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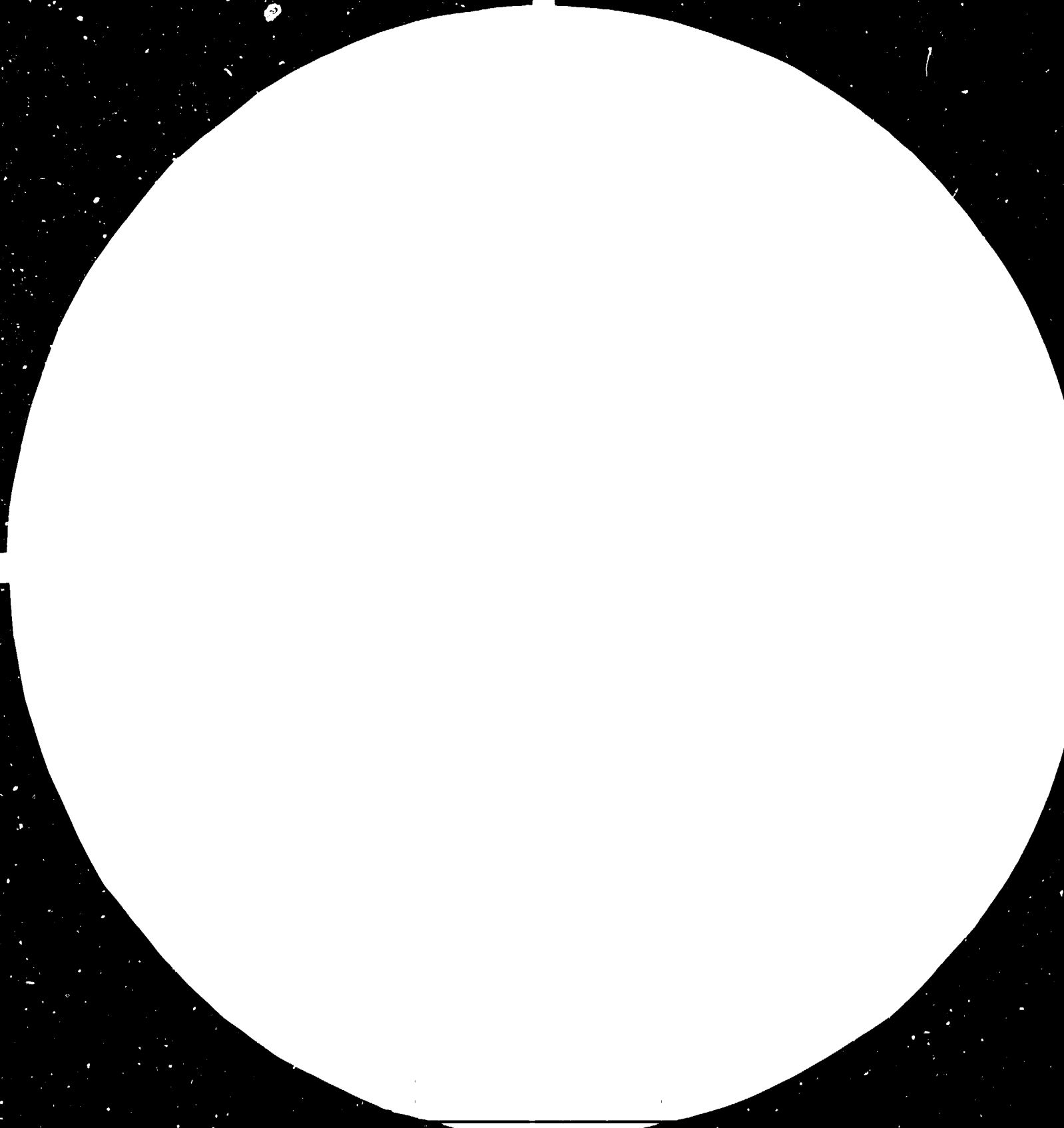
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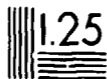
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United Nations Industrial Development Organization

Distr.  
GENERAL

ID/B/C.3/126  
7 October 1983

ORIGINAL: ENGLISH

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## Industrial Development Board

Permanent Committee

Twentieth session

Vienna, 28 November - 2 December 1983

REVIEW OF THE IMPLEMENTATION OF THE INTERNATIONAL DEVELOPMENT STRATEGY  
FOR THE THIRD UNITED NATIONS DEVELOPMENT DECADE  
RELEVANT TO INDUSTRIAL DEVELOPMENT

Note by the Executive Director

1286

V.83-62395

Distr.: 19 October 1983

### Introduction

1. The Industrial Development Board at its seventeenth session requested the Executive Director, in paragraph 3 of Conclusion 1983/2, to provide suitable material on the implementation of the International Development Strategy, through the next session of the Industrial Development Board or its Permanent Committee, to a committee of universal membership of the General Assembly, namely, the Committee on the Review and Appraisal of the Implementation of the International Development Strategy for the Third United Nations Development Decade.

2. In accordance with General Assembly resolution 37/202 of 20 December 1982, the Committee would report to the General Assembly at its thirty-ninth session through the Economic and Social Council at its second regular session in 1984. The six-week deadline for the submission of documents for the latter session is in mid-May 1984. Consequently, the Executive Director proposed in a note verbale to the members of the Board, dated 15 August 1983, that the relevant material to be submitted in compliance with Board Conclusion 1983/2 could be considered by the Permanent Committee at its twentieth session in November/December 1983, rather than by the Board at its eighteenth session in May 1984. This procedure, the Executive Director suggested, would ensure discussion of the relevant material by the Permanent Committee, and its transmission through the Permanent Committee to the Secretary-General before the end of 1983 for timely submission to the Committee on the Review and Appraisal for the Implementation of the International Development Strategy for the Third United Nations Development Decade. It would also ensure that the Committee on the Review and Appraisal took the contribution by UNIDO into account in its report to the General Assembly through the Economic and Social Council.

3. The present note and its annex, which contains UNIDO's review and appraisal of the Strategy relevant to industry, have in the meantime been submitted to the Task Force on Long-term Development Objectives of the Administrative Committee on Co-ordination (ACC) for its meeting from 10 to 12 October 1983. It is presumed that the ACC Task Force and the Consultative Committee on Substantive Questions (Programme Matters) (CCSQ) (PRG), at that time, will hold a joint session on the topic of review and appraisal. Any comments and decisions on the UNIDO contribution forthcoming from that meeting will be communicated to the Permanent Committee at its current session in due course.

#### Action required of the Permanent Committee

4. The Committee may wish to transmit, together with its comments, the present note and its annex to the Committee on the Review and Appraisal of the Implementation of the International Development Strategy for the Third United Nations Development Decade. The Permanent Committee may also wish to give guidelines to the UNIDO Secretariat with regard to this topic which may be used in further contributions by the Secretariat to the process of review and appraisal within the United Nations system.

Annex

REVIEW AND APPRAISAL OF THE IMPLEMENTATION OF THE INTERNATIONAL DEVELOPMENT STRATEGY  
FOR THE THIRD UNITED NATIONS DEVELOPMENT DECADE  
RELEVANT TO INDUSTRIAL DEVELOPMENT

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Summary

The annex to the present note summarizes the role of industrialization in the International Development Strategy and discusses its implementation, both as regards UNIDO activity, and national and international policies for industrialization of the developing countries since the Strategy was adopted. Section I of the paper reviews the policy measures in the Strategy for the achievement of the adopted goals and objectives, including the policy measures in areas other than industrialization which are of key relevance. Section II then analyses the manner in which UNIDO's plans and programmes have been drawn up with a view to the implementation of the measures called for in the Strategy. Section III summarizes progress in the industrialization of the developing countries since the Strategy was adopted. Given the lack of availability of other than quite aggregate data, and given the fact that that even this is, in general not available beyond 1982, the discussion is essentially confined to progress over two years, i.e. 1981 and 1982. The sources drawn upon for the preparation of this section include the most recent report on "Monitoring progress made in accelerating industrialization in the developing countries (1981-1982)" (ID/B/295/Add.2 and Corr.1 and 2), the "Statistical review of the world industrial situation, 1982" (UNIDO/IS.368) and the forthcoming issue of the Industrial Development Survey. Section IV discusses the impact of the current world economic situation on the industrialization of the developing countries, and section V then reviews the prospects for the remainder of the Decade.

## Introduction

1. In 1980, the General Assembly proclaimed the 1980s as the Third United Nations Development Decade, and adopted the International Development Strategy for that Decade.<sup>1/</sup> The Strategy<sup>2/</sup> contains goals and objectives for the accelerated economic development of the developing countries and is "...an integral part of the efforts of the international community to establish a new international economic order".<sup>3/</sup> It contains also a set of policy measures, to be implemented during the Decade at national, regional and international levels, by means of which the goals and objectives are to be achieved. Finally it describes the process of review and appraisal of the implementation of the Strategy, the aim of which is "...to ensure the effective implementation of the International Development Strategy ... and to strengthen it as an instrument of policy. The process will be undertaken within the United Nations system at the global, sectoral and regional levels, and at the national level by the respective Governments...".<sup>4/</sup>
2. The Strategy states that at the sectoral level "...the relevant specialized agencies, organs and organizations of the United Nations will contribute from the experience of their respective sectors to the process of review and appraisal at both the global and regional levels".<sup>5/</sup> It states also that the review and appraisal process "...will consist of systematic scrutiny, within the context of an over-all review of the international economic situation, of the progress made towards achieving the goals and objectives of the Strategy and the identification and appraisal of the factors which account for shortfalls that may be encountered".<sup>6/</sup> It is also noted in the Strategy that the review and appraisal process should "...ensure that the operational activities of the United Nations system contribute effectively to the implementation of the International Development Strategy".<sup>7/</sup>
3. Subsequently, the General Assembly has initiated the process of review and appraisal. In resolution 37/202, of 20 December 1982, the General Assembly has reaffirmed the decision in the Strategy itself to carry out at the global level the first over-all review and appraisal and has decided to establish a committee of universal membership for this purpose. This body, the Committee on the Review and Appraisal of the Implementation of the International Development Strategy for the Third United Nations Development Decade, will report to the General Assembly at the thirty-ninth session through the Economic and Social Council at its second regular session of 1984. Resolution 37/202, inter alia, stresses that the process of review and appraisal at the global level shall take into account the results achieved at the sectoral, regional and national levels, and also calls upon "...the relevant organs, organizations and bodies of the United Nations system to report on the results achieved in their respective sectors in applying the International Development Strategy as the policy framework in the formulation and implementation of their programmes of work and medium-term plans to the Committee ..."<sup>8/</sup> (i.e. the Committee on the Review and Appraisal referred to above).
4. The eighteenth session of the Industrial Development Board will not be held until May 1984, too late for a submission from it to be made use of by the Committee on the Review and Appraisal, and thus the present annex is intended to provide a basis upon which the Permanent Committee of the Industrial Development Board may contribute, in the task of review and appraisal, to the Committee established for this purpose. The present paper has also been submitted by the Secretariat to the Task Force on Long-Term Development Objectives of the Administrative Committee

on Co-ordination (ACC), which meets in October 1983, as part of the review and appraisal exercise within the United Nations system. It may therefore be incorporated in the Secretary-General's report on this topic to be presented to the Committee on the Review and Appraisal.

#### I. Industrialization in the International Development Strategy

5. As part of the goals and objectives of the Strategy, industry receives specific mention in the establishment of a target for manufacturing output growth of the developing countries at an average annual rate of 9 per cent over the Decade. This is regarded as leading to a significant contribution towards raising the share of developing countries in world manufacturing production, and thus laying the basis for achieving the Lima target. Industrialization is to be aimed at meeting in an integrated way the overall requirements of the development of the national economies of developing countries, geared towards not only satisfying growing domestic demand and employment requirements but also directed towards increasing exports of manufactures by developing countries. The principle behind this is clearly given in the goals and objectives, by setting out as a target for the world community a "...system of trade based on a dynamic pattern of comparative advantage reflecting a more effective international division of labour. Far-reaching changes should, therefore, be brought about in the structure of world production, in the spirit of mutual benefit, so as to increase and diversify the production of the developing countries and create new sources of employment there".<sup>9/</sup>

6. The policy measures for the achievement of these objectives are set out in the Strategy and cover action at the national, regional, and international level, as well as the activities of UNIDO. The policies and programmes for strengthening and expansion of the developing countries industrial capacities are to include "...as a crucial element, the redeployment of industrial capacities. This redeployment will primarily consist of the creation of new industrial capacities in developing countries, as well as the redeployment of industrial capacities from industrialized to developing countries on the principle of dynamic comparative advantage ...".<sup>10/</sup> It is recognized that this involves the transfer of many resources to developing countries and Governments, in particular those of the developed countries, are called upon to encourage and intensify the process by "...actively pursuing policies with a view to encouraging the continued reallocation of resources and encouraging domestic factors of production to move from internationally less competitive to more viable lines of production or into other sectors of the economy".<sup>10/</sup>

7. The Strategy calls for increased access to developed country markets for developing countries' manufactures, and emphasizes the need for independent and autonomous industrial development, which is to be balanced with respect to size and scale and to include also agro-industry and the processing of natural resources. A specific UNIDO activity mentioned is the System of Consultations, which is to be strengthened, developed and made more effective. Measures for the financing of industrial development include: a substantial increase in the transfer of financial and other resources; a review, early in the Decade, of the arrangements for industrial financing; and a strengthening and enlargement of the United Nations Industrial Development Fund.



8. The Strategy also recognizes the necessity for "...inter alia, labour-intensive, medium-scale and small-scale industries which are efficient and generate more employment opportunities" as well as "...appropriate technology and effective policies to increase investments for the development of human resources ...".<sup>11/</sup> Some other components of industrial policy include "...productive employment generation and the integration and equal participation of women...".<sup>11/</sup> The Strategy also refers to "...increased domestic investment, taking into account the role of the public sector in this process, measures to encourage domestic savings and mutually beneficial foreign direct investment and other sources of private capital", and states that "it is for the developing countries to set their own investment priorities and take appropriate decisions regarding admission of foreign investment and private capital in the light of those priorities".<sup>12/</sup> The Strategy also states that consideration should be given by all countries to environmental aspects of industrialization, and in concluding the industrialization section declares that "the international community will accord highest priority to measures, including adequate financial provisions, as required, for the effective implementation of the Industrial Development Decade for Africa ...".<sup>13/</sup>

9. The Strategy states that "industrialization should be aimed at meeting in an integrated way the over-all requirements of the development of the national economies of developing countries".<sup>14/</sup> It thus recognizes that industrialization, as a process, is not to be treated in isolation. Indeed, the policy measures concerned with industrialization are not confined to the section of the Strategy with that title. They include related action in other areas such as in trade where assistance to developing countries through the provision of resources for manufacturing capacities is called for,<sup>15/</sup> and in agriculture, where "...in the context of integrated rural development, Governments will encourage rural industrialization ...".<sup>16/</sup> Other crucial policy areas having a direct bearing on industrialization include technical co-operation, for which renewed emphasis and resources are called for,<sup>17/</sup> and science and technology for development. Under this latter heading, policy measures are put forward to increase the developing countries' scientific and technological capacities. The transfer of technology, international co-operation in this regard, and the development of technologies adapted to the specific conditions of developing countries are all emphasized. Among other measures, in technology planning and policies special attention is to be given to sectors of critical importance to developing countries, in order to achieve a reasonable balance between labour-intensive and capital-intensive technologies. The developed countries are to increase substantially the proportion of their research and development expenditures, in co-operation with developing countries, for the solution of problems of prime importance to the latter. Developing countries themselves will intensify their efforts to strengthen their scientific and technological infrastructure and develop their endogenous technological and inventive capacities by increasing the resources devoted to education and training and research and development, taking measures for the efficient acquisition and optimum utilization of technology, and strengthening co-operation among themselves in this field.

10. Energy, a subject intimately linked with industrialization, is also dealt with in the Strategy, including, inter alia, the participation of developing countries in production, processing, marketing and distribution of energy resources, the provision of assistance to developing countries in having access to scientific and technological processes, and the establishment and strengthening of medium-term and long-term national action programmes on new and

renewable resources of energy. Economic and technical co-operation for development also receives a special mention as a policy measure to "...help the developing countries, through their own efforts, to strengthen their economic potential, accelerate their economic growth and improve their position in the system of international economic relations".<sup>18/</sup> Least developed countries, most seriously affected countries, developing island countries, and land-locked developing countries also receive particular attention.

## II. Application of the International Development Strategy as the policy framework for UNIDO

11. The principle means by which the International Development Strategy has been incorporated in the programmes of UNIDO to date has been through its use as a policy framework in the drawing up of the Medium-Term Plan for the Period 1984-1989.<sup>19/</sup> The draft Medium-Term Plan for the above period was reviewed by the Permanent Committee of the Industrial Development Board at its sixteenth session.<sup>20/</sup> As subsequently incorporated into the Medium-Term Plan for the United Nations as a whole, the section dealing with industrial development (chap.15) places the International Development Strategy as the central theme of the industrialization activities described therein. The present Medium-Term Plan has been drawn up for a six-year period, in order to allow for a longer time horizon in which three biennium programme budgets would be prepared. In the Proposed Programme Budget for the Biennium 1984-1985,<sup>21/</sup> section 17 dealing with UNIDO has been drawn up using the Medium-Term Plan for 1984-1989 as a framework. The Programme Budget for the Biennium 1982-1983 was drawn up mainly on the basis of the Medium-Term Plan for 1980-1983. It could not reflect the International Development Strategy for the Third United Nations Development Decade, since the Strategy itself was adopted in December 1980 only, but the new international economic order and the Lima Declaration and Plan of Action on Industrial Development and Co-operation,<sup>22/</sup> towards which the Strategy is a step, were basic references for its formulation.

12. In the drawing up of the draft 1984-1989 Medium-Term Plan within UNIDO, as well as within the United Nations Secretariat as a whole, the basic point of reference was the International Development Strategy, and it has provided a direction for the formulation of plans at the major programme, programme, and sub-programme levels. In the Plan it is stated that four categories of activity will be carried by UNIDO to implement the International Development Strategy: technical co-operation activities; supporting activities, such as industrial studies and research, including some promotional action; pre-investment activities leading to the creation of specific production facilities; and the system of continuing consultations on industry. It is stated that the activities in the four categories "...interact and reinforce the impact which this major programme can make with resources which are inevitably minute compared with those needed to secure a significant degree of industrialization in the developing world".<sup>23/</sup>

13. The Medium-Term Plan divides UNIDO's activities in the field of industrialization into three programmes: policy co-ordination, industrial studies and research, and industrial operations. Each of these programmes is divided into sub-programmes, to a total of 13. Policy co-ordination contains the following sub-programmes: programme development and evaluation, special measures for the least developed countries and other disadvantaged categories of developing countries, co-operation among developing countries for industrialization, and the System of Consultations.

Industrial studies and research contains the following five sub-programmes: global and conceptual studies and research, regional and countries studies and research, sectoral studies and research, development and transfer of technology and advisory services, and industrial and technological information bank and general information services. Finally, the industrial operations programme is divided into four sub-programmes: planning and programming operations, institution building and training operation, operations relating to technology development and transfer, and pre-investment activities.

14. It may be noted that these components of UNIDO activities in the years 1984-1989 are addressed to all of the policy measures set out in the International Development Strategy, both those referred to directly under industrialization and key areas which receive separate treatment in the Strategy document, such as technology. Moreover, the policy issues raised in the Strategy are such that they are inevitably interrelated, within both the discussion of industrialization itself and a wider consideration of its role in development as a whole. Accordingly, the activities of UNIDO, as set out in the Medium-Term Plan, constitute a wide conspectus of activity, from, for instance, studies and research, through consultations and pre-investment activities to the implementation of projects, with associated developments in the field of technology, of institutional development, and of the development of human resources. The programmes for UNIDO activities are intended to cover all the major aspects of the complex process of industrialization and to do so in a way that the programmes support one another and lead to the most efficient results. A specific concordance between the Industrial Development Strategy and the Medium-Term Plan would show that in many instances the policy issues raised in the Strategy are addressed by more than one sub-programme. Thus, for instance, what is described in the International Development Strategy as a crucial element, the redeployment of industrial capacities, and is defined as consisting primarily of the creation of new industrial capacities in developing countries as well as redeployment of capacities from industrialized to developing countries, is a topic addressed not only in the programme of industrial studies and research but also in the technical co-operation activities under the programme of industrial operations and in the System of Consultations, investment promotion activities and activities under sub-programmes relating to the development and transfer of technology.

15. The application of the International Development Strategy as a framework for the programmes and plans of UNIDO and of the United Nations as a whole is a continuing process, and goes beyond the drawing on the Strategy for the formulation of the Medium-Term Plan, within which, as has been noted, the programme budgets of the United Nations system are prepared. One of the most important extensions is the continuing analysis, in which UNIDO participates, carried out by the Consultative Committee on Substantive Questions (Programming Matters) (CCSQ)(PROG)). This body is a subsidiary of the ACC, and prepares analyses of the organizations' programmes and plans in relation to the International Development Strategy, dealing at each session with selected subject areas. UNIDO participates fully in these reviews, and it is expected that CCSQ (PROG) will itself provide a report to the Committee on the Review and Appraisal.

### III. Progress in industrialization in the Third Development Decade

16. Estimated figures indicate that in 1981, the first year of the Decade, manufacturing value-added (MVA) in the developing countries declined by 0.4 per cent. In 1982, the latest year for which figures are available, the growth was 0.1 per cent. These growth rates contrast sharply with the target of 9 per cent annual average growth rate in manufacturing adopted as one of the goals and objectives of the International Development Strategy. The results so far achieved indicate that for the remainder of the Decade (including 1983), the developing countries' manufacturing would have to grow at over 11 per cent per annum on average, in order to meet the 9 per cent average target for the Decade as a whole. As was seen in the "Statistical review of the world industrial situation, 1982",<sup>24/</sup> the share of developing countries in world MVA was 11.0 per cent, an increase of only one percentage point over the 10.0 per cent share for 1975, the year of the adoption of the Lima target, for the achievement of which the Industrial Development Strategy was intended to lay the basis. In fact in 1981, the share of the developing countries had fallen slightly.

17. More detailed examination of the figures does not yield a more encouraging picture. The share of world MVA held by the least developed countries has remained steady over the whole period since 1975, at the very small figure of 0.2 per cent. For this group of countries, the Strategy had called for accelerated industrial progress and support from the international community for their full industrialization.<sup>25/</sup> Again, at the level of economic regions, progress has been particularly disappointing in Latin America where MVA is estimated to have declined by 4.6 per cent in 1981 and 3.7 per cent in 1982. Since Latin America occupies such a large share of the developing countries' MVA, it is the decline in this region that has led to the poor performance of developing countries as a whole in 1981 and 1982. In conformity with the estimated negative growth rates, Latin America's share of world MVA has fallen from 6.14 per cent in 1980 to 5.82 in 1981 and 5.68 in 1982.

18. The Asian region (West, South and East) has as a whole shown a better performance, its MVA being estimated to have risen at a rate of 4.5 per cent in 1981 and 3.9 per cent in 1982. However, this region in 1982 accounted for less than 40 per cent of the developing regions' MVA and thus this relatively good performance by the Asian region was not enough to offset the negative growth rates in Latin America. The Asian region increased its share of world MVA, from 3.87 per cent in 1980 to 4.02 per cent in 1981 and 4.23 per cent in 1982. In general, it has been the growth in the share of this region in world MVA that has principally contributed to the slight overall improvement of developing countries since the year of the adoption of the Lima target. However, summary statistics mask a more detailed reality, since it is the high growth rates of manufacturing in a subset of the countries in this region which have made the share show an increase, and other developing countries of Asia have not performed nearly as well.

19. There are indications that manufacturing growth in Africa has been high during the first two years of the Third Development Decade. The African region in 1975 had a share of 0.88 per cent of total world MVA and by 1982 this had risen to 1.11 per cent. This figure is, in fact, in excess of the 1 per cent target for 1985 embodied in the Industrial Development Decade for Africa, and at

first sight, therefore, the subsequent target of 1.4 per cent for 1990 for Africa and the target of a 2 per cent share for the year 2000 do not seem unattainable. However, it should be recalled that the relative nature of the target means that, without a sustained recovery of the world economy, the actual MVA of Africa in absolute terms may yet remain small and may thus make little contribution to the overall development of this region.

20. The problems which have beset the industrialization of the developing countries, and the implementation of the International Development Strategy, have included, as significant elements, those brought by the performance of the world economy. The world recession has caused a fall in demand for the exports of developing countries and, in particular, a fall in prices of those commodities on whose sale so many developing countries depend. Rising interest rates have placed an extra burden on those developing countries in terms of debt service requirements. The recession has been accompanied by a growth in protectionism by developed countries in particular, presenting a further obstacle to the expansion of developing countries exports and thus their overall growth. Finally, the recession in the developed countries has meant that there has been no expansion of assistance from these countries to the South: the target of 0.7 per cent of the gross national product (GNP) of the developed countries as official development assistance (ODA) to the developing countries has not been met. The impact of the current crisis is discussed in more detail in section IV of the present annex.

21. In the present section, however, it is worth recording that many severe domestic constraints have been identified by the developing countries as presenting serious obstacles to their industrialization in recent years. These include structural constraints where a lack of flexibility and adaptability in the economy presents difficulties in adjustment to meet changing economic conditions in the world and in directing the national economy towards more promising patterns of development. The small size of many national economies is a further difficulty, which has constrained, in particular, the development of new industries: since insufficient domestic markets exist, and the possibility for export expansion may be limited, the economies of scale necessary for the efficient introduction of new productive capacity, in particular for import substitution, may not exist.

22. A further obstacle is the lack of adequate industrial infrastructure. Transport and communications, market and product research and other aspects of the efficient functioning of the manufacturing industry may not be available, and this in itself is an expression, in specific terms, of the weakness of inter-sectoral linkages in many countries. Industry can only function efficiently when it is integrated in a central role in the economy as a whole, when upstream and downstream to the rest of the economy it makes best use of the country's natural resources and supplies it with finished products as inputs to other sectors. The absence of such linkage means that the full market potential of the industry concerned is not being realized and the natural and human resources of the country are not exploited as they should be. Discrepancies in income distribution have also been noted as obstacles to industrial growth (both because skewed distribution makes it more difficult to mobilize domestic savings to a level suitable for investment and also because patterns of interregional migration brought about by perceptions of income disparities between rural and urban areas can be linked to an uncontrolled urbanization, placing an impossible strain upon the country's resources for infrastructural development). A lack of necessary skills has also been identified as a constraint on developing countries' industrialization, and indeed the development of human resources is the most essential element of

any industrial development plan. Finally, it may be noted that inadequate or ineffectively implemented government policies can constitute a severe obstacle to the achievement of the overall social and economic goals of developing countries and, furthermore, that socio-cultural limitations can also raise difficulties in the transformation of society to one implied by a modern industrial economy.

23. An overall impression of the views of Governments in developing countries, as seen in the monitoring report, might be that while there is certainly progress in industrialization, the rate at which this has been achieved is discouraging, to such an extent indeed that a reassessment can now be taken as being under way, in which strategies applied so far are being examined again for their appropriateness and effectiveness. It might be said that greater emphasis is now being accorded to the processing of natural resources of the countries concerned, that there is new concentration upon agro-based industries, and that export orientation has come ever more into focus as a component of industrialization strategies. Equally, there is a recognition of the vital importance for developing countries of economic and technical co-operation for development among themselves. South-South co-operation is being increasingly practised. As a concept, it arises naturally from the perception of the inequities of the world economic structure and the rigidities which are such as to permit no immediate improvement in North-South relations. Moreover it is also based upon the idea that by making best use of its own resources, the South can generate its own growth without depending on a transmission from the North.

#### IV. The impact of the current crisis on the industrialization of the developing countries

24. The developing countries had in the past managed to achieve extremely high growth rates for their manufacturing sector. From 1960 to 1977 it had grown at an average of 7.3 per cent per annum, and in 1960 and in 1973, for instance, it grew at over 10 per cent per annum, a remarkable performance, and one that meant that the developing countries were steadily increasing their share of world MVA. The present crisis has meant that these high growth rates of manufacturing in developing countries have disappeared. The slump in the world economy following the oil price adjustment in 1973 was something which the developing countries managed to adapt to with remarkable resilience. They maintained acceptable levels of gross domestic product (GDP) growth and of manufacturing growth, in spite of the severe difficulties engendered by the slow-down in the North. In the latter region, for instance, developed countries' GDP grew at less than one per cent in 1975, with a decline of 1.2 per cent in MVA in this region. The present crisis, however, is one that the developing countries have not been able to avoid, and the consequences for them have been even more severe than those for the North.

25. An important feature of the current crisis is the decline in world trade. Between 1963 and 1973 it increased at an annual rate of 8.5 per cent, but between 1973 and 1981 the growth was only 3.5 per cent per annum. It did not increase at all in 1981 and actually declined in 1982 by between 1 and 2 per cent. The slow growth of the economies of the North has had a severe impact on demand for commodities, and prices of these have fallen sharply. The developing countries terms of trade fell in 1982 for the fifth consecutive year. Growing protectionism, fuelled by the current recession, has meant also that penetration of the markets of the North by manufactures

export from developing countries has also been slowed. The World Economic Survey 1983 <sup>26/</sup> notes that many new protective measures were introduced in 1982. The decline in total export earnings of the developing countries, combined with the severe pressure on their balances of payments by the present crisis, has in turn, led many of them to reduce their imports. Real imports of developing countries declined in 1982.

26. The position of world trade is of course very closely linked to that of the international financial system. The industrialized countries have been able to increase the price of their manufactured goods sufficiently to pay for the higher cost of their energy imports. But the energy importing developing countries have not been able to do so, their terms of trade have suffered because the prices of commodities have declined and their exports of manufactures have not grown fast enough to make up the shortfall. The consequence has been, for the energy importing countries in particular, a persistent and increasing deficit on their international balance of payments. To relieve this pressure, it has been necessary to resort to borrowing on commercial terms. This is because no other course was open; the volume of ODA, which grew at 4 per cent per annum in real terms in the late 1970s, did not increase in 1981 or in 1982, and although there was a revival in private direct investment in the developing countries in the late 1970s, and an increase of 25 per cent in 1981, this has nevertheless been at a level altogether inadequate to meet the pressure on the balances of payments of the South. Thus, the main source of funds has been the international capital markets. These seemed attractive so long as interest rates were at a reasonable level, but the very high interest rates prevailing in 1981 and 1982 discouraged further borrowing and raised the cost of servicing external debt to the point where it presented almost impossible difficulties for a number of countries. Again, migrants' remittances, which had been for selected developing countries an important source of foreign exchange, also saw a decline as activity decreased in industrialized countries.

27. In their replies to UNIDO during the third monitoring exercise, the response of Governments of developing countries indicated a recognition of the severe impact of many of the above-mentioned features of the present economic crisis, in particular the recession in the North, the high level of interest rates, the deteriorating terms of trade for developing countries, foreign exchange constraints, and the growth of protectionism. In spite of this, however, Governments of developing countries have not been led to modify their fundamental strategy to rely on the industrial sector for the central contribution to economic growth. But the developing crisis of recent years, as much as the catastrophic performances of 1982, has begun to induce a reassessment of both national and international policies for industrialization.

28. This also was a finding of the High-level Expert Group Meeting on Industrial Development Policies for Developing Countries held in Lima in preparation for the Fourth General Conference of UNIDO:

"In discussing strategies and policies for industrialization in the developing countries in the 1980s and 1990s, it was agreed that they must re-examine existing policies and introduce new ones in correspondence with the new macro-economic realities of the world economy."<sup>27/</sup>

29. The present recession has exposed the dependence of developing countries on the North, for the impact on them has been far more severe. It has also, therefore, exposed the weakness of strategies of industrialization which are too closely linked to exports (whether of primary

commodities or manufactures) to developed countries, since these inevitably bear the brunt of recession in the North. Accordingly, it has focused new attention on the importance of the internal market, and given a renewed impetus to economic and technical co-operation among developing countries themselves.

#### V. Industry in the remainder of the Decade

30. The International Development Strategy for the Third Development Decade, in its goals and objectives, has concisely set out a growth path for the developing countries up till 1990, and it is a path which represents a significant step towards the achievement of the Lima target. The assumption therein, of a 7 per cent annual average growth rate in GDP of the developing countries was based upon an analysis that assumed a reasonable growth for the North also, of an average of 3.7 per cent per annum. It was found that such a set of growth rates for North and South would have many advantages. It would not place impossibly high constraints upon consumption, it would not be unduly limited by the relatively modest expectations for agricultural growth in developing countries, and it would allow a reasonable level of assistance from developed to developing countries in the process. The International Development Strategy thus represents a harmonious growth path which can to a considerable degree transform the present linkage between North and South from one where recession in the North is distributed in a more intense form in the South into one through the operation of which both North and South grow at substantial rates.

31. The forthcoming issue of the Industrial Development Survey notes that manufacturing growth in developed countries in the future cannot be expected to be as high as before, because of the long-term effects of declining investment, decreasing productivity gains, and shifts in structure in final demand with higher income levels away from manufactured goods. Manufacturing growth in the centrally planned economies can also be regarded as unlikely to match previous performance due to a slow growth in the labour force, limitations on fuel and raw material outputs, together with other factors. For the developing countries, the forces at work which may heavily influence their own performances can include the rapid expansion of the manufacturing sector associated with intermediate levels of per capita income and also the dependence, of those developing countries which have adopted outward-looking strategies, on the developed countries' growth and policies.

32. There are recent signs that the prospects for the world economy are brighter than they might have appeared a year ago. However, while a recovery in the North is necessary for the progress of the world economy it is by no means a sufficient condition. The need is for policies which are co-ordinated internationally, and which recognize two key features of the world economy: its interdependence and its changing structure.

33. At present, the developing countries have a very small amount of industry, even though they have pressing needs for manufactures as well as for overall development. As such they offer the potential of a greatly expanded world market. In addition they have a comparative advantage in many fields of production, the exercise of which is prevented by the present structure of the world economy, as well as a wealth of natural resources of many kinds. Since there are enormous dissimilarities in the factor proportions of production activities between developed and



developing countries, a gradual transfer of capital input especially in the form of industrial production capacity, would improve the marginal productivity in all economic inputs in both groups of countries. Under new co-operative arrangements, both the developed and the developing countries would benefit from an expanded industrialization in the South. As the Strategy notes "...accelerated development of developing countries is of vital importance for the steady growth of the world economy and essential for world peace and stability".<sup>28/</sup>

34. The Strategy was conceived and adopted in a time of increasing difficulties in the world economy. As has been seen, these difficulties have not been resolved in the first years of the Third Development Decade. But the statement in the Strategy remains relevant that "the current economic difficulties should not deter the world community from the imperative to restructure international economic relations".<sup>29/</sup> Industrialization of the developing countries can be an integral part of such restructuring, both benefiting from it and making a major contribution to it.

#### Notes

1/ General Assembly resolution 35/56, 5 December 1980.

2/ Ibid., annex.

3/ Ibid., para. 17.

4/ Ibid., para. 169.

5/ Ibid., para. 175.

6/ Ibid., para. 170.

7/ Ibid., para. 178.

8/ General Assembly resolution 37/202, para. 6.

9/ General Assembly resolution 35/56, annex, para.29.

10/ Ibid., para. 73.

11/ Ibid., para. 77.

12/ Ibid., para. 78.

13/ Ibid., para. 80.

- 14/ Ibid., para. 29.
- 15/ Ibid., para. 59.
- 16/ Ibid., para. 95.
- 17/ Ibid., para. 116.
- 18/ Ibid., para. 134.
- 19/ Official Records of the General Assembly, Thirty-seventh Session, Supplement No.6 (A/37/6).
- 20/ ID/B/270, paras.18 - 52.
- 21/ Official Records of the General Assembly, Thirty-eighth Session, Supplement No.6 (A/38/6).
- 22/ ID/CONF.3/31, chap.IV.
- 23/ Official Records of the General Assembly, Thirty-seventh Session, Supplement No.6 (A/37/6), para. 15.3
- 24/ UNIDO/IS.368.
- 25/ General Assembly resolution 35/56, annex, para.143.
- 26/ E/1982/42, p.31.
- 27/ ID/WG.391/12, para.14.
- 28/ General Assembly resolution 35/56, annex, para.4.
- 29/ Ibid., para. 5.

