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06405



United Nations Industrial Development Organization

Distr.  
LIMITED

ID/WG.113/6  
1 October 1971

ORIGINAL: ENGLISH

Expert Group Meeting on Marketing Management  
and Strategy for the Developing World

Vienne, Austria, 1 - 7 December 1971

PLANNING THE INDUSTRIAL EXPANSION THROUGH DOMESTIC MARKETING  
IN THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES <sup>1/</sup>

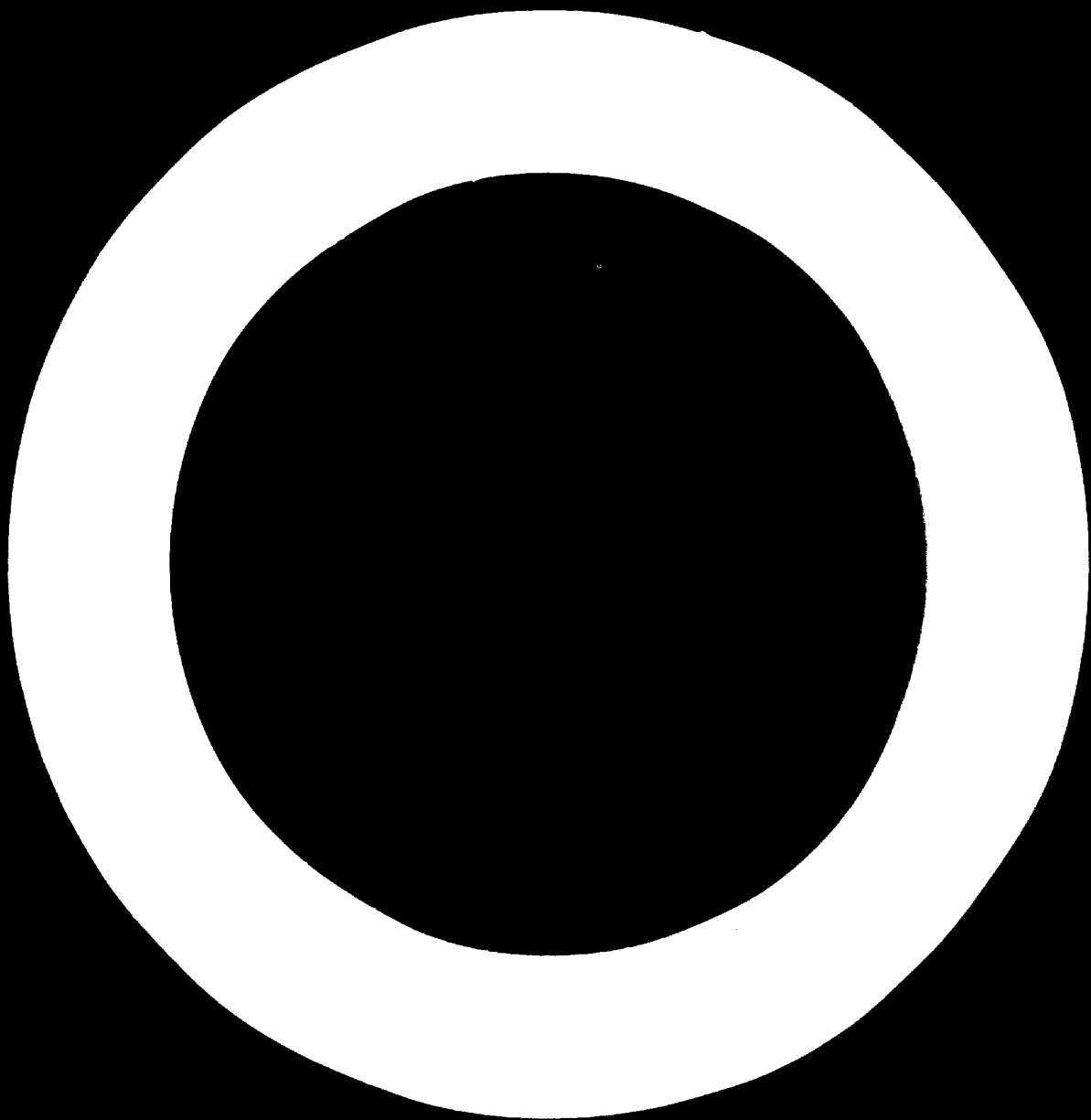
by

Theodore Constantine Trancu\*

\* International Marketing Expert, Milan, Italy.

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To talk in the abstract about such a discipline complex as marketing is not an easy task. The subject is so vast, covering such wide areas as "product planning" for a given market ; production of the product, with attention to varying inputs according to technological content, which in turn defines the degree of capital intensity needed to produce it and of technical skill required to keep the lines flowing ; and finally, merchandising of the product, which may or may not involve packaging, advertising and of course setting up new or exploitation of old and/or other distribution channels.

These problems change from product to product and from country to country. To talk about marketing in a developing country compounds these problems, since there are degrees of development among countries, broadly speaking, but there are also degrees of development within the countries themselves.

Oil producing countries illustrate this point. They have a highly developed oil extracting and possibly oil processing industry, with

otherwise relatively weak industrial infrastructure. As a matter of fact, one need not go so far. Take the case of one of the world's highly industrialized countries - Italy. It displays two faces - one, highly industrialized and prosperous in the North; the other, relatively backward and poor in terms of per capita income, in the South.

Having said this, I shall focus on the ways in which the industrial expansion of one of the least developed countries needs to be planned through domestic marketing, it being understood that marketing is to be regarded as the complex strategy which starts with assessment of the need for a product, to its production and its ultimate sale to the consumer.

As previously mentioned it is no easy task to talk about such complex problems in the abstract. They embrace every conceivable type of consumer or capital goods - each requiring a specific strategy to be adapted to the special conditions of the country involved. Analysing these problems is made even more difficult when one needs to refer them to specific areas such as the "Least Developing Countries". To define the term "Least Developing Country" (LDC) is therefore a must. It is not easy, for here again even a LDC may dispose of some industrial structures which, in areas where they exist, place the country in a higher developing bracket than a neighbouring country.

For the purpose of this paper, a LDC is a country which is least developed on a wide front, having only the rudiments of an industrial infrastructure and an essentially agricultural economy run by farmers earning a very low per capita income. In such an area, the major marketing planning effort must be concentrated on helping the rural population meet its food requirements by increasing productivity, and by improving the quality and the quantity of production to permit the flow to local and foreign markets of surplus produce.

#### FALLACIES AND DREAMS

Having established these premises, it is obvious that any industrialization process planned for such a type of country must have the primary goal of increasing the standard of living and improving the quality of life of the rural population, for, after all, the largest segment of the population is rural. It is in the villages that the people live all their lives, that they toil and die.

I well realize that it is the ambition of many governments to set up industrial plants with the well-meaning intent to depress rural unemployment or underemployment and move the available labor force to newly created industrial areas located, in most cases, around the large urban settlements.

No matter how well-intentioned or seemingly justified such a policy may be, its insidious dangers must not be overlooked. History shows, in Europe and elsewhere in the world, how the congregation of uprooted rural laborers on the outskirts of urban settlements creates a negative and congested situation, which tends to have a snow-balling effect. This type of rural migration to urban areas - if not properly contained - soon forces governments to face up to unforeseen consequences, requiring very costly social expenditures which are not compensated for by the small benefits achieved in terms of employment.

Once this type of industrial process is encouraged, migration of rural workers to the cities tends to move at an uncontrollable pace. The "bidonvilles" will mushroom, with the inescapable social misery and discontent they generate, for governments are not financially prepared to face the social investments required in terms of housing, schools, public transportation, recreation facilities, etc.

One must therefore be extremely careful in moving on the path of rapid and ill-considered industrialization since, once started, the process is irreversible. Benefits obtained may be nullified by damages to the nation's social tissue. Suffice to say that family ties are broken, that the uprooted individual worker lives under



miserable (bidonville) conditions - these conditions may be equally miserable in their own villages but there at least they form part of an integrated society which has formed the individual and which he accepts as natural, and that working and living conditions in alienating plant surroundings and a degrading urban milieu bear heavily on the psyche of the individual thus transplanted.

Many developing countries and some of the LDCs have ambitious industrial programs. Some are necessary to create an indispensable minimum for an industrial base. In most cases they are what I would define as macro-projects - the construction of hydroelectric dams, the setting up of steel mills, the development of mining operations, etc. Some of this, of course, must to some extent be accepted, although one wonders whether more modest projects would not only be less costly in terms of capital expenditure but also in terms of social disruption.

What I want to say is that in many instances industrialization at any cost leads to the kind of effect one obtains by precipitating a bulky body in the calm surface of a shallow lake. It produces a tidal wave effect highly damaging to the life of the water and possibly fatal to the lake's natural surroundings.

On the other hand, the obvious alternative seems to be a sensible, well-planned, low-keyed industrialization effort based on incentives aimed at encouraging the growth of micro-production units almost at craftman, workshop scale, planted in the rural or close to small urban inland areas and aimed at:

- + assisting in developing local skills
- + giving the rural population work on the spot or within its immediate natural surroundings
- + supplying such population with the products it needs, both in terms of quality required and price.

Such a process, given proper incentives, would be like throwing a hundred pebbles into the waters of a dormant lake. Each would stir up small circular waves, which would enliven and oxygenate the stagnant waters, without creating any upheavels.

To put it another way, why erect a cathedral in a desert. It would be so much more useful to build 100 chapels in the villages.

This axiom is particularly evident when considered from a specific angle - - that of the professional formation of skills and that of the encouragement of private talents and initiative.

Construction of a cathedral may require 1,000 workers to dig the foundations, cut the stones and do the masonry work. Each worker will perform his job with the vision of an ant and will never understand the complexity of the whole. When completed, the cathedral will be run by a handful of specialists - foreign or national - and at the lower levels, each hand will have a very short-sighted view of the job to be performed, with little if any overall understanding of the whole work process. Thus: skills developed remain narrowly compartmented.

Other arguments support our view on setting up of large industrial complexes. I would like to mention briefly :

- + Any large industrial complex set up for the production of consumer or other goods would obviously be done by a multinational. The final product would be one tested and already manufactured in some other area, and would be produced in the new host country for that country's market. It would be a foreign product, made with Western methods and merchandised through the firm's own distribution channels. The question raised is how much would a LDC benefit from such an operation!
  
- + Should a similar large complex be set up through local initiative with the idea of exporting the final product to the West or other markets, it should be remembered that the product would be

competing with similar products. The question raised is -  
could it compete, both in terms of quality and price !

With development of small projects (mini-industries or "chapels" as I like to call them), the process is reversed. The industry would grow naturally from within, and would be of such size as to satisfy immediate demand - with room, of course, for growth. Its set-up would be the result of local initiatives and skills; its building would be carried out by workers capable of performing all the phases of construction, and when completed, because of its size, the man working as an iron-smith would also be capable of operating a lathe or some other piece of simple machinery. In short, all workers would have an understanding of the overall manufacturing process. Later, with market growth, the better workers, the foremen, who have learned their jobs, could split and set up - with the experience so acquired - a new chapel which could grow freely and possibly lead to new splits in the same or in another direction.

This is a process which we have witnessed during the last 20 years in Italy. It has led that country from the threshold of an agricultural economy to that of a highly industrialized one.

## WHERE AND HOW TO START INDUSTRIALIZATION

In our discussion we have accepted as a model a LDC, i.e., a country with rudimentary industrial infrastructure, with an economy based on agriculture and animal husbandry, and with a rural population of low educational achievement, living at about subsistence level.

We realize that this model is an extreme one. In reality the situation may be quite different since, even if such model were to exist in theory, any LDC has within its own boundaries more highly developed and less well developed areas. But the model stands, at least for the sake of our argument !

Well! Accepting this theoretical model, let us look at what the casual observer is bound to discover and the remedies which suggest themselves :

+ One would find a population, - of, as said before, low educational level - working hard to toil a poor or a rich soil or raise its cattle - with primitive tools. Production per capita - because of prevailing conditions - is low. Some of these conditions are beyond control - - soil poverty, climatic conditions, etc. But some can be controlled and corrected by :

- better education,
- improved professional competence;
- increased productivity by using better and gradually more sophisticated work tools.

We thus arrive at the obvious conclusion that, to raise his standard of living, the farmer needs the proper work tools and the know-how to use them.

This observation leads to a second truism - the farmer needs tools made and designed for his specific needs as well as tools which he can afford to buy. He does not need powerful and expensive tractors or complex farm machinery designed to operate under more sophisticated conditions. He could not afford such equipment and would not know how to put it to best use, not to mention that the equipment may not even be designed to perform under prevailing conditions.

Starting from these two-self-evident observations, the answers to the LDC farmer tool requirements are quite simple - they must be produced locally and their degree of sophistication must be achieved gradually.

Therefore, to begin with, production must stress what I would like to call Generation I hand-operated farmer's tools, such as steel forks, rakes, hoes, sickles, scythes, etc. The same reasoning applies to any type of Generation I tools needed for such crafts as carpentry, masonry, mechanical repair shops, etc., or to any Generation I house implements.

Referring to agricultural tools, which we took as an example, production of such Generation I tools, because of their low technological content and the low capital intensity required, can take place in small workshops. On the input side one would need small capital investments, relatively cheap semifabricated raw materials, and relatively low professional skills. On the output side the product would be designed and made to meet local requirements and would be well within the financial means of potential consumers. Further, distribution would be simple since all implements so produced would find their way to local markets.

Once the premises of the manufacture of Generation I hand-operated tools are set (production capability followed by demand), the introduction of Generation II equipment becomes almost automatic. The same workshops are ready (either by their own power or with outside assistance) to produce power-driven (horse or motor) equipment such as steel plows (single or multiple furrow), cultivators,

spinners, dung spreaders, harrowers, planters, hay rakes, mowers, etc.

Aside from liberating man from hard toil, Generation II tools would increase farmer's productivity and ultimately his output. At this stage the process has further implications :

- + Acquainting the farmer with more complex machinery, has taught him how to use it;
- + Repair shops and repair skills are developed.

As this production process matures, both supply and demand are ready for Generation III equipment. At this stage, the impact increases in complexity, for the technological content becomes more complex thus requiring higher manufacturing skills, greater professional preparation, higher investments, etc.

Once again these difficulties can be overcome either locally or by introduction of foreign interests. Typical of Generation III farm equipment is the mechanically very simple, one piston, low or medium-powered tractor, and other farm machinery capable of economically responding to the now available horse power.



Industrial growth of the sector under consideration is thus achieved gradually and naturally from within and not artificially induced through outside pressure. This growth has a snow-balling effect on the whole economy, since a number of benefits start mushrooming around the process. Let me just mention some of them :

- + Work and repair shops will start cropping up in the villages and small urban areas. These will be operated by workmen who will have learnt their skills step by step developing ever increasing ability to handle and repair sophisticated equipment.
- + These workshops will stimulate demand for workshop tools, and the process will follow the same evolution pattern, growing from Generation I hand tools through the following generations of power tools.

The model that we have chosen to describe the industrial evolution pattern of an LDC is that of a country with the lowest development profile. Yet we agreed from the onset that this is only a theoretical model. In reality, mechanization and motorization is an unescapable modern factor present today everywhere in the world. I would therefore like to focus attention on just one aspect of steadily growing motorization, one which has to do with tires.

In this type of country we have chosen to analyse, all cars, self-propelled vehicles, trucks and tractors are highly valuable investments which cannot be replaced or written off in too short a period of time. Yet the rate of tire wear is such that their deterioration is more rapid than elsewhere. Thus there is a need for their repair and ultimately their replacement. Here two solutions are available:

1. Invite one of the multinational tire producing companies to set up a tire plant. Obviously this would be located either close to a big harbour or to a large urban area. The plant would have a production capacity well beyond local needs and be built with the idea of exporting the surplus. This approach may be very tempting to local government officials. Yet it is insidious because:
  - a. in terms of labor force it will employ only from 50 to 100 people.
  - b. these workers will be hired from the immediate environment of the plant, some of them lured to the city by the prospect of employment.
  - c. production will be distributed in accordance with the company's own sales programs and through the company's distribution network set up in accordance with Western criteria, in competition with other tire manufacturers.

- d. although it is true that some capital will enter for construction of the plant, it is equally true that part of it will flow out to repay interest, principal and profits.
- e. foreign exchange income derived from sales abroad will thus be offset to some extent by such outflow.

2. The second solution is an infinitely more modest one, but is much more in line with local requirements and capabilities. It consists simply in encouraging establishment of one or several locally owned tire recapping units. The benefits of such a solution are obvious, and I may mention them briefly:

- a. the technology required to recap used tires is simple and can easily be mastered by local technicians assisted both by manufacturers of tire recapping equipment or by those who make the rubber required to recap tires.
- b. the capital required to set up such small tire recapping units could be found locally. In any case, it is negligible, especially if one chooses one of the following solutions:
  - + purchase from abroad used reconditioned, older generation tire recapping equipment ;
  - + call in a foreign manufacturer of tire recapping equipment to set up a local joint venture.

- c. the production will find its way to the market by the oil patch principle.
- d. cost of the product will be well below the cost of a new tire, with about equal performance capability.
- e. the plant may be set up where it is most needed, possibly well within the interior of the country.

Before closing the list of examples of fields where national marketing seems indicated, I want to mention one more national marketing area of particular importance. We all know water's vital role. In simple words, water is equated with life. Without water there can be no agriculture, no animal husbandry, no life in the villages and, of course, no industrial activity. Or, as is the case in many of the LDCs, water is hard to reach; so an all-out effort must be made to encourage development of all and any initiatives aimed at producing well-digging, water-pumping and water-conducting equipment.

The human toil required in certain LDCs to obtain and convey water to the areas or points where it is needed is indescribable, not to mention the quality of the water recovered.

There is one country in the world which has lived with the water problem from its earliest history - Holland. It is true that Holland's problem was how to get rid of water, and our LDCs problems are how to get water. Yet Holland gives us an excellent example of how ingenious the

human mind can be when, for reasons of survival, it must face a challenge. Dutch engineers and craftsmen over the centuries have concentrated on the problems of pump engineering and land reclamation and developed invaluable experience in eventually solving the water problem.

To come back to our LDCs, development of national water handling equipment seems of the highest priority. However, once again, I must stress the need to proceed step by step or by what I previously called generations of equipment.

In the first instance, well-digging tools and equipment should be made locally. Water extraction by hand must gradually be replaced by water extraction with pumps. These pumps need not be sophisticated, high capacity, electric-driven turbines. One can easily start with simple hand-operated piston pumps. The manufacture of such pumps poses no great technological problems and requires little capital investment; they are easy to maintain and easy to be installed whenever needed. As regards water pipes, one does not need to think in terms of steel pipes of the largest gauges conceivable, which only highly expensive steel mills can turn out and the imports of which would drain the limited financial means of LDCs. Modern technology makes it possible to produce with simple extruding machines, and using cheap materials easily available on the market, plastic pipes

of a variety of gauges, from small to large. The mounting of such pipes, laid on the surface of the ground, requires a minimum of equipment and technical skill.

Thus, water recovered from a well or a river, and pumped - through pipes - to a centrally located (and covered to avoid evaporation) tank will become available at an infinitely lower cost in terms of human toil and suffering.

Therefore I cannot insist enough on the need - for those LDCs which have to live with this problem - on encouraging the local marketing of a water-use industry, no matter how rudimentary and cheap the beginnings may be. It is important to begin; the rest comes easily and automatically, and many would be surprised how fast a plant can grow once it has sunk its roots in the grounds.

### HOW TO GO ABOUT PRIMING THE MARKETING PROCESS

Having gone so far in my analysis of the path which a sensible marketing process should follow in an LDC, I can sense a big objection from some of my audience.

I can hear some people say : "The process which you have described requires time, and we no longer have time. We need big plants today, big projects capable of producing for our needs, and for exporting so we can earn foreign currency, which in turn will permit us to bridge the industrialization gap.

Such queries if they were raised should be discarded. Neither Europe, nor America, nor any of the highly industrialized countries started their industrialization process with the thought of supplying foreign markets. All beginnings are modest and tedious - and there is no reason why they should be different in the LDCs. For centuries production in Europe was the result of the skillful work of craftsmen in small or larger workshops. When Europeans emigrated to the USA, they continued there their skills and crafts as they had done in Europe. In the early days a craftsman's shop worked for the immediate needs of his village. If the craftsman was capable, inventive and full of initiative, his fame would spread beyond the borders of his village and demand for his products would then come from a larger area. Under pressure of demand, his skills would improve, and his activity would expand. This was the pattern of productive activity until the surge of the industrial revolution, which began in England about 1760 and which had, by the year 1837, spread through Central Europe and across the Atlantic to North America. The substitution of machines for men, which had begun in the workshops and factories, had sparked

men's imaginations everywhere. A number of brilliant men in many countries in Europe - and in America - were beginning to devote their energies and talents toward eliminating the hard work and drudgery long associated with the life of the farmer.

At this stage I would like to tell you the story of an American company which stands today among the world's leaders in the manufacture of agricultural equipment.

Since the dawn of recorded history, mankind had done little to change or to improve the traditional methods of tilling the soil or reaping the harvest. Pictures found among the pyramids built more than 4000 years ago show Egyptian farmers with their draught animals and wooden plows tilling the soil in practically identical ways as the early European and American farmers.

The rich, heavy, black, virgin soils of central and western America could not be plowed with these ancient wooden plows, nor even with the later versions which were improved by the addition of a cast iron point. They would not polish - they would not clean themselves - the plows wouldn't just work in those heavy, rich, virgin lands.

Because of this problem, a large and potentially productive area (which was later to become the breadbasket of North America) could not be settled; it could not be farmed. Native Redmen, wild buffalo,



deer, elk, turkeys, geese, and ducks were the only inhabitants as the early pioneers and settlers continued to move westward looking for lands which could be plowed and tilled with their relatively primitive implements.

Many men had tried and failed to solve this problem of plowing the hard fertile soils. In the year 1837, a young blacksmith named John Deere succeeded where all the others had failed - he built the first cleaning plow. That first steel plow - the plow that unlocked the riches of those untamed black soils of the American heartland - was the humble beginning of what is today one of the world's largest agricultural equipment industries, which, today, is contributing so much to the growing of food and fiber all over the world.

It appears to me of considerable interest to follow the growth pattern of this industry as it is a case history from which many lessons can be drawn.

Within a few years, news of John Deere's self-polishing steel plow had spread throughout rural America. That plow became part of the household of many families that moved westward to explore and settle the new land.

Within a few years, the success of the self-polishing steel plow made it necessary for our blacksmith to move out of his small shop and

into a larger factory building. Around the year 1844 (seven years later) our man was already building several hundreds of plows each year. By 1847, John Deere was selling one thousand plows each year. It became necessary for him to move to Moline, Illinois - on the Mississippi River - where he had access to coal and to the water power and transportation provided by that great river.

During this same period, that is, in the middle of the 19th century, a number of other ingenious men were devoting their talents to the further mechanization of agriculture. In 1861 the Van Brunt Brothers of Horicon, Wisconsin built the first grain drill which was capable of accurately and mechanically placing the seed in the soil. The invention of the grain drill also had a tremendous impact on agriculture because, prior to that time, it was often impossible to raise a crop of wheat or other small grain on the great prairies of America. Millions of carrier pigeons devoured the seed broadcast by hand on top of the soil and the grain drill covered the seed, thereby preventing its consumption by the pigeons.

During the next 50 years, from 1861 until 1911, Van Brunt, Mansur, Dain and several other companies building non-competing farm equipment, came into the Deere organization. In 1911 they were incorporated under the name of Deere & Company, and from that day onward, the company was able to market a full line of farm equipment,

such as corn planters, disk harrows, disk cultivators, stalk cutters, hay rakes, hay loaders, cotton planters, alfa-alfa cultivators, garden tools, and beet tools.

During the early years of the 20th century, other men with vision in Europe and America began the development of traction engines to replace animals - the major step in mechanizing the farm. In 1918 John Deere purchased the Waterloo Gasoline Engine Company, which had been incorporated in 1895 and was an outgrowth of Froelich's original Waterloo Gasoline Traction Engine Company - the first gasoline tractor that could propel itself backward as well as forward was made by Froelich. Tractor building then became one of the company's vocations - first the so-called "Waterloo Boy" built by the Waterloo Gasoline Engine Company and produced from 1913 until 1923. In this latter year the company introduced the powerful new model "D" which was the first of the long line of famous two-cylinder kerosene tractors. It's interesting to note that the "powerful model D" had 27 horse-power.

During the same period, machines designed to ease the burdens of harvesting were being developed and in this field the company once again was a pioneer. Combines working in the wheat fields of Western America were at first drawn by mules, yet for those days they were the most modern combines in the industry. In 1928 the

general purpose (GP) tractor was introduced - the first tractor to have four sources of power - drawbar, belt, pulley, power take-off, and power lift. The company story does not, of course, end here, since it continued to grow and prosper until it became the Deere & Company of today.

Having thus demonstrated the sensibility of the national marketing development process path, a path which was followed by Europe and the USA at its time, and which therefore must also be followed by the LDCs, I can sense another objection.

I can understand that some of my audience will say - the USA and Europe had 100 years to grow. We, today, no longer have time. We must speed up our development in order to catch up with the time lost. To this objection I would answer that, whereas Europe and the USA had to achieve their progress through their own forces, the LDCs have today an advantage - they have the willingness of the industrialized world to help both with capital investment and with know-how. The problem, therefore, is how LDCs can best take advantage of this situation.

It is, therefore, within this framework of thinking, and taking into account the pattern of development described above, that the responsible authorities within the LDCs need to plan and act. Once again it is

difficult to come up with abstract prescriptions, yet there are a few basic suggestions which appear self-evident to the marketing planner.

- The first one is that a very close and accurate inventory needs to be made of all existing industrial (from the smallest to the largest) activities in the area to be surveyed.
- The second is an evaluation of their present industrial capabilities and their potential growth by adding new lines of production, by expanding production of existing lines.
- The third is by devising ways and means aimed at assisting such development.
- The fourth is the need to analyse closely all imports and determine the feasibility of encouraging the production in situ of some of the goods imported.

Now if expansion and growth of existing industries or semi-industrial activities is not possible for a number of objective and subjective reasons, it is up to the responsible governmental agencies to identify the manufacturers of all the low-technology content imported goods, and contact them in the attempt to induce them to establish joint ventures with local manufacturers.

In this respect, I think that an interesting detail should be kept in mind. There are, in the industrial world, many industries which produce sophisticated Generation IV and V equipment. These industries have discarded their older Generation I and II or III production, yet the blue prints, the know-how and even the machines used to produce them are available. These have already been written off and sit in warehouses or drawers.

Inviting such industries to enter the country with that already written off capital and set up joint ventures with local industries is definitely a policy which needs to be very closely analysed. Let me give you an example of what I mean.

In the 60s FIAT of Italy was producing a FIAT model 600 car. In the mid-sixties this model was no longer suited to the local market and was therefore discarded. Sales of that car had been extremely high so that all the equipment for its manufacture had been written off. At that stage, FIAT entered into negotiation for the production of the FIAT 600 model with a country which was behind in its motorization process and for which the 600 model was very well suited. With FIAT's assistance the production of that model car was then started in that country.

This approach can therefore be used in other areas of industrial production as it has been proven successful.

In conclusion, I would like to express my faith in the enormous potential of the human material which inhabits the LDCs. This potential has been dormant for many centuries - and it is not the place here to bring history to trial - yet all that is now needed is to unlock this potential.

The world today has become fully aware of its responsibilities toward the Developing Countries and is ready to contribute toward assisting them to unlock their energies so as to improve the quality of life of their populations.

Yet even with the utmost goodwill and best intentions of all parties concerned, these objectives cannot be achieved overnight. It is unthinkable to bridge the industrialization gap in ten or twenty years, not to mention the fact that, in many instances, this is even undesirable.

The final objective being the improvement of the quality of life, it is the responsibility of the competent authorities to carefully study and boost all those national activities which can assist in achieving it, by following a reasonable and well planned development path.

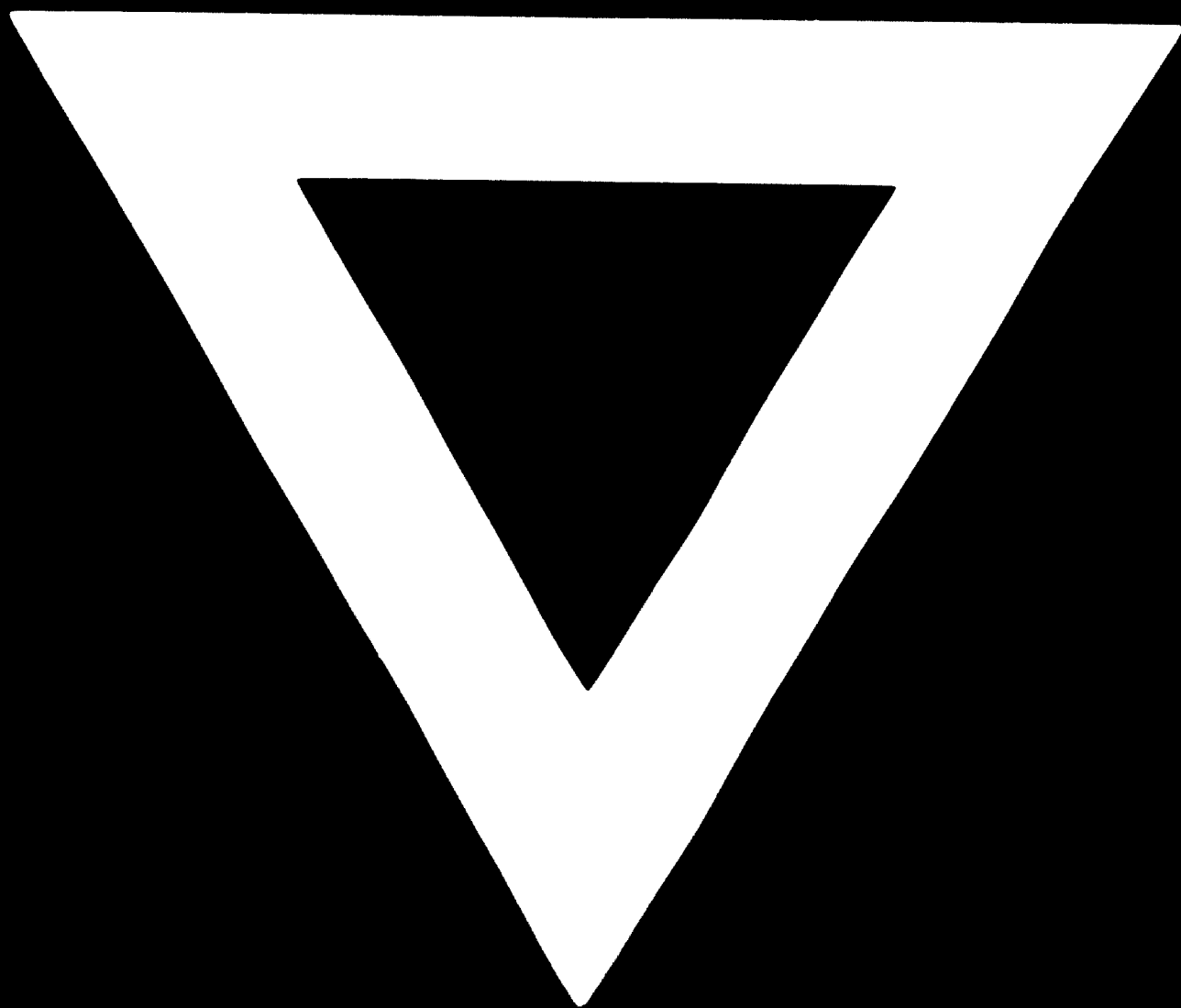
When this is done the industrialized world will step in with the means at its disposal to help in the implementation of any such plan.

A last warning though. The Western world in its race to industrialize, most unfortunately, fell into an unreversible pitfall. In attempting to improve and better the quality of life it exposed itself to problems of pollution, waste of raw materials, and destruction of the environment to mention only a few of the negative side effects of the process.

The LDCs have the chance to draw the right conclusions from the West's negative experiences. In their aim of achieving a better quality of life, they are able through careful planning to avoid the same disruptive consequences.







**75.08.20**