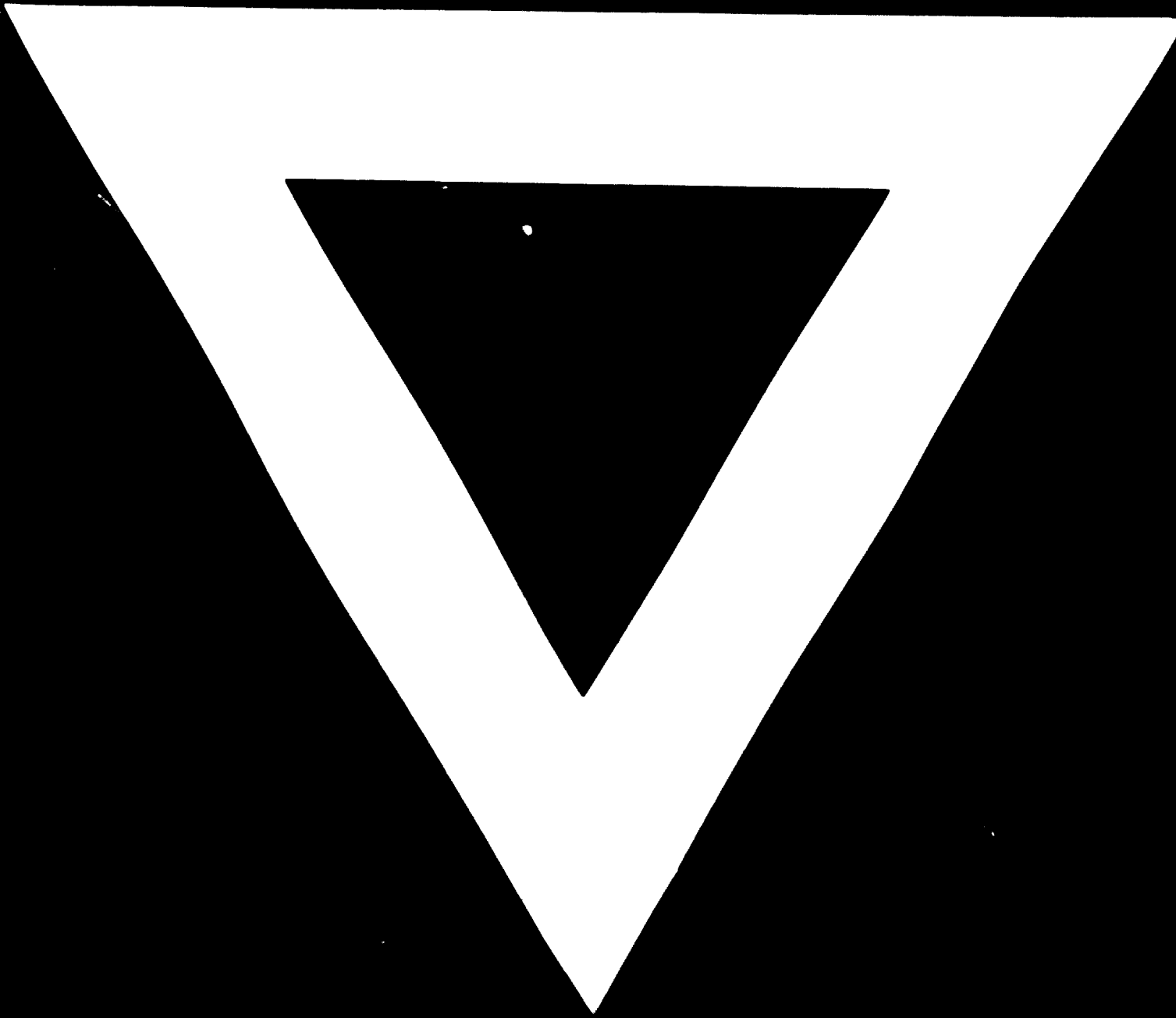
/...

13. To achieve successful diversification, it is necessary to mobilize a significant part of a country's resources and deploy them in accordance with the pressing demands of economic development. Solutions to the many complicated problems of diversification can be solved, not through the market mechanism, but only through constructive and continuing activities of the State.
14. Constructive functions of the State range from drawing up national economic plans and measures to implement them, to direct participation in construction and operation of plants. Planning by the State can determine and ensure attainment of reasonable economic proportions. One important aspect of planning in developing countries is its influence on the formation of the internal market. Considering the national economic importance of individual branches of heavy industry, the State can in some cases create such branches even when there is an insufficient demand for products in both the private and the public sector. In the interest of diversification, the State may also influence foreign economic ties.
15. Successful diversification depends not only on adoption of optimum versions, priorities in developing specific branches of the economy, and the number of enterprises developed, but also on social and political factors. Major sources of accumulation must be in the hands of the State.
16. The experience of the Union of Soviet Socialist Republics demonstrates the need for transformation of the social and economic structure to accelerate economic progress and the importance of State leadership in remodelling a backward economic structure.
17. In the struggle for economic independence, developing countries can rely on their faithful and strong allies such as the Soviet Union and other socialist States to provide constructive political, economic and technical assistance.
18. Diversification is an extremely complicated and many-faceted process that involves a choice between various alternatives. Diversification is not an aim in itself, but a means to achieve a higher level of efficiency in the national economy

/...

and a higher level of productivity. Specific forms and the roads to diversification will invariably be different. In some cases, the interests of economic development will indicate that a programme of immediate diversification is undesirable. Generally speaking, however, no country will be able to eliminate economic backwardness without some degree of diversification of its national economy.





11. 6. 71