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CHOICE OF TRENDS AND METHODS OF INDUSTRIAL
DEVELOPMENT IN YUGOSLAVIA

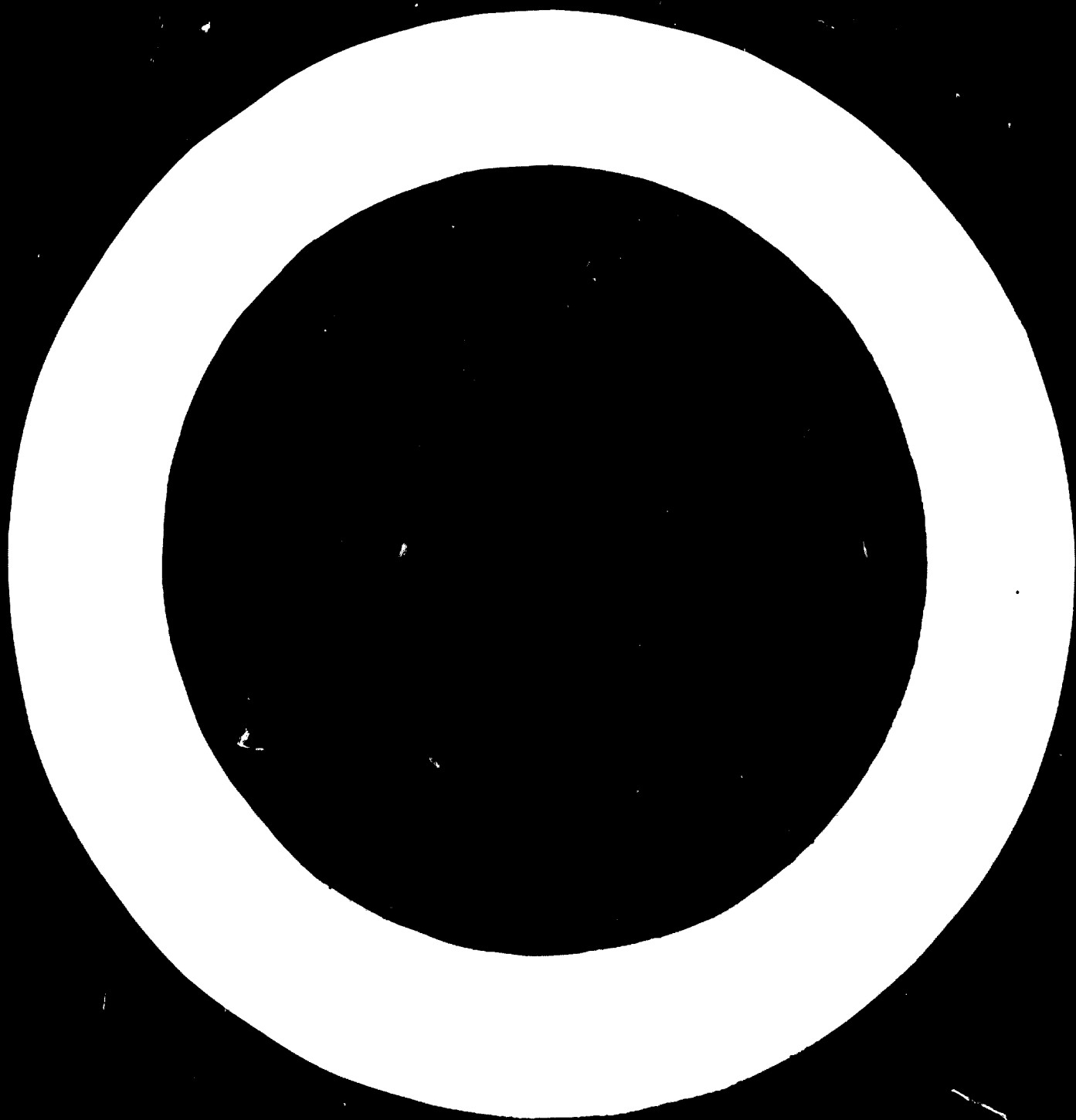
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ID/CONF.1/G.22 SUMMARY, in English, French, Spanish and Russian.



1. Speaking in general terms about the development of industry in Yugoslavia, it may be said that it has had, in the post-war period, a single course of development and that Yugoslavia has been guided by one concept of industrial development. Yet, this does not mean that there were no changes as far as the trends and methods of that development are concerned. Certain changes of greater or lesser importance did occur, because trends and methods always depend upon the national economy and its varying needs.

General factors upon which the trends and methods of industrial development depend

2. The basic factors upon which the trends and methods in each phase of industrial development depend are - the attained level of development of productive forces, primarily in industry, and their structure; natural wealth; productive potential of the population; possibilities of participation in the international division of labour; as well as the prevailing production relations. The better these conditions are, the faster and easier it is to solve the problems of industrial development and vice versa.

3. If we compare the conditions of industrial development in Yugoslavia with those in other developing countries, as well as the trends and methods of this development, it may be said that they are in a certain sense specific.

First, the post-war planned development of the Yugoslav industry

started at a level which was higher than in many other developing countries. With a per capita income of 180 dollars per annum in 1947, Yugoslavia was appreciably above the majority of developing countries in the post-war period, which, taken as a whole, had, in 1955, a per capita income (gross domestic product) of 119 dollars and, in 1962, of 136 dollars.

Yugoslavia's transition to a socialist social system and the nationalization of basic means of production resulted in the creation of conditions where a considerably larger amount of income could be spent for productive purposes and where it was easier to orientate economic resources towards branches and capacities ensuring the fastest economic growth.

At the time when Yugoslavia set out on the road of planned development of the economy, it was predominantly an agricultural country. The industrial capacities were able to employ 325,000 people or only approximately 5% of the active population. Small enterprises predominated. Particularly poorly developed was the industry of means of production. The industry of consumer goods was more developed and the personnel employed in this industry had a certain experience. However, production often had a handicraft character. Industry was concentrated in a small number of centres, while outside these centres only mining based on local raw materials was developed. Such a base determined not only the possibilities but also the trends and methods of industrial development.

As far as natural resources are concerned, Yugoslavia, as other developing countries, disposed of particular advantages in certain economic branches, such as power, non-ferrous metallurgy, timber industry and agriculture, as well as favourable conditions for the development of tourism and international transport.

Basic general trends of industrial development

4. The fact that the level of industrial development in Yugoslavia was relatively low and that its economic and industrial

structure, as well as structure within industrial branches manufacturing means of production and consumer goods, was unfavourable resulted in the rapid growth of industry becoming one of the characteristics of industrial development of Yugoslavia, but a growth that amounted at the same time to a change of economic structure. In other words, such a development has led to an increase of the share of industry and other non-agricultural branches, where a considerably higher productivity is achieved, in the total production, with a simultaneous change of the structure of industry itself.

5. Owing to such an orientation an important industrial development has been achieved in Yugoslavia during the past two decades and a productive potential ensuring a rapid development in the future as well, has been built. The industrial output in 1965 was 6.2 times higher than in 1947, i.e. it was growing during the last 18 years at an average rate of 10%, while the annual increase of industrial output in the period 1919-1938 amounted approximately to 2%.

6. As a result of the fast growth of industrial output, the share of industry in the national income increased considerably, which may be seen from the following table:

Table 1

Structure of the national income of the total economy by sectors of economic activity

(1962 prices)

	in %			
	1947	1956	1960	1964
Total	100.0	100.0	100.0	100.0
Primary	44.8	31.9	29.5	23.1
- agriculture	40.8	29.8	28.1	21.8
Secondary	39.6	47.5	49.1	53.9
- industry	24.9	35.6	37.9	42.0
Tertiary ⁺	15.6	20.6	21.4	23.0
- transport	5.0	6.7	7.1	6.7

+ Only productive services.

Source: Social Plan of the Social Development of Yugoslavia from 1966 to 1967.

7. The fast development of the industry resulted in radical changes in the social structure of the population. In 1965, the number of employed in industry and in other productive branches was almost 3.2 times higher than in 1947, and in the industry alone 4.3 times. This changed the ratio of rural to urban population from 77:23 before the war and from 67:33 in 1948 to 49:51 in 1961¹⁾, whereas during the last decade before the war, this ratio did not practically ~~change~~ undergo any change. The fastest increase in the number of the employed in the post-war period was of those who work in industry. It rose from 28% in the total number of employed in 1947 to 38% in 1965. In the same period, the productivity of labour in industry increased at the average annual rate of 3%.

8. Speaking about the trends of industrial development, we have in mind, among other things, the order^{of} priorities in the development of industrial branches.

Although each economic and thus also industrial branch has its importance and exercises its influence upon the normal flow of the economic life, yet this importance and this influence are not equal. The most favourable orientation was not to choose those branches which were momentarily the most profitable ones, but rather those which are of greater importance in the long term. Therefore, in the post-war industrial development of Yugoslavia, for several years priority was given to a number of branches producing means and instruments of labour.

The orientation towards^a more rapid development of a number of branches producing means of production was of particular importance primarily because these industrial branches provide a foundation for the industrial transformation and electrification of the entire country which, for its part, renders possible a rapid dev-

1) The ratio is given for the years when population censuses were taken.

elopment of the entire economy and a progressive alteration of its structure. The inherited industry had neither the possibilities to provide for a more complete utilization of Yugoslavia's natural advantages nor to ensure a further rapid development of the economy. No transition from a stagnant economy, such as it had been in pre-war Yugoslavia, to a faster industrial development could be achieved without giving priority to a number of industrial branches manufacturing capital goods. Such an orientation had also to be taken in order to avoid such problems as imports of machines, raw materials, power, etc. On the other hand, it is well known that the import capacities of an industrially underdeveloped country are rather limited.

9. The scope of changes in the structure of industrial development is illustrated in Table 2:

Table 2

Index of Industrial Output of Yugoslavia

1939 = 100

Groups and Subgroups	1947	1952	1956	1960	1965
Industry total	121	165	267	452	748
Groups of products according to their purpose					
- instruments of labour	241	582	971	1789	2850
- industrial materials	113	156	255	406	658
- consumer goods	130	146	230	410	720

Owing to a faster growth of the production of means of production (instruments of labour and industrial materials) until 1956, their share in the total physical volume of industrial production had increased considerably; however, in consequence of a subsequent somewhat faster development of the production of consumer goods, this share was slightly reduced and it amounts today to over 60%

as against 47% in 1939. Such growth and such changes in the structure of industrial production clearly indicate the basic trends of Yugoslavia's industrial development. As regards the ratio of production ^{of} means of production to production of consumer goods and with regard to the industrial potential based on them, Yugoslavia has come closer, thanks to the changes and developments during the last two decades, to the medium-developed industrial countries and is striving towards the creation of an economic structure where the industrial mode ^{of} production will dominate.

10. Trends in industrial development are also illustrated by changes in the field of employment:

Table 3

Increase of employment in industry in 1965 as against 1947 and structure of employment according to branches of industry

B r a n c h e s	Number of the employed (in thousands)		Structure of employment (in percentage)	
	1947	1965	1947	1965
Production of electric energy	16.7	33.3	5.13	2.39
Production and processing of coal	46.2	84.6	14.18	6.06
Production and processing of oil	3.0	11.6	0.92	0.83
Ferrous metallurgy	21.5	47.1	6.20	3.61
Non-ferrous metallurgy	21.5	47.1	6.59	3.37
Production and processing of non-metallic minerals	4.5	43.2	1.38	3.10
Metal industry	21.9	266.7	6.72	18.97
Shipbuilding	..	21.8	..	1.56
Electric industry	3.1	75.5	0.95	5.41
Chemical industry	14.5	67.8	4.45	4.86
Building materials industry	31.7	74.1	9.73	5.31

B r a n c h e s	Number of the employed (in thousands)		Structure of employment (in percentage)	
	1947	1965	1947	1965
Wood and timber industry	17.5	138.5	5.37	9.93
Paper industry	4.6	24.2	1.41	1.73
Leather and footwear industry	15.8	47.7	4.85	3.42
Textile industry	55.8	209.4	17.13	15.01
Rubber industry	..	16.1	..	1.16
Food industry	20.1	118.2	6.17	8.47
Tobacco industry	21.0	23.2	6.44	1.67
Printing	7.5	34.1	0.67	2.45
Industry, total	325.8	1394.9	100	100

Sources: Industry 1965, Statistical Bulletin No. 412, Belgrade 1966
Economy of the FPRY in the period 1949-1956, Institute for
Economics of the FPRY, Belgrade, 1957.

The greatest changes as far as employment is concerned occurred in the complex of the metal industry (metal, shipbuilding and electric industry) where the number of employed increased from 25 thousand in 1947 to 364 thousand in 1965, and the share of these industries in the total number of the employed in industry rose from 7.75 to 20.5%. The tobacco industry is the only one where the number of the employed more or less stagnated, while its share in total employment in industry declined from 6.4% to 1.7%.

11. The results of the trends of Yugoslavia's industrial development during the last two decades are also reflected in very significant changes in the structure of foreign trade and in a considerable increase of its volume, since the quantity of exports and imports and the decisions regarding the products to be exchanged, whether exports will be mainly composed of final products or raw materials and whether imports will chiefly consist

of consumer goods, raw materials or instruments of labour, greatly depend on the level of industrial development.

The rapid development of the Yugoslav industry resulted primarily in ^{an} increase of the volume of exports and of the share of industry in them. Our country's example has once again confirmed that industrialization does not hamper but rather promotes both exports and imports changing their structure at the same time. The physical volume of total imports increased, between 1948 and 1965, by 3.4 times, with industry having the largest share. While, in 1947, the share of industrial products in exports (with non-ferrous metals and timber prevailing) amounted only to 29%, it increased in 1965 to 63%, with machines and transport equipment i.e. items that did not exist at all in 1947 having the largest share (36%) in exports. Particularly worth stressing is the change in the structure of exports according to the degree of finishing - exports of products of a high or ordinary degree of processing rose from 55% in 1947 to 85% in 1965, and of products of a high degree of finishing alone from 17% in 1947 to 52% in 1965.

12. Yugoslavia was also faced with the problem of choosing what kind of industry, what sort of plants, to build, whether to orientate itself towards capacities ensuring higher employment at a given moment and requiring smaller investments in fixed assets or towards capacities whose construction requires larger investments in fixed assets and less labour, i.e. whether to invest in projects of predominantly lower or predominantly higher organic structure of resources.

The predominant orientation was towards capital-intensive and highly productive industry in general, not only in the various branches of the heavy industry but in the light industry as well. In adopting such a concept it was indispensable to depart from the fact that the industrial development of Yugoslavia cannot evolve in isolation from modern technology and its processes and

that, without the introduction of such techniques and technology, it is often impossible to achieve a high level of productivity and often even to attain the necessary quality of production.

However, it was not possible to carry out this conception in a linear way, namely, to build capital-intensive projects always and under all circumstances. A labour-intensive industry, with a lower level of technology and suboptimal capacities, was built, primarily in the first period of planned industrial development of Yugoslavia, when, owing to a great shortage of capital and an abundance of labour especially in the undeveloped areas, such an orientation inevitably imposed itself with regard to the construction of many projects. Such a development was also dictated by a narrow domestic market in the first post-war decade, at a time when placement in foreign markets had a secondary importance.

Today, however, the construction of capital-intensive projects having a high technical level has become a rule, particularly since Yugoslavia has to integrate itself into the international division of labour on an as wide a scale as possible. This calls for the attainment of high productivity, lower costs of production and a world standard quality of products.

Basic methods of industrial development

13. In order to procure the means indispensable for a rapid development of industry, Yugoslavia orientated itself towards the utilization of its own resources. Although lagging behind economically, with a low productivity and a relatively small number of fully employed, Yugoslavia had solved successfully the problem of accumulation necessary for its industry, however with great efforts in the earlier years.

With regard to the creation of these possibilities, it should be mentioned that Yugoslavia emancipated itself from economic dependence on foreign countries and was able to dispose of its own resources. Favourable social and institutional frameworks were

set up in the country and the centralization of accumulation in the hands of the state, supported by price and fiscal policies, made it easier to mobilize economic resources and to channel them towards branches and capacities ensuring the most rapid economic growth.

The funds of accumulation for industry, as well as the national income on whose volume they depended, grew on ^{the} basis of an ever better utilization of fixed and working capital, a rapid growth of productivity of labour as well as increase in the number of the employed. On the other hand, foreign and internal trade also began to play ^{an} ever more significant role with regard to accumulation.

The predominant orientation towards internal resources of accumulation, based on the growth of productivity of labour, on a better utilization of resources and an increase in the number of the employed, etc., did not mean that external funds could not play an important role. Yugoslavia utilized, after the war, relatively considerable external funds in the form of loans and aid, which amounted to 2-10% of the national income in some years, Yugoslavia utilized foreign funds primarily in order to import equipment and deficient raw materials so as to ensure industrialization and above all, the development of the most important industrial branches and technical reconstruction of the whole economy.

14. The efforts exerted in the field of accumulation are best illustrated by the fact that net fixed investments in the post-war period amounted on the average to 20-25% of the national income, while their share in the national income before the war amounted only to approximately 5%. Actually, no rapid industrialization is possible, according to many estimates, ^{if} the share of net investments in the national income in an underdeveloped country is not raised at least to 15-20%, since accumulation is the essential problem of economic development and in view of the fact

that in the present technical conditions, the underdeveloped countries must invest relatively more for each percent of increase of their national income than it had been necessary in the case of the today developed countries during the initial phases of industrialization.

15. As far as the vehicles of industrial development are concerned, the state directed industrial development in a centralistic was during the first years of planned industrialization. As a result of a relatively small accumulation, of great demands and low production, insufficient experience and sometimes a mechanical transfer of foreign practice, the whole development was directed from one centre. This facilitated the mobilization of economic resources and their channelling towards branches and capacities ensuring the fastest economic growth. However, owing to this, the development of some branches of production was pushed excessively in comparison with the prevailing possibilities and needs, while the principles of economical operation and rentability were often not sufficiently respected. A higher level of development having been achieved, the application of such methods was less and less justified and a transition to the system of workers self-management became imperative; the rights of enterprises were extended with a tendency towards their full emancipation as far as business operations were concerned. In these circumstances industrial development is increasingly becoming the concern of direct producers. Thus, the enterprises have become the direct protagonists of enlarged reproduction. This has resulted not only in the introduction of new methods and forms into the system of social orientation of development, but has also created new social and material bases for development trends. Under such conditions, the position

and interests of enterprises and individual activities, influenced by market conditions, determine the trends and pattern of industrial development, while the role of the community as a protagonist of the general policy of industrial development is being increasingly reduced to the influencing of the general condition in which the independent activity of enterprises is evolving. Instead of direct decision-taking on production and investments, growing importance is assumed by the policy of prices, foreign trade, monetary - credit policy, taxation and other measures aimed at implementing the policy of industrial and general economic development fixed by the Social Plan.

16. In dealing with the methods of industrial development in Yugoslavia, it is also necessary to point to the way in which domestic industry is protected against foreign competition in the Yugoslav market and in regard to exports. In the 1st period of intensive building of a basic and heavy manufacturing industry, foreign trade played the role of additional instrument through which balance surpluses and deficits were righted, while differences between domestic and world prices were adjusted through equalization funds and other measures. The raising of the industry to a higher level made it imperative to ensure broader integration into the international market. The main instrument of protection became the customs tariffs, whose upper level is determined today in such a way as not to have an adverse effect on the efficiency

of domestic enterprises. On the other hand, the community applies various methods to favour the export of many products, especially those of the engineering industry. Before, this took the form of granting of subsidies while, at present, this is done predominantly by extending of assistance to export industries, through the granting of credits for the modernization and reconstruction of export-oriented industries, the crediting of exports and other measures. All these instruments made it easier for Yugoslav producers to withstand foreign competition, but owing to lower labour productivity the earnings are, of course, smaller. However, a higher development of the economy and higher standards are reducing the importance of these instruments to an increasing extent. Even if earlier they were used for favouring unprofitable production, today one proceeds from the fact that the Yugoslav enterprises have gained sufficient experience and that one should support, on the whole, production which is profitable according to world standards and that only those branches should be protected which are of the greatest importance to the Yugoslav economy.

Trends and methods of industrial development
in various periods

17. In its post-war industrial development until the economic reform in 1965, Yugoslavia went through several phases which could be grouped into two periods - stages, linked in the first place to changes in the trends and methods of industrial development. This, however, does not mean these stages are strictly separated from each other; however, some specific features nevertheless exist.

/...

18. The first period of industrial development from 1947²⁾ until 1956 may be characterized, in the shortest terms, as a stage of accelerated and mainly onesided development of the basic and heavy manufacturing industry. The objective was to create a material technological base for the development of industry and all other economic branches. Considering Yugoslavia's international position at that time, this required an urgent development of heavy industry, the more so as this industry lagged considerably behind. However, it should be emphasized that this does not constitute a general law of industrial development, but that rather specific circumstances are involved.

In the above-mentioned period the economy and the accumulation in Yugoslavia were not at a level that could ensure a rapid development of all industrial and economic branches. In each stage, as well as in this one, objective conditions imposed limits within which industrialization could be carried out. The volume of the national income, in spite of rapid growth, was still relatively very low, even more so as - in addition to the inherited general backwardness of the economy - there were such adverse factors as heavy war damage and losses in skilled industrial labour. Consequently, the concrete situation limited the possibilities of industrial development; however, since industrial development was of vital importance, the relatively meager funds were mostly allocated to industry, predominantly to the industry of means of production.

The implementation of the programme of industrial development in the 1947-1956 period ran into major difficulties owing to the necessity of developing infrastructural preconditions, of creating a material base for political independence and economic

2) We depart from 1947 because this was the year when the pre-war level of industrial production was reached and when planned industrialization started.

equality under unfavourable international circumstances. Particular difficulties were also caused by a great decline in agricultural production as a consequence of droughts in 1950, 1952 and 1954. Under such circumstances, an ample utilization of considerable reserves in manpower and large investments were an economically indispensable orientation in the struggle to overcome the economic backwardness of the country. During that period the rate of investment was very high, especially in the first years of that stage. However, it remained relatively high throughout this period, since new capacities were not sufficiently utilized owing to an inadequate raw materials base, insufficient familiarity with new technology and sometimes owing to difficulties in marketing, etc., which conditioned a high marginal capital coefficient³⁾ amounting mostly to over 3.

During that period 60% of productive and 51% of total fixed investments were funnelled into industry.

Investments were mainly directed towards the power industry, base metals, production of equipment and durable consumer goods as well as the chemical industry. In the period 1947-1952, 73.9% and, in the period 1953-1956, 75.9% of total resources for fixed investments in industry were invested into these four industrial complexes. From the total funds for fixed investments in industry, 56.7% was invested in the period 1947-1952 and 58.5% in the period 1953-1956 into power and base metals alone. In spite of these difficulties, industrial production, although it even declined during 1951-1952, increased during the entire period of 1947-1956 at an average rate of 9%, i.e. it was, in 1956, 2.7 times higher than in 1939 and 2.2 times higher than in 1947.

The biggest advance was registered in the production of means of production and, within this context, in the production of instruments of labour. The production of instruments of labour was, in 1956, 4.1 times higher than in 1947, while the production of objects of labour increased 2.3 times. As far as the industrial

3) The marginal capital coefficient is the ratio between the growth of the value of fixed assets and the growth of the production in a given period.

production of consumer goods is concerned, it rose 1.8 times. If in 1939 the ratio of group A (production of means of production) to group B (production of objects of consumption) was 47:53; in 1956 the ratio was 64:36.

19. In laying down the guidelines of industrial development in the second period after 1956, until the launching of the economic reform in 1965, one started from the assumption that past development had created certain disproportions, that the volume and structure of investments in the previous period had resulted in a serious lagging behind of the manufacturing industry and agriculture and in a slow growth of the national income and living standards. This had an adverse effect upon the market and foreign trade, so that economic policy had to be placed on a new foundation in this period. It was indispensable to strengthen and secure a gradual improvement of the standard of living in harmony with the growth of production forces and productivity of labour, while investments had to be made where they were likely to produce the greatest effect, i.e. to ensure the fastest increase of the national income. Special attention had to be paid to the development of agricultural production which had fallen behind considerably and to the expansion of commodity exchange with foreign countries. Another task in that period was to adapt production to new market conditions.

The period from 1956 until the economic reform of 1965 was characterized by a more balanced development of all branches of industry. The rapid development of the production of means of production continued. However, owing to the lagging behind of the industry of consumer goods, the latter had to be developed at a somewhat faster pace. Relatively larger funds were also appropriated for the development of agriculture with a view to creating a material base for a continuous improvement of the standard of living. At the same time, stress was laid on an increase in the production of industrial goods for export and on a larg-

er share of products of a high and higher degree of financing in the structure of exports, with the aim of improving the balance of payments.

The transition to such a development of industry in the period 1957-1965 was not only a reflection of needs but also of more favourable possibilities. Development in the first ten-year period, the successes achieved in the field of industrialization, the improvement of Yugoslavia's international position etc. promoted the creation of these objective possibilities.

In the period 1957-1965, investments in industry continued to increase rapidly, in absolute terms; however, their share in total investments declined, while the share of investments in agriculture increased. Gross fixed investments in industry, in the period 1957-1963, amounted to 35.5% of total investments and to 49.9% of productive investments.

However, the reduction of the share of investments in industry did not slow down the pace of industrial growth. Moreover, industrial production grew even at a faster rate than in the previous period owing to favourable conditions; from 1956 to 1965 it increased 2.8 times and the average rate of growth amounted to 12%. As regards the rate of growth of industrial production, Yugoslavia held one of the first places in the world at that time. In comparison with earlier periods, the annual growth was more even.

Within the framework of industry, the share of the industry of consumer goods increased. Thus, the share of the investments in the textile, leather and rubber industry amounted, in 1947-1952, to 5.1%, in 1953-1956 to 4.3%, in 1957-1963 to 9.1% and in 1963-1965 to 8.3% of the total fixed investments in industry.

On the basis of the rapid development of industry, and thereby of the entire economy, yet another of the constant basic economic objectives - the improvement of the standard of living - was achieved. In spite of a large share of accumulation and of so-

cial funds in Yugoslavia, the standard of living in that stage was considerably improved as a result of a high absolute increase of the national income - national income was, in 1964, almost 2.2 times higher than in 1956; in industry it increased approximately 2.6 times. Only real earnings per employed rose in comparison with 1956 by 88% and, if indirect receipts from social funds are included, then the increase was even higher. The improvement of the standard of living is illustrated by the growth of the fund of durable consumer goods. Only in the period 1956-1964, the number of electric kitchen ranges per 1000 inhabitants rose from 1 to 39, of refrigerators from 0.6 to 24, of automobiles from 0.8 to 7.3, etc.

However, in this period, too, when the system of self-management was still incomplete and the influence of the centre still strong, certain shortcomings made their appearance and problems arose with regard to the development of industry. These were, primarily, shortcomings and problems due to extensive development and to insufficient efficiency in operations and production. This was reflected, among other things, in an inadequate degree of utilization of capacities in industry which - in 1964 - amounted to approximately 70 percent.⁴⁾ There were also some imbalances in the pattern of production, which were particularly reflected in a lagging behind of power and of the production of some raw and industrial materials, where competitive production costs could be achieved. In this period, integration with the world market was inadequate orientation towards exports being particularly insufficient, so that, even in 1965, the export of goods represented a value of only 56 dollars per inhabitant. Specialization, coope-

4) The basis for calculating the degree of utilization of capacities is the assumption that industrial enterprises should work in two shifts, while bottlenacks are enterprises with a continuous process of production in more than two shifts.

ration and integration of production were not sufficiently developed either; nor were the orientation towards the modernization of production, modern organization of work, development of scientific research and application of its results.

All this made it imperative to develop still further the system of self-management and creation of appropriate conditions for its full assertion as vehicle of economically more efficient methods of business operations, as a basis for eliminating the shortcomings and solving of problems of industrial development.

20. Industrial development in the present period, i.e. after 1965. may be designated, in a certain sense, as the third stage, since it is developing in substantially changed conditions created by the economic reform.

The transition to this stage has put into the forefront the intensification of production, more equal conditions of work and autonomous development of individual industrial activities, and a more consistent application of the principle of distribution according to the work performed.

The effect of the reform should be reflected in a freer play of economic laws, including a freer formation of prices, liberalization of imports, achievement of the convertibility of the dinar, etc.

The setting of such targets has led to certain changes in the trends of industrial as well as entire economic development. Development is more than ever before directed towards those branches and activities where our advantages are obvious or which make it possible to achieve most rapidly the expected results in exports and in meeting domestic demand, provided they are able to withstand foreign competition. Consequently, an orientation towards those branches where Yugoslavia can successfully compete with foreign producers. The basic objectives since 1965 are: the intensification of production in the existing branches, the expansion of specialization and cooperation, not only within the country but with foreign producers as well; a better utilization of existing resources; the approaching of the world level of labour productivity; and a marked reduction of operation costs. In the present conditions, this can be achieved in a large number of branches producing investment and consumer goods.

The entire process of development up to the present, during which important branches and groups for the production of capital and consumer goods were established and developed, has made such an orientation of industry since 1965 possible. Namely, only after the achievement of an important level of industrial development was it possible and indispensable to tackle decisively

the problem of attaining a world level in productivity and to increase the efficiency of production on the basis of a far more intensive integration into the international division of labour. The determined orientation of the Yugoslav industry towards the world market has made it possible to increase income and to improve the possibilities for imports. Integration into the international market is one of the basic conditions for the utilisation of modern technology and achievement of high labour productivity. Such an orientation and conditions arising therefrom compel the producers to be much more economical and productive, which should have a favourable impact on industrial development.

One of the trends of Yugoslavia's industrial development in the present conditions is the development of production and processing based on deposits of copper ore, lead and zinc ore and bauxite, i.e. non-ferrous metallurgy, since the comparative advantages of Yugoslavia in the international division of labour can come to expression in this field. In the same way, aiming at a more intensive integration into the international division of labour, a series of activities in the machine-building industry producing equipment, ships and durable consumer goods, is being developed at a fast pace. The vast forests enable us to ensure through a more intensive and economical utilization of wood in mechanical and chemical processing a rapid development in this field as well and to become competitive in the international market, which also points to one of the directions of industrial development in the present conditions. Owing to an expanded market and often as a consequence of more favourable natural conditions, we also orientate ourselves towards a rapid development of the production of modern building materials, oil and gas, fertilizers and plastic masses, primarily in order to meet our domestic needs. Electric energy being one of the bases of

industrial and the entire economic progress in modern conditions, there is a trend to achieve a large increase of output in this branch. The output of electric power is to be doubled in the five year period 1966-1970. Consequently, power output and the production of a number of base metals, of the chemical industry, building materials, non-metallic minerals and many products of the engineering industry are to be developed at a rapid rate. Similarly, one of the development aims in this five-year period is to stimulate the development of the production of ready-made clothing, knitted wear and leather products, as well as a number of products of the food industry, since Yugoslavia enjoys some advantages in these fields, which may be used profitably, particularly in view of the available labour. There are also other branches and groupings in the industry of consumer goods which are, however, expected to develop at a somewhat slower pace.

One of the objectives of industrial development in Yugoslavia is to alleviate the inherited inequalities in industrial and, generally speaking, economic level of various regions of the country. In view of such an orientation, the community is pursuing a determined policy, acting particularly through investments and other methods towards mitigating and removing unevenness. With this purpose in mind, the community provides incentives for the utilization of capital from more developed areas in the underdeveloped ones. Furthermore, federal and republic funds are appropriated for the development of lesser developed areas.

Generally speaking, during the period 1966-1970, a further but more stable and somewhat decelerated growth of industrial production is expected in Yugoslavia in comparison with the previous ten-year period. The share of gross investments in fixed assets in industry should amount to almost 51% of total productive investments, as against 53% in the previous five-year period. However, the investments in industry, in absolute terms will grow considerably.

The reform has changed the methods and, generally speaking, the conditions for the implementation of the investment programmes. The accumulation of funds for the financing of development programmes, their concentration and implementation have become the direct concern of enterprises, their business associations and banks. They are already the vehicles of the major part of accumulation (about 70 percent).

The Federation, the republics and other territorial socio-political communities have at their disposal a much smaller part of accumulation, mainly the part needed for completing the construction of some projects started earlier, for developing the underdeveloped areas and for investing into the economic infrastructure. Consequently, the most important promoters of industrial development in the present stage are the enterprises themselves. Their activity evolves, of course, within the frameworks fixed by the Social Plan and measures that the community is undertaking for their realization, while the development of individual industrial sectors relies increasingly on long-term planning and corresponding projections of development.

Domestic accumulation remains - in this stage as well - the main source of funds for industrial development. However, one continues to count on foreign funds, too, and, in addition to the utilization of foreign credits, an ever greater significance is being attached to new forms of cooperation with foreign countries, especially through direct cooperation in production, specialization and collaboration. Yugoslavia is showing a growing interest in a direct participation of foreign investors in the development of Yugoslav industry and is already developing appropriate institutional bases for such a participation.

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CHOICE OF TRENDS AND METHODS OF INDUSTRIAL
DEVELOPMENT IN YUGOSLAVIA

SUMMARY

by

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Submitted by the Government of Yugoslavia

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1. The factors upon which the direction and method of industrial development depend throughout each phase of progress include the attained level of the production forces, their structure, the natural resources, the production potential of the population, the possibilities of work specialization and the prevailing production relationships. The more favourable these factors are the more easily and quickly will the problems of industrial development be solved.
2. When Yugoslavia adopted the course of planned development of the economy she was a preponderantly agrarian country, while her industry, in which small-scale enterprises predominated, could give employment to only about 5 per cent of the active population. Especially poorly developed was industry for the manufacture of the means of production; light industry was better developed but frequently had a craft character.
3. The fact that the degree of industrialization in Yugoslavia was comparatively low and that her economic as well as her industrial structure was undeveloped made necessary a rapid industrialization effort so as to change the economic structure by increasing the contribution of industry and other non-agricultural branches to the national income.
4. In adopting a policy of rapid industrialization, and in view of the very restricted means at her disposal, Yugoslavia had to effect a determined selection of industrial branches, so as to avoid a major dislocation of the relationships and ratios essential for safeguarding the normal progress of the course of social reproduction.
5. During the greater part of the post-war period priority was accorded to electrification and to a series of industrial operations concerned with manufacturing instruments and working tools, primarily because such operations provide the base for the industrialization of the country and because they enable a rapid development of the economy and a progressive modification of

its structure. This orientation was also adopted because, otherwise, it would have been necessary to continue to rely on large imports of machines, raw materials, electricity etc. And it is a familiar fact that, as a rule, the importing power of a poorly developed country industrially is very limited.

6. At the same time, in selecting the direction of economic development, other problems also had to be solved, such as the determination of the optimum size of plants, the technical level of production, regional development, international industry specialization etc.

7. As concerns the provision of the necessary means for changing the direction and methods of industrial development, a favourable social and institutional framework had been created and the mobilizing of economic resources and their orientation towards those branches and capacities which would ensure the quickest economic growth had been facilitated through the centralization of savings in the hands of the State. The creation of savings was also assisted by the Government's price policy and by the new fiscal policy, while both external and internal trade had also begun to play an increasingly important part. The national income and the capital available for industry were also growing on the basis of the improved utilization of the resources available and a rapid increase in productivity and employment. Besides her internal resources, Yugoslavia has, since the war, also used considerable foreign financing in the form of loans and assistance.

8. The magnitude of the efforts made through the field of internal savings is indicated by the fact that the net fixed investments made in the post-war period have averaged 20 to 25 per cent of the national income, which compares with only about 5 per cent of the national income in 1939.

9. As for the protagonists of industrial development, industrialization in the first years was directed by the State, in accordance with its economic plan. Subsequently when the system of workers' self-management was adopted,

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the rights of enterprises were extended, the enterprises were made completely independent in their operations, and market criteria and orientation towards international trade took on greater importance.

10. Important results were recorded on the basis of the selected directions and methods of industrialization. In 1965 industrial output was 6.2 times higher than in 1947, having risen during those 18 years at the average cumulative rate of 10 per cent, which compared with an annual average **production** increase of the processing industries of about 2 per cent for the 1919-1938 period.

11. In her post-war industrial development and until the adoption of economic reforms in 1965, Yugoslavia passed through several phases which could be grouped into two periods or stages, and are primarily associated with the degree of development of the production forces and production relationships and with the international position of Yugoslavia, thus:

(a) The first period of industrial development covered 1947-1956. Quite briefly, this period may be defined as a stage of rapid and considerably forced development of basic and processing industries. In spite of difficulties, caused both by extra-economic factors and by great fluctuations in farm output, during this period industrial production was growing at the average cumulative rate of 9 per cent annually and in 1956 it was 2.2 times higher than in 1947. The largest increase was in the manufacture of the means of production and, in this, of work equipment. In 1956 the output of these products showed a 4.1-fold increase over 1947, while that of work tools had gone up 2.3 times and of consumer goods 1.8 times.

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(b) The second period, from the end of 1956 until the adoption of the economic reform in 1965, was a period of balanced industrial development. In this period the aim was, inter alia, to adapt production to the new possibilities of development and to existing market conditions. Rapid development of the means of production continues, but, owing to its considerable lag relative to the demands, the light industry is developing at a somewhat quickened rate. Comparatively larger means are earmarked for agricultural development in order to create the material base for a continuing rise of the standard of living.

12. Although the share of the industrial product in the national income decreased in this period, industrial output was growing more quickly than in the preceding period. It rose 2.8-fold, growing at the average annual rate of 12 per cent. However, considerable difficulties were experienced in development, primarily those manifest in the insufficiently developed output of certain raw materials, for which favourable development conditions existed, and in the shortage of foreign exchange for making imports, caused in the first place by the insufficient export of goods to generate the exchange necessary.

13. In a sense, industrial development in the period since 1965 may be described as the third stage, a stage created by the implementation of the economic reform which highlights the intensification of production particularly by way of modernization and reconstruction, greatly intensified specialisation, freer play of economic laws, including a freer formation of prices, liberalized imports and the achievement of convertibility of the dinar, etc.

14. More than before, development involves the branches and activities in which we enjoy comparative advantages and can compete with foreign manufactures. The transition to this stage had been rendered possible by the

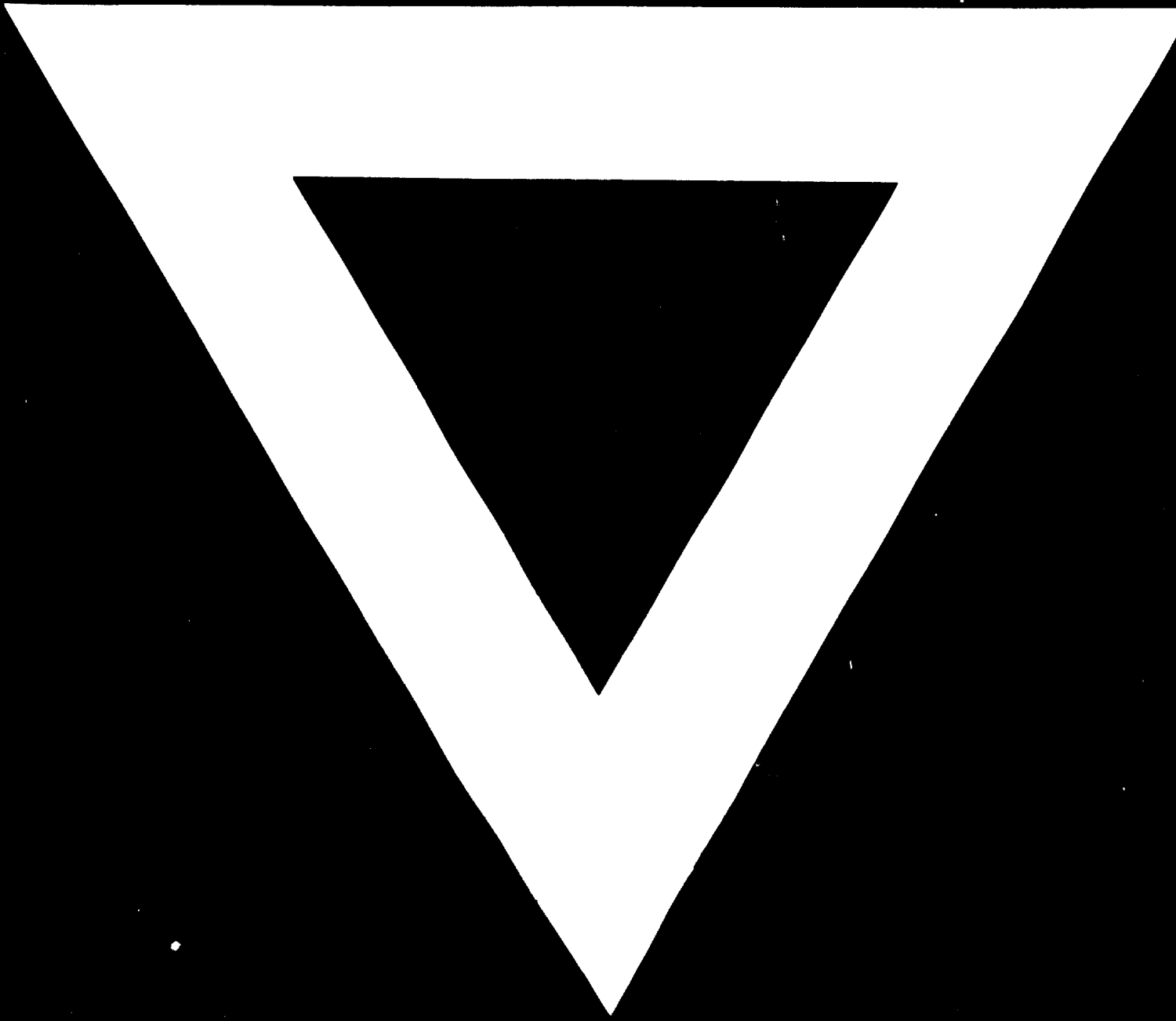


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development realized over the past 20 years, and simultaneously it represents an essential condition for the continued rapid and unhindered development of industry and the economy as a whole.



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