



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

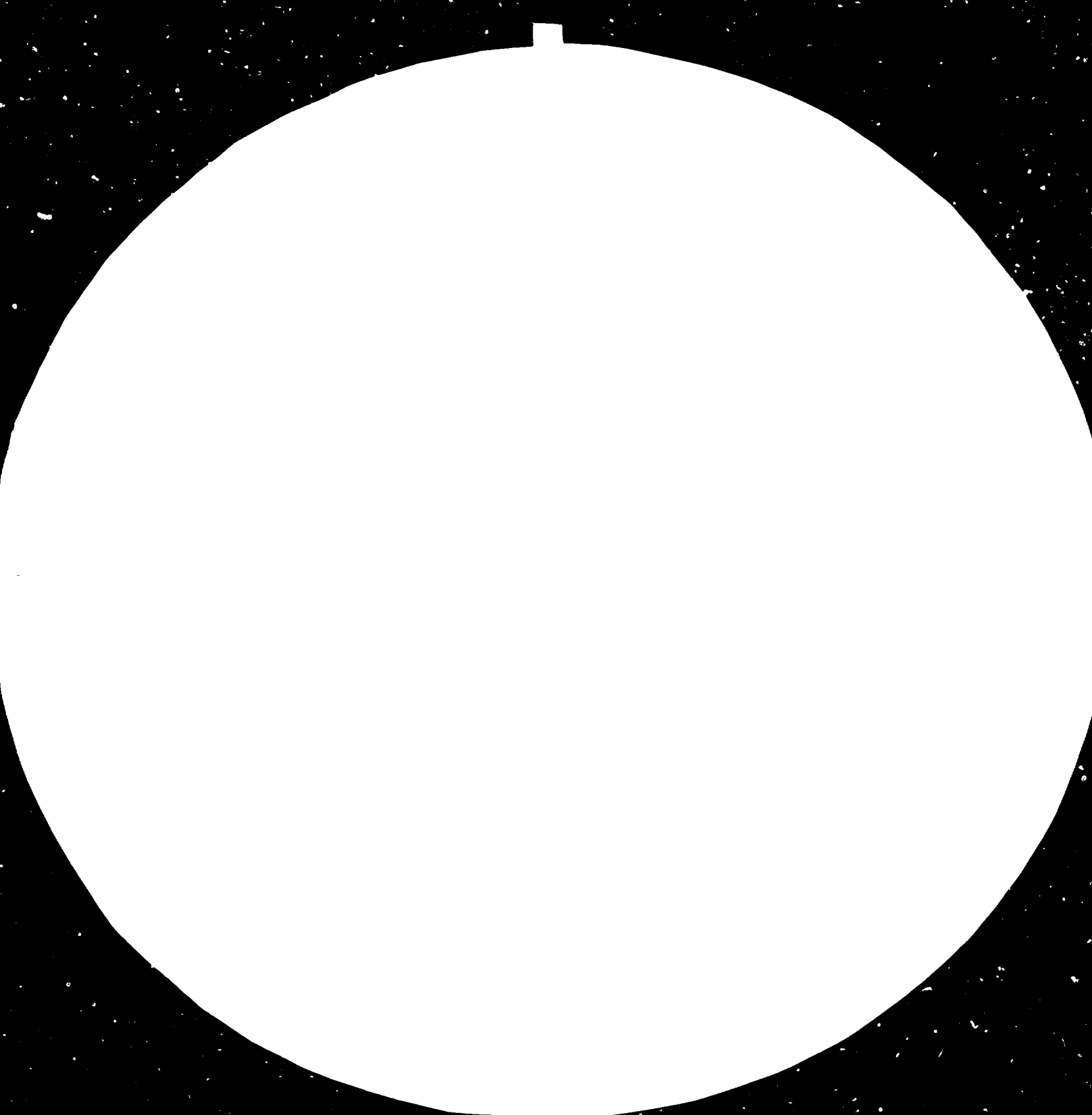
FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org





MICROCOPY RESOLUTION TEST CHART

NATIONAL BUREAU OF STANDARDS
STANDARD REFERENCE MATERIAL 1010a
(ANSI AND ISO TEST CHART #1-2)

Distr.
GENERAL
ID/CONF.5/17
9 January 1984
ENGLISH



13277-E

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

***FOURTH
GENERAL CONFERENCE
OF UNIDO***

Vienna, Austria, 2-18 August 1984

Item 4

***LIMA AND NEW DELHI DECLARATIONS
AND PLANS OF ACTION:
RETROSPECTIVE AND PERSPECTIVE***

ISSUE PAPER

1543

Item 4 of the provisional agenda

LIMA AND NEW DELHI DECLARATIONS AND PLANS OF ACTION:
RETROSPECTIVE AND PERSPECTIVE:

- (a) REVIEW OF PROGRESS AND CONSTRAINTS;
- (b) PERSPECTIVES FOR THE ACHIEVEMENT
OF THE LIMA TARGET

Issue paper prepared by the UNIDO secretariat

I. BACKGROUND

1. There can be little doubt that the process of industrialization plays a strategic role in the overall development process. As the demander of food in terms of marketed surplus and of agricultural raw materials, industry is a main market for agricultural produce; at the same time, the growth of productivity in agriculture is largely governed by the supply of agricultural machinery and other industrial inputs. Apart from this close two-way link between industry and agriculture, the very nature of the technological dynamism of a country is influenced by the process of industrialization. Since industry is the main vehicle through which new technology is carried, neither the technological capability of a country nor its technological flexibility in terms of developing new products or adapting technology to local conditions can develop independent of the process of industrialization. A reasonably high pace of industrial development can, therefore, be seen as a prime mover of the entire development process. The Lima Declaration and Plan of Action on Industrial Development and Co-operation (A/10112) adopted by the Second General Conference of the United Nations Industrial Development Organization (UNIDO) in 1975, emphasized the strategic role of industry in the process of economic development in general and therefore set a target - by the end of this century, developing countries should account for a minimum of a quarter of the world's manufacturing value added.

2. In retrospect, the Lima target was set at a time of industrial optimism. From 1963 to 1977, the value added by the manufacturing industries in developing countries grew at an average annual rate of over 7 per cent; and, in the first half of the 1970s, the manufacturing growth rate was decidedly higher in the South than in the industrialized North. Extrapolating roughly these trends of the early 1970s, it appeared reasonable to suggest that the developing countries' share in the world manufacturing value added should rise from about 10 per cent (revised estimate) in 1975 to 25 per cent in the year 2000. In reality, between 1975 and 1982 that share increased from 10 per cent to only 11 per cent, and there is mounting statistical evidence to suggest that during 1981 and 1982, the manufacturing output of the developing countries actually fell in absolute terms.

3. Consequently, the target set at Lima looks far more ambitious today than it did in 1975. It must, however, be realized that the Lima target is essentially modest in its aim that almost three quarters of the world population, which is in the developing countries, should have at least one quarter of the share of the world manufacturing output by the turn of the century. The prevailing industrial pessimism should not overshadow this rather modest nature of the Lima target. Instead, energies have to be concentrated on devising strategies and policies to tackle the central problem of how a reasonably high and steady pace of industrialization can be maintained in the developing world, keeping the Lima target in view.

4. The problem of reviewing past industrial strategies in developing countries and of devising new ones in the light of experience has assumed overriding importance. The prolonged global economic recession has brought into sharp focus some of the central problems of industrialization that are inherent in global economic interdependence. The recession has almost paralysed the industrial growth of the South. The industrialization process has come to a halt or even retrogressed since 1981 in Latin America, which

accounted for more than 50 per cent of the industrial output of the South in 1980. Although somewhat better sustained, economic growth has nearly halved in Asia, which provides 30 per cent of the industrial output of the South. Africa, including the Middle East, has not performed perceptibly better insofar as its overall growth rate has also been declining. At the same time, the physical volume index of world trade actually fell by 2 per cent in 1982.

5. The near stagnation of world trade in recent years has caused a sharp deterioration in the terms of trade for raw materials, which in turn has compounded the already impossible international debt and payments problems facing many developing countries. Low levels of official development assistance, the increased private control of the world financial markets since late 1960s, the high interest-rate and debt-service burden coupled with the decreased ability of the developing countries to expand export revenue owing to deteriorating terms and volume of trade and growing protectionism threaten the world with an unprecedented financial crisis.

6. This is the bleak, immediate economic climate against which the new strategies for industrialization have to be considered. In this context, there is almost an historical compulsion for recognizing that all efforts have to be made co-operatively in the short run, by both developed and developing countries, to revive world economic growth. In the longer run, even when the present conditions of recession are over, the economic climate for industrialization may not easily be restored to the past state unless new strategies are adopted.

7. In exploring new strategies and parameters of action needed to sustain a reasonably high and steady pace of industrialization in the South, it is essential to recognize the fundamental nature of world economic interdependence: while the world economic system has become increasingly interdependent through trade, finance and communication, it should be emphasized that this interdependence has a markedly asymmetrical character. The South depends far more on the North as an export market than the North does on the South; and since the raw materials typically exported by the South are highly price inelastic, the terms of trade tend to move against the South in periods of recession in the North. The South also depends almost entirely on the domestic monetary policies of major developed countries for an adequate flow of international liquidity to help the industrialization process.

8. The flow of technological information and its adaptation is almost entirely one way from the North to the South. It is, therefore, not an exaggeration to say that the process of industrialization in the South tends to be particularly vulnerable to the economic policies followed in the North. In order for the pace of industrialization to be steady, this vulnerability must be reduced, which, in turn, means overcoming at least part of this asymmetry in world economic interdependence. A strategy to overcome the economic vulnerability of the South would be of mutual benefit because it would widen the degree of autonomy of domestic economic policies in the North without sharp repercussions in the South.

9. Viewed from this broad perspective of asymmetry and vulnerability, the parameters of future action for the sustained industrialization of the South must be clearly indentified. It is these parameters of action that will be combined in many permutations and in various degrees by individual developing

countries in the formulation of industrial strategies to suit their specific circumstances. UNIDO has identified the following as major areas of action that deserve special attention:

(a) The role that technology, including new technology, can play and the policies through which the technological capability of developing countries can be enhanced individually and collectively;

(b) Since most of the non-oil developing countries face serious problems in meeting their import bill for energy and industrialization is an energy-intensive process, the relevant energy policy for industrialization in the future;

(c) The type of human resource and skill development that needs to be planned in advance so that it can continuously support a process of steady and rapid industrialization; at the same time, the manner in which industrialization itself can provide a necessary training ground for acquiring relevant skills over time;

(d) The extent and pattern of regional and South-South co-operation in such diverse fields as trade, investment, technology and finance that would be necessary to reduce the economic vulnerability of developing countries individually and collectively;

(e) The nature of economic policies and strategies that could be followed in individual developing countries to weave together the above parameters of action in the overall framework of economic strategy for industrialization.

10. The Fourth General Conference of UNIDO should discuss in greater detail these broad areas where action would be essential. The present issue paper deals primarily with the last item, (e), in an attempt to identify some of the major issues that would arise in formulating an overall economic strategy and the nature of economic choices that have to be faced in this context.

II. SOME MAJOR ISSUES

A. The implications of world economic interdependence

11. The fact that the world economic system has become increasingly interdependent has a twofold implication: on the one hand, it suggests the possibility of sharing prosperity between all nations through expanding trade and structural adjustments in the international division of labour; on the other hand, it also raises the question of the vulnerability of individual nations to external forces, particularly in their early phases of industrialization when an unfavourable external economic climate can impose severe constraints on this process. Historically, both these implications are borne out by experience since the end of the Second World War. During the 1960s, both the North and the South prospered simultaneously in terms of industrial growth; from the latter half of the 1970s, the severe economic recession in the industrial North hindered and has now (since 1980) almost

reversed the process of industrialization in the South. Even the existing industrial capacity in the South is now utilized at an abnormally low rate - partly owing to lack of effective demand at home and protectionist trade policies fed on recession in the North and partly owing to lack of adequate external finance for imports of spare parts and maintenance equipment. The various computer simulations that have been carried out by UNIDO also show that high industrial growth, in terms of both the utilization of existing capacity and the creation of new capacity, is more easily feasible in an atmosphere of international economic co-operation.

12. Since the sharing of prosperity on the basis of mutual advantage in trade and structural adjustment in the international division of labour is the ideal solution, a critical question emerges: what are the broad economic conditions under which mutual economic growth in the North and in the South can be revived and maintained? In particular, the Conference should focus its attention on:

(a) International financial arrangements necessary for sustained mutuality of the economic interest in international trade and effective utilization of capacities and their growth over time;

(b) The restructuring of the existing international pattern of division of labour that is necessary for economic mutualism. In this context, the need for a global restructuring of industries that arises through continuous interaction between technical innovation and changing labour and raw material costs have to be discussed. The extent to which protectionism shields dying industries and imposes barriers to restructuring also needs to be reviewed;

(c) The whole question of the economic vulnerability of the South, which is linked to domestic fiscal and monetary policies, particularly in major countries in the industrialized North. It would be essential to discuss how to ensure adequate expansion in world trade through the management of international effective demand so that industrialization in the South does not come to a halt through the lack of an adequate international market. In this context, particular attention needs to be given to the implications of restrictive monetary policies followed by major countries of the North;

(d) Flow of information about the potential of new industrial technologies to provide guidelines for the future industrialization of the South.

B. External economic vulnerability

13. The other side of economic interdependence is, of course, external economic vulnerability. Although the North and the South are interdependent on one another, perhaps most explicitly in the sphere of international trade where each depends on the other's market, it should be re-emphasized that this interdependence is not symmetrical in nature. It is the asymmetry in economic interdependence that makes industrialization in the South especially vulnerable to the economic fluctuations in the North. Consequently, a major issue could be seen in terms of understanding and overcoming the economic vulnerability of the South so that its industrialization could proceed in a steady and orderly manner, relatively independent of the external economic

environment. However, it must also be emphasized that the extent to which individual developing countries decide to reduce external vulnerability is a matter of politico-economic choice. Particularly, some countries with a narrow resource base and product range may not find it feasible to reduce external vulnerability. Although the choice of the degree of vulnerability must in the final analysis be left to individual countries concerned, it should be clearly recognized that such choices are an integral part of an overall economic strategy.

14. The vulnerability of the South raises a set of complex, interrelated issues. The issues vary depending on the existing industrial structure, the pattern of dependence on world trade, the outstanding debt-service burden and the size of the developing country concerned. However, at least for purposes of analytical clarity, it may be worthwhile for the Conference to subdivide these issues under two broad headings:

(a) Domestic or internal policies required to reduce the degree of external economic vulnerability;

(b) External policies, particularly for regional and South-South co-operation, that would help developing countries strengthen their collective self-reliance in carrying on the process of industrialization and achieving the Lima target in an orderly and planned manner with a lesser degree of external vulnerability, individually or collectively.

C. Domestic policies

15. The degree and the nature of external vulnerability vary enormously from one developing country to another. For instance, a country that is not self-sufficient in food has to treat its minimum import of food as a high priority, and external finance for industries would then assume a lower priority in times of food scarcity. Similarly, a country with a heavy debt-service burden is obliged to view its repayment schedule as a high priority area, often at the cost of industrial development, particularly if the interest rate shoots up on its interest debt arrangements. However, it is an error to over-generalize; each country's domestic policies for industrialization and the choice of the degree of vulnerability have to be geared towards the particular circumstances of the country. Nevertheless, some general issues remain essential in formulating domestic strategies for industrialization.

16. One important issue is the importance to be attached to the home market in sustaining the process of industrialization. Relevant in this context is the traditional distinction between export-promotion and import-substitution strategies and the balance between these two aspects at different stages of industrialization of individual developing countries.

17. A more inward-looking policy of greater reliance on import substitution also has to take into account the factors that affect the size of the home market (the domestic pattern of income and distribution of wealth), as well as the magnitude of net factor payments of wages and profits to foreigners as a proportion of gross product. It is not always emphasized that an unequal distribution of income can constrain the size and pattern of demand for domestic goods; similarly, heavy reliance on foreign private investment may

shrink the net purchasing power of the country through an outflow of investment income to foreigners. Policies for maintaining an adequate home market should consider these issues.

18. The economic size of a country is also an important consideration. It should be emphasized that the majority of the developing countries have populations of less than five million, and, although a few of them have the advantage of having valuable natural and usually exhaustible resources (e.g. oil) that allow them to have a relatively high per capita income as well as large government revenue from the exploitation of such resources, other smaller developing countries have low per capita incomes which restricts the size of their domestic markets.

19. It would be useful to consider to what extent economies of scale are an important consideration and in which branches of industry technological solutions are at least partially available to dilute some of these traditional problems of economies of scale. UNIDO could assist countries with small domestic markets by identifying particular industries where a broad range of economies of scale would be a possibility through technological innovation and appraising the compatibility of those industries with the local resource base. Further, the whole question of linking the development of industrial structure to the natural resource base (which may be very narrow) in some countries would deserve special attention here. A small population limits options for the diversification of skills and manpower development and, therefore, makes it necessary to formulate a clear policy on the inflow of foreign skilled and unskilled labour, which is a particular aspect of the general problem of external vulnerability.

20. The role of public finance and the government budget, as well as the general role to be assigned to the public and private sector in industrial planning, must be treated as an integral part of domestic policies for industrialization. To the extent a country relies on its more sheltered domestic market in an inward-looking policy of, say, import substitution, it is often natural to expect that the public sector will have an important role in developing basic industrial and technological capability. And, the role of the public sector may at times even be critical in providing the necessary infrastructural base for industrialization. Nevertheless, both static and dynamic efficiency in resource allocation requires public sector participation to improve its competitive efficiency over time, rather than simply operating in a protected home market with monopolistic advantages.

21. The general issue of effective management of domestic resources and the role of the price system in countries with a relatively large public sector would need to be discussed; in particular, the role that the public sector can play in domestic resource mobilization and in the diffusion of technology deserve special attention. It is essential to move away from ideological debates by recognizing, on the one hand that, the public sector often has a critical role in the industrialization process, especially in its early phases; at the same time, the question of efficiency and accountability of the public sector, in terms of its effective management of resources, needs also to be squarely faced.

D. External policies

22. The external policies of the developing countries need to be reinterpreted and cast in a new role. In the traditional view, external policies have been associated almost exclusively with trade policies; but such policies are far too narrow and should be more broadly conceived to include measures to reduce the degree of external vulnerability of the process of industrialization in developing countries. It is in this context that the issue of co-operation between developing countries assumes paramount importance. However, co-operation between nations can proceed only so long as the self-interests of individual nations are also respected.

23. Therefore, as a guideline, the Fourth General Conference could focus particularly on those areas and elements of South-South co-operation or its subregional aspects that reconcile collective interests with the interests of individual members of the collective. Even using this rather restrictive but practical criterion for regional or South-South co-operation, it is possible to identify crucial areas where such co-operation would be mutually beneficial to individual nations and to the collective interest. For example:

(a) In new technologies (such as biotechnology, genetic engineering, micro-electronics, information technology etc.) no developing country in isolation may be capable of catching up and being abreast of new developments. United strength and co-ordinated policies, however, can make this a distinct possibility. The Conference should address itself to the logistics and mechanics of how to exert united strength in this vitally important area;

(b) In the area of trade, one of the traditional sources of vulnerability is the fluctuation in the terms of trade between manufactured goods mostly from the North and less processed agricultural and mineral raw materials from the South. The very industrialization of the South could provide at least a partial answer to this. And, almost paradoxically, the uneven industrial development of developing countries can create opportunities for longer-term contract pricing in "futures" markets. Indeed, the South could turn its very weakness of industrial development into strength, if trade is modelled on enlightened self-interest among developing countries in a co-operative spirit. Similarly, in the area of service trade such as insurance and shipping, almost all developing countries suffer individually and collectively, as they have little control over the present network. Co-ordinated action in this area could yield benefit individually and collectively;

(c) In international finance, attempts have to be made for bilateral or multilateral trade and clearing arrangements based on the use of local currencies and central bank participation.

24. These are areas fraught with considerable economic and political difficulties. However, if the South has to act rather than being only a helpless observer of its own vulnerability to high interest rates, mounting debt and what is almost a partial de-industrialization in many developing countries, it is opportune to explore options that have not been explored so far. Such options in terms of effective co-operation undoubtedly exist in the diverse areas of technology, trade and finance that are vital to industrialization. The question remains whether these historical opportunities will be seized before it is too late.

