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Industrial Development

Global Report 1995

Executive Summary

UNIDO

United Nations Industrial Development Organization

INDUSTRIAL DEVELOPMENT

GLOBAL REPORT 1995

Executive Summary

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna, 1995

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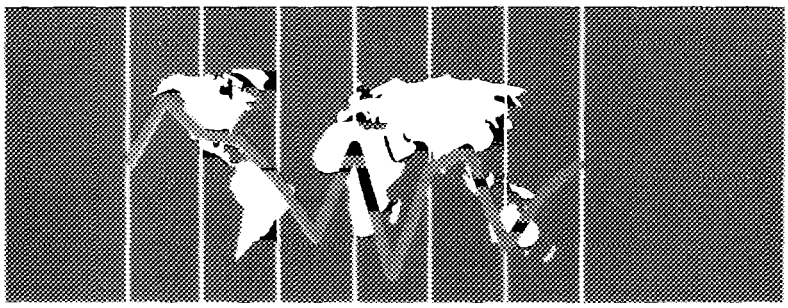


Introduction

In 1994, the world economy—particularly the developed world—showed signs of recovery from the recession that had plagued those countries since the start of the decade. Over the last 10 years, the world also witnessed an unprecedented series of changes in the global environment that are likely to have serious implications on the growth prospects of developed and developing countries alike. Whether, in the next century, the world economy will be able to parallel the growth performance of the past is an important question in the minds of economists and national planners.

The challenge faced by all developing countries and economies in transition in a changing global economic environment is how to sustain the growth impulse and to expand their share in world output. There is no lack of will on the part of their Governments to improve the social and economic status of their peoples, and industry continues to be seen to provide the most viable path towards the achievement of that goal, as evidenced by the increasing implementation of industrial reform programmes and policies in the countries concerned. Those Governments have also chosen to follow the example of newly industrializing countries (NICs) in adopting a more open-market, export-oriented approach to development. Current changes in the world economic environment, however, have placed the least developed countries before additional obstacles on the road to success. Such changes include the emergence of a more liberalized global trading system, growing numbers of regional integration arrangements, advances in industrial technology, increasing pressures on the ecosystem and the intensification of competition on world markets. Furthermore, developing countries remain highly dependent upon markets of the developed economies for their exports, and any slow-down in economic growth or adverse changes in trading policies in those countries could have a negative impact on the future growth prospects of developing countries.

The theme for the *Global Report 1995* is "sustaining the growth impulse in a changing global environment". Part One of the *Report* highlights and discusses some major issues relating to the changes that are occurring in the world today that will affect the status and prospects of world industry into the next century. It also includes discussions on the implications of those changes for the growth outlook of developing countries, and suggests policy responses. Part Two gives a regional perspective of the status and prospects in the manufacturing sector, including discussion of some key industrial development issues in each region. As in previous years, the final part provides industry development indicators; this year 185 countries and territories are covered.

Industry in a changing world: sustaining the growth impulse

For the first time in many years the world is in a growth mode, with an estimated average annual gross domestic product (GDP) growth rate of 3.1 per cent for 1994 and 2.9 per cent forecast for 1995. This impressive recovery was partly the result of a surge in manufacturing activities worldwide, reflected in a 4.4 per cent growth in manufacturing value added (MVA) for 1994 and 3.2 per cent forecast for 1995 (see table 1 and figures 1 and 2).

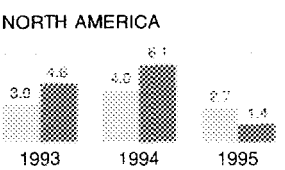
As in past years, developing countries as a whole have outpaced developed countries in both GDP and MVA growth. While the pace of growth within individual developing countries differs widely, growth has so far been sustainable, even in eastern Europe and the newly independent States of the former Union of Soviet Socialist Republics (USSR), where negative growth is expected to be less severe in 1995. On a sectoral basis, developing countries have been able to maintain their comparative advantage in the textiles and wearing apparel industries over the past 20 years. Their share of world MVA has been increasing, with no significant declines in average annual growth rates. The metal products industry has also performed well, implying a shift into more intermediate products (see table 2).

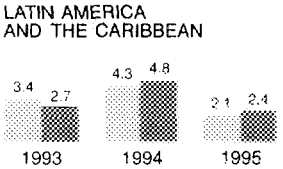
Over the years, improvements in technology and telecommunications in the industrialization process have resulted in what can be described as the

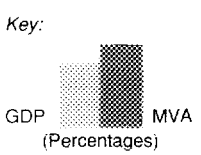
Table 1. Regional and country estimates of GDP and

Region, country or territory	GDP growth rates (percentage) 1993	1994	1995	MVA growth rates (percentage) 1993	1994	1995
World	1.6	3.1	2.9	0.3	4.4	3.2
Developing countries (excluding China)	3.5	4.0	3.7	4.4	5.3	5.4
Developed market economies	1.0	2.9	2.6	-1.1	4.2	2.4
China	13.8	11.4	9.0	20.0	15.8	14.0
Eastern Europe and former USSR (excluding former Yugoslavia)	-8.4	-8.8	-11.3	-9.2	-12.5	-9.2
North America	3.0	4.0	2.7	4.6	6.1	1.4
Bermuda	2.0	2.5	2.5	2.6	2.7	2.7
Canada	2.2	4.1	3.2	5.0	6.7	2.7
United States	3.1	4.0	2.7	4.5	6.0	1.3
Western Europe	-0.4	2.8	2.8	-3.3	4.6	2.9
Austria	-0.1	2.6	2.4	-2.8	2.4	0.8
Belgium	-1.7	2.2	1.7	-4.6	2.7	3.6
Denmark	1.5	5.4	3.1	-2.9	10.2	3.3
Finland	-1.6	3.7	5.5	5.3	11.4	7.0
France	-0.9	2.1	3.0	-4.5	3.2	2.6
Germany, eastern part	5.8	9.0	9.2	6.9	10.5	10.7
Germany, western part	-1.7	2.5	2.4	-7.7	3.7	2.3
Greece	-0.5	0.9	1.3	-3.2	3.5	—
Iceland	0.8	2.0	2.5	-2.3	-0.4	0.4
Ireland	4.0	5.2	4.5	5.4	10.4	5.9
Israel	3.0	7.9	4.1	6.9	7.9	4.4
Italy	-0.7	2.2	2.8	-3.0	2.3	3.5
Luxembourg	0.3	3.3	3.0	-3.0	6.5	2.9
Malta	5.0	4.0	6.0	4.9	3.4	6.6
Netherlands	0.3	2.3	2.1	-2.5	3.8	1.5
Norway	2.3	5.5	2.7	2.0	6.7	2.3
Portugal	-1.0	0.8	1.0	-1.9	-0.5	-0.3
Spain	-1.1	1.9	2.6	-4.9	8.2	2.4
Sweden	-1.8	2.1	2.2	2.5	11.1	2.8
Switzerland	-0.8	2.0	2.2	-0.6	8.0	3.2
United Kingdom	2.1	3.9	2.8	1.3	4.2	1.6
Eastern Europe and former USSR (including former Yugoslavia)	-8.7	-9.3	-3.3	-8.7	-11.6	-8.5
Albania	-9.0	-5.0	-3.0	-12.5	-6.5	-4.2
Bulgaria	-4.7	-1.5	-2.0	-11.7	4.0	-6.0
Former Czechoslovakia	-2.0	2.0	3.0	-2.8	2.1	3.3
Hungary	-3.3	3.0	1.5	3.8	8.6	3.1
Poland	4.0	5.0	5.0	8.3	6.6	6.6
Romania	1.2	—	-1.0	-0.1	-1.5	-2.9
Former USSR	-13.0	-16.0	-7.0	-15.0	-23.0	-19.5
Former Yugoslavia	-3.5	-3.0	-2.0	-2.2	-1.8	-1.0
Japan	0.1	0.8	1.8	-4.5	0.8	2.9
Other developed countries	3.3	4.5	3.1	4.5	6.0	2.8
Australia	3.7	5.2	3.4	6.5	8.5	3.1
New Zealand	5.2	4.3	3.3	6.0	4.4	2.8
South Africa	1.1	2.3	2.2	—	1.6	2.2
Latin America and the Caribbean	3.4	4.3	2.1	2.7	4.8	2.4
Argentina	6.0	6.5	3.5	6.7	7.9	3.9
Bahamas	2.0	2.0	4.6	..	..	..
Barbados	1.5	2.4	4.5	-3.7	5.6	3.0
Belize	4.2	3.5	4.3	-1.3	2.7	2.7
Bolivia	4.0	4.2	4.0	4.9	5.2	4.9
Brazil	5.0	5.3	3.5	3.9	3.9	4.0
Chile	6.0	4.4	5.7	3.6	2.4	5.5
Colombia	5.3	5.0	4.8	1.9	5.2	4.9
Costa Rica	6.4	4.5	4.1	6.5	5.2	4.8
Cuba	-17.0	—	2.0	-7.0	-7.9	1.4
Dominican Republic	3.0	3.0	4.8	1.7	1.8	5.2
Ecuador	2.0	2.5	2.5	2.3	1.9	1.3
El Salvador	5.1	6.0	4.9	7.6	7.4	6.0
French Guiana	-0.1	0.6	0.8	2.0	2.1	2.0

Region, country or territory	GDP growth rates (percentage) 1993	1994	1995	MVA growth rates (percentage) 1993	1994	1995
Guadeloupe	4.6	3.3	3.6	3.9	2.8	3.1
Guatemala	3.9	4.0	3.2	2.9	3.5	2.7
Guyana	8.2	7.7	4.5	2.9	12.7	9.6
Haiti*	-4.0	-5.0	—	-12.0	-10.4	-2.1
Honduras	6.1	-1.0	0.8	3.7	3.7	3.4
Jamaica	0.7	2.2	2.1	0.2	1.8	1.6
Martinique	5.5	8.0	5.0	5.8	12.4	4.5
Mexico	0.4	3.1	-2.5	-0.9	4.1	-2.6
Montserrat	12.5	9.9	4.5	12.7	10.4	5.6
Netherlands Antilles and Aruba	1.2	-2.7	5.2	0.4	-4.6	5.5
Nicaragua	-0.9	1.8	0.7	-1.5	5.0	0.8
Panama	5.4	4.5	1.8	9.8	4.5	1.2
Paraguay	3.7	4.0	5.1	3.2	3.5	4.7
Peru	6.4	10.0	4.1	6.7	17.0	5.9
Puerto Rico	3.2	4.0	4.3	4.0	5.1	4.9
Suriname	—	-3.0	0.6	1.5	0.5	-3.3
Trinidad and Tobago	-2.4	2.5	2.7	0.7	1.5	2.1
Uruguay	1.5	1.4	2.0	-8.7	-0.4	0.3
Venezuela	-0.4	-3.3	0.3	-1.4	-2.9	0.9
Tropical Africa (sub-Sahara)	1.2	1.8	1.9	-1.1	2.9	3.8
Benin*	3.3	4.9	4.5	2.6	3.3	3.1
Botswana*	3.0	6.8	7.3	5.0	11.0	18.8
Burkina Faso*	0.4	2.5	2.1	1.0	1.7	2.3
Burundi*	-1.2	5.6	2.5	-3.1	9.6	6.7
Cameroon	-4.9	-3.4	-2.2	-5.4	-3.7	-1.9
Cape Verde*	4.0	3.8	3.3	6.4	6.5	6.5







MVA growth for 1993 and 1994 and projections for 1995

Region, country or territory	GDP growth rates (percentage)			MVA growth rates (percentage)		
	1993	1994	1995	1993	1994	1995
Central African Republic*	-2.5	3.4	2.4	0.4	3.1	2.7
Chad*	-2.9	3.9	2.7	-3.0	3.9	2.7
Congo	-2.1	1.3	6.1	-2.8	-3.1	-0.7
Côte d'Ivoire	-1.1	2.5	-0.8	0.3	2.5	-1.1
Djibouti*	2.2	3.3	2.0	2.4	2.8	2.4
Equatorial Guinea*	7.3	3.6	5.6	10.0	—	5.5
Ethiopia and Eritrea*	7.7	1.5	2.0	21.9	3.6	4.1
Gabon	2.5	6.5	3.3	1.1	11.9	5.3
Gambia*	1.5	5.1	5.3	2.8	4.9	5.0
Ghana	4.8	7.0	6.6	2.3	9.6	9.6
Guinea*	4.5	4.1	4.6	5.0	6.0	6.5
Guinea-Bissau*	3.0	3.1	2.5	-1.4	-1.4	-1.4
Kenya	-0.2	2.0	3.0	1.8	4.0	4.9
Lesotho*	6.2	4.9	2.4	5.0	9.8	9.7
Liberia*	—	—	-1.5	2.0	0.8	-1.6
Madagascar*	2.1	-3.1	-0.1	3.1	-2.3	-0.5
Malawi*	10.8	3.9	5.8	-1.0	11.1	7.3
Mali*	7.7	1.4	1.4	6.5	9.2	7.5
Mauritius	5.4	7.5	5.1	10.0	9.4	7.4
Mozambique*	18.6	5.5	10.9	21.7	27.3	22.4
Namibia	-2.2	2.3	-2.9	-2.8	2.1	-2.6
Niger*	1.4	0.6	1.3	3.7	3.8	3.7
Nigeria	2.3	—	-0.9	-10.2	-6.0	-1.0
Réunion	3.9	5.2	4.3	3.9	4.4	4.0
Rwanda*	3.2	-10.0	1.6	—	-15.0	1.8
Sao Tome and Principe*	12.2	2.2	1.1	11.5	2.2	1.2
Senegal	-2.0	3.3	3.1	-1.4	4.4	3.8
Seychelles	3.9	5.7	6.8	12.4	9.9	10.5
Sierra Leone*	-2.4	-0.8	2.0	8.2	6.6	3.5
Somalia*	2.0	3.1	2.5	-5.0	5.0	5.2
Swaziland	2.0	4.9	6.6	6.1	7.0	7.6
Togo*	-12.7	-3.4	4.8	-40.8	-21.8	-0.6
Uganda*	6.4	2.8	2.0	3.7	3.9	3.4
United Republic of Tanzania*	4.8	4.5	4.5	7.4	5.3	6.1
Zaire*	-8.2	-2.1	-1.2	-11.5	-4.2	-3.2
Zambia*	6.8	0.2	1.8	5.8	3.4	3.9
Zimbabwe	2.0	5.6	5.1	-8.9	6.6	6.0
North Africa	0.2	2.1	1.8	-0.4	2.9	2.7
Algeria	-2.2	-1.6	1.1	-2.9	0.5	-4.2
Egypt	2.9	3.8	4.6	-3.1	1.9	3.9
Libyan Arab Jamahiriya	-0.2	3.5	-0.4	9.6	9.7	9.6
Mauritania*	5.0	1.7	2.1	6.2	6.5	6.4
Morocco	-0.2	5.6	3.7	-2.0	1.5	4.2
Sudan*	1.7	1.9	-1.4	1.5	1.6	-0.6
Tunisia	2.1	4.4	4.0	3.0	6.9	6.3
Western Asia	2.1	1.3	2.2	6.2	2.1	3.8
Bahrain	6.1	5.6	2.6	4.7	4.4	2.6
Cyprus	5.6	3.1	4.9	6.6	4.4	4.1
Iran (Islamic Republic of)	1.8	3.4	2.4	5.0	4.5	3.5
Iraq	-26.1	-23.0	3.0	-17.8	-24.2	-2.3

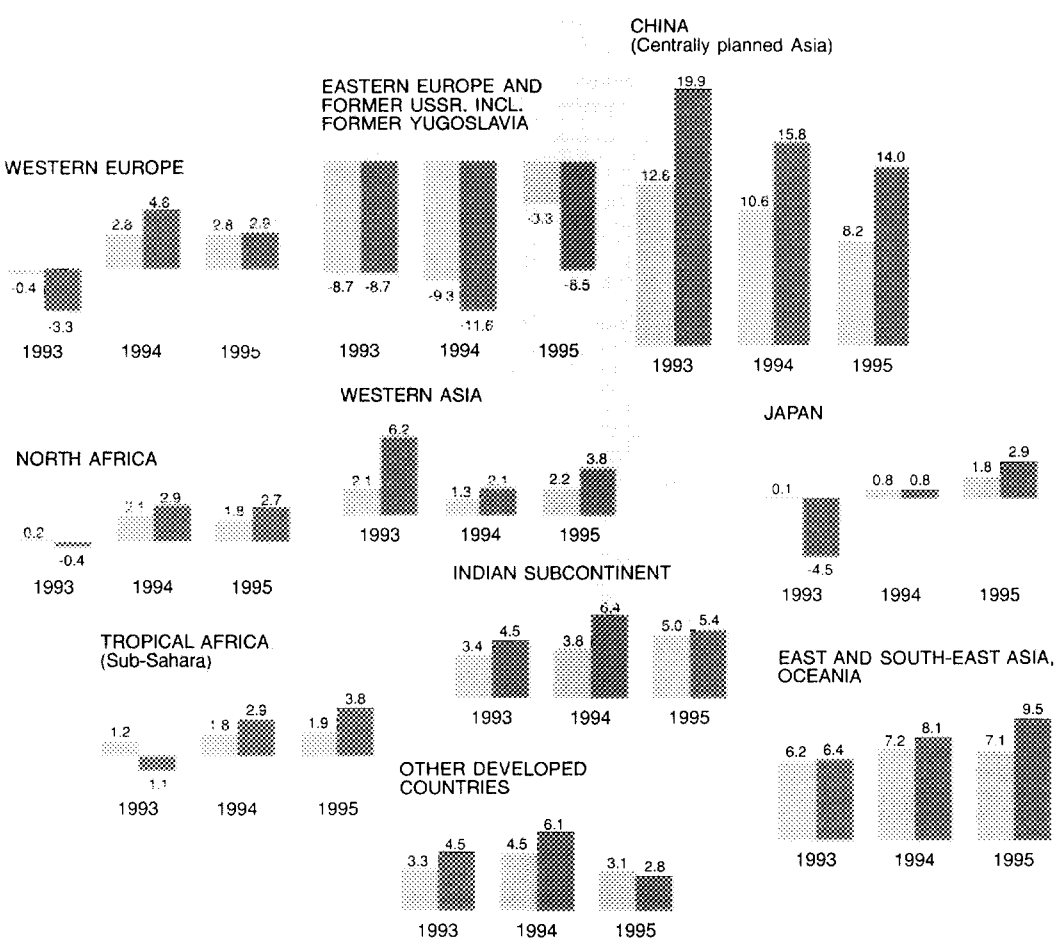


Table 1 *(continued)*. Regional and country estimates of GDP and MVA growth for 1993 and 1994 and projections for 1995

Region, country or territory	GDP growth rates (percentage)			MVA growth rates (percentage)		
	1993	1994	1995	1993	1994	1995
Jordan	5.7	4.7	2.9	1.7	2.1	1.3
Kuwait	21.5	8.0	10.0	33.7	12.0	12.0
Oman	4.0	–1.0	3.7	5.0	1.5	4.0
Qatar	5.0	4.5	2.8	8.6	5.1	3.6
Saudi Arabia	1.0	0.6	–0.2	4.5	2.8	5.1
Syrian Arab Republic	0.2	4.8	3.2	1.4	6.3	4.6
Turkey	7.6	–5.0	1.7	9.3	–3.7	3.1
United Arab Emirates	1.0	–1.0	–0.4	1.5	5.2	5.0
Yemen, northern part*	4.1	11.2	7.1	2.6	8.8	10.4
Yemen, southern part*	3.0	5.4	3.1	2.8	3.7	2.8
Indian subcontinent	3.4	3.8	5.0	4.5	6.4	5.4
Afghanistan*	2.0	3.0	0.5	6.0	4.0	2.7
Bangladesh*	4.5	4.6	3.5	8.0	5.4	4.4
Bhutan*	6.7	4.9	6.9	8.0	10.7	11.0
India	3.1	4.0	5.0	4.0	6.7	5.2
Myanmar*	6.0	0.8	6.2	6.3	—	6.6
Nepal*	2.9	7.8	3.9	4.7	8.7	5.5
Pakistan	2.6	4.0	5.0	5.6	6.2	6.8
Sri Lanka	6.9	3.3	3.6	9.0	7.2	4.4
East and South-East Asia, Oceania	6.2	7.2	7.1	6.4	8.1	9.5
Brunei Darussalam	2.9	5.6	1.0	1.7	5.0	–0.4
Fiji	1.7	–1.3	0.7	5.0	11.1	–1.4
French Polynesia	5.7	5.4	4.6	5.8	5.4	4.5
Hong Kong	5.4	5.4	5.7	2.6	3.7	2.5
Indonesia	6.5	6.5	5.3	9.4	8.4	10.5
Macao	5.8	5.3	4.1	. .	. .	. .
Malaysia	8.3	8.5	6.5	13.0	11.1	9.5
New Caledonia	1.7	3.7	5.8	0.1	1.8	3.5
Papua New Guinea	15.4	9.3	2.8	9.3	14.3	7.7
Philippines	2.0	4.4	4.9	0.7	4.4	5.0
Republic of Korea	5.6	7.9	8.0	4.2	9.7	11.4
Samoa*	3.0	1.1	1.2	1.6	0.8	0.8
Singapore	9.9	10.2	9.0	10.2	13.1	10.8
Taiwan Province of China	6.2	6.3	7.4	5.0	4.7	7.3
Thailand	7.8	8.4	8.2	11.5	9.8	11.3
Tonga	3.6	4.9	4.6	3.7	7.3	4.7
Tuvalu*	. .	. .	. .	. .	. .	. .
Vanuatu*	1.8	4.5	4.5	9.3	12.9	10.6
Centrally planned Asia	12.6	10.6	8.2	19.9	15.8	14.0
China	13.8	11.4	9.0	20.0	15.8	14.0
Democratic People's Republic of Korea	–2.4	–5.0	–6.0	. .	. .	. .
Lao People's Democratic Republic*	5.9	4.4	4.2	8.1	8.5	4.2
Mongolia	–1.4	–6.0	3.0	–5.0	—	–2.1
Viet Nam	8.1	8.0	5.1	. .	. .	. .

Note: Calculations are based on 1990 United States dollars.
* Least developed country.

Table 2. Share of manufacturing value added of developing countries in world total in 1975 and 1990, projected share for 1995 and growth rates for 1975-1995

(Percentage)

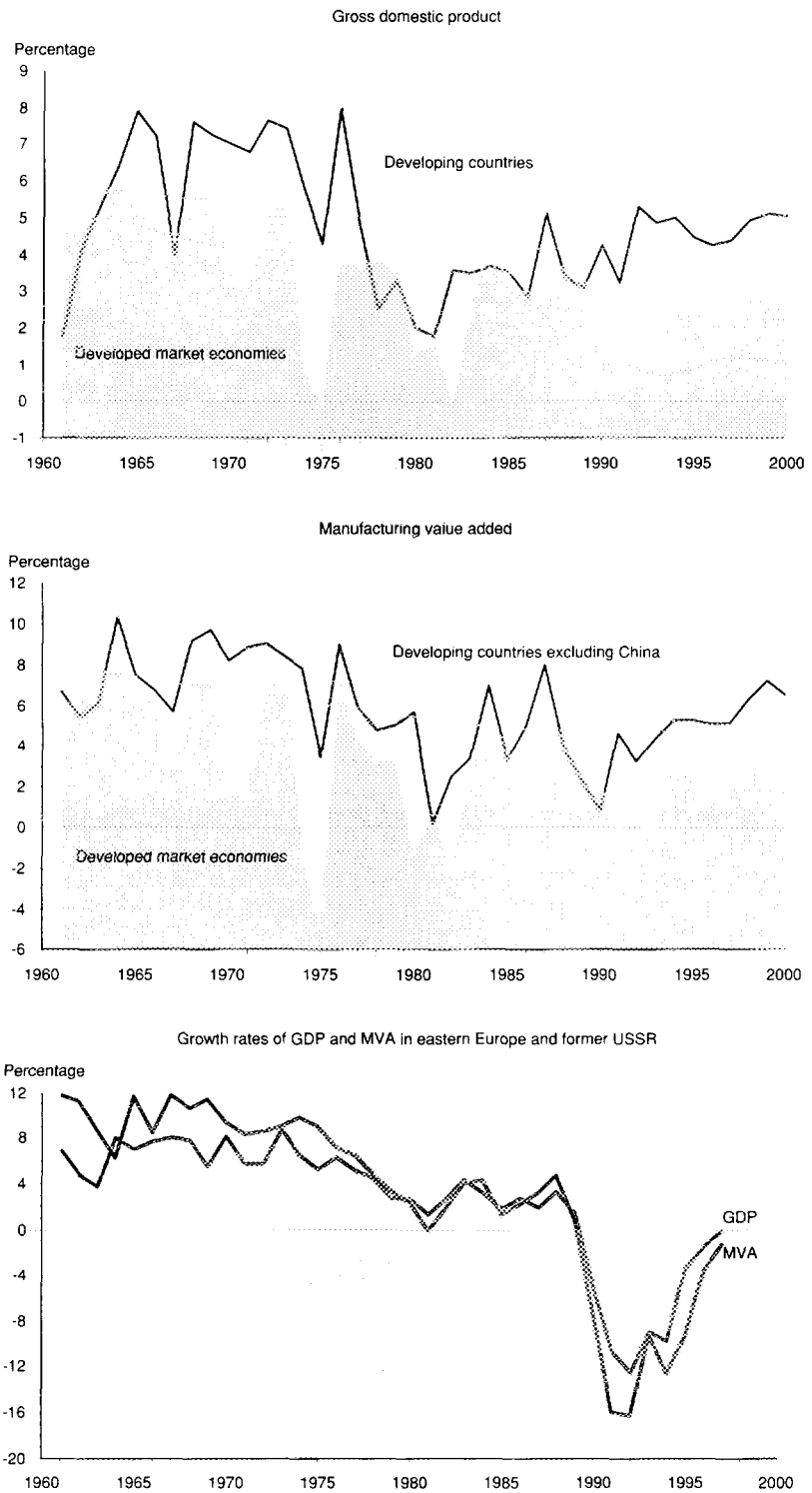
ISIC	Industry	Share of developing countries in world total (excluding China)[a]			Average annual growth rates			
					Developed market economies		Developing market economies	
		1975[a]	1990	1995	1975-1985	1985-1995	1975-1985	1985-1995
3	Manufacturing	12.1	14.7	17.4	2.1	1.5	4.6	3.6
311	Food	15.3	17.2	18.3	1.6	2.3	3.0	2.2
313	Beverages	21.1	25.8	27.3	0.8	1.7	3.0	2.9
314	Tobacco manufactures	33.7	29.5	30.2	1.8	3.8	3.8	2.1
321	Textiles	19.6	30.4	36.4	–0.4	–0.7	2.8	2.6
322	Wearing apparel	12.8	25.3	29.2	–0.5	0.1	4.9	4.1
323	Leather and fur products	19.3	30.5	34.0	–1.3	–0.7	3.6	1.2
324	Footwear, excluding rubber or plastic	19.9	31.9	43.8	–0.7	–2.3	4.7	3.2
331	Wood and cork products	13.0	12.6	13.1	–0.1	1.4	1.3	1.4
332	Furniture and fixtures	10.2	10.5	13.6	0.9	1.9	2.7	5.0
341	Paper and paper products	9.9	11.1	13.5	1.6	1.6	4.7	3.7
342	Printing and publishing	9.0	6.7	7.6	3.7	2.4	2.2	4.3
351	Industrial chemicals	9.3	13.3	16.7	1.7	1.4	6.9	3.3
352	Other chemical products	17.5	16.7	17.5	3.7	3.5	6.4	2.6
353	Petroleum refineries	22.7	33.2	36.7	1.0	0.8	6.2	1.6
354	Miscellaneous petroleum and coal products	11.0	22.7	24.0	0.2	0.5	9.3	–0.2
355	Rubber products	13.5	20.4	21.5	1.1	0.8	5.7	2.3
356	Plastic products n.e.c.	13.7	13.3	12.8	5.6	4.4	7.2	3.8
361	Pottery, china and earthenware	16.5	20.9	25.7	–0.5	0.7	5.4	2.5
362	Glass and glass products	10.9	13.8	17.8	1.5	1.2	3.5	4.8
369	Other non-metallic mineral products	14.7	20.9	26.2	0.6	1.1	3.3	4.4
371	Iron and steel	10.3	20.7	28.3	–1.8	–1.0	5.9	4.7
372	Non-ferrous metals	10.0	17.9	20.8	1.1	0.7	6.6	4.1
381	Metal products, excluding machinery	10.1	10.8	15.0	1.2	1.3	3.7	5.1
382	Non-electrical machinery	5.8	6.8	9.6	2.8	0.8	4.6	4.9
383	Electrical machinery	8.5	11.9	14.1	5.0	1.0	6.5	5.9
384	Transport equipment	7.3	9.7	12.6	3.0	1.4	5.2	5.9
385	Professional and scientific goods	4.0	5.4	6.2	3.2	4.6	7.9	6.0
390	Other manufactures	10.4	16.0	18.4	0.9	2.3	5.1	2.1

Source: UNIDO database.

Notes: MVA growth rates are based on deflated national currencies converted to 1990 United States dollars. Growth rates are derived from 120 sample countries—25 developed and 95 developing (industrial statistics consolidated by UNIDO).
ISIC = International Standard Industrial Classification of all Economic Activities (Revision 2).

[a]This share calculation is based on 1975 prices and exchange rates; other years are in 1990 United States dollars. China and other Asian centrally planned economies are not included in the sample (their share in the world total is estimated to have amounted to 2.8 per cent in 1990 for total manufacturing).

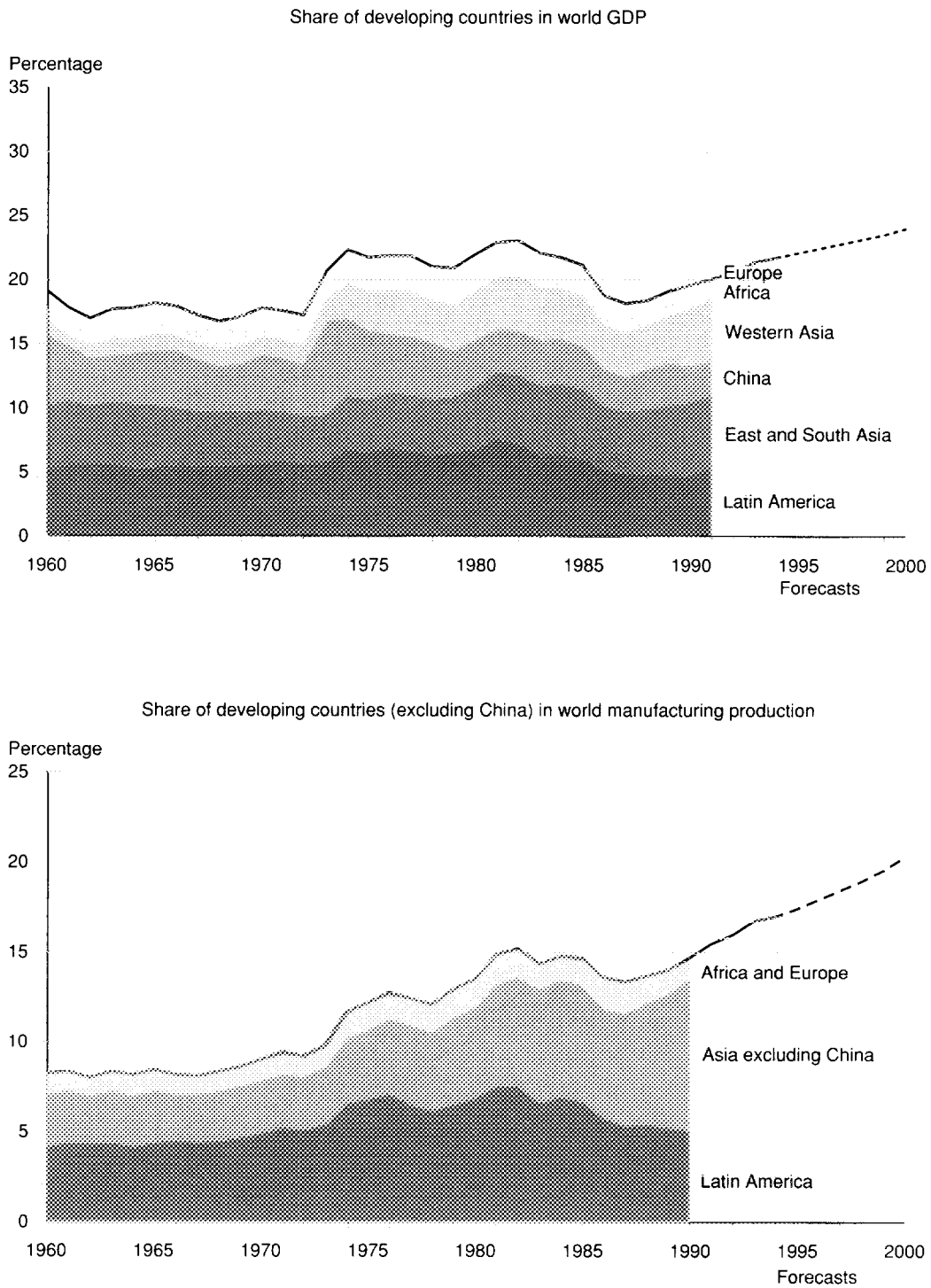
Figure 1. Growth rates of GDP and MVA in developed and developing regions, 1960-2000



Source: United Nations National Account Statistics and UNIDO/IRD/RES.

Note: Growth rates are computed using GDP and MVA data expressed in national currencies at 1990 prices and aggregated in terms of 1990 United States dollar exchange rates. The dashed lines show the long-term historical trend.

Figure 2. Share of developing countries in world GDP and world manufacturing, 1960-2000



Source: United Nations National Accounts Statistics and UNIDO/IRD/RES.

Note: Regional GDP and MVA shares are computed using national currency figures, which are aggregated in terms of United States dollars at current prices and exchange rates. The single dashed lines show the historical and projected world share of all developing countries for GDP and of all developing countries except China for MVA. They are computed using national currency figures expressed in 1990 prices and aggregated in terms of 1990 United States dollar exchange rate.

"globalization" of markets for goods, services, technologies and financing, as well as of production locations. Industries throughout the world have experienced greater trade and cross-border capital flows, a growing international division of labour based on specialization and comparative advantage, the expansion of transnational networks and increasing joint ventures between enterprises in different countries. Globalization, which has accelerated in recent years, is bound to have a resounding impact on overall economic and social development well into the twenty-first century. Some of the major changes that have influenced, and will continue to influence, the shape of industry are summarized below.

GATT and the gains from trade

One striking feature of the concluded Uruguay Round was the active role played by developing countries in establishing a common framework for global free trade. The key reason for this action was the realization that greater liberalization of world trade would improve foreign market access for their exports and spur their economic growth. Benefits to developing countries will come in the form of lower tariff rates, removal of non-tariff barriers, few subsidies, better investment practices and stronger protection for intellectual property rights. Another reason for their involvement in the Uruguay Round was their perceived expectation that it would provide some form of "insurance policy" against future barriers to major export markets.

The newly formed World Trade Organization (WTO), successor to the General Agreement on Tariffs and Trade (GATT), is expected to provide a unified system to settle disputes under the various multilateral trade agreements. Developing countries can now use WTO as a forum to direct their trade complaints against the more powerful trading nations. In case of a favourable ruling by WTO, a developing country would not need to forgo its rights simply because of an imbalance in economic power. Furthermore, the new trade policy review mechanism of WTO is designed to examine the trade policies and practices of member countries and to assess their impact on the multilateral trading system.

For developing countries, the gradual liberalization of the textiles and wearing apparel industries will offer significant opportunities, although the distribution of their benefits are likely to remain skewed in the short run, favouring the major exporting countries. The beginnings of liberalization in agriculture are also looked upon favourably with regard to efficiency and equity. The inclusion of trade-related intellectual property rights within the current GATT framework appears for the foreseeable future to favour primarily more developed countries. In the case of trade-related investment measures, gains and losses are harder to compute, but the seriousness of the restrictions on national policy options is likely to be less severe than feared, given the overall climate of market liberalization.

Over time, WTO will bring both static and dynamic gains to developing countries. A GATT study on static gains from trade suggests that when the Uruguay Round is fully implemented, global trade will increase by an additional $750 billion (in 1992 dollars), or by about 12 per cent over the level that would have otherwise existed in the year 2005. Static export gains to developing countries would total about $200 billion for the same time period. Another GATT study that incorporates static and dynamic gains in its estimates of trade and income effects came up with additional dynamic export gains of about $360 billion for developing countries. A total of $116 billion of static and dynamic income gains for developing countries has also been estimated by GATT.

Regional integration: implications for developing countries

Despite increasing efforts to liberalize the global trading system, the world is seeing the emergence of three major trading blocs centred around Europe, North America and the Asia and Pacific region. An increasing number of regional arrangements have been concluded in recent years, with 33 agreements notified to GATT between 1990 and 1994. One reason cited for the revival of regionalism has been the difficulties encountered during the Uruguay Round negotiations, and new regional integration initiatives were contemplated as an "insurance policy" in the event of failure of the trade talks. However, it is the protectionist stance of the agreements, more than their increasing number, that has raised suspicions and fears of a possible breakdown in the existing trading system. The issues raised by the interaction between regional integration agreements and the world trading system are unlikely to disappear from the international policy agenda in the foreseeable future.

The relationship between the GATT system and regional trade areas is centred on article XXIV of GATT (on regional integration). However, the broad nature of the conditions has meant that not one regional agreement has been found inconsistent with GATT since 1947. It should be noted that consistency with the global trading system hinges on the openness of a regional integration scheme *vis-à-vis* non-members.

Regional integration is likely to have a range of different effects for developing countries, whether they are members or non-members of the group concerned. Within the group, positive effects are likely to dominate. Integration is expected to provide economies of scale and larger scope for specialization, resulting in efficient allocation of regional resources and increased market competitiveness, thus stimulating investment within the group by regional investors. On the other hand, one of the main negative effects of regional integration is the risk of trade diversion from non-member countries. However, the benefits derived from regional integration will increase aggregate real incomes in the area, and non-

member countries will profit from the real income effects due to increased demand for imports of goods and services into the group. In the medium term, the trade prospects of non-member countries with respect to a regional market will depend on whether the external trade policies of the members become more restrictive or less so after its establishment.

Developing countries seeking to reduce or eliminate the effects of trade discrimination on their exports resulting from regional integration schemes have the following three principal options: attempting to join the regional integration agreement; joining other non-member countries in creating a new regional integration agreement; or joining in efforts to promote multilateral reductions in trade barriers to reduce the margin of discrimination they face in the regional market. In addition, article XXIV of GATT needs to be tightened further to safeguard and improve the conditions for treatment of non-member countries. Moreover, the monitoring and review mechanism of WTO needs to be strengthened to focus on the discriminatory elimination of rights rather than on the preferential creation of rights under a regional arrangement.

New concept of industrial competitiveness

Every country, however poorly endowed or managed, will possess comparative advantage in some economic activity relative to other countries around the world. Nevertheless, whether a particular industrial sector is seen as competitive depends on a multitude of factors, including wage levels, natural resource base, level of scientific and technological development, government policy on trade and investment, infrastructure and human capital development.

Almost all developing countries have adopted or are moving to adopt an export-oriented strategy to spearhead economic growth. But success on the export market depends on a complex mixture of price and non-price factors. While competitiveness in pricing is still a necessary condition, it is, unfortunately, not sufficient to achieve that success. Developing countries find that they must now compete in a world where high technology has become an important criterion for industrial competitiveness. Capitalizing on an abundant supply of cheap, unskilled labour to keep manufacturing costs low and maintain international competitiveness is no longer a key success factor. Advances in automation and other technology in production has raised labour productivity levels so that, despite relatively high wage rates, a firm can still remain price competitive. Furthermore, criteria other than price have come into play, such as quality and product innovation.

Technology has been described as one of the most decisive factors for industrial competitiveness in the 1990s. The benefits from new techniques of production come from increased productivity and flexibility, reduced wastage and product defects, improved product performance, optimal inventory levels and economies in management. In short, the use of technology will influence the ability of industry to modernize and compete in world markets. To master this new technology, a country would need to increase indigenous research and development efforts and develop its human capital resources.

The key role of the market in ensuring an efficient allocation of resources is generally recognized and an increasing number of policy makers agree that government policies should be confined to the creation of an enabling environment and the correction of market failures. In the case of developing countries this would specifically relate to the creation of the physical and institutional infrastructure required for dynamic industrial development. It would also need to address the protection of the environment and the sustainable use of natural resources.

Industrialization and poverty alleviation

The pervasive problems of poverty and its eradication, particularly in developing countries, have been the focus of international aid agencies and policy makers around the world. Evidence has shown that one avenue for poverty alleviation is trade, with trade-induced effects including greater employment generation for all sectors of the economy, particularly industry, rising income levels and improved standards of living. However, only a handful of developing countries are currently able to reap the benefits from trade in manufactured goods. The rest, some 100 developing countries, are largely small, open economies with a major share of their total exports in primary commodities, making them vulnerable to external shocks.

The World Summit for Social Development, held at Copenhagen, Denmark, from 6 to 12 March 1995, highlighted the fact that the fundamental solution to poverty is through the creation of productive employment. That solution is preferable to income redistribution as a policy instrument for alleviating poverty and reducing inequality. The contribution of industry to employment generation stems not only from its direct employment effect, but more importantly from its indirect employment effect through its extensive linkages with other sectors of the economy, particularly agriculture and services.

During the early stages of industrial development, agricultural growth stimulates domestic demand for industrial products, and industry contributes to the alleviation of rural poverty through the creation of rural small-scale enterprises, mainly household and cottage industries and micro-enterprises. These rural small-scale enterprises are labour-intensive and relatively unskilled, provide opportunities for developing entrepreneurial skills and, in addition, foster non-farm, income-generating activities for a large group of the poor. However, the viability of rural industries is affected by a number of constraints, including a

lack of adequate links to urban markets, inadequacy of production and non-production factors such as repair and maintenance facilities, alternative sources of raw materials, easy access to credit and finance and other specialized services. Hence, the issues facing rural industries are very much related to the linkages between agriculture and industry and between the rural and urban markets.

In urban areas, the informal sector plays a major role in poverty alleviation. Total employment in the informal sector in developing countries is estimated to be around 300 million, contributing somewhere between 5 and 35 per cent of GDP. One approach to facilitating the development of the informal sector is the promotion of micro-enterprises, which are increasingly being viewed as a potential engine of growth and source of employment generation. However, the survival rate of micro-enterprises has been found to be very low—often less than two years. The fundamental problem here is demand-side constraints resulting from the perceived poor quality of the goods produced. Hence, one feasible two-pronged approach to the problem would be to assist micro-enterprises in improving the quality of their products and, at the same time, upgrading the skills of the poor in order to absorb them into the formal sector.

Policies to upgrade the skills of the poor through industrial training and education are extremely important. Macroeconomic and sectoral policies should also be structured to promote labour-intensive industrial development to maximize the employment of the poor. Consideration should be given to the identification, formulation and implementation of policy measures aimed at developing and strengthening intersectoral production linkages that would, in turn, provide income-earning and employment opportunities for the poor. Proactive industrial and trade policies should be formulated with a view to encouraging the active participation of small-scale enterprises and micro-enterprises in the export market. Finally, rural-urban production and marketing linkages should receive closer attention as effective vehicles for simultaneously attacking the poverty problem in rural and urban areas, and for stemming the tide of uncontrollable rural-to-urban migration observed in many developing countries today.

Environmental concerns and sustainable industrial development

Manufacturing activities in developing countries are generally resource-based, and increasing levels of industrialization will support the global demand for primary commodities and raw materials. The greatest impact on industry in the future will, however, be caused by the increasing consumption of depletable energy resources. As developing countries grow and their populations increase, their demand for energy will expand concurrently. Another demand factor is that many basic industries adopted by developing countries in the initial stages of industrial development, such as iron and steel, petrochemicals and paper and pulp, tend to be energy-intensive.

Currently, carbon-based fuels supply close to 90 per cent of the world's energy needs. Any pressure to increase the use of non-polluting alternatives would cause havoc to the world economy, especially for those developing countries that depend on energy- and pollution-intensive industries. Although necessary, the introduction and implematation of regulatory measures for environmental protection are likely to impose an additional cost to their industrialization process in the short term. To add to their dilemma, the development of clean technologies is very much in the hands of developed countries, and the acquisition of those technologies does not seem to be easy for many developing countries because of lack of information and/or financial resources. Negotiations on emission targets are deadlocked, with developing countries feeling unable to employ means to reduce emissions unless developed countries are willing to pay the cost and provide them with non-polluting technologies.

It is clear that urgent commitment and action by Governments are necessary to reduce the current amount of greenhouse emissions. Possible steps to be taken are: ending government subsidies for industries with heavy energy consumption to encourage greater efficiency in energy usage; more efficient transport planning to reduce traffic congestion and pollution; and supporting research on the science of climate change and ways to reduce the costs of non-polluting fuels.

UNIDO's role in a changing global context

In its resolution 49/108 of 19 December 1994, the General Assembly of the United Nations reaffirmed the central coordinating role played by UNIDO in the United Nations system in the field of the industrial development of developing countries. The importance of industrialization as a dynamic instrument of growth, essential to the rapid economic and social development of developing countries was stressed.

In response to the needs of developing countries in these challenging times, UNIDO has identified the following five development objectives for its programmes:

(a) The first objective, industrial and technological growth and competitiveness, covers, *inter alia*, the following areas: creation of an enabling policy environment and enhancing productivity and competitiveness; industrial enterprise restructuring; supportive quality control, standardization and methodologies; enhancing technological capabilities; services to support agro-based industry, chemical industries, engineering and metallurgical industry; and information services for industry;

(b) The second objective, development of human resources for industry, focuses on the provision of advisory services relating to human resource development policies for industry; strengthening institu-

tional capabilities for creating the skills required for industrial development; and enhancing the role of women in industrial development;

(c) The third objective, equitable development through industrial development, addresses the need for assistance in the promotion and strengthening of small- and medium-scale enterprises and entrepreneurship development, and in the development of rural industries;

(d) The fourth objective, environmentally sustainable industrial development, consists in integrating environmental considerations into industrial strategies and programmes, providing advice on cleaner production techniques and technologies, and enhancing energy-efficiency and conservation;

(e) The fifth objective, international cooperation in industrial investment and technology, covers services relating to investment and technology promotion and cooperation, including the use of the UNIDO network of Investment Promotion Service offices. A particular dimension of these services concerns economic and technical cooperation among developing countries.

The comparative advantage of UNIDO lies in the depth of the industrial know-how at its disposal, the broad scope of its services for the promotion of industrial cooperation, and the wealth of its information on, and experience in, key aspects of industrial development. UNIDO combines these assets at three main levels of intervention, namely policy, institutions and enterprises, acting as a focal point for industrial technology, an honest broker for industrial cooperation, a centre of excellence in the field of industrial development and a global source of industrial information.

Trends and prospects in the manufacturing sector: regional profiles

In 1994, the world witnessed a widespread economic recovery. The growth rate of GDP increased to an estimated 3.1 per cent, a rate more than double that of the period from 1990 to 1993. The performance of the manufacturing sector was one of the best in many years. Improvements in labour productivity were significant. From an average annual rate of 0.4 per cent from 1990 to 1993, MVA grew to an estimated rate of 4.4 per cent in 1994 (see table 3). The fastest-growing industries were professional and scientific goods (7.1 per cent) and plastic products (6.4 per cent). However, it is the machinery (electronic and non-electronic), transport equipment and chemicals branches that dominate world manufacturing. In 1994, these industries together accounted for 41.9 per cent of the world total, showing growth rates in the range of 3 to 5 per cent (see table 4).

Table 3. World: selected indicators, 1970-1995
(Percentage)

Economic indicators	*1970-1980*	*1980-1990*	*1990-1993*	*1994[a]*	*1995[b]*
GDP growth rate	3.6	2.8	1.5	3.1	2.9
MVA growth rate	3.7	2.8	0.4	4.4	3.2
MVA share of GDP	22.4	22.4	22.1	22.0	22.0
Labour productivity growth rate	1.6	1.5	0.4	2.6	0.7

Note: For sources and other notes, see technical notes.

[a]Estimated.
[b]Projected.

Significant changes have occurred in the regional shares of world MVA since the 1970s. By far, the biggest changes are the sharp decline in eastern Europe and the former USSR and the remarkable performance of Japan and East and South-East Asia. During the same period, North America and western Europe continued to maintain their world shares. Thus, in 1994, North America and western Europe accounted for 58.1 per cent of total world MVA, while Japan, China and East and South-East Asia together accounted for 27.3 per cent (see table 4).

Developed market economies

Global developments in the manufacturing sector closely mirror the evolution of the industrial sector in the markets of developed countries. As the economies of developed countries recovered, industrial activity accelerated markedly in 1994. In the United States of America, manufacturing growth was vigorous and broadly based, with general-purpose machinery and information-processing equipment being among the fast-growing industries. Also, in the economies of Japan and western Europe—the last to rejoin the path of positive growth—recovery appeared most evident in the industrial sector. In both regions, electrical machinery and transport equipment performed relatively well.

In the developed market economies of Japan, North America and western Europe, currency issues

Table 4. World growth rates and shares of MVA in individual regions and in 28 industries, 1970-1995
(Percentage)

Country and ISIC sector	Average annual growth rates 1970-1980	1980-1990	1990-1993	Annual growth rates 1994[a]	1995[b]	Share in total MVA 1994
			A. Regional breakdown			
North America	2.3	2.5	1.8	6.1	1.4	24.9
Western Europe	2.6	1.5	-1.7	4.6	2.9	32.2
Japan	5.2	5.8	-0.3	0.8	2.9	16.9
Eastern Europe and former USSR	6.9	1.4	-13.4	-11.6	-8.5	2.9
Latin America and the Caribbean	6.2	-0.1	2.4	4.8	2.4	5.2
Tropical Africa	2.1	2.6	0.2	2.9	3.8	0.3
North Africa	6.1	5.6	1.1	2.9	2.7	0.5
Western Asia	8.8	5.1	7.0	2.1	3.8	2.9
Indian Subcontinent	4.3	6.9	2.4	6.4	5.4	1.4
China	10.2	8.7	16.4	15.8	14.0	4.8
East and South-East Asia	11.4	8.5	6.3	8.1	9.5	5.6
			B. Industry breakdown			
311 Food	3.2	1.9	1.7	4.2	2.1	10.0
313 Beverages	2.1	1.2	1.4	3.5	2.5	2.3
314 Tobacco manufactures	1.4	3.9	2.8	4.0	3.3	1.7
321 Textiles	1.2	—	-1.9	1.6	0.9	3.8
322 Wearing apparel	2.3	-0.2	-0.4	3.1	2.5	2.1
323 Leather and fur products	1.6	0.1	-2.1	2.4	2.5	0.3
324 Footwear, excluding rubber or plastic	1.9	-1.8	0.4	1.9	1.8	0.5
331 Wood and cork products	2.7	-0.4	-1.4	3.9	0.2	1.6
332 Furniture and fixtures	3.9	0.7	-0.1	3.8	1.9	1.4
341 Paper and paper products	2.7	2.3	-1.8	4.4	2.7	3.1
342 Printing and publishing	3.2	3.6	-0.6	4.6	2.5	5.0
351 Industrial chemicals	2.5	2.9	-2.2	4.9	2.9	5.2
352 Other chemical products	2.4	4.3	1.9	4.7	3.4	5.7
353 Petroleum refineries	6.3	-1.2	0.2	3.8	2.4	2.7
354 Miscellaneous petroleum and coal products	5.2	-0.2	-1.8	2.1	0.7	0.3
355 Rubber products	1.9	1.6	-1.4	3.3	2.0	1.3
356 Plastic products n.e.c.	6.2	5.2	1.6	6.4	4.6	3.0
361 Pottery, china and earthenware	3.7	0.4	-0.6	3.5	2.7	0.4
362 Glass and glass products	2.5	1.4	-0.7	3.0	1.6	0.9
369 Other non-metallic mineral products	3.3	0.8	-0.7	3.2	1.8	2.8
371 Iron and steel	1.9	-0.9	-2.4	1.8	1.8	3.7
372 Non-ferrous metals	2.7	0.7	-3.5	4.2	1.2	1.5
381 Metal products, excluding machinery	2.4	1.3	-1.0	3.2	2.1	5.7
382 Non-electrical machinery	3.5	2.0	-3.1	2.9	1.6	10.4
383 Electrical machinery	3.6	3.2	-0.3	3.9	3.2	10.4
384 Transport equipment	3.7	2.6	-0.3	4.7	1.9	10.2
385 Professional and scientific goods	4.5	3.8	0.7	7.1	4.6	2.7
390 Other manufactures	2.8	2.0	-1.1	3.1	1.3	1.4

Notes: Estimated total MVA for the world in 1994 was US$ 5,258,158 million.
For sources and other notes, see technical notes.

[a]Estimated.
[b]Projected.

are dictating domestic and foreign investment policies and affecting international trade competitiveness. Increasing trade liberalization between western and eastern Europe will also have its impact on the shape of industry in the latter region.

Economies in transition

After years of industrial decline, considerable progress has been made in most countries of eastern Europe, with manufacturing activity now playing an important role in the production upturn of most of the economies of the region. Although generalizations about recent changes in the structure of production are somewhat difficult to formulate, it seems that traditional heavy industries are losing ground, while natural resource-based industries, such as wood products, building materials, metals, foodstuffs and selected consumer goods industries, are expanding. By contrast, most of the economies of the former USSR are still in deep recession. The industrial decline has swept across all branches of industry, particularly in transport equipment, machinery and industrial chemicals.

The economies in transition of eastern Europe and the former USSR are beginning to feel the effects of policy reforms on industrial production, enterprise

restructuring and employment, in their shift from a controlled economy to a more open market economy. The long-term impact of those reforms has yet to be determined, be it positive or negative.

Developing economies

The economic performance of developing countries raises both enthusiasm and concern, depending on the specific circumstances of the countries concerned. The gap is widening significantly between the least developed countries and those that are moving fast towards the status of NICs. In the developing countries as a whole, low-technology industries still account for about 62 per cent of total manufacturing, compared with a share of around 47 per cent in developed countries. Machinery and transport equipment account for around 15 per cent and 7 per cent, respectively. These aggregate figures, however, conceal remarkable differences at the regional level. In East and South-East Asia, the share of the machinery industry in total MVA is around 21 per cent, in Latin America it is around 10 per cent, and in tropical Africa around 3 per cent. The share of transport equipment in total MVA is around 7 per cent in almost all developing regions.

East and South-East Asia has not relinquished its position as the most dynamic region in the world today. The manufacturing sector continues to dominate the development and pace of economic growth in the region, and structural changes within the region are emerging. Most Asian developing countries pursued their production of labour-intensive products, especially for export. The bulk of manufacturing is still accounted for by low-technology industries. However, a shift of industrial production structures is emerging with rapidly increasing shares of intermediate and higher technology products, including telecommunications equipment, durable household products and mini- and microcomputers.

Although substantial improvements have taken place, countries such as Argentina, Brazil and Mexico continued to remain essentially assemblers of merchandise. Manufacturing sectors that were performing satisfactorily and possessed greater export capacity were those that made intensive use of unskilled labour. The automobile industry has been one of the fast-growing industries, one of the larger employers and exporters, as well as one of the industries that has attracted more foreign investment. Most of the largest companies in the world have established plants and production lines in the above-mentioned countries to take advantage of low-cost labour.

The prospects for the least developed countries are not encouraging in the short term. The manufacturing sector often contributes less than 15 per cent to the GDP of countries in that group. Their capacity utilization and labour productivity are generally very low. Moreover, although industrialization is commonly recognized as fundamental in the long-term process of sustained development, a growing realization of the problem of scarce economic resources has led African Governments to give more emphasis to macroeconomic policies and agricultural growth strategies.

In most African countries, privatization as a reform process is gaining in popularity. However, their industries are confronted with basic infrastructure problems, as well as with the challenge to urgently respond to the consequences of increasing liberalization of world trade and to attract foreign direct investment flows. Some region-specific industrial development issues concern the integration of South Africa with tropical Africa, the importance of the oil sector and economic development in the countries of the Gulf Cooperation Council and the promotion of small- and medium-scale enterprises in East and South-East Asia.

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The present executive summary highlights the key issues examined in the *Industrial Development Global Report 1995.*

The theme for the *Industrial Development Global Report 1995* is "sustaining the growth impulse". Events since the beginning of the 1990s have plunged the world economy into a state of flux. The role of industry in the development process is under scrutiny, and questions have been raised concerning the role of the industrial strategies of the past in providing the impetus for overall economic growth in developing countries. Developing countries outpaced developed countries in the growth of both GDP and MVA in 1994, and are expected to sustain their performance in 1995. While the pace of growth differs widely among individual developing countries, growth has so far been maintainable, even in eastern Europe and the former USSR, where negative growth is expected to be less severe in 1995. Can the growth phase thus be sustained into the twenty-first century?

In Part One of the present *Global Report,* an attempt is made to identify the main issues affecting the growth prospects of developing countries until the end of the decade. Those issues revolve around the changes that have occurred and those still under way in the world today, including:

- Implications of GATT and the World Trade Organization for the trade prospects of developing countries
- Significance of the new forms of regional integration for the growth prospects of developing countries
- New concepts of industrial competitiveness as a result of advances in technology and their impact on human resource development policies in developing countries
- Alleviation of global poverty through the industrial process.

Although incomplete, the list of issues referred to above covers the more significant areas of concern. In the current global environment, in which the developed countries themselves are faced with severe economic and social problems, the road to a better life for the population of developing countries will be steep and arduous. It is hoped that the discussion of the above-mentioned issues in the present *Global Report* will provide some insight into their complexities as well as guidance to national planners in the formulation of their reform programmes and industrial policies.

Part Two of the *Report* contains a review of trends and prospects in the manufacturing sector as well as of key industrial development issues for the 10 regions, as classified by UNIDO: North America, Japan, western Europe, eastern Europe and the former USSR, Latin America and the Caribbean, Tropical Africa, North Africa and western Asia, Indian Subcontinent, China, and East and South-East Asia.

A statistical annex presenting industrial development indicators for 185 countries and territories around the world is also included in the *Report.*

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