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THE GROWTH OF THE INTERNAL MARKET IN
RELATION TO THE STRATEGY OF ECONOMIC DEVELOPMENT

Prepared by : Dott. Romolo Arena
Istituto per la Ricostruzione Industriale,
Italy

for : The Centre for Industrial Development
Department of Economic and Social Affairs
United Nations

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1. The underdeveloped countries cover about two-thirds of the land surface of the world and are so different in character that it is impossible to formulate a theory of development that can be valid for each one of them. The influence of many different combinations of factors of natural, geographical, historical, economic, social, ideological and religious descriptions on a wide variety of specific situations prevents the formulation of a development scheme which is universally acceptable.

It is therefore suggested that the strategy of economic take-off can be expressed in many forms, varying according to the different situations which obtain. Nevertheless, this does not prevent the possibility of outlining some development schemes based on essential elements present in certain groups of underdeveloped countries. Such schemes can provide useful references for the formulation of a concrete development policy.

The thesis set forth in this report is considered valid for many situations of underdevelopment. It assumes as a primary objective the expansion of the internal market by means of giving priority to the establishment of selected industrial plants intended to promote development in those economic sectors in which the country displays growth potential, based on natural resources, traditions or other relevant factors. The type of plant required is one in which the output (such as semi-finished products, products for utilization in other industrial processes, etc.) is capable of promoting, by means of a chain reaction, a series of other initiatives. This kind of function could be performed, for example, by certain iron and steel products for use in the building and engineering industries.

In view of the fact that the standard of living in the countries concerned is usually very low, the method of development to be adopted cannot be that of the introduction of regular and evenly-divided investments and efforts throughout the entire country. Such a method,

even if it is a satisfactory criterion from the theoretical point of view, would not facilitate the break-up from the lethargy of underdevelopment.

It seems, therefore, that the method for effecting this change is through the creation of development poles, strategically situated so as to allow the take-off operation to be carried out, even if it does not immediately concern every area of the country.

A development pole founded on a number of basic plants must naturally be carefully planned as regards its intrinsic structure of economic production; its institutional framework must also be conceived for the training of management and technical cadres from which the managerial class of the country must of necessity derive.

Thus the development pole, besides functioning as a catalyst for breaking down primitive economic structures and besides contributing to the fundamental productive structure, must above all, create new sociological structures and a new technological environment from which there will emerge the managerial class of the country. It is on these grounds of the human factor, of the creation of managerial and technical cadres, that the development pole must justify its real and most profound validity as a means of constructing the national economy of an underdeveloped country.

In the light of the foregoing, the development scheme proposed in this report, without intending in any way to be either unique or exclusive, is aimed at achieving two fundamental objectives simultaneously:

- a) as regards economic structures, the creation of a number of basic industries, located within a development pole, destined to promote, by means of a process of chain-reaction, other initiatives in sectors for which the country has a natural productive potential;

- b) as regards human infrastructure, the formation, through the development pole system, of an adequate social structure from which there can emerge management and skilled personnel to meet the requirements of a modern economy.
2. The expansion of the internal market should be the primary objective of a development policy since it is aimed at reducing the area of self-subsistence, thus providing a decisive influence on primitive sociological structures. These latter are revolutionized by the establishment of large industrial productive units, which in turn become the sources of the social and economic transformation represented by the advent of a market economy.

In this way there occurs the creation and development of a national market, made up of local producers and consumers, and of a modern society no longer based on a regime of self-subsistence but on industry. Only when this kind of new environment has been established will the ground be prepared for the emergence of the management and technical personnel that are absolutely essential for increasing the dynamism of the development.

Account should be taken in the choice of a development policy, therefore, not only of the effect on the market of the introduction of additional products manufactured by new production units, but also of the repercussions on the standard of technical training of the local population and of the changes brought about in the sociological composition of the country.

The experience of two decades of all the developing countries has shown that the economic-financial factor, even though it is extremely important, is not sufficient in itself. Indeed, it achieves results that are in no way proportional to the amount of capital made available, at least if it is not accompanied by an appreciable amount of well-directed technical cooperation aimed at dealing with the serious shortage of

management and technical personnel which is so characteristic of the underdeveloped countries.

Moreover, the absence of technical cadres in many newly-established countries coincides with the administrative confusion following independence and with the lack of sufficient experience in running the machinery of government. By way of illustration, the reason why the method adopted in the Marshall Plan, one of the major operations of financial aid in modern history, has been so brilliantly successful in the economic reconstruction of many European countries, is because of the wealth of management and skilled personnel that was available on the Continent. But such a method is not applicable to developing countries, in which the most serious problem is precisely that of the shortage of human infrastructure trained for the functions of a modern economy.

These considerations lead to the assertion that economic-financial aid should be concentrated on the creation of those industrial initiatives which, save for the principle of profitability, are nevertheless capable of promoting the transformation of the environment through the employment of a large labour force.

3. From these premises it is deduced that the principal objective on which an underdeveloped country must concentrate is the gradual expansion of the internal market, directing to that end its own resources and the economic, financial and technical aid that it may obtain from abroad. The responsible authorities should make a priority choice to decide which initiatives will justify the use of the available means, taking into account the natural resources of the country, the existing economic structure, the population density of the various areas, and the economic sectors in which the cadres and experts are more numerous.

In making this choice, an effort should be made to identify those sectors in which production will enable the saving of valuable foreign

currency presently used for importing the products of those sectors. Another criterion to which maximum importance should be given is the choice of initiative that is suitable for integration into those sectors of the local economy which are capable of development by virtue of the existence of such factors as favourable traditions or natural resources that have not yet been developed. An examination should then be made to find the type of production that will in time become the source of the establishment of other productive initiatives.

In making the decision, therefore, account should be taken of the multiplier effect of the investments which are considered to have priority. It is obvious, for example, that certain basic iron and steel products, where it is possible to produce them at prices competitive with imported products, can constitute the basis for the processes of many other secondary industries, such as building and engineering. Again, if the country has the resources and potential for developing a rich agricultural industry, a plant for the production of fertilizers could be a propulsive and chain-reaction factor for agricultural production and, as a consequence, for the auxiliary processing industries.

Returning to the original theme of the expansion of the area devoted to the creation of a modern economy as against that characterized by a purely self-subsistence way of life, the economic programme of an underdeveloped country must seek to identify those initiatives which are more capable of absorbing the greatest number possible of workers and of creating a group of productive activities and services which are representative of the typical features of a modern economy. It must again be emphasized that the selected priorities should take account not of the direct absorption of labour by the plants which are planned, but of the overall direct and indirect absorption, both immediate and subsequent, precisely in order to produce the chain-reaction effect referred to previously.

4. It is recognized that the economies of the more important of the new countries that have acquired independence after a phase of colonial

rule had undergone structural distortion resulting from the colonial policies adopted. Within the limits of the economic relationship of the colony and the colonial power, a purely rational investment decision made in the interests of capital owned by subjects of the colonial power could only lead to the concept of maximum exploitation at minimum costs of the natural resources of the colony and not to their development. Without using the expression in terms of moral judgment, but attributing a strictly technical sense to it, this concept is typical of the colonial epoch, during which investments were characteristically directed towards the extraction of products from the colony and shipping them to the colonial power.

In some cases, therefore, there was a considerable development of the communications infrastructure necessary for transporting mineral and agricultural products. Some outstanding examples of this situation are to be found in Africa, where investments in this sector were clearly predominant over the others; thus the typical colonial initiatives were centred on mineral extraction, agricultural plantations and transportation. Labour at extremely low cost, both in the mining sector and in agriculture, enabled large profit margins to be earned by the investors of capital from the colonial power.

There occurred that typical structural distortion of the colonial phase that consists of an economy directed exclusively towards exporting, with the development only of those subsidiary and auxiliary initiatives indispensable for the objectives referred to. Thus a certain amount of construction activity was created in the colonies for the building of roads and houses, but there was always a clear tendency to avoid the establishment also of the less important industries for the supply of manufactured goods or foodstuffs for more general use, on the basis of the concept of importing everything possible from the colonial power, even if this prevented the establishment of only modest local production.

Therefore, those responsible for the economic take-off of a developing country must deal first of all with the problem of reorienting

the economic structures which were created in the context of relationships between colonial power and colony that have now politically disappeared. If a new country does not attempt to effect this re-orientation it would renounce the creation of an effective national market.

The authorities responsible for the economic policy of an underdeveloped country must naturally direct exports to perform their natural function of earning valuable foreign currency for the purchase of goods not produced locally, but they must also aim at protecting their foreign trade from the domination of a single buying and selling market.

In other words, independence imposes on the new countries the responsibility of seriously confronting the problem of decolonization of the economic structure, without carrying out an improvised revolution of the system but nevertheless taking properly into account the new national requirements. The earning of foreign currency must be evaluated in terms of the programmes of the country and should in any case tend to favour the development poles and all these initiatives intended to promote the internal market or new processing projects.

As the transfer is effected of an increasing number of the population from the sector of self-subsistence to that of the modern economy, so there is a steady improvement in the quality of the human factor in these countries, enabling them to create their own sources of skilled personnel, fundamental to the process of economic development.

5. Among the varied range of theories of development of backward countries, the factors indicated with major recurrence as being typical of underdevelopment are: a) the slow and limited process of accumulation of capital; b) the absence of cadres and skilled workers; and c) the excessive increase in population.

In this report, reference has already been made to point b) as the most important factor, indeed as the really fundamental factor, of underdevelopment. As regards point a), this factor is implicitly

contained throughout the report where reference is made to the need for pursuing with all available means the objective of expanding the internal market. It is in fact recognized that in the developing countries the labour forces are divided into two clearly-defined spheres: the sphere of the modern economy, characterized by production and exchange, even if sometimes on a modest scale; and the sphere of self-subsistence, often representing by far the largest area, characterized by the hand-to-mouth production of food requirements and of a few articles necessary for a very primitive life.

The expansion of the internal market involves the carrying out of an economic policy aimed at the gradual acquisition by the modern economy sphere of an ever-increasing number of people transferred to it from the self-subsistence sphere. It is clear that in this latter sphere the concept of saving does not exist at all and, therefore, that the mechanism for the accumulation of capital is completely imperoperative. Only when it is realized that the proportion of self-subsistence in Africa for instance is as much as 80% can there be awareness of the difficulties of the conditions in which the process of capital formation has to operate. The object of the expansion of the internal market is therefore implicitly to solve point a), which is one of the major retarding influences on development.

Factors a) and b) are conceptually quite distinct, although there does exist a relationship, albeit indirect, between them. It is, of course, evident that the improvement of the cadres and technical personnel of a country is tied to the development of new initiatives and that this latter in turn depends on the available resources created by the investment of accumulated capital. It is nevertheless to be noted that this relationship is much more tenuous in the case of an underdeveloped country where the new large initiatives more often depend upon the services of cadres and experts from outside the country.

This poses one of the major methodological problems associated with technical cooperation, especially when provided by the various

multilateral organizations. It can be asked whether international technical cooperation succeeds effectively in forming local cadres and experts or whether instead it merely replaces them. A further question may be posed, involving a problem of great importance in the context of the strategy of development; it is to what extent there is awareness of this distinction at the various levels of the multilateral organizations for technical cooperation.

Finally, as regards the increase in population, it does not seem possible to offer an unequivocal assessment of the problem. It is clear that the rate of population increase, point c), has an unfavourable influence on per-capita income when it is not matched by the rate of increase of productivity. In some cases, however, it is the lack of a sufficient density of population in relation to the possible economic initiatives that can bring about a slow-down in development.

It would therefore seem logical to consider the population factor as one to be assessed on its particular merits in specific situations.

It is in fact recognized that, whilst the high birth-rate in many underdeveloped countries prevents the raising of the level of per-capita income in view of the low increase in productivity, in certain periods of history vigorous economic development has occurred in some industrial countries in phases of high population increases, that have enabled the flow of new labour forces into industrialized centres.

6. The statement in general terms of the essential lines and principles of the selected development scheme is necessary for the definition of the fundamental features of the institutional context in which the potential of the pole can be realized. It involves, that is to say, the outlining of the institutional features of a public agency which is provided with sufficient powers to avoid the possibly serious obstruction of the development of the pole by bureaucratic restrictions or interference, and which at the same time is provided with the facilities for planning and technical control in order to be able to perform its role of management.

It should be observed that the function of an agency such as that described is even more important in the case of an under-developed country in which the community has not yet trained its own administrative bodies and where the structural distortions of the economy dating from the colonial period still remain. Clearly an agency of this kind has a vital role to play in national development; it must perform simultaneously the functions of development and of economic decolonization.

The characteristics of the structures of underdeveloped countries would appear to compel the choice of a public agency through which the State, as the only important holder of capital, is in a position to carry out the management of that capital. It is generally recognized that in many underdeveloped countries the concentration of capital in the hands of private nationals is almost non-existent. In such countries capital is accumulated very slowly and the only concentrations of private capital belong to foreign companies. It is, therefore, only the State that possesses the major part of the capital resources and it is the State that should be responsible for launching large economic projects.

Nevertheless, the absence of private national capital clearly presents the risk of the development of an abnormal situation in the economic structures of the developing countries. The local community, on the one hand, would be represented solely by heavy State administrations for economic management; on the other, in their midst, would be private companies controlled by foreign-held capital.

It is not intended here to discuss the management of the economy by the State, but rather to emphasize that State management can be achieved only after a long process of improvement in techniques and of cadres. In the case of the industrialized countries this process has been developing for many decades, essentially on the basis of the experience of private enterprise.

In the developing countries, instead, the State economic administrations would come into being ex abrupto, without the existence of any tradition

of management among the local community, other than that based on experience associated with the operations of the private enterprises of the former colonial power. Furthermore, the State enterprises would be operating without the stimulus provided by comparison with private companies, that is to say in an environment lacking the competitive element.

This situation presents the serious danger of the emergence of economic bodies that do not in any way represent the results of a process in which the various political, economic and social forces have made specific responsible contributions towards its final objective.

These bodies would instead represent hastily-created administrations resulting from the sudden disappearance of a colonial system and from the equally sudden advent of an independent political regime lacking adequate human infrastructure (managerial and technical cadres, etc.)

It would be impossible to calculate the damage that would be caused to the formation of an underdeveloped country in the case of an economic and social development that was not accompanied by the benefits of the experience represented in an industrial country by private enterprise.

7. It is believed that the experience already gained in some countries could perhaps suggest a system of management and a means of forming the institutional cadre. Reference can be made, for example, to the various formulae for the structure of public agencies for economic management in which the major participant is the State, whilst financing is effected through the channels of the private capital market. Particular attention is drawn to those agencies having a multi-sectoral structure, grouping together operations in various sectors of the economy, from manufacturing to services.

The mixed formula on which such groups are based allows for the financial requirements of the group to be covered essentially by self-financing and by resort to the private capital market, that is, to national savings; consequently, there is no drawing on the national budget.

This formula thus ensures control by the State of important activities that can be directed to the objectives of public interest and, at the same time, utilizes the voluntary participation of savings and the spirit of private enterprise, endeavoring to maintain the conduct of each undertaking within the strict limits of profitability.

It is considered that a formula of this description represents an example that could be followed, especially in those countries in which intervention by the State in industrial development is indispensable, in the absence of the formation of private savings adequate in volume to permit a natural flow of investment capital, due to the low levels of per capita incomes which do not allow for the release of resources deriving from improved income for employment in essential requirements.

The formula referred to, which exists in various European countries, was not conceived in terms of abstract theory and then put into practice but, instead, was generally the product of historical situations which had arisen in the various countries. Historical reasons of equal importance often exist in the new countries, where the inheritance of the old colonial administration and companies has taken the form of participation by the newly-created States, particularly as regards services and mining activities.

Because of these historical factors, the new State has the opportunity of creating an instrument with which to be able to intervene in economic sectors in which the aggregate capital invested is much greater than the resources with which the State participates directly in the activities of the agency. By means of a system of major shareholdings, the State is thus able to control and direct a group of enterprises operating in a wide range of sectors of the economy.

In industrial countries the formula referred to is symbolised by a combination of the forces of private capitalism and public resources, concentrated for the attainment of objectives of national interest, yet conducted on the basis of profitability. In a country with a developed capitalist system, this formula provides for the creation of an instrument

for obtaining resources from the private capital market without compulsion and thus represents the means by which private savers may collaborate voluntarily in industrial initiatives conceived in the framework of the public interest. In this manner, the State has the opportunity of intervening without loading its budget with burdens that would require resort to considerable taxation.

This formula is nevertheless also exportable to the developing countries where the continual multiplication of forms of State capitalism could be avoided, ensuring public control but, at the same time, leaving room for the fructification of private enterprise. There is no intention that these words should be interpreted as an expression of preference in the ideological context. The various forms of State capitalism could certainly only be favourably implemented in a State which is very well-developed from the technological and administrative standpoints. It means, in effect, that the loss of the incentive provided by private interest has to be compensated with technical and administrative capabilities of the highest order.

By a paradox of history these forms of State capitalism have taken root in societies where the State organization had scarcely been developed.

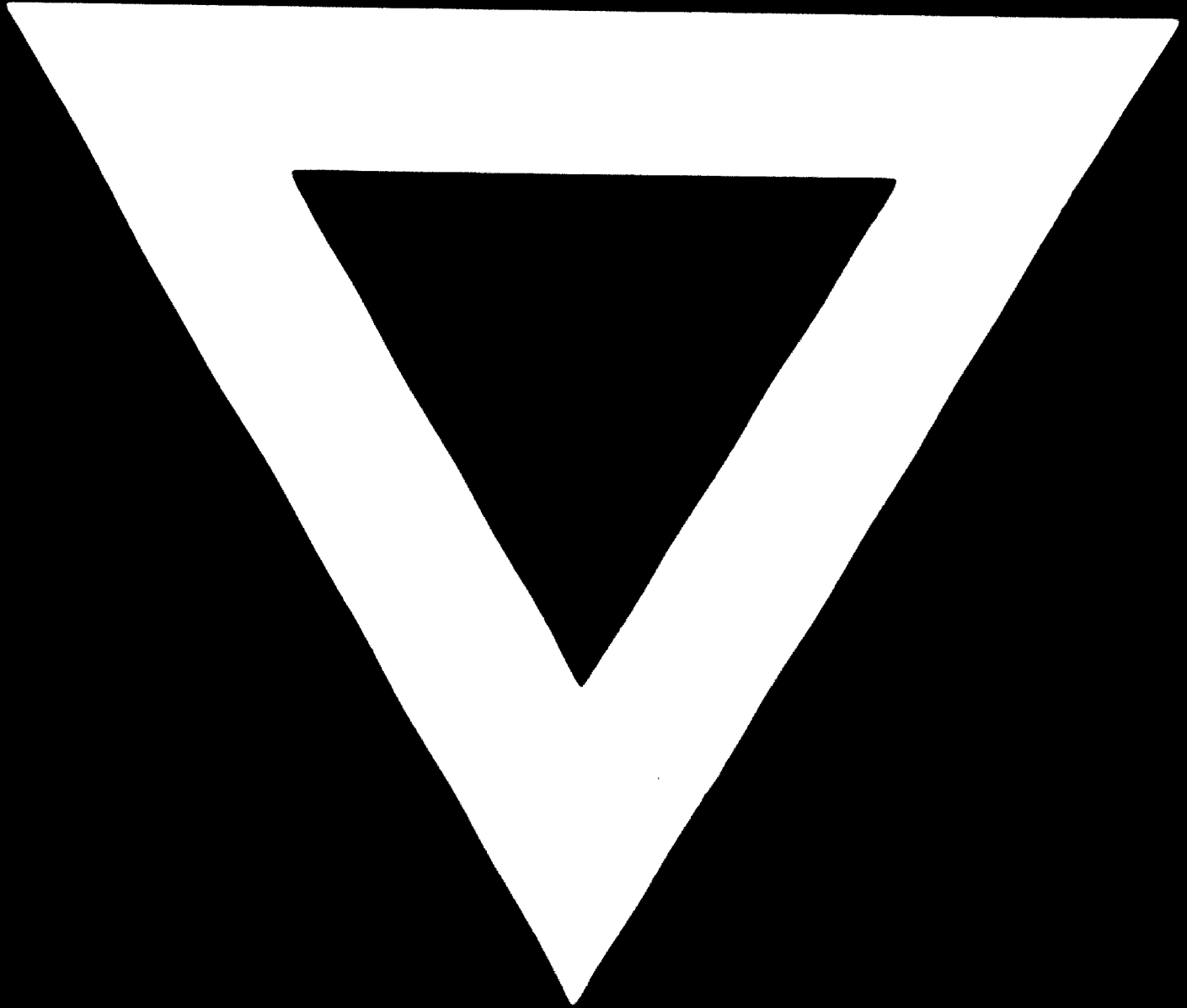
It is a paradox that nevertheless has an historical justification; in the absence of dynamic private capitalism, the State is left as the only protagonist of economic action and initiative. It is therefore more than reasonable that many of the newly-independent Afro-Asian countries are giving so much importance to economic intervention of the State.

The adoption of the formula which has been described would allow the possibility of obtaining from the market even the most slender resources of private savings in these countries and could also reassure foreign investors who may be hesitant about the risks associated with State intervention, thanks to the democratic nature of a formula which respects both the rules of the market economy and the associated private interests. In this manner there would be created an understanding and appreciation of the merits of private economic enterprise, the burden on the State would be

lightened, even if only limitedly, and above all, it will be possible to avoid the concentration of economic organization in the hands of State bodies that are necessarily still in the initial stages of running-in and experimentation. Such a formula will unite State enterprise with private enterprise, permitting either to expand and to experiment. As a result of the flexible nature of the formula, the State is ready to allow the establishment of a capable and well-directed private enterprise when the circumstances so merit, but is also ready to function with stimulus to the economy or to take the initiative in cases where private enterprise is motivated by speculative criteria or lacks efficient management.

At the same time, a public agency for economic management operating in various sectors of the economy will assure the concentration in a single body of different technical and economic talents, and the continuous comparison and evaluation of varied experience. It could provide the underdeveloped countries with a proving ground for first-rate managerial and technical cadres capable of operating in a wide field of activities, since the multi-sectoral character of the agency would enable the rapid formation of managerial ability to be launched into new sectors of the economy as and when required for the further development of the country.

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