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Meeting on Industrial Development Strategies  
and Policies for Small Countries

Vienna, 26 - 28 November 1973

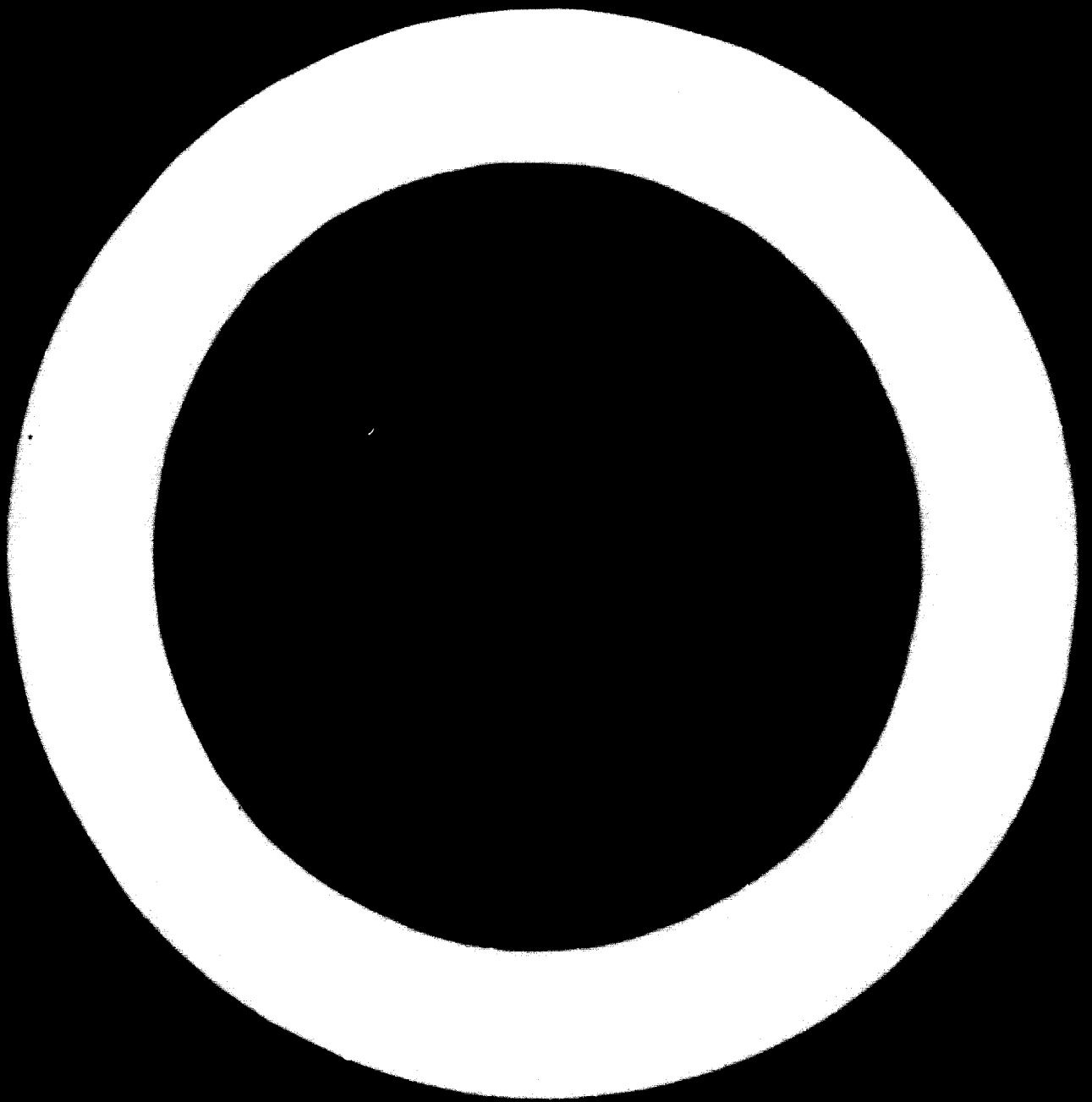
DRAFT REPORT <sup>1/</sup>

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## Preface

1. A Meeting on Industrial Development Strategy and Policies in Small Countries was held in Vienna, Austria, from 26-30 November, 1973. It was sponsored by the United Nations Industrial Development Organization (UNIDO).
2. The Meeting was attended by senior officials from 12 small developing countries;<sup>1/</sup> they were nominated by their Governments, but participated in their personal capacities as experts on this subject. Studies of the experience of these 12 countries were prepared in advance for consideration at the Meeting.
3. The Meeting reviewed first the experience of countries grouped according to their endowments of natural resources. The experience of Island Economies (Barbados, Cyprus and Mauritius) was discussed first; further sessions were devoted to (a) the experience of Economies without oil or other mineral resources (Gambia, Dahomey and Ivory Coast; Honduras, Lebanon and Paraguay), and (b) Economies with oil and/or other mineral resources (Gabon, Mauritania and Saudi Arabia).
4. Following these sessions, the participants divided into small groups to further consider the way in which the development strategy in general and industrial policies in particular had been adapted to the particular and changing circumstances of each individual country.
5. The Meeting then met as a group of 12 to agree some general conclusions and recommendations.
6. The participants anticipate that their conclusions and recommendations will be of special interest to the Second General Conference of UNIDO, which is scheduled to meet in Lima, Peru in March 1975.

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<sup>1/</sup> Barbados, Cyprus, Dahomey, Gabon, Gambia, Honduras, Ivory Coast, Lebanon, Mauritania, Mauritius, Paraguay, and Saudi Arabia.

PROCEEDINGS OF THE CONFERENCE

The concept of an industrial development strategy

7. For the purposes of the meeting, it was agreed (i) that the term "industrial development strategy" would be used to define both the objectives and the broad operational approach adopted by a Government to the long-term process of industrial development and (ii) that the term "industrial development policies" would be used to describe the specific measures (or instruments) and institutions used to implement the chosen strategy.

8. It was further agreed that the formulation of industrial development strategy and policies must be considered as an integral part of the over-all economic development strategy and policies of each country. The choice of strategy must be tailored to fit the social and economic system of the country; political considerations would also have paramount importance.

9. An industrial development strategy should provide clear guidance on the type of industries to be established in the future. It should consider whether the industries were to be designed to supply mainly (a) the domestic market or (b) the export market, and how this would influence the choice of technology and size of plant. Such guidance might identify the particular branches of industry or specific types of project to be developed; it might suggest economic criteria, (such as employment-creation), by which the priority attached to new projects could be evaluated; or it might adopt both types of guidelines.

10. The type of industries chosen for priority development would also be influenced by the natural resources of the country and the skills and aptitude of the available manpower. Due attention should be paid to likely changes in circumstances that would affect the economy's long-term development, both external to the country and within it. The approach should also be realistic; all possible constraints on industrialization should be clearly identified and the strategy should take account of the time required to remove them as well as suggest the means to do so.

11. The strategy of industrial development should provide a framework within which long-term plans, specific measures and appropriate institutional changes can be made. Above all else, its formulation should be based on long-term

considerations; special account should be taken of the need both to establish and to sustain industrial development as a self-generating process.

12. The above considerations apply to developing countries regardless of their size, stage of development, or type of economic and social system used. The following paragraphs attempt to draw some conclusions from the 12 countries whose experience was considered at the Meeting.

### The experience of 12 small countries

13. The Meeting considered the experience of a diverse group of countries from several different geographical regions. All countries have a small population; ten of the 12 countries had a population of about three million inhabitants or less; the other two had populations of five and seven millions, respectively. Some countries were at an early stage of development (with a low level of literacy, a relatively small industrial sector, and a per-capita income of less than US \$200); others had almost 100 per cent literacy, an established industrial sector and a per-capita income in excess of \$500. The Gross National Product of the countries ranged between US \$40 million and US \$1600 million in 1970.

14. The participants agreed that the small size of the domestic market had in the past and would in the future continue to act as a major constraint on the range of industries which could be established at each stage of development. Import-substitution industries had provided the initial thrust to industrialization in all of the 12 countries. Some of the 12 countries had agreed on economic cooperation with neighbouring developing countries and some industries designed to serve the larger regional market had been developed. In the early stages of industrialization the emphasis has been on industries supplying food, shoes and clothing, furniture and building materials and artisan and small industries had made a major contribution. Other consumer goods industries have been developed as income levels increased, but the development of industries supplying intermediate and capital goods has so far started in only a few countries.

15. As manufacturing experience was gained, existing industries began to look for export markets and new export-oriented industries had been established. The emphasis given to the development of export industries varied from country to country. In many countries, export industries had been developed first by

foreign owned enterprises; but locally owned industries had also become important later on. Where a substantial export sector had been developed it had created new sales outlets for existing industries, stimulated the establishment of new industries and provided a substantial boost to the economy as a whole. Participants therefore stressed the particular importance of an outward-looking strategy for small countries.

16. In most countries the principal industries developed to supply export markets were based on domestic raw materials. Large-scale modern plants had been established to process oil seeds, fish, meat, sugar, groundnuts, palm-oil, grapes and other agricultural products. Cyprus, Lebanon and Paraguay have also been successful in exporting a range of other manufactured goods. Barbados and Mauritius, in particular, have developed garment manufacture, assembly-type operations and other types of light industries.

17. The Meeting recognized that the development of increasingly sophisticated export industries provided the basis for the industrialization of Hong Kong and Singapore and the rapid increase of income levels which have followed in these predominately urban societies. Participants indicated that Barbados, Cyprus and Mauritius expect to follow a similar strategy, but emphasized the importance in their countries of a simultaneous development of the agricultural, tourist and service sectors of their economies. A shortage of water and environmental considerations restricted the type of industries their Governments were prepared to promote; strategy in the future would emphasise agro-based industries, light industries and manufacturing processes sub-contracted by firms in industrialized countries.

18. Oil and/or mineral resources were the principal source of export earnings for Gabon, Mauritania and Saudi Arabia; their need to develop manufacturing industries was therefore less compelling and import policy had been less protective than in the other countries. Participants from these countries indicated that their Governments recognized that the exploitation of these resources had finite limits and that they expected the manufacturing sector to play an important role in broadening the economic base, expanding employment opportunities and modernising the way of life in both urban and rural areas. The principal constraint so far had been the shortage of indigenous managers, technical personnel and skilled labour, and each country relied heavily at present on foreign manpower. The current strategy aimed at removing this constraint and strengthening institutions which could (a) support the de-



velopment of small industrial enterprises by indigenous people; (b) elaborate and implement larger industrial projects, particularly resource-based industries, some with participation of the State.

19. Three countries without oil or mineral resources (Dahomey, Gambia and the Ivory Coast) had so far had only a short period of inadequate resources with which to change the narrow economic base that they inherited from the colonial period. Some progress had been made in building the infrastructure required for industrial development, but low income levels and a shortage of trained indigenous manpower acted as constraints, particularly in Gambia. A broader range of agricultural crops was being developed and industries based on agriculture, fishing and forestry were prominent both among existing industries and in the development strategy for the future. Institutional means were being developed to provide financial and other support for the development of artisan and small-scale industries by indigenous people. Industries processing fish, timber and agricultural products were the principal export industries developed so far, but future strategy would attempt to take more advantage of (a) the country's relatively inexpensive labour and (b) opportunities to supply neighbouring developing countries.

20. Although they also lacked oil and/or mineral resources, the process of industrialization was relatively more advanced in Honduras, Lebanon and Paraguay. In each country, artisan and small-scale industries had been predominant in the early stages of industrialization, but in the 1960s larger enterprises had become of increasing importance. In Honduras and Paraguay, industrialization has been promoted by protecting industry from import competition and the principal exports to industrialized countries were mainly agro-based products. In the Lebanon, the services and tourist sectors provided substantial foreign exchange earnings; little protection was provided to local industry and exports of a <sup>fairly</sup> broad range of manufactured goods had been successfully developed. By 1970, each country was exporting about 20 per cent of its manufacturing output. Participants indicated that the main goals of industrial development strategy in future years will be to broaden and deepen the industrial structure, to develop more sophisticated technological skills, to improve productivity and to expand exports of manufactured goods where a competitive advantage has been developed.

### Conclusions applicable to small countries

21. The group of experts found it difficult to draw conclusions of general applicability from the experience of this diverse group of small countries. Some small countries had succeeded in developing an industrial sector which made a significant contribution (between 15 percent and 20 percent) to national economic output. A small domestic market was an obstacle to rapid industrial development but one which could be overcome in time. Small countries had been most successful where the rapid development of other sectors of the economy had raised income levels and broadened the domestic market; in many of the countries whose experience was considered, this was still an essential precondition for further development of the industrial sector. Rapid industrial development would also require steady improvements of infrastructure and intensified efforts to provide trained manpower.

22. The group of experts agreed that there were definite limits to the range of industries that a small country could develop and that the long-term industrial development strategy should therefore aim at some degree of specialization. Some areas of concentration might select themselves; others would be discovered by an imaginative but careful examination of the growing domestic market and opportunities to increase exports to other developing and industrialized countries. The strategy of small countries should be outward-looking; policies should support the expansion of industries which had already developed exports as well as identify more sophisticated industries that could support a steadily rising standard of living in the future.

23. The policy measures or instruments used to promote private investment usually needed to be refined as the process of industrial development advanced. In the early stages, strong generous incentives were needed to attract investment in industry away from alternative areas such as trade and property. At a later stage, policy should become more selective, designed to promote specific objectives such as the emergence of a growing well-established group of indigenous entrepreneurs, the promotion of investment in less developed regions of the country, employment creation, the development of export-oriented industries and the training of indigenous management, technical and supervisory personnel.

24. The group of experts noted that competition between neighbouring developing countries had become a principal justification for granting generous incentives to foreign investors. This competition had been overcome by agreement within some sub-regional groups of countries; similar agreements could be developed elsewhere with considerable advantages to the developing countries concerned. Such incentives helped to draw attention to investment opportunities in small countries hitherto little known to foreign investors. However, a sufficient impact (perhaps eventually at less cost) might be achieved by some countries by specifying a limited period of time for which the offer of such incentives would remain open and concentrating an intensified promotional effort in this period.

25. Intervention in the form of partial or full ownership of industrial enterprises was being used more frequently in some countries, particularly in the case of industries exploiting natural resources (such as timber and fishing) and industries judged of strategic importance for the country's further development. Budgetary considerations sometimes acted to constrain such a policy in countries at an early stage of development because available funds were required for the development of infrastructure, education and social programmes.

26. The expert group found that in many countries the institutional and organizational arrangements for implementing the industrial development strategy and policies were inadequate. In considering what type of improvements could be made for the future, it was suggested that the growing national capability to carry out the following functions might be carefully and critically examined.

- (a) Conduct a broad survey of existing industries aimed at identifying specific investment opportunities for the next five years;
- (b) Conduct market studies, pre-investment and technical feasibility studies of specific industrial projects;
- (c) Promote the implementation of identified projects by local and/or foreign investors;
- (d) Implement projects, particularly with total or partial Government ownership and control;
- (e) Promote the development of a new generation of indigenous entrepreneurs by assisting them in elaborating and implementing small industries;

- (f) Identify, promote and implement a policy designed to attract export industries;
- (g) Establish and/or strengthen an institution specializing in industrial financing;
- (h) Establish and/or strengthen an institution where indigenous personnel can help select, adapt or develop technology suitable for local conditions, and improve technology and quality control in existing enterprises;
- (i) Formulate and implement a policy on industrial standards;
- (j) Establish an integrated information system to monitor progress in the industrial and other sectors of the economy.

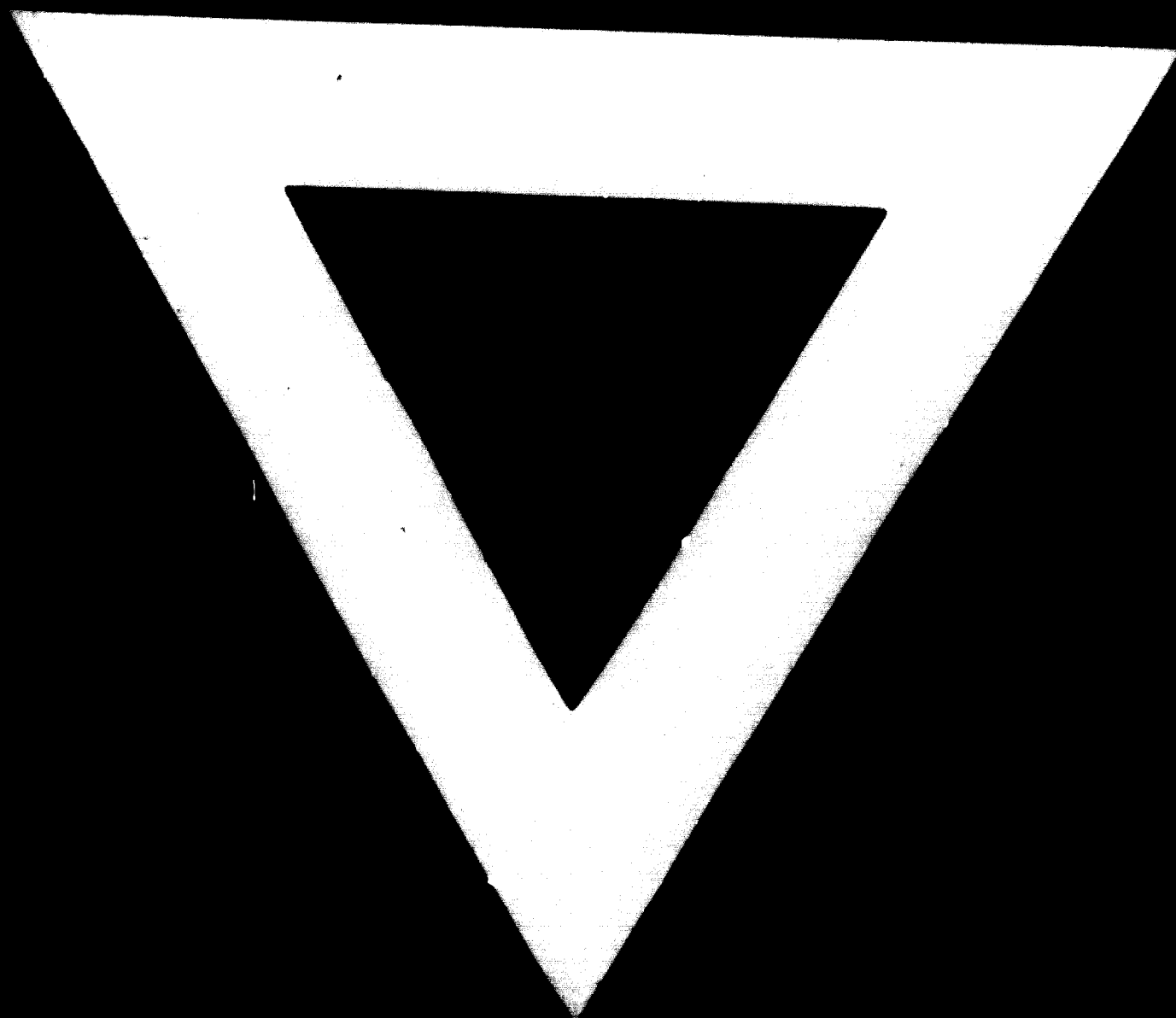
The role of UNIDO assistance to small countries.

27. The group of experts noted that in one or more of the 12 countries, UNIDO had assisted the Government in carrying out each of these functions. The assistance had been most successful where it had strengthened an existing or new institution. Their experience suggested that, wherever possible, UNIDO assistance should help the country <sup>complete a specific project or task</sup> / rather than be of an advisory nature; very often the expert selected by UNIDO should be one who would carry on and help implement <sup>the</sup> specific industrial projects <sup>that</sup> he had helped to formulate; experts who could adapt easily to local conditions were the ones who helped most.

28. In most small countries, the budget for UNDP assistance was not large enough to finance a large programme of UNIDO assistance; although the SIS programme provided some additional financing possibilities, greater financing scope was needed to meet the demonstrated needs of small countries.

The value of an exchange of experience

29. The group of experts found the exchange of experience both stimulating and useful and recommended that UNIDO plan similar meetings on this subject in the future. The meeting broadened their horizons and gave them many new ideas. Such meetings <sup>also</sup> provided an opportunity for the staff of the UNIDO Secretariat to become better informed of each country's industrial development strategy and policies and hence of the background to long-term planning of their specific needs for technical assistance and other services offered by UNIDO.



**74.09.13**