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ACCELERATING INDUSTRIAL PROGRESS IN DEVELOPING COUNTRIES

Submitted by the Government of Israel

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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. There is no doubt that the race against time is a vital aspect of industrial planning common to all developing countries. The main problems to be solved may vary from one country to another, the emphasis on the principal goals to attain may differ, but all developing countries strive for a rapid improvement of their level of production and living standards, and all of them are bent on reducing the gap between their infant industries and the long-established and powerful manufacturing capacity of the large developed countries. However, in actual fact the economy of these latter countries is making vast strides in technology, production and marketing methods - backed up by a tremendous capital potential. As a result, the gap between the developed and the developing states, rather than showing signs of diminishing, is actually growing; this is a dangerous state of affairs from either group's point of view. The question of finding ways and means to accelerate the industrial progress of the developing countries is, therefore, of immediate and vital concern.

2. It goes without saying that the establishment of industries requires large sums of capital, be it in the form of grants, investment or loans on easy terms. Soft loans are also required to finance the creation of the infrastructure necessary for any kind of development, and certainly for industry. But even a considerable flow of such finance does not, in itself, furnish an answer to the question of how to go about the industrialization of a developing country. Thus, for instance, the investment of vast sums in raw material extractive industries or in giant industrial enterprises, will offer a relatively inadequate contribution in terms of employment of local manpower or the training of a large number of skilled workers and managerial cadres that are a basic prerequisite for the industrial development of a developing country in breadth and depth. Certainly, each country has its own set of problems and, consequently, its particular list of priorities; yet it may be stated that all developing countries require industries that provide employment for a maximum number of workers in towns and rural areas, plants that process local produce, workshops and industries catering for the agricultural

areas and factories producing popular consumption articles that are at present being imported. The industrial enterprises meeting these requirements are essentially of the small or medium type. While their output figures may not, at the outset, be very impressive, they are by their very nature labour-intensive and can play a vital role in forming a skilled labour force, apart from contributing to the betterment of standards of living in town and village alike and to reducing the country's dependence on imports that cost foreign currency.

3. The direction industrial development is to take in any one country depends, of course, on its objective possibilities and limitations and on the particular economic and social goals it aims to attain. Nor must it be forgotten that within the large community of developing countries there exists a wide gamut of different stages of industrial development. Another factor to be considered is the need to change the aims and priorities of the industrial development policy of a country in consequence of the very achievements which a particular program of industrialization may have yielded, or as a consequence of changes in international markets or technologies. One might summarise the problem that confronts a developing country in formulating its industrialization policy as follows: A system of planning must be found that is dynamic and imaginative enough to push industrialization at a fast pace, comprehensive enough to permit the dovetailing of industrial activity within the framework of the general economic requirements of the country, flexible enough to allow the speedy introduction of alterations necessitated by changing needs or objectives or by technical or commercial developments at home or abroad. Above all, any industrialization policy thus formulated must be pursued with vigour, with the help of all the financial and other means at the disposal of the authorities in charge.

4. To illustrate some of the above points, it is proposed to examine briefly the changes in emphasis and method in the industrialisation of Israel.
5. At the beginning of the process of intensive industrial development the country's main goal was to provide employment for a maximum number of workers and to train manpower that had not had any industrial tradition or experience in the ways of modern organized industrial activity. If one considers that between 1948 and 1950 Israel's population more than doubled, and until 1960 tripled, mainly through the immigration of people with no industrial background, one can easily understand that the goals listed above were uppermost in the minds of the authorities. It may be said - in parentheses - that in most developing countries there exists a similar list of priorities, albeit for different historical reasons.
6. To give practical expression to these aims the Israel Government conducted industrial policy according to the following criteria: full employment, speedy development of the economy, implantation of industrial enterprises in areas that had been unpopulated or sparsely populated.
7. The means employed included loans, grants, guidance in industrial techniques, a very considerable network of institutions for professional training and general education, ranging from primary schools to institutes of higher learning, including secondary and technical schools as well as courses for working youths and adults. In addition to these general measures, special instruments were created and laws enacted with the aim of directing industrial enterprises to preferred development areas, and simultaneously the necessary physical infrastructure, such as communications, power, water supply etc. was provided.

8. Among the important incentives is a diversified system of loans given to prospective investors through the Industrial Development Bank of Israel. The capital reserves of this Bank derive partly from Government, and partly from international and private sources through the issue of debentures. The amount of the loan given for a particular investment depends on the area in which the enterprise is to be established and the nature of the industry. In addition, the Government makes provision for reduced interest rates and easier terms for enterprises set up in priority areas. Industrial buildings at low rentals are also provided in priority areas.

9. Towards the end of the 1950's, and even more at the beginning of the 1960's, the income level of the Israel economy and its human and economic infrastructure had reached a stage where the need for a change in emphasis became urgent. The increase of the volume of exports with a view to attaining economic independence and to reducing the very considerable negative trade balance of the country became the paramount need. This change of direction necessitated - and still does - a reorientation of the structure of industry by branches of activity, since, in order to be able to export, factories have to produce their wares at competitive quality and prices. This process entails changes that are sometimes painful, such as less protection for certain local industries from foreign competition, reallocation of financial and other means in a selective way etc. On paper this sounds logical and matter-of-fact. In real life it involves considerable economic and social efforts, shifting of labour etc. if one is to create viable export industries. A further difficulty stems from the fact that Israel itself is a small home market for industrial production - a difficulty shared by many developing countries - and that the basis for profitable, large-scale production is lacking.

10. In order to single out those industrial branches most likely to qualify for the new targets, a set of criteria had to be worked out to assess the capacity of the various industries to stand up to the test of the new policy. Among these criteria one might mention the availability - or otherwise - of raw materials in the country, adequate and sufficiently trained manpower, prospects of selling the wares against heavy competition abroad, technological developments in Israel and abroad etc.

11. However, the listing of these criteria in itself does not provide an answer as to which industries are particularly likely to be successful in exporting their wares, since the question of the proper weight to be given to each criterion remains unsolved. We are at present trying to arrive at a proper evaluation of the various branches according to a modern method which has been worked out by Professor A. L. Guttman of the Institute of Applied Social Research in Jerusalem. A list of basic questions is prepared with regard to each branch of industry and the replies of economic, technical and commercial experts as well as of industrialists are obtained. On the basis of this research, planners grade the various industries according to their export potential. At the same time this method enables them to suggest practical measures, incentives etc. that might improve the export chances of specific branches.

12. Another complicated aspect of industrial planning is the fact that while it is relatively easy to plan in a sectoral manner, by fixing target figures of production for certain branches on the basis of home consumption statistics and projection and available data on foreign trade of the wares concerned, planning of industry by way of integration in regional development plans is considerably more intricate. Of course, the particular conditions of the region concerned, such as communications, port facilities, availability of raw materials and labour, as well as other economic activities in

the region, be it agriculture, tourism etc. have to be considered. But at the same time the role of a particular enterprise in a certain region does not detract from the fact that it represents a definite percentage of the production capacity available in that branch in the entire country. The careful dovetailing of these sometimes seemingly conflicting tendencies is probably the most difficult task of the planner. Care must also be taken to ensure that advances in one region should not be at the expense of some other region.

13. But after the planner has had his say and made his recommendations, it remains the responsibility of the departments charged with the implementation of the plans to translate them into action in a practical and efficient manner. Their work requires both firmness - for instance against pressures by interested parties who might find themselves disadvantaged - and flexibility to reconcile seemingly opposed interests or prejudices. Moreover, they must have at their disposal financial means, administrative facilities and technical know-how enabling them to give forceful and practical expression to the policies they are to execute, and to ensure stability for a reasonable period in advance.

14. Israel is at the moment going through a phase of reorientation, and it would be idle to deny that this often entails painful choices, temporary suffering of certain sections of the industrial labour force and considerable efforts of adaptation and financial sacrifice. But one should not forget that any economic policy - indeed, any policy at all - involves making choices, and very often difficult choices, for it is obvious that the decision to confer advantages upon one sector of the economy means disadvantaging other sectors, sometimes in a way that hurts. Any Government that bears the responsibility of steering the economy of its country has to take these decisions and make these choices.

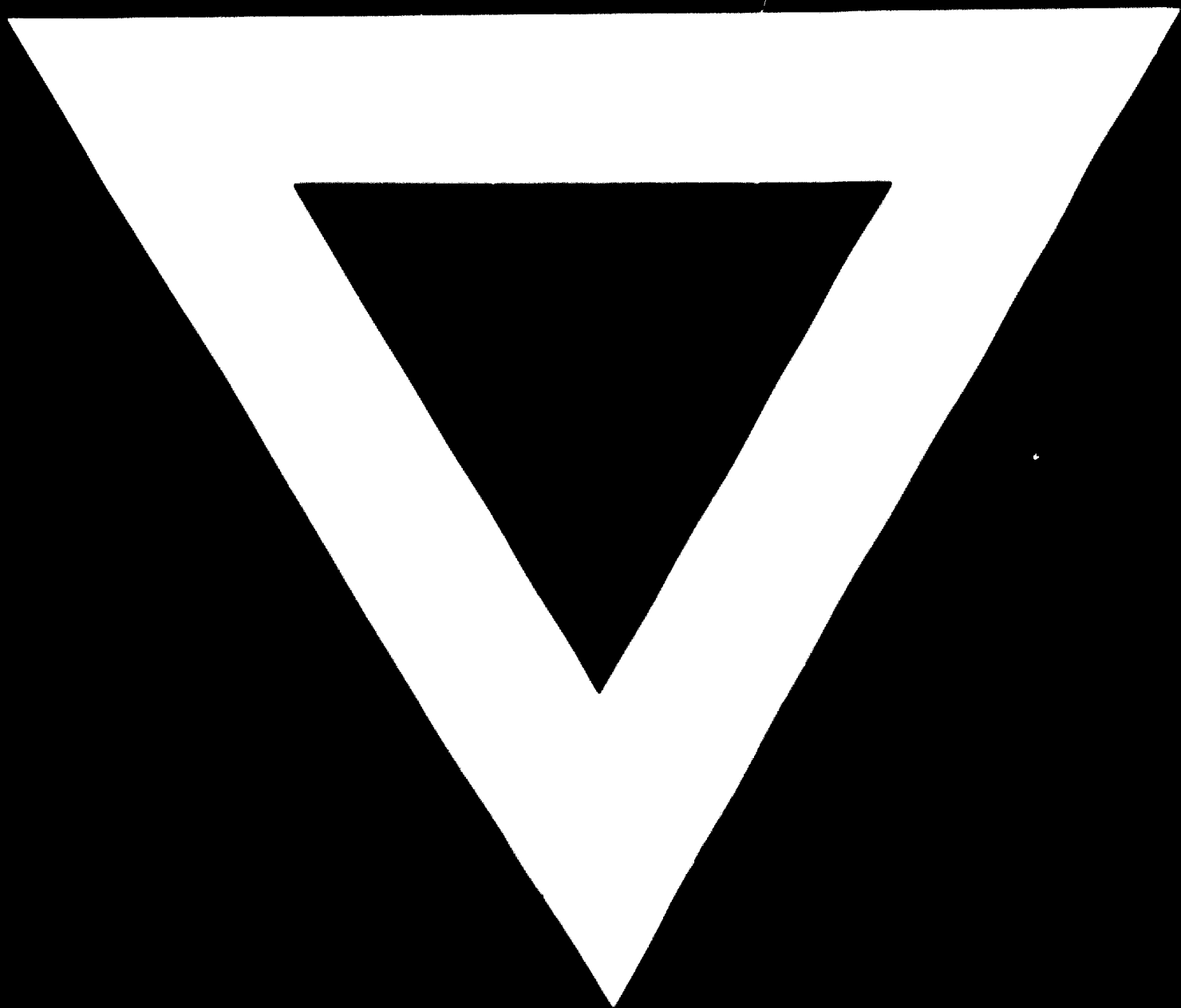
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15. The purpose of this brief exposé has been to describe in what manner we are trying to determine our course, according to what we hold to be best for the well-being of the nation as a whole, and to follow this course, cushioning the blows to the best of our ability, but without losing sight of the targets we have set ourselves.

16. In the framework of the special commissions, members of our delegation will be glad to share with our colleagues some of our practical experience in specific fields and to compare notes with them.

17. It is obvious that each nation must chart its course by its own lights, and methods that may be excellent in one country may be entirely misplaced in another, for, after all, economic endeavour is not an end in itself, but an activity designed to better the lot of the people - and the people must be the central subject of this activity. Therefore, any program devised must correspond to their needs, desires, abilities and qualities. We believe that by an interchange of experiences and ideas we may all learn and profit and inspire each other to greater and more successful economic endeavour.





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