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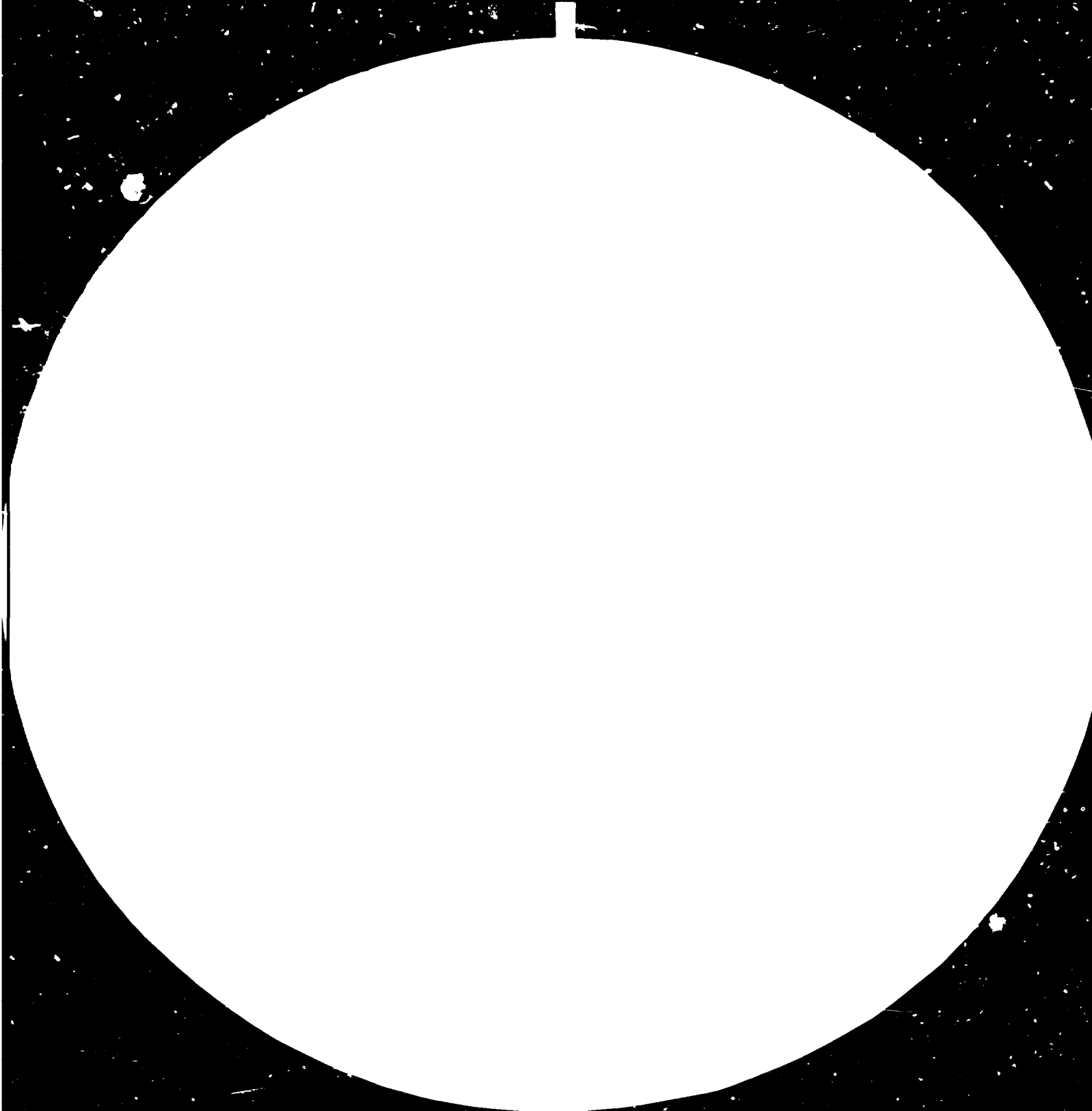
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NOTES ON THE ROLE OF THE STATE
IN THE DEVELOPMENT AND IMPLEMENTATION
OF INDUSTRIAL PLANS

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In developing countries the application of economic planning started almost immediately after Second World War and the attainment of political independence. It was considered as an instrument of mobilising internal and external resources, changing the traditional economic structures and increasing the rates of the economic growth. The improvement of standard of living of the whole population was proclaimed as its ultimate goal.

It is surprising to find that inspite of the differences in the levels of development, political systems, aims of development etc. industry became a main part of economic planning in the majority of developing countries. Industrialisation became the slogan of the day even in the least developed countries.

Since 1950-s planning has undergone significant changes in developing countries. It is enough to mention the creation of the statistical base, building of national planning cadres, improvement in the mechanism of planning, refinement of the planning procedure etc. Inspite of all these changes and improvements, industrial planning retained certain peculiarities, which retarded raising of its efficiency. With these peculiarities I propose to deal in these notes.

1. It is well known that economic planning is not only an economic but a political instrument as well. But in a number of developing countries economic planning is too heavily burdened with politics. Generally, the adoption of the plan is arranged to influence the electorate. For this reason its preparation is based not on the real material and financial resources available in the country but on certain assumption desirable by ruling elite (rates of the growth, increase in employment, improvement in standards of living, etc.).

When a country starts to implement this politically burdened plan the available resources are too thinly spread among numerous projects included into the plan. Soon it is found that all the planned projects can not be completed for the lack of resources. So the planning body starts to reschedule the plan: the planned projects are divided into the first and second priority groups. Only the first priority projects are usually completed during the current plan. The construction of the second priority projects is postponed, and usually they are completed only in the next plan, though some investment in them were already made. Due to the inflation and the rising interests rates the cost of construction becomes prohibitive. When the projects are completed their working becomes uneconomic. Naturally, the low return of such projects influences negatively the resource base of the next plan.

I believe, that if an industrial plan was based on the real resources, available to a given country, its results would be much better. I would like to add that the politically burdened planning was one of the causes which has led to the so called crisis of planning.

2. It is a known fact that modern industry can not develop without stable outward and backward linkages with the other sectors of economy. But the majority of developing countries had adopted strategies which stressed the industrial development. This phenomena can be explained by a number of factors which included outdated modes of production in agriculture, worsening terms of trade for agricultural and mineral raw materials in the 50-s and 60-s etc. That's why the essence of an economic plan is industrial planning. So in a typical plan of a developing country one can see a rather developed industrial part, while there are backward indicators for the other sectors of economy based on market forces and allocation of governments resources. Though an isolated approach to industrial development was criticized even in the late 60-s in some countries it still exists.

It appears that an isolated industrial planning resulted in four main consequences. Firstly in spite of all hopes an isolated industrial development could not significantly influence the rates of the growth. Though industrial development was fast enough, small size of industrial sector coupled with the demographic explosion, slow and instable growth of other sectors resulted in low growth of per capita incomes.

Secondly, the isolated industrial growth led to a number of economic disproportions. On the one hand, since industrial development was not supported by the growth of agriculture it had increasingly to depend on an import of raw materials and foodstuffs for the industrial population. On the other hand, stagnation or slow development of other sectors of economy resulted in the lack of sufficient demand in internal market. Due to these reasons installed capacities could not be fully utilised.

Thirdly, the planning bodies of many developing countries had an undifferentiated approach to industrial development: the creation of any new enterprise was considered to be a blessing. So numerous new industries sprang up, but there were no outward or backward linkages between them. This dispropotion also had to be solved with the help of external market.

It seems safe to assume that the isolated industrial development led to growing social tensions. Modern industry has a capital-intensive character. Therefore it can absorb only a small part of the increase in labour force. At the same time its development is destroying traditional small scale manufacture. People thrown out of small scale industry can not find employment because of the stagnation in other sectors of economy. Lastly, the isolated development of industry leads to even more unequal income distribution. That's why the unemployment and inequality became the major problems of developing countries.

3. It is a matter of common knowledge that industrial development was governed by the strategy of import-substitution or export-orientation.

The strategy of import-substitution type of industries started in developing countries was defined by trade balance. In case of the public sector industries to be constructed were directly chosen by the planning body on the basis of maximum saving of foreign exchange. The private sectors activities were governed by a modified market mechanism, that is market mechanism influenced by State decisions, its laws and rules. This mechanism also favoured import substitutive enterprises, because they gave higher rate of return.

A developing country's internal market demands first of all the finished products (for instance, there is demand for ball pens. Demand for semiproducts necessary for its production will operate when its manufacture starts locally). So in both cases industries were started which produced finished articles. To produce them a country had to import intermediate products. Firstly, it limited the scope of industrialisation because the major part of the intermediate production was concentrated in the developed countries. It seems that to satisfy their demand for intermediate goods the developing countries should increase their installed capacities by 50%. Secondly since the choice of new industries was based on the internal demand, the existence of local resources was not taken into consideration. It explains rather weak linkages between the new industries as well as between the industry and agriculture.

Since the export-oriented industries were initially based on the manufacture of local agricultural and mineral raw materials, they had much stronger links with the other sectors of economy. It should also be mentioned that the recent introduction of labour intensive export-oriented industries led to diminishing links with the other sectors

of economy. At the same time the export-oriented industrial development does not intensify the linkages inside the industrial sphere itself.

I believe that desintegration of economy and the slow and unstable pace of its modernisation is to a great degree explained by the existing types of planning the industrialisation: either import-substititutional or export-oriented.

4. In the majority of developing countries there are no stable and close links between industrial planning and government's economic policy, or it may be said that industrial planning did not become a universal instrument of the economic transformation.

Generally, the industrial plan indicates the amount of certain product which should be produced at the end of the planned period. Then in the case of the public sector it defines the necessary amount of investment and methods of its mobilisation and in the case of the private sector it indicates only that part of the investment, which would be supplied by the state or the state institutions (if any). What are the sources of raw materials and intermediate products, credits for working capital, who will be the major consumers of the products? All these major parameters are generally left out of the plan. In some countries these problems are solved at the ad hoc basis by the current economic policy decisions; in the other group of countries their solution is left to the market forces. It means that in the majority of cases the industrial planning is limited to the planning of industrial investments.

Planning of only one phase of industrial development (though quite important) frustrates all the hopes of the balanced economic growth. When the construction of an industrial project is finished, a lot of difficulties spring up. There is a shortage of raw materials, banks are waiting for the first results of the activity before supplying loans

due to previous obligations, it is difficult to sell the products, etc. Unutilised industrial capacities increase in the maintenance import, low return on industrial investments are to a great degree results of planning of the prevailing type.

It means that the real industrial planning should include all stages of industrial development, beginning from investment to production operations.

5. Practical experience shows that small-scale industries have much higher input-output ratios and much higher employment per unit of investment. This is the reason, why in a numbers of developing countries industrial planning stresses the need to develop small-scale industries.

In some countries the industrial plan envisages the development of auxiliary type of small-scale industries, that is industries, which will supply the large scale industry with the intermediate products. In this case technology prescribes to the small-scale industry the same standards of production as to the large scale industry. Therefore there is no much gain in economy of investments or in increase in employment.

The second type of planning of small-scale industry consists in creating industrial estates. Certainly, the construction of industrial estates gives the biggest possibility for increase in small-scale industrial production. But this type of development is rather costly and gestation period is long. Besides, industrial estates facilities are generally utilised by the old units which seek to expand their production.

The most wide-spread type of small-scale industries planning is the reservation of certain spheres of production. Reservation generally leads to an increase in small-scale production. But its cost was rather high to the country, due to the fact that reservation is utilised by the units using archaic techniques.

In the present day situation the development of small-scale industries is a necessity to the majority of developing countries. But this development should be preceded by research and surveys which should identify the industries where intermediate technique could be gainfully utilised. Secondly, there should be such methods of planning which ensure encouragement of small-scale production without excessive costs to society.

