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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

# **SPECIAL REPORT OF THE EXECUTIVE DIRECTOR**

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**Third General Conference  
of UNIDO**

**New Delhi, 21 January-8 February 1980**

**UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION**  
Vienna

**SPECIAL REPORT  
OF THE EXECUTIVE DIRECTOR**

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ID/242  
(ID/CONF.4/17)

## *Preface*

The Third General Conference of UNIDO comes at a strikingly delicate time for the international community currently faced with a series of complex economic and political issues that may have a startling impact on the future welfare of the international community. The decade that has just ended has witnessed a series of developments and epoch-making events. Among them the two closely interrelated trends which will lay out together the paths of future peace and prosperity have so far defied all efforts directed at their confluence. Never before was there such an acute and widespread recognition that international interdependence holds the key to the future happiness of mankind; the principles of mutuality of interests and full equality among countries have been increasingly accepted. This trend is reassuring; but, unfortunately, whenever an attempt has been made to erect a framework of international action to alleviate misery or eradicate inequality that is based on these principles, success has either completely eluded the efforts or been achieved only marginally, and the international economic order now recognized to be unjust and unacceptable has changed little.

In the 1970s the failure of a series of meticulously prepared international conferences directed towards gradual yet significant reconstruction of the current order, the simultaneous intensification of the complex problems already faced and emergence of new problems have led to an atmosphere in which hopes are receding and confidence is sagging. Lack of food, energy shortage, inflation, unemployment, fragility of the monetary system and widespread political unrest are awesome problems connected with the totally unacceptable conditions in which the current international economic order forces two thirds of mankind to live.

Industry occupies an important position in the programme of economic development of the developing countries. A spurt in this sector can trigger growth in other key sectors. Throughout the last 12 years of its existence, UNIDO has served, despite its meagre resources, the cause of industrial development of the developing countries. However, both the mandate and resources of this organization had been limited until the Second General Conference of UNIDO, held at Lima, Peru, in 1975, provided additional tasks for the secretariat and called upon the international community to equip UNIDO with resources and authority to undertake them, particularly in assisting the developing countries to

achieve, by the year 2000, at least 25 per cent of the total industrial production of the world.

Having achieved only very little and indeed insufficient success at Paris (Conference on International Economic Co-operation), Manila (UNCTAD V), Vienna (United Nations Conference on Science and Technology for Development) and at other places in the late 1970s, the international community has, at the very start of the decade, yet another opportunity at New Delhi to formulate in the key sector of industrial development a framework for international action capable of achieving the legitimate objectives of the developing countries. In that context, the world community has an opportunity to arrest the gloom and frustration that pervades the international economic scene and herald a new era of joint action, which would finally lay the ground for the common efforts towards achieving for the future generations genuine world peace.

A number of important, interrelated subjects connected with some or several aspects of the process of international industrial development await consideration of the Conference. The documentation before the Conference deals with them individually or severally. That notwithstanding, an attempt has been made in this special report to facilitate the Conference's work by bringing into sharp focus the distilled issues which though elaborately covered elsewhere still need brighter spotlight.

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## EXPLANATORY NOTES

Regional, industrial and economic classifications and symbols, unless otherwise indicated, follow those adopted in the United Nations *Statistical Yearbook*.

The following classification of economic groupings is used in the text in conformity with the classification adopted by the United Nations Statistical Office: "Developing countries" includes the Caribbean area, Central and South America, Africa (other than South Africa), the Asian Middle East (other than Israel) and East and South-East Asia (other than Japan). "Developed countries" includes North America (Canada and the United States of America), Europe (other than Eastern Europe), Australia, Israel, Japan, New Zealand and South Africa. "Centrally planned economies" includes Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the Union of Soviet Socialist Republics, but not Albania, China, the Democratic People's Republic of Korea, Mongolia and Viet Nam. For statistical convenience, the classification in some places in the text may differ from that given above.

For stylistic reasons certain other denominations of country groups are also used in the text. The terms "South", "Third World" and their derivatives refer to all developing countries. The term "North" and its derivatives refer to the industrialized market economy countries, broadly synonymous with the OECD area. "Industrialized countries" refers to the developed market economy countries and the centrally planned economies in Europe. These definitions are not rigorous, however.

"Manufacturing" includes the industry groups listed in major division 3 of the International Standard Industrial Classification of all Economic Activities (ISIC), unless otherwise indicated.

Dates divided by a slash (1960/1961) indicate a crop year or a financial year.

Dates divided by a hyphen (1960-1965) indicate the full period involved, including the beginning and end years.

References to dollars (\$) are to United States dollars, unless otherwise stated.

Annual rates of growth or change refer to annual compound rates, unless otherwise specified.

The term "billion" signifies a thousand million

The following abbreviations have been used:

EEC	European Economic Community
OECD	Organisation for Economic Co-operation and Development
UNCSTD	United Nations Conference on Science and Technology for Development
UNCTAD	United Nations Conference on Trade and Development



## *1. The Lima Declaration and the scope for international initiative*

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1. The Lima Declaration and Plan of Action on Industrial Development and Co-operation, adopted in March 1975, served to place the aspirations of the developing countries in a long-term perspective. In adopting the Lima target that the developing countries achieve at least 25 per cent of world manufacturing value added by the year 2000, the Second General Conference of UNIDO gave a broad indication of the need to accelerate the industrial development process in the developing countries.

2. That conference was one of a number of such meetings convened to devise new forms of international co-operation in various fields. That it took a long-term view of industrial development—up to the year 2000—set it apart, to some extent, from deliberations in other fields. Like other conferences, however, the Lima Conference fully appreciated the need for prompt co-operative action and tangible results on matters of international concern. The Declaration stressed several points of immediate concern to Member States. In particular, the overriding aim of industrial development should be to meet the needs of the local population. The importance of an integrated industrialization process with strong links to the agricultural and mining sectors was emphasized; priority sectors were identified; and support to small-scale and rural industries was called for. At the same time the Conference took the first steps towards establishing an international mechanism—the System of Consultations—to facilitate progress in many of these areas.

3. An assessment of the progress and measures taken since the Lima Conference is disappointing.<sup>1</sup> At the national level progress has been uneven and generally slow. At the regional and interregional levels new programmes and initiatives have been undertaken, but their results have so far not been striking. At the international level, progress has not been substantial. In this respect the results of the Lima Conference are similar

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<sup>1</sup>See *Implementation of the Lima Declaration and Plan of Action* (ID/CONF.4/4).

to those of other international forums where pleas for prompt action, particularly those requiring international support, have met with a slow and inadequate response.

4. At UNIDO III the discussion will centre on those economic forces that have contributed to the slow pace in changing the world industrial map and that are likely to influence further the pattern of industrial growth over the next two decades. Two major points emerge from this assessment. First, the potential for mutual benefit from active international co-operation in industrial matters is greater than ever before and would accrue to both the developed and the developing countries, provided that there is a radical change in the existing international industrial structure. Appropriate forms of international industrial co-operation to effect such a structural change may evolve as a result of policy, research and institutional efforts intended to re-enforce the natural direction of structural change and dynamic comparative advantage. Secondly, the international community has to pay greater attention to the magnitude and direction of structural change and their effects on other fields such as energy and agriculture, especially in the developing countries. Industrial growth in the existing structure has resulted in certain imbalances—most notably in trade, finance and technology—that jeopardize further industrial progress in the world as a whole and in the developing countries in particular. These imbalances are international, and it is incumbent on all countries to search for means of international co-operation that can alleviate, if not rectify, the situation.

5. The following assessment is primarily concerned with the international implications of certain industrial problems. Therefore, it focuses on interrelationships between the developed and the developing countries. Important as these interrelationships are, they must be kept in perspective. Industrialization of the Third World depends, first and foremost, upon the efforts of the developing countries themselves. Any possibility of international co-operation would be precluded without genuine industrial progress on the part of the developing countries. However, given the will of the developing countries to industrialize, the possibility of international co-operation of benefit to all will depend largely upon the developed countries.

6. Recognition of the potential for economic co-operation among developing countries and technical co-operation among developing countries has extended the principle of collective self-reliance beyond a negotiating framework. During the industrialization process, the expansion of trade between the developing countries is clearly of considerable importance. The developed countries may facilitate the creation of greater interlinkages between the economies of the developing countries, which would lead to increased efficiency and should improve the bases of co-operation at the world level.

7. At the national level the proposal for an "endogenous industrialization strategy" outlines a policy approach that is compatible with the aspirations for collective self-reliance.<sup>2</sup> The proposal implies no break with the international system but the formulation of policies intended to encourage selective and planned links with the international environment.

8. Two further issues deserve to be mentioned. While both are pertinent to industry, they cut across other economic sectors as well and epitomize the development problem. The first of these concerns the agricultural sector and industry's contribution to agricultural growth. Projections indicate that a rate of growth of about 4 per cent per annum in agricultural production for the developing countries during the 1980s and 1990s, as compared with less than 3 per cent in the past, will be necessary if their domestic demand for food and agricultural raw materials is to be met mainly from their domestic production. Industrialization and improvements in transport and infrastructure should provide necessary inputs to agriculture and the transformation and marketing of agricultural outputs. Stronger linkages between agriculture and industry will be crucial in assuring food requirements and in improving rural living standards by creating more jobs. These issues have been considered recently in several forums, in particular, the World Conference on Agrarian Reform and Rural Development held at Rome in 1979.

9. A second issue cutting across sectors is energy. Industry will certainly continue to expand in the developing countries. As these countries' share of world manufacturing value added rises, so too will their energy requirements. At present, oil, the preferred source of energy, meets about 55 per cent of the total primary energy requirements. In view of limited oil reserves, alternative energy sources should progressively replace oil. At present, the two main alternatives are coal and nuclear energy. Coal, though abundant, is unevenly distributed; the developing countries possess less than 5 per cent of the world's known coal reserves. Nuclear energy, aside from considerations of safety, does not offer a feasible alternative for many developing countries in the immediate future.

10. On the whole, therefore, developing countries have no alternative to their continued dependence upon conventional energy sources. Furthermore, this dependence will steadily grow as agriculture is modernized and industry expands. Currently, about 15 per cent of total world oil production is consumed in developing countries. With limited prospects of resorting to alternative energy sources in the coming years, the developing countries' requirements for oil are likely to increase at an annual rate similar to that of their growth in gross domestic product.

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<sup>2</sup> See *Industry 2000 - New Perspectives* (ID/CONF.4/3), pp. 76-79.

11. Developed countries at present consume a very large proportion of world energy, including petroleum products. Long-term prospects point to the importance of a concerted effort on the part of the developed countries to conserve energy, in particular to reduce their oil requirements. The possibility of substituting non-conventional energy sources for fossil fuel is available only to the developed countries, and it is imperative that they begin this substitution without delay. On their side, the developing countries, within the context of an industrialization strategy suited to their needs, should pay particular attention to energy requirements when selecting technologies.

12. An indication of the action taken in UNIDO to implement the Lima Declaration and Plan of Action is pertinent to the present discussion. A summary of this action, along with an indication of the organizational changes that have taken place in the secretariat since the last General Conference, is included in an annex to this report.

## II. Prospects for international co-operation

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13. During the past three decades, income in the developed countries has almost quadrupled. Relative to growth in the remoter past, the progress recorded in the developed countries during the last three decades is considerable. For example, the growth of *per capita* income in the major developed countries was higher in the period 1950-1970 than at any time since 1870. By historical standards the pace of growth in the 1970s was still high, although below that of the two earlier decades. This rapid economic growth was characterized by a shift of economic activity from the older developed centres to the centrally planned economies of Europe and to newly developed countries such as Japan and countries in southern Europe.<sup>3</sup> The principal reallocation of economic activity during this period involved a shift of manufacturing capacity. In the period 1948-1976, the share of world manufacturing value added attributed to the old industrial centres declined from 75 to 51 per cent while the shares of the centrally planned economies and the newly developed countries each rose by more than 50 per cent.

14. While many of the developing countries were fighting for their political independence, some industrial progress took place in the Third World. These countries, however, continued to be mainly suppliers of the raw materials, including oil, that enabled the rapid growth in the developed countries. As compared with a growth of nearly 4 per cent in *per capita* income in developed countries during the period 1960-1975, the corresponding growth in the developing countries taken together reached only about 3 per cent. *Per capita* income in developing Africa rose by only 2.5 per cent, and an even lower rate was experienced by the largest countries in South and East Asia. For the least developed countries taken together, hardly any progress was recorded during that period. While inequalities among developed countries decreased during the past period of fast progress, the difference in *per capita* income between developed and developing countries increased. Although the developing countries accounted for more than two thirds of world population, their share of world manufacturing production was still not higher than about 7 per cent during the 1960s.

<sup>3</sup>The countries of southern Europe referred to here are Greece, Italy, Portugal and Spain.

15. It should be noted, however, that this share increased somewhat during the 1970s to attain a level of about 9 per cent in 1979. In other words, the rate of growth in manufacturing output in the developing countries has somewhat exceeded that in the developed countries during the last 20 years.<sup>4</sup> Certain countries, although not a large number, were able to increase their output at a particularly fast rate, and they now have established a relatively broad industrial base. Some of them are able to increase the proportion of total exports accounted for by finished manufactures rather than semi-processed goods or raw materials.

16. Thus, the experience of the last three decades indicates the direction international co-operation should take in restructuring of world industry in a more equitable way. Such co-operation has to be seen in a long-term perspective so that the mutuality of interests of all the partners concerned can be more clearly seen. For the coming decades, industrialization will require heavy investment; the developed countries can co-operate with the developing countries by providing, under mutually acceptable conditions, financial flows to complement and enlarge the capacity of developing countries to raise domestically the necessary savings. By providing access to technology and facilitating the building up of increased technological capacities in developing countries the developed countries can also make an important contribution to international co-operation. At the same time, trade relations are of basic importance. In the long run, it is only through the continuing increase in their export proceeds that the developing countries will be able to achieve a balance in their foreign transactions and ensure the servicing of the financial flows received from the developed countries.

17. In the past, historical circumstances, particularly relationships of a colonial type, led to a pattern of trade whereby the developing countries exported primary, largely agricultural, commodities and imported manufactured goods. The progressive restructuring of world industry will modify this pattern considerably. In the process of industrializing many developing countries will acquire a comparative advantage in producing certain categories of manufactured goods. It would certainly be in the long-term interest of developed countries to take this necessary evolution into account in their trade relations with the developing countries. Unless the developing countries are granted sufficient access to the markets of developed countries for those manufactured products which they become able to export, industrial co-operation cannot unfold fully, and the developed countries will not gain the benefit of expanded markets for capital goods and advanced products.

18. Certain aspects of the international initiatives that will be called for in the coming years in the three major areas just mentioned, i.e.,

<sup>4</sup>It should be kept in mind that the rate of population growth also has been more rapid in developing countries.

trade in manufactures, financing of industrialization and technological development, will be highlighted in the following sections of the report. As indicated above, the effort of each developing country and co-operation with the other developing countries are indispensable for their industrial progress, but such effort would no doubt bear fruit more rapidly if accompanied and facilitated by appropriate co-operation on the part of developed countries. The latter in turn can reap large benefits from such co-operation insofar as wealthier and more rapidly growing economies in the Third World would create the conditions for larger business opportunities for the developed countries. This seems to be one of the lessons that can be drawn from the spreading of wealth and industrialization within the developed world during the last 30 years. It may not be too far-fetched to assume that within a few years the possible benefits of increased co-operation with the Third World under mutually acceptable conditions will be increasingly stressed by the developed countries themselves.

### *III. Scope for co-operation in trade*

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19. In manufactured goods, the developing countries offer an important market to the developed countries. The exports of manufactures of the developed countries to the developing countries rose almost ninefold between 1960 and 1977, and the net trade position of the two groups moved steadily in favour of the developed countries. In 1960, the developed countries enjoyed a positive balance of trade in manufactures totalling almost \$14 billion. By 1977, the figure had risen to over \$114 billion.<sup>5</sup> In that year about one fourth of the total exports of manufactures from the developed countries went to the developing countries. Exports to developing countries from Japan, the European Economic Community and North America were larger than exports of each of these three groups to the other two groups combined.

20. In the recent past, the developing countries have proven to be particularly reliable outlets for the developed countries' exports of manufactures. If their imports had behaved in parallel with those of developed countries, the recession in the latter countries could have been far more serious. Figures for EEC show that in 1975 exports from EEC countries to developing countries increased by 25 per cent in 1975 while those to the United States declined by 17 per cent and to the European Free Trade Association declined by 3.3 per cent.<sup>6</sup>

21. Policy initiatives that limit or reduce the developing countries' ability to accommodate their import requirements through export

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<sup>5</sup>This increase in the balance in trade in manufactures occurred even though the composition of developing countries' exports had already changed greatly. If exports of fuels are excluded, the share of manufactures in their total exports was about 19 per cent in 1960. By 1977, owing mainly to the successful export drive pursued by certain more advanced countries, this share had risen to 45 per cent. But the leading exporters among the developing countries also experienced substantial imbalances in their trade in manufactures with developed countries: the nine countries that in 1976 supplied 60 per cent of all the developing countries' exports of manufactures to the developed market economies had a deficit of nearly \$13 billion in their trade in manufactures with developed countries. The net effect of successful export expansion has benefited exporters in the developed countries as well.

<sup>6</sup>Michael Noelke, *Europe-Third World Interdependence: Facts and Figures* (Brussels, Commission of the European Communities, 1979) p. 54.



expansion would thus appear particularly regrettable.<sup>7</sup> The most immediate consequence of additional limitations on the efforts of developing countries to penetrate markets in the developed countries would probably be reflected in their ability to service debts. During 1970-1977 debt service as a percentage of GNP rose substantially. Longer-term consequences would be even more damaging for global industrial prospects, particularly with regard to the ability of the developing countries to acquire the capital goods necessary to continue their industrial growth. The vital industrialization effort, if it is to be pursued in an atmosphere of durable co-operation, clearly points to the importance of the developed countries as suppliers of capital goods and related products requiring large outlays of research and development. In qualitative terms, there will be a certain "minimum" level of capital goods imports that are crucial to the development process. Furthermore, the absolute value of this minimum will certainly increase as the industrial sector of the developing countries expands and diversifies.<sup>8</sup> Expanded exports—still mainly light manufactures—are a necessity to enable developing countries to pay for such imports.

22. Recent changes in the trade policies of several developed countries threaten to diminish the positive contribution of trade to world industrial growth. These policy developments—loosely described as "new protectionism"<sup>9</sup>—run counter to the long-term patterns of structural change and comparative advantage. In the past, the inability of the developing countries to produce a sufficient volume of certain goods limited the growth of their exports. Under present circumstances, however, it is the developed countries that are trying to limit their demand for these products while supply capacities grow rapidly in the developing countries.<sup>10</sup> A growing array of protectionist measures have been implemented or proposed for a wide variety of products. Furthermore, new measures may prove to restrict trade even more than traditional types of trade barriers such as quotas.<sup>11</sup>

<sup>7</sup> Although the most obvious threat concerns new protectionist measures, other policies that result in a constriction of available international finance for industry or that limit the access to appropriate technologies at reasonable costs can have a similar effect.

<sup>8</sup> Similar qualitative statements apply, of course, to agriculture, transport and infrastructure in the developing countries. The total requirements of only those "advanced" capital goods that are produced in developed countries will be large indeed.

<sup>9</sup> New protectionism is characterized by the employment of non-tariff restrictions on trade, by government aid to domestic industry and by voluntary export restraints agreed to by developing countries. Thus, it contrasts with "old protectionism", which relied primarily on tariffs.

<sup>10</sup> OECD, *The Future Development of Advanced Industrial Societies in Harmony with that of Developing Countries* (Paris, 1979), p. 253.

<sup>11</sup> See T. Murray, W. Schmidt and I. Walter, "Alternative forms of protection against market disruptions", *Kyklos*, vol. 31, 1978, pp. 624-637. Examples of more restrictive forms of trade barriers are voluntary restraints on exports and orderly marketing arrangements.

23. The structural imbalance that has stirred protectionist sentiment is indeed serious. However, to associate its origin with trade—and specifically with the exports of the developing countries—is fallacious. Most frequently, the need for additional protection is attributed to the negative impact of the exports of developing countries on employment in the developed countries. Numerous studies have yielded results that refute this argument. They point out that changes in the pattern of domestic demand and/or gains in labour productivity bear a greater responsibility for job losses than do imports—even in those branches where the developing countries' exports are largest.<sup>12</sup> Rapid technological change in the developed countries largely associated with an emphasis on science-intensive industries, has also had a much greater impact on the job market than imports from developing countries.

24. Confusion can arise because the labour-displacement effects of increased imports and the job creation of increased exports concern different geographical and industrial groups. The displacement effects are concentrated in selected industries such as clothing, textiles, leather products and footwear. Moreover, "structurally weak" regions and work forces that are largely composed of females, youth and unskilled labour bear the brunt of the job losses. The job-creation effects of exports are more widely spread over the economy, in industrial branches and regions identified with skilled labour. The true significance of trade-induced employment is borne out by a recent study by the Organisation for Economic Co-operation and Development (OECD) indicating that in each year from 1973 through 1977 the number of jobs created by trade with the developing countries exceeded the number of jobs lost by 900,000.<sup>13</sup> An evaluation of prospects in the period 1976-1986 indicates that in the OECD the net loss of unskilled and semi-skilled jobs attributable to imports of manufactures from developing countries will be offset by the creation of an equal number of jobs for skilled workers, managers and administrators.<sup>14</sup>

25. In the present context, the new protectionism bears on one specific issue. Briefly, the process of industrial restructuring and, consequently, many of the international benefits to be derived from industrial growth, will be jeopardized if trade barriers become an instrument of structural policy.<sup>15</sup> The issue is not one of free trade

<sup>12</sup> See "The impact of trade with developing countries on employment in developed countries; empirical evidence from recent research", UNIDO Working Papers on Structural Changes, No. 3 (UNIDO/ICIS.85), p. 84. Similar evidence is provided for other developing countries.

<sup>13</sup> OECD, "The impact of the newly industrialized countries" (Paris, 1979).

<sup>14</sup> World Bank, *World Development Report, 1979* (Washington, 1979), p. 23.

<sup>15</sup> This is, in fact, the interpretation of many economists in developed countries. As one prominent economist recently argued: "Trade barriers in particular industries are rising: while those in others continue, as proposed in the Tokyo Round of the GATT, to fall. The purpose of these industry-specific trade barriers is clearly to slow down the speed with which (inevitable) adjustment to new low cost imports takes place." G. K. Helleiner, "Structural aspects of Third World trade: some trends and prospects", *Journal of Development Studies*, vol. 15, No. 3 (April 1979), p. 80.

*versus* trade heavily encumbered by tariff and non-tariff barriers; it is the more modest issue of maintaining trade between the developed and the developing countries at levels conducive to growth through industrial restructuring that reflects the forces of structural change and comparative advantage.

26. In terms of value, the developing countries managed to export in 1970 the equivalent of 16 per cent of the manufactures they imported from developed countries. By 1977, the share had risen to 25 per cent, mainly as a result of the expansion of exports from a few countries. It appears necessary to allow for a much more general move towards structural change, which would mean that a growing number of developing countries would be in a position to pay for a continuously expanding share of their imports through exports of manufactures to the developed countries. The ratio of imports to exports of manufactures for the developing countries taken together should thus increase in the coming two decades far beyond the one-to-four ratio obtaining in recent years.

#### *IV. Scope for co-operation in financing industrial development*

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27. Like trade, international industrial finance comprises a set of issues that are especially pertinent to the process of growth and restructuring. In recent years, two factors have had a great effect on the operation of the international financial system. The first is the accumulation of excess liquidity in commercial banks in the developed countries. The second involves the continuing high rates of inflation, monetary and exchange-rate instability and the underutilization of capacity. These conditions have rendered the international financial system prone to crisis. As interdependence has grown, the incentive to invest in industry in both the developed and the developing countries has been depressed. Thus, in the developed market-economies, stagnant rates of growth have been coupled with severe inflation. These circumstances have spurred the protectionist sentiment referred to above, which has tended to deepen the present recession in the developed countries. The combination of rising prices, underutilization of capacity and slow growth have been matched in the monetary field by extremely unstable exchange rates and interest rates.

28. These factors have led to a fundamental change in the role of Governments of developed market-economy countries in the international financial system. Between 1960 and 1977, the share of 11 developed countries in total official reserves of the International Monetary Fund (IMF) fell from 77 to 50 per cent of the total. The upsurge in Eurocredit markets also constitutes a considerable evolution in the international financial system. Deposits in these markets now exceed total official reserves (including gold and IMF reserves) and totalled about \$500 billion in 1979.

29. At the same time, the pattern of developing country borrowing has polarized. Concessional finance is increasingly concentrated on the least developed countries as a result of the lending policies of bilateral and multilateral agencies, which are increasingly oriented towards rural development and basic needs in the poorer countries. Other developing countries have to rely mainly on non-concessional sources, with the

consequence that industry, even in the poorer countries, has become more dependent on international bank lending, private foreign investment and export credits.

30. Since 1970, the developing countries' total receipts from abroad almost quadrupled, reaching \$64 billion in 1977, while official development assistance (ODA) was only doubled, reaching a level of \$19.5 billion. As a consequence, developing countries had to resort more heavily to non-concessional loans, which increased fivefold. This last source provided more than 85 per cent of the external finance for industry in 1977. The Eurocredit market is of particular importance to the developing countries, which, since 1975, have borrowed more than 50 per cent of the total loans floated in this market, i.e., about \$90 billion.

31. Continued industrial growth in the developing countries will be dependent upon substantially greater capital inflows designated for industry. In the mid-1970s, industry accounted for about 18 per cent of total investment in the developing countries. Over the next two decades this share will have to rise to 22-25 per cent. Even when ODA finally reaches the 0.7 per cent target adopted for the Second Development Decade, it still will be extremely difficult for the developing countries to raise sufficient international capital.

32. Despite a growing need for additional capital, the debt and the debt service burden of the developing countries is large and is growing rapidly as a result of the rising proportion of non-concessional inflows relative to official flows. In the period 1970-1977, the debt rose threefold, while annual debt service increased fourfold. Debt management is also becoming more complicated as the developing countries increasingly turn to commercial lenders. Variable rates of interest associated with commercial borrowing and the dependence on medium-term private finance are major problems.

33. In addition, changes in the policies of many developed countries affecting domestic financial markets have often had serious repercussions for developing countries—a consequence accentuated through increased interdependence. Efforts to allocate credit, interest rate ceilings, controls on international capital flows and other types of intervention for purposes of domestic policy may have substantial although often unintended consequences for borrowers in developing countries. Such regulatory measures may greatly alter the amount of finance available to developing countries and precipitate the type of debt crisis the measures were intended to prevent.

34. The types of international mechanisms that have evolved in the 1970s appear to have favoured larger borrowers at the expense of smaller entities. Since most developing country borrowers are small relative to

borrowers in developed countries, a continuation of the trend could lead to additional difficulties for borrowers in the developing countries. In part, the trend may be explained by the fact that the international financial community's greatest interest naturally concerns the large-scale borrowers and that a lower risk is usually associated with loans to this group.

35. Finally, in the developing countries an increasing number of government or semi-public financial entities have resorted to international borrowing and then channelled these funds to individual enterprises. In countries that have yet to develop effective systems for allocating capital and evaluating performance, including that of public enterprises, it is difficult to determine whether internationally borrowed funds are used economically and effectively. Increasing difficulties encountered in large-scale, externally-oriented enterprises suggest the need for new investments that link international finance with operations at the project or enterprise level.

36. In view of the developments in the world international finance system, it would appear that the considerable requirements for investment in the industrial sector of the developing countries would call for appropriate arrangements and mechanisms taking account of the long-term character of such investment and of the fact that non-concessional, and frequently short-term, sources of financing provide the bulk of the international funds available to industrial borrowers. The amount of the funds involved is considerable and the new mechanisms to be established would certainly necessitate not only the participation of financial institutions but also an active role for Governments. In this connection, it would certainly be appropriate, and in the interest of the developed countries, to consider measures which would not only provide for more secure mechanisms but also for reduced costs of servicing long-term loans for industrialization even if this entails a degree of apparent concessionality in the conditions for such loans.

## *V. Scope for co-operation in industrial technology*

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37. So far, many developing countries have only a very limited ability to create technological capacities. In 1973, for example, less than 3 per cent of world expenditures on research and development was undertaken by developing countries. For the period 1973-1975, only 0.3 per cent of the gross national product of developing countries represented expenditures on research and development (in contrast to 2.0 per cent in developed market economies and 4.0 per cent in the centrally planned economy countries of Eastern Europe). As early as 1968, the direct costs to developing countries of technology transfer and related payments exceeded \$25 billion, and these costs have risen substantially since then.

38. Although the dependence upon foreign technology is likely to continue at least for the next two decades, if for no other reason than the sheer immensity of the range and magnitude of the technologies to be applied in achieving the Lima target, it is also clear that the strengthening of indigenous technological capabilities is essential not only for selecting, acquiring, adapting and absorbing imported technologies but even more for developing local technologies. Measures of international co-operation in the technology field, therefore, cannot be confined simply to measures to facilitate the flow of technologies from developed to developing countries on equitable terms; they must also include the enhancement of indigenous capabilities in the developing countries themselves.

39. Multiplicity of technologies and equipment, problems of maintenance and spare parts, and erosion of a viable base for the local manufacture of components may be among the adverse effects of a poor selection of technology. One means of assisting developing countries is to assist in the formulation of technology plans, integrating technology policies with the overall development policies of the developing countries, with the contours of technological development being derived from development objectives. Instead of being seen as a matching or residual input together with other factors of production, technology could well be taken as the prime resource with which other inputs are combined. In this new role, development of technological capabilities

should be considered synonymous with human resource development. All too often, the people of the developing countries are looked upon as beneficiaries of technology rather than as generators and users of technology. A large population can be a source of strength rather than a handicap if it possesses the capability for improving economic well-being. A new approach to human resource development will therefore be necessary, encompassing the technological improvement of a wide variety of occupations and not simply a set of specialized technical services. In a social context, technological capability has to be viewed and planned not merely as a matching input in a productive process (as it would be in a private context), but as infrastructure to be provided ahead of demand and in an all-pervasive way.

40. The several aspects of the role technology may play in achieving the Lima target have clearly many implications for action. The main thrust of action is and should continue to be at the national level. Each country needs to formulate and implement a technology-oriented strategy for industrial development in the place of *ad hoc* and unco-ordinated efforts. The power of the State could be used effectively to influence technological development in developing countries. At the same time solutions to problems of technological development that ignore the political context have limited chances of success. Developing countries will have to devote greater attention to technological policies and plans than they have hitherto and to integrate such policies and plans into their overall development objectives.<sup>16</sup>

41. As the role of technology in developing countries gradually unfolds, it becomes essential to create awareness of the issues involved and to mobilize interest. The International Forum on Appropriate Industrial Technology, held in India in November 1977, including the preparations leading to it, was a major factor in creating international awareness of the importance of the subject. It resulted on the one hand in the elaboration of a policy framework for appropriate industrial technology, endorsed by the ministerial meeting, and on the other in a detailed expert examination of technology options and issues in a dozen industrial sectors.

42. At present, developing countries face many problems in acquiring technology from developed countries, in addition to having to make sizeable direct and indirect payments in scarce foreign exchange. The international technology market is an imperfect one, and the inherently weak bargaining position of developing countries is further weakened by their lack of the information, knowledge and skill to select and acquire technologies best suited to their own requirements.

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<sup>16</sup>See "Strengthening of technological capabilities of developing countries: A framework for national action" (A/CONF.81/BP/UNIDO).



43. As emphasized in a paper submitted by the UNCTAD secretariat<sup>17</sup> to UNCTAD V, "the difficulties in accelerating the transfer and development of technology are of a structural nature. . . . The existing juridical and legal environment has had an adverse impact upon the nature and cost of imported technology and access to it by developing countries. It has served to distort the priorities in production, prevent an appropriate choice of technology and increase the degree of packaging, and inhibit the maximum use of domestic inputs of intermediate products, capital goods and skills". Resolution 112 (V) adopted at UNCTAD V and the Vienna Programme of Action on Science and Technology for Development adopted by the United Nations Conference on Science and Technology for Development set forth a variety of proposals for national and international action relating to strengthening the technological capacity of developing countries. The second session of the United Nations Conference on an International Code of Conduct on the Transfer of Technology, Geneva, 29 October to 16 November 1979, and the Diplomatic Conference for the Revision of the Paris Convention for the Protection of Industrial Property and the Patent Co-operation, scheduled to be held in February and March 1980, both are concerned with measures to facilitate the transfer of technology.

44. However, as mentioned in the documents prepared for the New Delhi Conference, there is a need for co-ordinated international action, not only to improve the conditions in which developing countries can have access to the technologies available in developed countries, but also to promote the capacity of developing countries to rely increasingly on their own institutions in undertaking industrial design, industrial research and technology development and in promoting industrial skills. Among the areas for international co-operation in improving the transfer of foreign technologies can be mentioned the collection, classification and dissemination of technical, economic and legal information; the improvement of the competitiveness of international technology markets; the improvement of the negotiating potential of developing countries as purchasers of technology and the reinforcement of the capacity of developing countries in the processing of natural resources, including energy.

45. If trade in manufactures between the developed and developing countries is to grow steadily, it will clearly be in the interest of both groups of countries to have the necessary technologies easily available. Co-operation between the two groups would also help to overcome the problems raised by the transfer of financial resources to developing countries. The interlinkage between agricultural and industrial development and the use of appropriate technologies for each are also important aspects of national action and international co-operation with developed countries.

<sup>17</sup>"Towards the technological transformation of the developing countries" (TD/238), p. 40, para. 106 and TD/238/Corr. 1.

## *VI. Industrial restructuring and international action*

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46. As the preceding brief review has shown, there is an urgent need for concerted international action to support the restructuring of world industrial production and thus accelerate the industrialization of the developing countries and advance the economic and social development of the world as a whole. Since the Second General Conference of UNIDO a number of specific measures have been taken to promote international industrial co-operation. These include the initiation of the UNIDO System of Consultations, the establishment of a United Nations Industrial Development Fund and the pilot-stage operation of the UNIDO Industrial and Technological Information Bank. The technical co-operation activities of UNIDO and its representation at country and regional levels have been strengthened. UNIDO has established a network of investment promotion offices, undertaken a series of analytical studies of industrial redeployment and launched special programmes to encourage co-operation among developing countries and to meet the needs of the least developed, land-locked, island and most seriously affected countries. These on-going activities of the organization should be further strengthened. In addition, the process of transforming UNIDO into a specialized agency as recommended at Lima should be completed as soon as possible to establish a sound foundation for a greatly expanded programme of international industrial co-operation in the 1980s.

47. However, a continuation of past activities, even at a more intensive pace, seems unlikely to be sufficient to achieve the Lima target. New measures must also be taken. The documents submitted to the Conference present several specific proposals for new forms of international co-operation in the priority areas of finance, technology and trade. These proposals are based upon a wide-ranging substantive analysis of progress in industrialization since 1975 and prospects for the future; they reflect concerns expressed not only in the regional ministerial meetings convened in preparation for the Third General Conference of UNIDO but also in the series of global conferences held during the past two years. Careful consideration will certainly be given to these proposals by the Conference. They relate not only to co-operation

between developed and developing countries, but also to co-operation among developing countries themselves.

48. While the proposals are all directly related to the promotion of world industrialization, they do not necessarily fall exclusively within the competence of UNIDO. The complex interrelationships between industry and other sectors of the economy—particularly agriculture, between industry and trade, between technological development and industry, as well as between industrial investment and other flows of financial resources, do not permit the isolation of industrial development from more general development issues or the consideration of the industry sector apart from other sectors of the economy. Some of the proposals for international action, therefore, may be considered more appropriate for implementation by another United Nations agency; the proposals are put forward by UNIDO in the context of its central co-ordinating role in the field of industry.

49. In the area of technology, in addition to proposals to strengthen on-going activities of UNIDO, the Conference has before it a proposal for an integrated programme to be carried out by UNIDO to advance the technological capabilities of developing countries. This proposal reflects the assessment of priority needs of developing countries expressed in the International Forum on Appropriate Industrial Technology referred to earlier and in the United Nations Conference on Science and Technology for Development held at Vienna in August 1979. Further proposals for measures to facilitate the transfer of technology are set forth in *Industry 2000—New Perspectives*. These include the establishment of an international industrial technology institute, the establishment of an international centre for the joint acquisition of technology, the establishment of an international patent examination centre, and recommendations for the relocation of industrial research and development activities.

50. Specific proposals and recommendations for new forms of international co-operation in international finance are also set forth in *Industry 2000—New Perspectives*. The establishment of an international industrial finance agency is proposed and a global fund for the stimulation of industry. Further proposals are made for a system for resolving industrial conflicts and a commission for international industrial development law.

51. Recommendations are made for the creation of an industrial finance information and negotiation network, the promotion of risk capital financial instruments, the promotion of barter or buy-back related long-term investment, and the establishment of an industrial project preparation facility for developing countries. In addition, there are recommendations for international co-operation of industrial enterprises through the extended use of intergovernmental agreements and the mobilizing of the potential of medium-sized enterprises and other non-transnational corporations.

52. In recognition of the present imbalance in trade in manufactures between developed and developing countries, tentative proposals for a substantial redressment of the existing imbalance are also presented. Other proposals have important trade components, such as, for example, the recommendations for promotion of barter and buy-back arrangements, mobilizing the potential of medium-sized enterprises, the use of intergovernmental agreements, and the processing of mineral resources.

53. The documents for the Conference, including *Industry 2000—New Perspectives*, emphasize the importance of co-operation among developing countries, in the main areas already mentioned. Co-operation in mining and mineral processing may receive special mention in this connection.

54. The System of Consultations is also seen as a major instrument for promoting co-operation among developing countries as well as between industrialized and developing countries. A review of the progress made since the establishment of the System in 1977 following recommendations of the Second General Conference of UNIDO and of the General Assembly at its seventh special session and proposals for further development are presented in the report ID/CONF.4/6 to this Conference.

55. On the basis of its continuing review, the Industrial Development Board has recommended that the System be continued as an on-going activity of UNIDO and be extended to more sectors so as to provide the greatest possible benefit to the international community. While putting the System of Consultations on a more permanent basis, consideration may also be given to ways to enhance the status of the Consultations as intergovernmental forums whose recommendations may be carried through to the negotiation stage. An alternative approach might be to have recommendations from the meetings reviewed by the Industrial Development Board, possibly after examination by subsidiary intersectoral technical committees, and then transmitted to the General Assembly. Ways to move from recommendations to positive action by Governments should be considered when the Conference takes up this important agenda item.

56. The Conference therefore will have before it a wide range of specific proposals. In addition to proposals contained in the documents prepared by the secretariat, there may be further proposals presented direct to the Member States themselves. While it may not be possible to agree in detail on all these proposals in the limited time available, it is hoped that it will be possible to reach agreement on the need for international action in the priority areas of industrial technology, finance and trade and to establish a specific mandate for continued action of United Nations agencies to develop and carry out new measures for international industrial co-operation with the full support and active participation of the Member States.

## *Annex*

# ACTION TAKEN BY THE UNIDO SECRETARIAT IN IMPLEMENTING THE LIMA DECLARATION AND PLAN OF ACTION

1. To carry out the mandates of the Second General Conference, the UNIDO secretariat has been reorganized and strengthened. An International Centre for Industrial Studies brought together previous research and analysis units into a co-ordinated division to carry out an expanded programme of global, regional, country and sectoral studies, and to foster UNIDO activities in the development of technology. An Industrial Operations Division was established to deal with all aspects of the implementation of technical co-operation field projects. The creation of an Investment Co-operative Programme Office, including the World Bank/UNIDO Co-operative Programme, and a growing network of investment promotion services, has given a sharper focus to UNIDO investment promotion activities and strengthened the links between pre-investment activities carried out under technical co-operation projects and investment. Within the new Division for Policy Co-ordination, a special section was created to initiate the System of Consultations called for by the Lima Declaration and Plan of Action; in addition, new units have been created to give particular attention to the needs of the least developed countries and to promote technical and economic co-operation among developing countries. Special sections have also been established for relations with non-governmental, intergovernmental and governmental organizations. Interagency co-ordination has been assigned to a new section, and the network of field advisers also is now under a separate section. On the basis of experience gained during the first two and a half years of the functioning of the restructured secretariat, an Acting Deputy Executive Director was appointed, effective 1 August 1978, with responsibility for supervising the technical assistance of the organization, including the programming and implementation of technical assistance field projects as well as corresponding activities in the fields of transfer of technology and investment promotion. These institutional arrangements are described in more detail in ID/CONF.4/11.

2. With almost the same resources as those provided during the 1974-1975 biennium and despite the slow-down that occurred as a result of the UNDF financial crisis, both the technical co-operation and other activities of the organization have expanded significantly. Since 1974, delivery of technical assistance has doubled in real terms, allowing for a yearly inflation rate of 7 per cent, reaching a level of \$70 million in 1979. There has been an impressive growth in the delivery of equipment and subcontract services, the value of which increased from \$5.1 million in 1974 to \$28.3 million in 1979, and in training, with growth of expenditures on

training from \$4.7 million in 1974 to \$8.9 million in 1979 and an increase in fellowship awards from 480 to 995 during the same period. An indication of the growth of UNIDO technical co-operation activities is the shift of UNIDO in the ranking of UNDP executing agencies by project expenditures from fifth in 1974 to third in 1977.

3. The introduction of new management techniques, the improvement of project design, the secretariat's support for the initiatives taken by UNDP for new dimensions in technical co-operation, and the introduction of systematic evaluation all enabled the organization to improve the quality and the quantity of technical assistance during the period since the Lima Conference. In many cases, an interdisciplinary approach to projects permitted the more effective involvement of headquarters substantive staff. Increasing attention has been devoted to the use of facilities and services in developing countries themselves as well as the recruitment of experts from these countries for technical co-operation activities. The network of industrial development field advisers, reinforced by missions by regional and interregional technical advisers and by short-term assignments of headquarters staff, contributed to the improvement of the quality and effectiveness of UNIDO activities at the country level.

4. UNDP, under the system of country programming, continued to provide the greatest share of financial resources; financing under the regular programme and under Special Industrial Services remained about the same, although the flexibility and efficiency of the latter programme increased as UNIDO assumed greater responsibility for approving individual projects and managing resources as the result of an agreement reached with UNDP. Trust-fund financing and financing from other sources increased as a result of the establishment of the United Nations Industrial Development Fund, which began its operations in 1978 in accordance with recommendations of the Lima Conference and resolutions adopted by the General Assembly at its thirty-first session (31/202 and 31/203) in 1977. While pledges received during the first years of the Fund's operations have fallen considerably short of the desirable annual funding level of \$50 million, which has been endorsed by the Industrial Development Board and the General Assembly, the Fund nevertheless offers the potential for new programmes, if given more resources and greater flexibility in the form in which they are made available. The value of projects implemented under the Fund increased from \$5.2 million in 1978 to \$10.2 million in 1979.

5. In response to the demand expressed by several developing countries, the secretariat expanded its technical co-operation activities to the field of energy, within the scope of available resources. Several technical co-operation projects were or are being initiated in the fields of energy conservation, production of fuels from conventional and non-conventional sources, biomass technology, and production of different types of equipment required for the utilization of renewable sources of energy.

6. The special activities carried out to meet the needs of the least developed countries and to promote technical and economic co-operation among developing countries are described in separate documents submitted to the Conference (ID/CONF.4/5 and ID/CONF.4/15). Measures for co-ordinating activities with those of other organizations in the United Nations system are described in ID/CONF.4/10. These documents supplement the brief description of technical co-operation given

above. Following the Lima Conference special records were established for assistance to the least developed countries. The records show that the delivery of technical assistance to these countries increased from \$4.7 million in 1975 to \$16.0 million in 1979. With respect to technical co-operation among developing countries, from January 1973 through November 1979, 202 projects were approved, with a total allocation of almost \$5.1 million.

7. In addition to technical co-operation, the organization has initiated or expanded work in other fields in carrying out the Lima Declaration mandates and recommendations. The establishment of the System of Consultations has been referred to in the main body of this report and is described further in ID/CONF.4/6. Activities in the development and transfer of technology initiated by the secretariat, particularly through the newly established Development and Transfer of Technology Section and the Industrial Information Section, have been carried out within the framework of a co-operative programme of action on appropriate industrial technology approved by the Industrial Development Board, with the advice of a consultative group of high-level experts. The International Forum on Appropriate Industrial Technology, held in India in November 1978, has also provided a basis for much follow-up activity. The pilot stage operation of the Industrial and Technological Information Bank in four industrial branches (iron and steel, fertilizers, agro-industries and agricultural machinery) has been completed, and the Industrial Development Board has approved continuation of the activities as an on-going part of the work of the organization. A variety of expert group meetings, advisory missions and training programmes have also been carried out, and a new series of publications on the development and transfer of technology has been established, with 12 studies issued so far. Proposals for further activities in this field by UNIDO are presented in ID/CONF.4/7.

8. The investment promotion programme carried out by the Investment Co-operative Programme Office (ICPO) seeks to achieve its objectives by promoting specific projects, mobilizing financial resources, and co-operating with the World Bank Group. It provides assistance to developing countries in identifying and preparing industrial investment projects, identifying potential public and private partners in industrialized countries with different socio-economic systems or in advanced developing countries or those with surplus capital and matching project proposals and potential partners. At present ICPO has a portfolio of more than 1,000 industrial project proposals covering most industrial sectors and originating in over 80 developing countries which include public, private and joint ventures. The total investment value of these project proposals is some \$15 billion. The Office has also initiated an information service on economic and investment conditions in developing countries. The investment promotion activities of headquarters are supplemented by Investment Promotion Services that have so far been established in Brussels, Zurich, Cologne, New York and Vienna. These Services advise Governments, organize training and arrange investment promotion meetings to discuss a variety of measures to accelerate the flow of financial resources to developing countries.

9. The World Bank/UNIDO Co-operative Programme, started in 1973, has since the Lima Conference concerned itself primarily with the earliest stages of project identification and preparation in developing countries. Through industrial sector studies and other investigations, it has been able to prepare proposals for

financial and technical assistance to the countries concerned. In addition to its own missions, the Programme has also provided staff for many World Bank missions. Both kinds of missions lead to follow-up financial and technical assistance.

10. The research activities of UNIDO have also been reorganized and strengthened since the Lima Conference, with the establishment of the International Centre for Industrial Studies as its primary research arm. The Centre launched its first studies in January 1976 on the global, regional, national and sectoral aspects of industrial development at a time when the international community was entering a new realm of intensive discussion about development needs in developing countries and the necessity for a new and more equitable international economic order. The research activities of the various sections of the Centre are governed by the priorities set by the Lima Declaration and Plan of Action. A distinctive feature is the concept of co-operative research, in which the participation of universities, research centres, government departments, and individual consultants in both the developed and the developing countries is sought as well as co-operation with other agencies within the United Nations system.

11. Work at the global level has included research into various aspects of the redeployment of industries from developed to developing countries. The findings of this research are described in ID/CONF.4/9. UNIDO is also setting up and putting into operation on a continuous basis economic models using socio-economic and techno-institutional data that are periodically updated. These models provide an analytical tool that is used, *inter alia*, in a joint UNIDO/UNCTAD project for long-term analysis and projections carried out in connection with the work of the Administrative Committee on Co-ordination Task Force on Long-term Development Objectives. Research at regional and country levels is reflected in the periodic publication of the *Industrial Development Survey* and the journal *Industry and Development* as well as a number of special studies. Sectoral studies have been closely co-ordinated with the System of Consultations. Nine industrial branches are currently under investigation: fertilizers, petrochemicals, iron and steel, agricultural machinery, leather and leather products, capital goods, food, pharmaceuticals, and vegetable oils and fats.

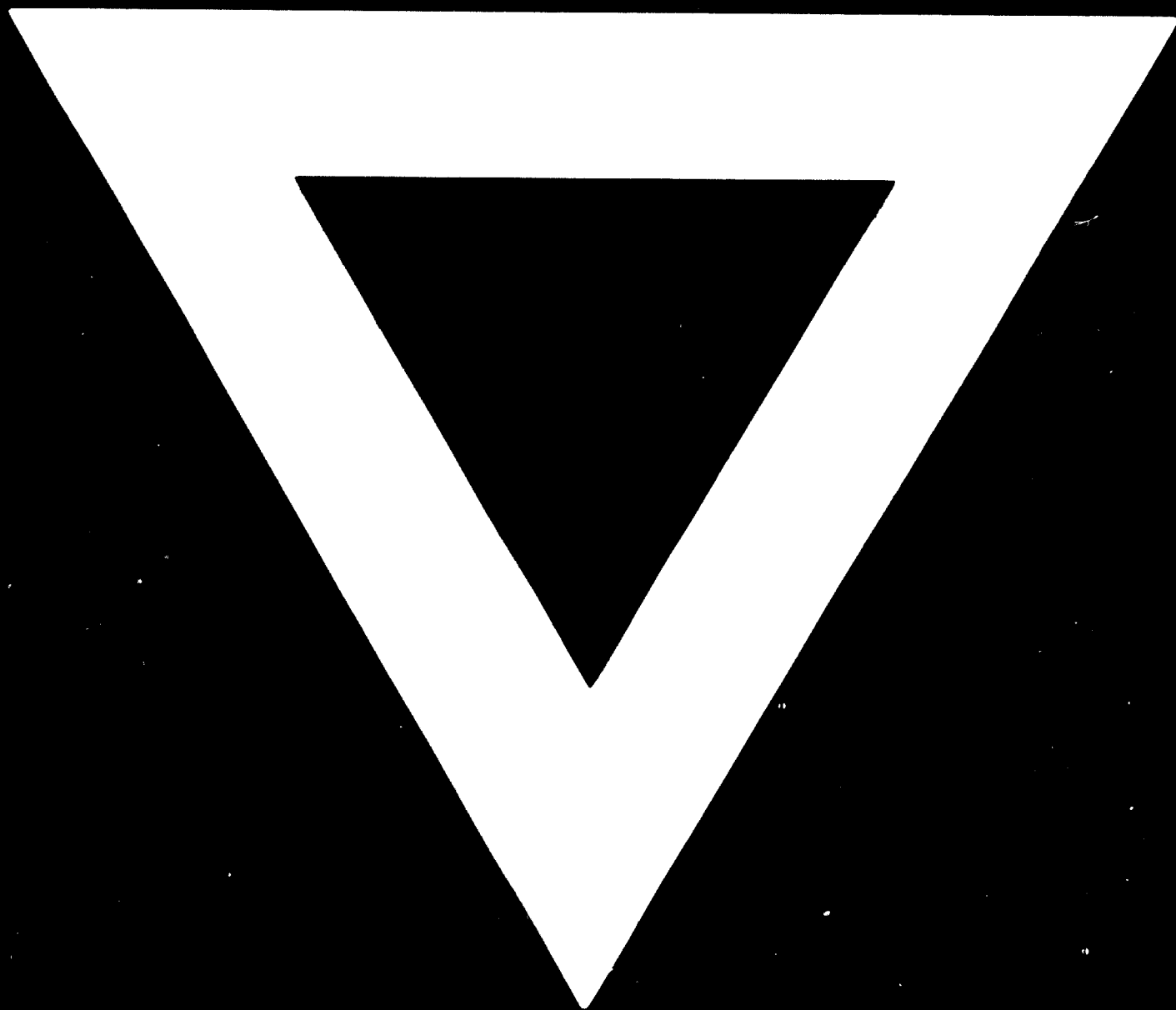
12. Thus, in a variety of ways, UNIDO has taken steps to ensure that its technical co-operation activities, its work in technology transfer, investment promotion and redeployment and its programme of research are carried out in a co-ordinated manner, with close co-operation with other United Nations organizations, to make a maximum contribution to implementing the Lima Declaration and Plan of Action.



Printed in Austria  
79-10078 - December 1979 - 10,000

**ID/242**  
**(ID/CONF.4/17)**

**B-557**



**81.08.21**