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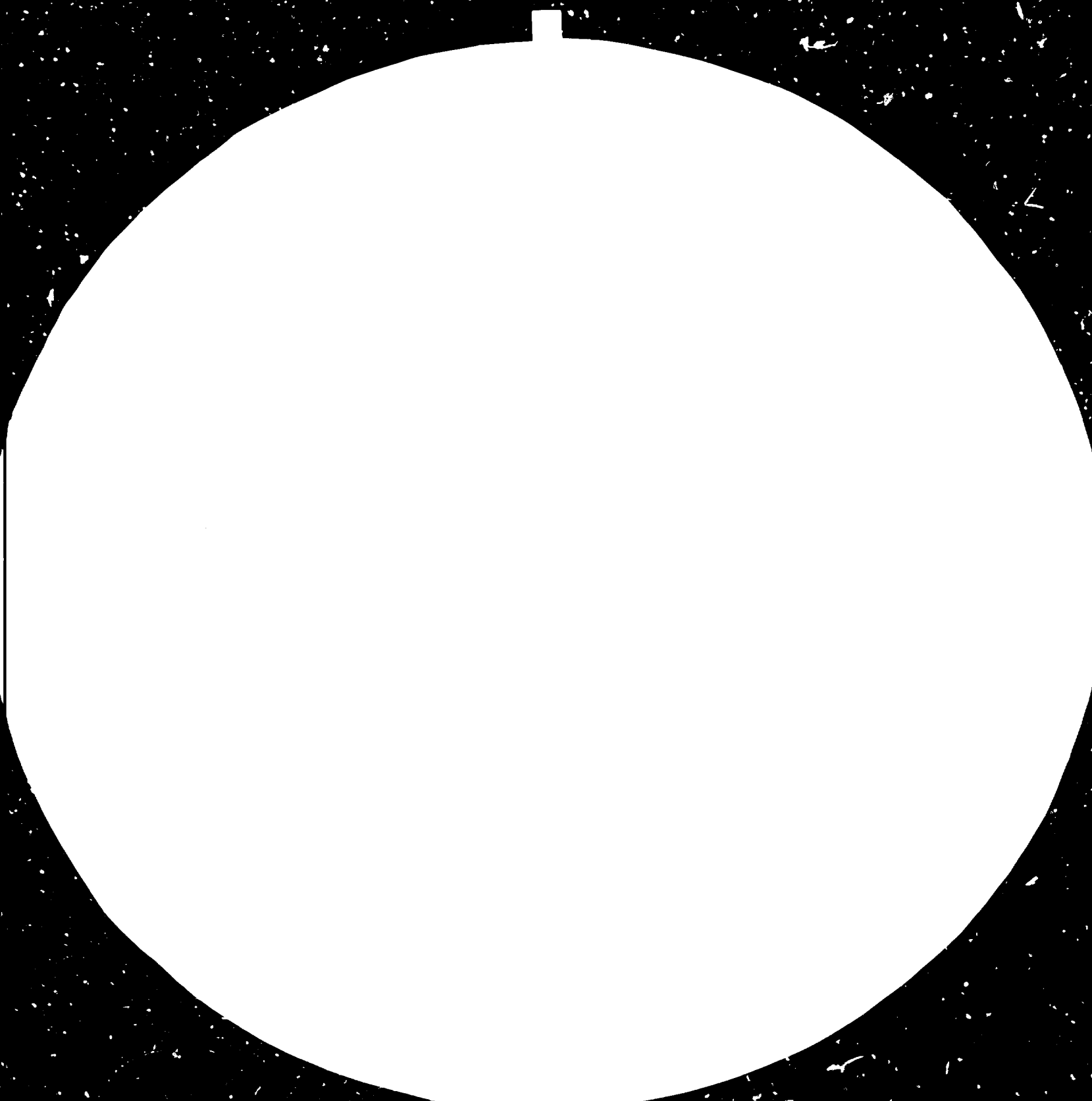
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SOME VIEWS OF GROUP B  
ON THE ORIENTATIONS FOR UNIDO IV\*

\* The document has been issued as received.

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## SOME VIEWS OF GROUP B ON THE ORIENTATIONS FOR UNIDO IV

### I. UNDERLYING OBJECTIVES

1. This paper has two broad objectives, which might be seen as goals for UNIDO IV itself:

- to contribute to the establishment of a conceptual framework on the role of industrialisation in the development process in the context of global economic transformation and domestic adjustment (Part II below);
- to help identify promising areas of operational significance in the conduct of UNIDO's role of promoting industrial development in developing countries (Part III).

Comprehensive discussion of developing country industrialisation at UNIDO IV will need to address the issues in a broad context, but an important part of the Conference's work should focus particularly on activities within UNIDO's operational mandate.

2. Group B considers that development might be characterised as a transition from traditional to modern forms of production in which productivity is increased in the agriculture, industry and service sectors, which increasingly become interlinked. During this process industry often grows more rapidly than agriculture, the pattern of international production and trade is gradually transformed as national comparative advantage changes, and additional employment opportunities are created.

3. A primary requirement for developing country industrial growth is a domestic policy environment in these countries which is conducive to adjustment and growth and which draws on the demonstrated and continuing opportunities presented by specialisation. For the poorest countries, the focus should be on overcoming deficiencies in physical and human infrastructure and on promoting complementary linkages between industry and agriculture.

4. As a vital complement to domestic efforts in developing countries, international cooperation has helped foster the growth of their industrialisation through the opportunities presented by the global trading and investment system, through international financial cooperation, including sustained flows of concessional assistance to poorer developing countries, and through the transfer of technology. For developing countries to realise their in-

dustrial potential it will be essential that such cooperation is maintained and that it draws on an appropriate balance of self-regulating market forces and of active inter-governmental cooperation.

5. Group B welcomes the recognition in much of the UNIDO documentation that the developing countries' own individual and collective efforts are the essential factor affecting their industrialisation prospects. The UNIDO Secretariat also draws attention to striking differentials in industrial performance in different parts of the developing world. In the view of Group B, efforts should be made at the Conference to draw some of the lessons from recent experience. Group B considers that the UNIDO documentation pays too little attention to the role of market forces in bringing about the efficient use of resources for industrialisation, while in general too much emphasis is placed on proposals for new governmental and intergovernmental structures. Group B sees South-South cooperation as a positive complementary element in the multilateral cooperative framework.

## II. GLOBAL TRANSFORMATION AND NATIONAL POLICY ORIENTATION

### A. Global Transformation

6. Recent decades have witnessed a major transformation of the structure of the world economy. At the centre of this dynamic process of development has been the worldwide growth of industrial production and trade and evolving patterns of international specialisation. While earlier surges in industrial growth were largely concentrated amongst developed countries, this most recent process of intense industrial transformation has closely involved the developing countries, whose share of global production of manufactures has markedly increased. According to OECD statistics, developing countries' share of total manufacturing value added of market economies rose from some 6 to 13 per cent between 1953 and 1975. According to UNIDO estimates (IS.433) this share rose from 13 per cent in 1975 to 16 per cent in 1983.

7. Developing country industrial activity and growth has been concentrated within a relatively small group of countries. Some nine countries accounted for 70 per cent of the increase in manufacturing value added of all developing countries between 1966 and 1975, but developing country industrialisation has greater global significance than this degree of country concentration

might suggest and the number of globally important industrialising developing countries, although still relatively small, is growing. The success of the newly industrialising countries has been emulated by a second wave of industrialising developing countries as part of a worldwide process of upgrading of industrial activities towards more capital and skill - intensive production. Even in the low income countries, industry's share of GDP rose from 12 to 17 percent between 1960 and 1981. For the poorest countries, however, fundamental constraints need to be overcome to ensure sustained growth of their industrial sector.

8. The underlying forces which have enabled both developed and developing countries to reap the benefits of rapid economic growth in recent decades still retain their power, even though critical changes in the international economy have brought new problems and adjustment requirements.

- Since the early 1970s there has been lower growth, an increased degree of instability in the world economy, and - notwithstanding a major adjustment effort in developed market economies and many developing countries - there has been a widespread accumulation of protectionist pressures. In 1981-82 the world recession resulted in a slight fall in the volume of world trade.
- The 1970s have also bestowed a financial legacy. In the wake of the second oil price shock in 1979, the sharp change from a period of pervasive inflation to a long period of disinflation and rising real interest rates has fundamentally affected the financial position of developing countries - particularly those whose borrowing was geared to what turned out to be unrealistic objectives in time of recession or to sub-optimal uses;
- Technological change still holds the promise of an important long-term engine of growth. Over the past two decades, vast amounts of technology transfer have helped the less advanced countries to grow faster than the more advanced. This process can be expected to continue. However, more recent technological change may present particular adjustment problems by substantially lowering capital requirements or labour requirements, or both, in a range of industrial processes. This is likely to contribute to a reshuffling of comparative advantages.

9. A strong economic recovery is now taking place in some countries. Signs are emerging of improvement in the world economy. The volume of world trade is once again starting to grow and developing country terms of trade are strengthening: this will bring renewed opportunity and challenge for these countries.

## B. National Policy Orientation

10. The diversity of developing country conditions and experience precludes standard policy responses to the challenges outlined above. Some broad common principles can nevertheless be identified. The central issue, and one which provides the conceptual link between changing international patterns and the domestic policy environment, is the need for developing countries to avoid excessive distortions between their domestic prices and those prevailing internationally. \*)

11. Developing countries in the formulation of their industrial policies and within the pursuit of their political and social objectives, should therefore pay particular attention to the importance of integrating: overall macro balances of the economy, trade and exchange rate policies and the use of internal economic incentives. Thereby the developing countries would be in a better position to achieve balanced and sustainable growth based on efficient national and international resource allocation. Such an approach, while acknowledging the importance of exports, will take full account of the major role of the domestic market. This integrated approach to industrial development seeks to promote the efficient use of the factors of production, and thereby to benefit more fully from developing country comparative advantage.

12. It is within the framework of such an outward orientation that all industrialisation approaches by developing countries should be placed including the role of the public sector. Governments are not only involved in creating the policy framework for industrialisation but are also directly active in many cases in establishing and operating industrial ventures. While no firm conclusions are possible as to the effectiveness of such activities, it is evident that the success of public industrial ventures depends on their being operated along market-oriented lines to ensure efficiency and accountability. ./.

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\*) Recent studies by the World Bank tend to demonstrate that those developing countries which have experienced the worst distortions - as a result of overvalued exchange rates, trade restrictions, negative real interest rates or unrealistic minimum wage laws - have also experienced significantly lower domestic saving and lower output per unit of investment, thus leading to slower growth.



13. The opportunities presented by the growth and restructuring of the international economy in the 1950s and 1960s are perhaps now more widely appreciated than they were at the time. If these opportunities are to be fully restored some fundamental aspects of industrial development policy in a context of broad economic management will need to be addressed by all countries. Against this background, a retreat into inward looking policies would be an inappropriate response to the setback to industrial growth associated with the recent international recession. Production for domestic markets and production for foreign markets are complementary. In two important respects the expansion of exports is an important feature of the process of industrial development: in helping meet the import requirements of domestic production and in overcoming the constraints of limited domestic market opportunities. In this way, exports underpin the expansion of industrial production for domestic consumption.

14. The avoidance of excessive price distortions through domestic incentives and trade and exchange rate policies, the efficient allocation and use of imported and domestic resources, and the structure of trade and production are all interlinked. It is in the interest of all countries to contribute fully to initiatives aimed at defending and improving the open multilateral trading and financial system.

### III. SECTORAL AND OPERATIONAL IMPLICATIONS FOR UNIDO IV

15. The areas briefly discussed below correspond broadly to the proposed agenda item 5 and 6 of UNIDO IV. Group B considers that the first three areas offer particularly favourable opportunities in the conduct of UNIDO's activities.

16. Accelerated Development of Human Resources. For many of the poorer developing countries an overriding barrier to industrial development is the lack of the educational, institutional and human infrastructure which were of critical importance in facilitating the process of industrial growth of the more advanced developing countries. Group B would stress two particular underlying principles: the need for increased emphasis on human resources development within the industrial assistance provided by UNIDO in order that the discussion of fostering such assistance is clearly distinguished from the responsibilities and resources of other development institutions; and second, the need for greater differentiation in the application of assistance in order to meet the specific needs of different types of developing country.

17. Rural Development. The establishment of mutually beneficial linkages between industry and agriculture is central to the development process. Support to industrial activity is complementary to the basic requirement to increase productivity in the traditional (food) sector, particularly in poorer countries. This will transform the activities of low productivity agricultural workers and create an agricultural surplus which encourages the growth of output and employment in industry. Rising agricultural incomes determine the size of domestic demand for manufactured goods and the size of private and public savings which become available for investment in human and physical capital. The establishment and promotion of a viable agricultural sector has been an important complement to any sound industrialisation process. The recent studies of price distortion by the World Bank offer clear evidence of the complementarity of industrial and agricultural growth and of the penalties incurred by discrimination against the agricultural sector. In some successful industrialising developing countries a massive improvement in the terms of trade of the agricultural sector played a significant role in the process of industrial growth.

18. Such a framework provides the orientation for intensified activity in the provision and promotion of assistance for rural development in which there is a role for UNIDO in the development of industries linked to the agricultural sector.

19. Energy. Notwithstanding the important work of the UNDP/World Bank energy assessment and management programmes, there is scope for a possibly augmented role for UNIDO in the energy field, consistent with its agreed mandate. Such a role might focus on energy planning at the industrial plant level, improvement of industrial energy efficiency and improved energy training.

20. Greater recognition might also be afforded to the need for differentiation among developing countries, firstly, in seeking a balance between new and renewable as against conventional sources of energy (in the light of recent assessments that fossil fuels may offer more potential for many of these countries); secondly in drawing lessons from the experience of developed countries (noting that while considerable investment in energy conservation could be economic in the mid to long-term for industrialised countries, the situation in particular developing countries may be quite different); and thirdly, in promoting indigenous energy resource development within the context of overall national priorities.

21. Mobilizing Financial Resources. Constructive discussion of this item will be greatly facilitated by the emergence of some widely shared perceptions. In particular:

- the recognition of the need for a maximum effort from domestic savings, together, however, with acknowledgment of the need for external finance to be highly focussed in ways which enable it to play a complementary and catalytic role in mobilizing domestic savings;
- recognition that expanding world trade in manufactures, particularly developing country exports, is an essential precondition for the viability of developing country external financial positions.

22. There are, however, other issues, with significant operational implications, which warrant fuller consideration than is given in the UNIDO documentation. Group B would stress three closely interrelated areas: the structure of the domestic financial sector in developing countries; the scope for self-financing in the private sectors of developing countries, and, perhaps most importantly, the role of foreign direct investment. FDI has been a vital catalyst in making available to developing countries a unique combination of capital, technology and managerial expertise. Furthermore, it may in the years ahead acquire increased importance as developing countries seek in addition to these qualities, a "non-debt creating" flow. Of critical importance, and going beyond purely "financial" questions, will be the maintenance within developing countries of economic conditions which are conducive to investment, including foreign investment. In this respect, there must be considerable doubt whether the concept advanced by UNIDO of a good project in a high risk country offers a realistic basis for sound development.

23. UNIDO has an important role to play in finance-related areas of industrial development - in project evaluation and formulation, and technical assistance, including the potential to build on current activities in investment promotion and feasibility studies. Underlying goals of such involvement might be seen as assisting developing countries to fully exploit the potential of their industrial capacity, and to generate wealth-creating abilities through industrialisation.

24. While acknowledging the strains in the global economy which have intensified in recent years, it is important that UNIDO's activities are carried out against a balanced international perspective. Full recognition needs to be given to the capacity for global adjustment, the demonstrated ability of many developing countries to avoid drastic financial constraints, the opportunities presented by recovery from world recession, and

the competence and role of existing international monetary and financial institutions in generating finance for industrial development. In Group B's view it follows that UNIDO's mandate should not be extended from specific industrial project financing issues to general monetary and financial questions and that a case does not exist for a new independent institution for financing the industrialisation of developing countries.

25. Scientific and Technological Capacities. Approaches in this area should be more differentiated (as between developing countries' requirements), less centralised, and with less emphasis on high technology than is found in UNIDO secretariat documentation. While emerging technologies such as genetic engineering and biotechnology may contain greater scope than simple village and intermediate technologies, care will be needed to avoid exaggerated expectations and overly risky investment decisions.

26. Industrial Restructuring and Redeployment. Group B welcomes the more measured appreciation in UNIDO documentation of possibilities in this field than formerly, as, for example, in recognising the need for developing countries to build up their capacity to manage, expand, adapt and direct industrial development, rather than focussing only on the establishment of manufacturing capacity per se. However, an inappropriate emphasis on normative approaches and government intervention persists. Group B doubts the feasibility or desirability, even from the developing countries' point of view of international concentration to establish "preferred industrial structures" or "indicative framework agreements" for sectoral cooperation. Furthermore, while the disparities between developing countries are explicitly noted, it would be helpful to carry forward this distinction in order to identify the varying record of adjustment, restructuring and growth among developing countries.

27. In the developed market economy countries, adjustment trends have been pursued even during the recent period of recession, and there have been large losses of employment in traditional industrial sectors. The greatest pressure for adjustment has come through the maintenance of open markets, and the major developing country participants in international trade increased their share in OECD imports of manufactures from 3.6 per cent in 1965-66 to over 9 per cent in 1979-81. Increased competitiveness has been a principal factor in increased developing country market shares. Group B countries are committed to the maintenance of an open multilateral trading system.

28. Raw Materials Processing. There is a problem of overlapping discussions going on in UNCTAD on raw material processing. However, Group B is willing at UNIDO IV to discuss raw material processing as a vital process of industrial development for many developing countries, but one which should not be regarded as, ipso facto, always worth pursuing.

29. Least Developed Countries, and the Industrial Development Decade for Africa. These items, although warranting careful and distinct consideration, are related and, together, are linked to discussion of human resources and rural sector development. In recognition of the relatively poor performance of the least developed countries (most of which are in Africa), UNIDO should concentrate, inside its mandate, on resource surveys, policy advice and assistance in project preparations, design and promotion. It will be important that in such activities UNIDO recognizes the key role of agriculture, the importance of industrial infrastructure and the entrepreneurial dynamism of the private sector. Assistance to the least developed countries should be a priority area for UNIDO.

30. Economic Cooperation among Developing Countries. Group B continues to support practical forms of South-South cooperation and considers that UNIDO should play the role of a catalyst in this area as regards industrial development. Group B also acknowledges that it is essential that South-South trade should grow and that regional cooperation among developing countries should continue to develop. Group B considers that South-South cooperation should be founded on sound domestic policies, avoid costly trade diverting approaches and should be consistent with multilateral exchanges based on comparative advantage. In supporting ECDC UNIDO should respect the principle of universality of the U.N. system.

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