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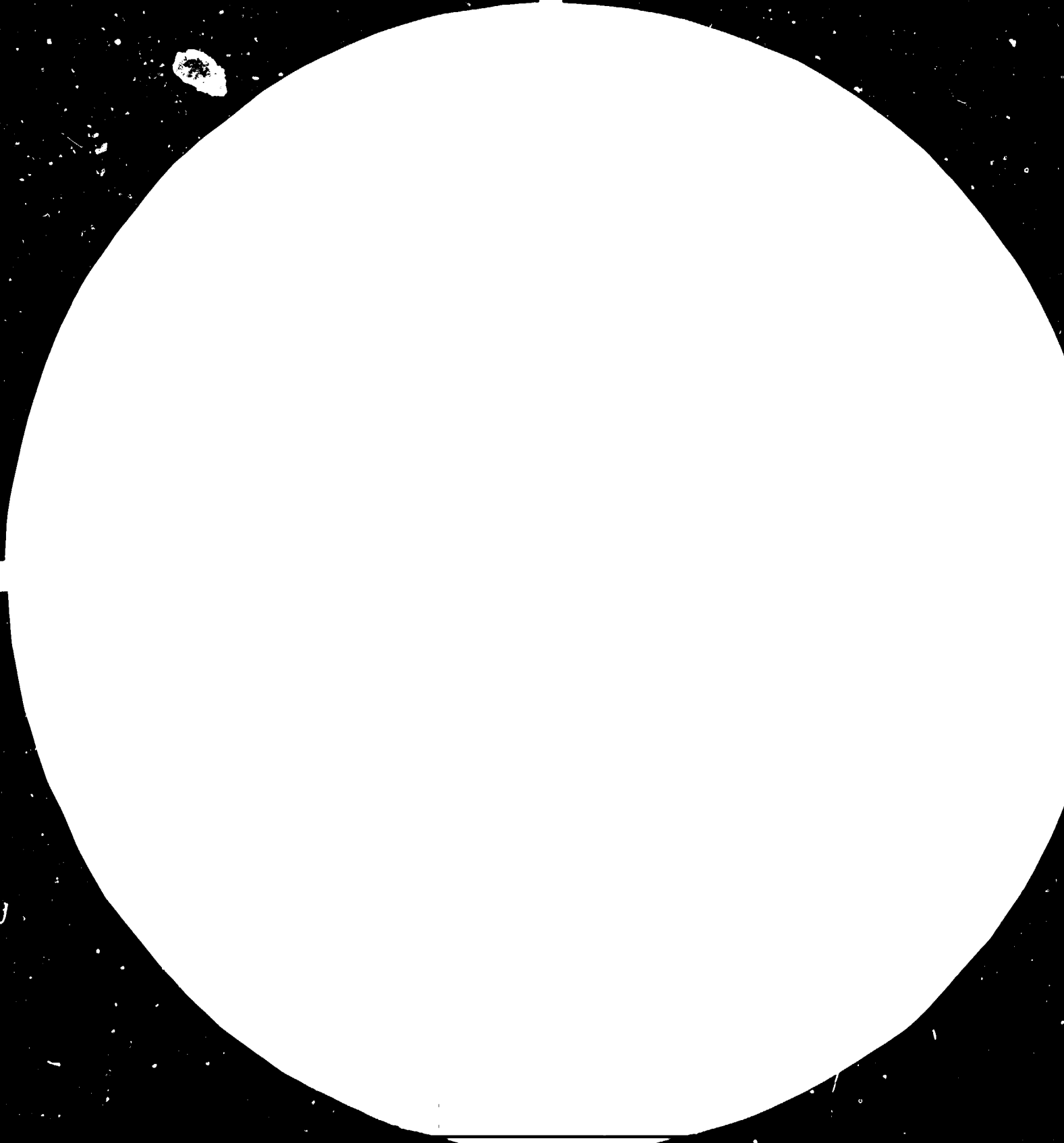
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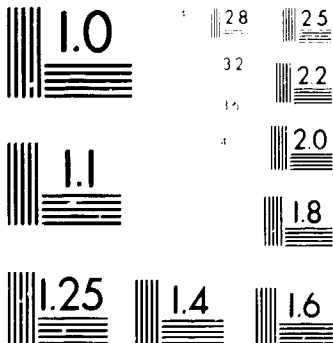
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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

**HIGH-LEVEL
EXPERT GROUP MEETINGS
PREPARATORY TO THE
FOURTH
GENERAL CONFERENCE
OF UNIDO**

*Industrial Development Strategies and Policies
for Developing Countries*

Lima, Peru, 18-22 April 1983

REPORT (Meeting on industrial development
strategies and policies).

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INTRODUCTION

1. The Meeting on Industrial Development Strategies and Policies for Developing Countries, one of the High-level Expert Group Meetings Preparatory to the Fourth General Conference of UNIDO, was held in Lima, Peru from 13-22 April 1983 in co-operation with the Government of Peru. The Agenda is given in Annex 4, the list of participants is contained in Annex 5 and the list of documents in Annex 6.

2. The aims of the Meeting were:

(a) To review challenges generated by the current international crisis and possible responses for industrialization in the developing countries;

(b) To identify possible reorientations of, and new opportunities for, the long-term industrialization process in the developing countries;

(c) To identify features and directions of strategies and policies for the 1980s and 1990s as they emerge in the perception of national policy makers;

(d) To identify lines of international action and in particular actions by UNIDO; and

(e) To make suggestions and recommendations for consideration by the Fourth General Conference of (UNIDO IV).

3. The Meeting was opened by Mr. Farlan Carré, Deputy Executive Director of UNIDO, who conveyed the best wishes of Dr. Abd-El Rahman Khane, Executive Director of UNIDO, for a successful meeting. Mr. Carré recalled the adoption of the Lima Declaration and Plan of Action which crystalized the international consensus on the role of industrialization in development as a whole. It had also provided the basis for international action and, in particular, the activities of UNIDO. Regretably, however, progress towards the achievement of the Lima target and relative objectives has been slow. Eight years later the share of the developing countries in total world manufacturing value added is only slightly higher than what it was in 1975.

4. The world economy has now plunged into the worst economic crisis since the 1930s. Urgent action is needed to ensure that recession does not permanently affect the industrialization process in developing countries. Mr. Carré stressed that the present difficulties provided the opportunity to reconsider national policies and international economic relations, and to work towards long-term, dynamic policies and strategies for the world economy, in which the industrialization of the developing countries would play a major role. It was hoped that the Meeting could, by assessing the nature and present role of industrialization policies, and by identifying new areas for action particularly in the field of international co-operation, provide valuable overall guidance in the preparation for UNIDO IV.

5. In his address to the Meeting Dr. Gonzalo de la Puente, Peruvian Minister of Industry, Tourism, and Integration, referred to both the Lima and New Delhi Declarations and Plans of Action, and stated that for many developing countries import substitution had been initially chosen as one policy for attaining the industrial growth rates necessary for achieving the Lima target. Reviewing the industrialization experience of Peru, the Minister explained how a systematic policy of import substitution was enacted in 1970 and pursued till almost the end of the decade. In 1978, as the potential for import substitution waned, Peru modified its policy of import substitution and introduced a new fiscal system. New legislation in 1982 allocated a larger role to private enterprise in economic development in Peru.

6. At the moment, however, industrial development is threatened in Peru (as in many other developing countries) and it is therefore increasingly important to stress the development of an efficient industrial sector with an export orientation. To be successful, policies and strategies for the development of this sector must be imaginative, while at the same time these must be pursued in a prudent and responsible manner.

7. Mr. G.S. Gouri, Chairman of the UNIDO IV Task Force, reminded the Meeting that, while the Lima target was established under the promise of the continued expansion of the world economy, UNIDO IV will be held in the shadow of recession. This recession, which is persisting longer than expected and cutting deeper than imagined, has undermined the international monetary system, restricted trade, and seriously eroded industry's capacity to serve

as an engine for growth. UNIDO IV will initiate a dialogue to explore ways in which the international community could respond to this crisis at the national, regional, and international levels. The five preparatory UNIDO meetings provide an opportunity to establish a sound basis for reflection on the most appropriate way to respond and to adjust, and for a thorough review of major critical areas for industrialization. The first preparatory meeting in Tbilisi examined one of these interrelated components, namely the impact of technology breakthroughs on industrialization (ID/WG.389/6). The present Meeting continued this dialogue in the broad and central field of industrial development strategies and policies for the developing countries.

8. The Secretariat introduced the agenda and the documentation prepared for the Meeting. The Meeting was to serve the preparation for UNIDO IV - through a joint analysis by experts from developed and developing countries and the UNIDO Secretariat of recent development and prospects for economic measures and actions for the future. The Meeting was thus to provide an input particularly in respect of item 4 of its agenda as well as the areas specified in item 5. The documentation included four basic documents providing an overview of the broad issues to be considered by the meeting (ID/WG.391/2); singling out five specific policy issues of particular importance to industrial strategies in the near future (ID/WG.391/4); presenting a survey of trends in past and current world development (ID/WG.391/8); and outlining scenarios for future developments, against the background of the Lima target and with emphasis on prospects for co-operation among developing countries (ID/WG. 391/9). These were complemented by some background papers, which included analyses of specific problems and topics in the area of strategies and policies for industrialization in the developing countries, and perspectives on the policy of individual developed countries toward the developing countries.

9. The Meeting elected Mr. Ivan Rivera Chairman; Mr. Jürgen Kühn, Mr. A.O. Oluwunmi and Mr. V.D. Popov Vice-Chairmen; and Mr. Shivshankar Menon Rapporteur of the Meeting;

SETTING THE SCENE

10. The Meeting reviewed industrial development in the developing countries during the 1980s and examined the impact of the current international economic crisis on the developing countries. This provided the basis for an in-depth examination of industrial development strategies and policies for the developing countries in the 1980s and 1990s. The Meeting welcomed the excellent documentation prepared by the Secretariat as well as by the participants.

11. It was pointed out that during the decades of global economic growth in the 1960s and 1970s, industrialization in the developing countries on average had been substantial, though this was markedly less true for the least developed countries. During the 1970s, exports from developing countries of manufactures as a percentage of world exports of manufactures rose. At the same time intra-industry trade has become increasingly important in both North-South and South-South trade. However, progress towards achieving the Lima target was limited and the environment for developing countries' industrialization policies has now become increasingly unfavourable.

12. There was some difference in the degree of appreciation of the nature of the present international economic situation and its immediate prospects. It was agreed that the present recession was longer and deeper than any since the 1930s. While one group of experts felt that the present situation was a cyclical recession in the world economy, other experts felt that the world economy was currently undergoing a structural crisis, caused more by beggar-thy-neighbour competitive deflationary policies than by growing protectionism. While some felt that the recession would pass very soon, most experts were less optimistic. It was pointed out that the loss of foreign exchange, the lack of external financing, the fall in commodity prices, aggravated by growing protectionism, had paralyzed several developing countries. It was therefore imperative to find international solutions to these problems which could no longer be dealt with on a national basis outside an international context.

13. Global economic stabilization and recovery was thus seen as an essential prerequisite for the success of national industrial policies of the developing countries. The asymmetry in the international economic system - reflected in the fact that discipline is exercised by the International Monetary Fund only on borrowers and not on major reserve currencies - required an asymmetry in the measures to overcome the present situation. World economic growth depended primarily on developments in the economies of industrialized countries, and international financial stability was essential for the industrialization policies of developing countries to bear fruit. The impact of the present serious world economic situation on the industrialization of developing countries is evident. Industrial growth has been stifled and many projects discontinued, with the lack of supply of intermediates resulting in high unutilized capacity and postponement of social programmes. Global economic recovery was possible only if there was a co-ordinated economic policy aiming industrialized countries and successful efforts to reduce real interest rates, curb inflation and strengthen the world financial system. Some experts felt that there was a danger due to excessive international liquidity, whereas others felt it was more important to emphasize world recovery.

14. In discussing strategies and policies for industrialization in the developing countries in the 1980s and 1990s, it was agreed that they must reexamine existing policies and introduce new ones in correspondence with the new macro-economic realities of the world economy.

15. Several experts referred to the need for improvements in the world trading system. It was noted that protectionism in industrialized countries was the consequence of recent monetarist policies in these countries. It was further emphasized that activities of TNCs should be geared to further the development process in the developing countries. One expert expressed concern about the social orientation of industrialization strategies and policies in the 1970s and 1980s, and about the continuing global process of polarization within - as well as between - developing countries, and between developed and developing countries.

16. A few experts argued that the arms race, by diverting resources from development, affected the ability of developing countries to industrialize. Moreover, disarmament at the global level would contribute to generating additional resources in developed countries to support the industrialization of developing countries.

SOME ISSUES IN INDUSTRIAL STRATEGIES AND POLICIES IN THE 1980s AND 1990s

17. After the initial exchange of views the discussion continued in three working groups to consider the issues affecting industrial strategy in developing countries in the 1980s and 1990s. Working group 1 dealt with strategy and policy issues relating to developing countries with potential for increased exports of manufactures; working group 2 discussed issues relating to developing countries with potential for domestic market-oriented industrialization; and issues relating to developing countries in the initial stages of industrialization was the topic dealt with by working group 3. This particular typology was employed only as a means to focus attention on key problems relevant to one or more countries, depending on their specific pattern of industrial development strategies and policies, and it is clear that alternative typologies would have been possible. The following terms of reference were issued as guidance for the three working groups:

"On the basis of the discussions in the plenary sessions on agenda item 4 on global problems and issues, the working groups should concentrate on elaborating a concrete set of action programmes.

These recommendations would concentrate on short-term and long-term policies and strategies. Short-term measures would be designed to overcome the present economic crisis. In these discussions the external economic environment is taken as given.

On the other hand, long-term measures should be identified under two different scenarios:

- The developed countries would re-establish their previous economic growth.
- The developed countries would continue their current policy of economic retrenchment with its resulting low growth rates.

In discussing both the short-term and long-term strategies and policies, recommendations - in the form of a concrete action programme - should be formulated:

- For the developed countries;
- For the specific group of developing countries under discussion;
- For collective action by the developing countries as a whole; and
- For the role of UNIDO."

18. Each of the working groups produced its own report, and these are annexed to this report. In the plenary discussion following the presentation of the working group reports, a number of points from the reports were raised concerning issues treated in these reports. The following section presents a brief account of some of the common elements discussed in the plenary and the working groups.

Global inter-relationships

19. All three working groups reviewing the problems facing specific groups of developing countries with separate developmental orientations expressed concern for the current global economic recession and its implications on the prospects for the industrial development process.

20. It was noted that developing countries have attached high priority to industrial growth. During the 1970s, despite often unfavourable economic conditions, a number of developing countries managed to achieve a high rate of industrial development. This commitment to industrialize meant reliance on the capital goods and technological know-how available from the developed countries. The shrinking export earnings combined with mounting external debt service charges have effectively foreclosed chances for a continuous industrial progress in an uninterrupted way. Therefore, today, the developing countries stand at a crossroads.

21. Having recognized that the stagnation in industrial growth in the developing countries was mainly induced by external factors, it was suggested that the developed countries recognize the consequences of their domestic macroeconomic policies for the growth and export prospects of the developing countries, and that these consequences be weighted heavily in the formulation of their macroeconomic policy. Also it was considered essential that the restrictive monetarist policies of some leading industrial countries needed to be revised, as this would lead to an immediate and strong upturn in the world economy. The developing countries on their side should introduce the

necessary rationalization of their industrial structures, so as to lay the foundations for improved productivity in the future, and to expand the home market for domestically produced goods. International industrial co-operation must also be expanded and new forms of co-operation initiated to support these policies.

Finance

22. In the area of finance, the discussions emphasized the importance both of international finance and of domestic financial resources. At the level of external problems and constraints, it was noted that a most significant change has taken place in financial markets during the 1970s. The international capital markets have become increasingly "privatized", in the sense that private sources of credit have increasingly become more important than public sources. The international debt crisis and the vulnerability of private banks with heavy foreign exposure are largely a reflection of this phenomenon.

23. The implications of this systematic process of privatization of world capital markets for the formulation of development strategies and policies needs to be fully comprehended. It has meant: (a) higher borrowing costs with lower maturities; (b) the transfer of exchange risk and interest rate fluctuations to the borrowing developing countries, particularly due to the flexible interest loan arrangements widely practiced by commercial banks during the late 1970s and early 1980s; (c) an extraordinarily heavy debt service burden, which in effect is steadily reducing the net flow of foreign private loans to developing countries; and (d) a heavy discrimination among developing countries, where the poorer ones among them have simply not been considered sufficiently creditworthy by private banks, leaving them largely without access to private credit.

24. Countries with reliance on exports of manufactures depend mostly on the North to sell their products, obtain commercial loans, and procure industrial technologies. In many instances, they obtain both such industrial technology and commercial loans through transnational companies with branches located in these countries. The large transnational banks lend to the transnational companies through public or privately guaranteed credit arrangements. Any

shrinking of the international commercial market for loans will make export-based strategies of industrialization highly problematic on the supply side in these countries, while on the demand side they increasingly face the problem of lack of markets.

25. In addition to the decreasing sources of private capital, many developing countries, in particular the least developed countries, have also been faced with dwindling development assistance. A reversal of this trend is a key requirement for the 1980s and 1990s.

26. Thus, the external financial problem and the indebtedness of developing countries was seen as a major concern for the industrialization policies of these countries at the present time. Given the nature of the external dependence and restricted strategy options, it was seen necessary to look for new options emerging from internal dynamics of industrial growth as well as greater international co-operation among developing countries.

27. Domestic finance was also recognized as an important issue for industrial strategies and it was noted that the developing countries had made progress in mobilizing domestic savings and in increasing the share of industrial investment in GDP. Such progress has been achieved by a variety of measures, such as the promotion of savings and intersectoral transfers appropriate to each country's circumstances and conditions.

28. It was noted that private foreign investments will continue to play a role in the financing of industrialization in the 1980s and 1990s, and that - due to the fact that foreign investments are mainly oriented to countries with large markets - these countries seem to have particularly good prospects for the longer term. In addition, it was mentioned that new forms of private and public co-operation should be reviewed intensively, e.g., non-equity arrangements and production sharing contracts. UNIDO was requested to provide the required key technical support in this area.

International trade

29. It was noted that exports of manufactures made an important contribution to the growth rates of several developing countries during the 1970s. Unfortunately, new tensions in the international trading system threaten to

undermine the gains of these developing countries as well as the potential gains of other developing countries wishing to follow export promotion strategies.

30. In the area of strategies and policies focused on at the Meeting, the most immediate and near-term threat is the specter of protectionism. Many industrialized countries have relied increasingly on non-tariff measures such as voluntary export restraints, quota arrangements, unilateral applications of safeguard procedures and other arbitrary and discriminatory trade restrictions resulting in the reduction of the market access of developing countries. The impact of this if continued will bring about material and tangible adverse effects upon domestic industrialization rates in the developing countries.

31. General declarations against protectionism are no longer sufficient. Effective action in co-operation with UNCTAD and GATT is urgently required to reverse the unfavourable trend towards trade barriers and to create a more favourable international trade framework for the industrialization efforts of the developing countries.

32. In the coming decade the countries of the South will have to rely more than in the past on their internal dynamics and on the growth of internal demand, than on world market forces to generate economic expansion. They will need more import substitution where appropriate, more internally originating technological development, and more economic and technological co-operation among themselves.

33. In discussions on current developments in the foreign trade sector, attention was also called to the alarming de-industrialization trends presently at work in several of the more advanced developing countries, such as various Latin American nations with a relatively high degree of integration in the international economy. This is particularly true with respect to the financial, technological and export markets of the industrialized world, and these countries are being forced to adopt short-term stabilization measures and protectionist policies. It was also noted that such trends are coupled with a rapid transnationalization of industrial branches with a large and long-standing presence of medium-sized domestic enterprises. The latter are more sensitive to the crisis than subsidiaries of TNCs. This situation

requires serious attention by the Governments. Particular policies should include the active government support of nationally-owned enterprises both in the public and private sectors and the continuous control of the access of TNCs to domestic markets.

34. In addition to the present serious short-term problems, the third world countries may be faced with a long-term deceleration in world economic growth. The crucial consequence of this for them is that world trade will expand much more slowly than in previous decades.

35. With regard to the external trade sector in the least developed countries, and taking account of the high degree of vulnerability of these countries, the important step would be to give preferential treatment for these countries. It was considered necessary that such preferential treatment be extended and improved in matters of trade and aid. For this group of developing countries the elimination of problems of access to the markets of the developed countries should be feasible or easily agreed upon, particularly in view of the fact that the possible export flows are small in absolute terms and pose no threat to developed country markets.

36. One avenue to reduce the influence of the external market on domestic markets in the developing countries in general is to use trade policy to balance domestic protection without overly penalizing the appropriateness of efficiency from the external competition necessary to ensure the commercial viability of both infant industries and the processing of local natural resources. In this connection, the promotion of exports is important, and particularly of exports of processed raw materials containing higher value added and those of a handicraft nature.

Technology

37. There was a common recognition of the central role of technology in the industrial development and of the high priority that should be accorded to it - in developing countries - in the 1980s and 1990s. Developing science and technology capabilities was therefore seen as a major element in the formulation of industrial strategies.

38. It was considered that narrowing the gap in technological development that separates the rich and poor countries is of the highest priority for developing countries wishing to become internationally competitive in a wide variety of manufactured products. Similarly, improving the level of overall technological development was essential to industrialization for all developing countries. Without appropriate policies in this area, the technology gap will certainly widen (to the great disadvantage of the developing countries).

39. While technology will increasingly play a central role in comparative competitiveness and thus in promoting manufactured exports of developing countries. At the same time technological advances will also have socio-economic impacts that must be duly taken into account in the formulation of industrial strategies and policies. As an example, it was stressed that the high rate of open and disguised unemployment in most developing countries required that technologies are adopted or preserved which create a considerable number of additional permanent jobs or safeguard existing ones.

40. At the country level, the industrial sector will thus continue to be characterized by a mixture of more and less capital-intensive technologies. Innovation policies will be called for as an integral part of industrial strategies for regularly adjusting the production structures to the dictates of technology.

41. When choosing technology one must remember that structural changes in the future will be necessary and that therefore flexibility must be built into the production structure. The same kind of priority has to be given to the definition of a specific research and development policy. The susceptibility of countries with large markets to changing economic conditions - which became already clear during the current crisis - will be sharpened by their intensified integration into the world economy. In many countries a restructuring and modernization of the industrial sector has to take place within the next years.

42. In support of national efforts to enhance technological capabilities for industrial development in the 1980s and 1990s, there was need to take concrete action in monitoring and assessing technological breakthroughs, and in this

connexion reference was made to the first of the preparatory meetings for UNIDO IV on Technological Advances and Development. While larger developing countries could examine individually and collectively the possibilities of introducing new technologies, it is considered necessary to follow a selected and differentiated approach in the light of each country's development objectives and the economic and social conditions.

43. While it was recognized that flows of technology from North to South will continue to play a dominant role in the industrialization of South, it was emphasized that due attention must continue to be given to: the high cost of technology, the effectiveness of the transfers and of the technology transferred, and the appropriateness of technology to the factor endowments of developing countries. The need to strengthen the negotiating capacities to obtain fair and equitable conditions in the transfer of technology from North to South to attain mutually beneficial results was stressed.

44. Since there were varying degrees of achievement in this area, co-operation among developing countries was considered as an objective particularly to enhance the capacities of countries which are at the initial stages of industrial development.

45. In summary, the identification and choice of the appropriate technology is crucial and seems to have been acquiring a new dimension due to the technological breakthroughs of recent years and the characteristics of some of these technologies. It does seem important not to exclude the application of very modern technologies for areas of the country that might otherwise appear to be at a rather less sophisticated technological level. On the other hand, however, modalities have to be developed to ensure that at the same time the countries do not become technologically dependent.

Economic co-operation among developing countries

46. In view of the past and present dynamism of developing country markets and the likelihood of a continuation of such trends in the future, it would seem imperative that in the formulation of national industrial strategies and policies high priority would be assigned to increasing trade with other developing countries at the regional and sub-regional levels, where prospects

for complementarities in production and trade are likely to be particularly prevalent. Attention should thus be directed at utilizing and broadening existing co-operative arrangements as well as at the promotion and support of new agreements.

47. It was recognized that while the developing countries with a large domestic market have significant potential for a broad industrial development, many of their industries are increasingly facing serious constraints in terms of lack of imported material inputs and markets. It was pointed out that in order to respond better to these challenges, co-operation between these developing countries is necessary, partly to increase the exchange of manufactures and partly to provide a basis for realizing joint action and negotiation for the acquisition and generation of technologies and intermediate goods.

48. Indeed, developing countries should utilize their joint experiences to overcome some of the short-term and long-term difficulties they face at the national level. Such co-operation may be carried out through joint ventures and technology arrangements in selected industrial sectors and branches.

49. Taking account of the increase in international transfers of technology, the developing countries should be able to obtain, through collective actions, appropriate modalities to allow them to take effective advantage of possibilities of co-operation with foreign firms and research organizations. In addition, the question of preferential access to technology for these countries has to be considered.

50. South-South co-operation has become an increasingly important policy option for the developing countries. The options for the South include consideration of how their collective strength can be utilized in their own interests and towards meeting their own goals. The South can offer an enormous market and abundant resources, both natural and human. Growing complementarities between the countries of the South mean that a new collective effort can provide the basis for an alternative development path.

51. Regional technical and industrial co-operation should definitely be developed as a vehicle for enhancing the industrialization of these countries. It can be readily argued that markets can be enlarged on a regional basis, particularly to exploit economies of scale and to take advantage of the enhanced opportunities to profit from learning by doing.

Human Resource Development

52. Human beings are not only the main beneficiaries of development, but also its main instrument. A human resource-led industrialization strategy as one of the important options available was noted by the Meeting, as was the need to systematically incorporate human resource development considerations into the formulation of comprehensive industrialization strategies for the 1980s and 1990s. In this, the main departure from traditional educational approach is the accent on the systematic development of required skills - be they technical or managerial, planning or technological skills. The long-term nature of benefits from human resource investment was specifically highlighted.

53. Given that human resources is both the subject and object of development, as well as a common element in key areas such as international trade, external finance, and technology, there is a requirement to emphasize the means and capacities for training. There was a view that there was a need to harness human resource development for the purpose of helping to solve the problem of unemployment in the developing countries that threatens growth and stability in the developing countries.

POLICY MEASURES

The World Economic Environment and Industrialization

54. A crucial determinant of industrial development for most developing countries, both in the short- and long-terms, is the world macroeconomic environment. If the world economy grew faster, this would lead to increased third world exports, higher raw material and commodity prices, and thus greater capacity of third world economies to service their debts, to afford the necessary imports for fuller utilization of their existing industrial capacity as well as for further industrial development. However, in a stagnant world economy, most third world countries, because of their enormous

debt burdens and sharp reductions in commodity prices, are today facing an extremely serious industrial and economic situation. In addition, they also have to contend with the prospect that there may be a long-term deceleration in world economic growth.

55. Giving full recognition to the foregoing considerations, the following recommendations were made. First, in order to limit the damage to industrial development in the third world countries, it is essential that there should be international economic co-operation and that the restrictive monetarist policies of some leading industrial countries are reversed, leading to an immediate and strong upturn in the world economy. If such international economic co-operation is not forthcoming, the economic and industrial situation today is so critical that a number of the large third world countries may be forced to consider extraordinary economic and financial measures.

56. Secondly, developed countries must recognized the consequences of their domestic macro-economic policies for the growth and export prospects of the developing countries and weigh these consequences more heavily in the formulation of their macro-economic policy. Developed and developing countries must work more closely together to inform each other of their respective macro-economic policy goals and, where necessary and advisable, co-ordinate policies through, inter alia, the UN system. Thirdly, in the relation to the specific problems of the countries in the initial stages of industrialization, it was noted that the developmental assistance has been dwindling. It was recommended that this trend should be reversed. It was agreed that the developed countries should increase the current level of aid flows to these countries and accelerate higher levels of aid per capita, whatever the economic situation in the donor countries might be, with some experts feeling that these new higher levels should be guaranteed.

International trade

57. In view of the above-mentioned considerations, and the particular problems of the export-oriented developing countries as well as those at initial levels of industrialization, it was recommended that in the short-term there should be a standstill on protectionist measures and other impediments on trade with developing countries by developed countries. This should progressively lead

to a removal of tariff and non-tariff measures imposed upon the manufactures of developing countries such as quotas, voluntary restraints, etc.

58. It was also recommended that the generalized system of preferences should be maintained and strengthened and that the discriminatory and special trading arrangements, such as the multifibre agreement, should be phased out. It was further agreed that the developing countries should be encouraged to promote trade with other developing countries on a mutually beneficial basis, through multilateral discussions to reduce trade barriers in existing regional and subregional groups as well as in new groups.

Science and technology

59. It was noted that the possession of scientific and technological capability by a country is not only essential for its long-run industrial development, but is particularly valuable at the present time as it provides the country with the capacity to adapt to the rapidly changing world economic conditions. In view of the fact that during the last two decades several third world countries have been successful in creating the necessary scientific and technical infrastructure and in training their labour force, there is a genuine cause for optimism that over the medium-term such countries will be able to carry out the required restructuring of their industrial economies and thus continue with their industrial revolutions. These countries must continue to add to their scientific and technical capabilities.

60. Industrial strategies of developing countries therefore should incorporate long-term innovation policy considerations. For these technologically more advanced of the third world economies, a note of caution was struck that in their technology policies they must also give proper consideration to employment. With respect to North-South technology transfer, it was recommended that developed countries be called on to provide advanced and suitable technology on fair and equitable terms. Developing countries should on their side provide a framework for mutually beneficial technological transactions.

Human resources

61. In the case of countries at an initial stage of industrialization, the central importance of a human resources strategy was underlined. It was

recommended that the investments in human resources should precede in time and be given priority over physical investments. The importance of pursuing a policy of human resource development as an integral part of their industrial strategy was stressed for all developing countries.

Economic co-operation among developing countries

62. For small countries co-operation is imperative, for large ones desirable. It was pointed out that in order to respond better to the present challenges, co-operation between the developing countries would be an essential move, partly for an increasing exchange of manufactures and partly for joint action and negotiation for the acquisition of technologies and intermediate goods from developed countries.

63. It was recommended that the developing countries should promote industrial co-operation programmes that would overcome some of the difficulties faced by growth efforts at the national level and create industrial complementarities among themselves. New types of joint ventures and technology arrangements should be initiated. It was noted that since most of the large countries have a rather more advanced industrial structure, co-operation with smaller ones can be very helpful to the latter.

National economic measures

64. It was noted that in most third world countries faced with an acute external financial constraint, there is no option as far as short-term industrial policy is concerned, there is no option except (a) to reduce the propensity to import and (b) to enhance external liquidity to the extent it is possible. Both (a) and (b) are clearly extremely difficult to achieve in the present circumstances of the world economy. This requires specific measures designed in accordance with the particular conditions of each country.

65. However, if the world economy grows only slowly in the years to come, then even in the long-term the creation of viable industrial structures in the developing countries will require strategic attention to be focussed on both

(a) and (b) above, and particularly on (a). In that case in the coming decade the countries of the South will necessarily have to rely more than in the past on their internal dynamics, on the growth of internal demand, than on world market forces to generate economic expansion. They will need selective import substitution as appropriate, more internally originating technological development, and more economic and technological co-operation among themselves. It was, however, stressed that policy emphasis on internal growth does not mean that export opportunities should be neglected. Because of their external financial gap, developing countries will simultaneously need to continue to give support to the export effort

66. It was recognized that industrial re-orientation of the kind outlined above would be easier to implement (a) for the larger countries and (b) for those at relatively more advanced stages of industrial development. For smaller countries and those which are at a relatively lower level of industrialization, international economic co-operation, particularly via regional and other integration schemes, may be essential.

The role of UNIDO

67. The meeting confirmed the broad guidelines for the activity of UNIDO as set forth in the Lima and New Delhi Declarations and Plans of Action and UNIDO's commitment to continue to assist the developing countries in their endeavours to industrialize. In the sessions of the working groups and of the plenary, proposals were put forward for additional tasks to be undertaken by UNIDO.

68. UNIDO was called upon to assist developing countries in identifying industrialization potentials and formulating strategies for industrial development. Special attention should be given to the problems faced by developing countries in a stage of transition in terms of the direction of its strategy towards domestic versus foreign markets. UNIDO should also carry out studies at the industrial sector level and evolve sectoral strategies for individual and groups of developing countries.

69. It was suggested that UNIDO undertake studies relating to the prospects and features of international economic and technical co-operation which would

accelerate the growth of industry in the third world and thus support national strategies. In this respect, UNIDO was urged to investigate the potential for trade and financial relations of the South with both the South and with the North, and also work on strategies for global economic co-operation. In this context, it was important to examine the specific aspects of industrial co-operation in regard to manufactured exports, financing of industrialization, and the implementation and operation of industrial development projects and to analyze the reasons for success and failure of past co-operation.

70. Expansion of regional industrial co-operation schemes for developing countries was considered vital. Particular stress was given to UNIDO's role to assist economic and industrial groupings and advise on the formation of new groupings as required.

71. In the area of financing, UNIDO should specifically deal with the problem posed by declarations of non-creditworthiness, particularly in the case of the least developed countries. In many of these countries prospective foreign investors were not able to obtain credit insurance cover, joint ventures had been curtailed and commercial credits discouraged.

72. It was emphasized that the vital issue of the impact of third world debt for continued industrialization needs to be thoroughly examined by UNIDO and UNCTAD.

73. UNIDO should also examine the experience and current process of industrial development and structural adjustment in both the developed market and the centrally planned economies as to its applicability to the industrialization process of the developing countries.

THE CLOSING SESSION

74. At the closing session which took place in the Ministry of Foreign Affairs, the Chairman of the Meeting stressed the importance of the Meeting and enumerated its major achievements and recommendations. Mr. Gouri, Chairman of the UNIDO IV Task Force, thanked the President and authorities for

the support of the Meeting and emphasized the significance of the Meeting and of its taking place in Lima - a city which, through the Lima Declaration and Plan of Action, had become a concept for industrialization of developing countries.

75. The President of the Republic of Peru, Mr. Fernando Belaúnde Terry, closed the Meeting and stated that industrial development in the world was taking place in a few growth poles characterized by larger market potentials and by the availability of natural resources, including energy resources. Latin America was richly endowed with resources and other natural potentials for industrial development in terms of transportation and energy.

76. The President specifically emphasized the industrial potential of the Andean Group and of Peru. Richly endowed with minerals and with a well established agricultural sectors, Peru possessed a solid basis for industrial development. The country thus is committed pursued its industrialization and also to be fully involved in all matters pertaining the industrial development of the third world.

ANNEX I

The report of Working Group 1 on strategy and policy issues relating to
developing countries with potential for increased exports of manufactures

The Context

1. Industrialization efforts in countries relying upon manufactured exports are hampered by three interdependent sets of problems. These stem in part from the interrelationship of the world economic system in trade and finance that deepened during the 1970s. First, new financial and trade integration means that the macroeconomic policies of the developed countries have a strong and direct impact upon developing countries - through the growth rates they induce, the rate of growth imports from developing countries, the interest rates developing countries must pay on their debt, and resulting structural adjustments. Second, the new interrelationship of the world economy has deepened strains in trade relations among the countries of the North and between North and South as countries adjust to increased specialization and more open economies. Finally, the new interrelationship of financial markets implies that maintaining and increasing the level of financial flows from North to South is essential to maintaining and increasing the rate of industrial development in the South as well as the stability of the international financial system in general. These events are of particular importance to those developing countries with a potential for increased exports of manufactures during the 1980s and 1990s.

2. Consequently, in the paragraphs that follow six sets of issues are elaborated. These issues, essential to maintaining and increasing inter alia industrial development in the South and exports of manufactures, include: general macroeconomic conditions, international trade, international finance, domestic industrialization policies, technology transfer, and infrastructural requirements.

Macroeconomic Policy

Short term

3. With the increased integration of global trade and financial markets, the macroeconomic policies of the largest, leading developed countries exert strong influence on the growth trade and financial prospect of developing countries. Radical swings in monetary policy and/or fiscal policy in an era of floating exchange rates and integrated financial markets can markedly affect the export and growth prospects and financial condition of the developing countries. The developing countries with high levels of debt are particularly sensitive to swings in interest rates in the developed countries. It is therefore recommended that:

- (i) The developed countries recognize the consequences of their domestic macroeconomic policies for the growth and export prospects of the developing countries, and that these consequences be weighed more heavily in the formulation of macroeconomic policy.

Long term

4. A stable macroeconomic environment is perhaps the single greatest determinant of industrial growth and export prospects of developing countries. With the declining weight of the largest country in the world economy, the macroeconomic policies of any one country are by themselves no longer effective in assuring that stable world macroeconomic policies will result. Expansionary policies of one major country may be cancelled out by contractionary policies of others. Nor will co-ordination among the OECD countries exclusive of the developing countries assure growth, as developing countries now account for a large segment of the world economy. It is therefore recommended in the long run:

- (ii) That developed countries and developing countries work more closely together to inform each other of their respective macroeconomic policy goals and where necessary and advisable co-ordinate policies through inter alia the UN system.

Trade

Short term

5. Even developing countries which have been fairly successful in using exports to promote growth have not relied solely or even principally upon exports as a stimulus to growth. Nonetheless, exports made an important contribution to the growth rates of several countries during the 1970s. Unfortunately, new tensions in the international trading system threaten to undermine the gains of these developing countries as well as the potential gains of other developing countries wishing to follow export promotion strategies.
6. The most immediate and near-term threat is the specter of protectionism. Many industrialized countries have relied increasingly on non-tariff barriers, voluntary export restraints, quota arrangements, unilateral application of safeguard procedures and other arbitrary and discriminatory trade restrictions to reduce the market access of developing countries. These trends cannot long be sustained by the developing countries without material and tangible adverse effects upon domestic industrialization rates.
7. Several advanced developing countries - plagued by heavy debt service obligations and deteriorating balance of payments problems - have themselves enacted trade restrictions. Although most of these restrict products from the industrialized countries, many also affect those of other developing countries. This trend, too, militates against trade-led industrialization.
8. General declarations against protectionism are no longer sufficient. Effective action in co-operation with UNCTAD and GATT is urgently required to reverse the unfavourable trend towards trade barriers and to create a more favourable international trade framework for industrialization efforts of the developing countries. Therefore, the importance of the strict observance of the following recommendations is reiterated:

9. Therefore, in the short term it is recommended:

- (i) Application of a standstill on protectionist measures and other impediments on trade with developing countries by developed countries;
- (ii) Maintenance and improvement of the generalized system of preferences.

Long term

10. In the long term, however, the international trading system is threatened on other fronts as well; worldwide structural adjustment will continue to create domestic dislocation in nearly all countries, fostering protectionist sentiment. Also, new forms of subsidies to production and technological development in the industrialized countries are inadequately covered by existing rules, and threaten to undermine the system in the long term. Moreover, the governmental practices of many developed and developing countries which may be necessary to foster industrial growth, such as investment requirements, state enterprise, and trade in high technology products, are a source of trade conflicts between countries that threatens destabilizing retaliatory measures. Finally, secular increases in unemployment rates in the industrialized countries stemming from technological and demographical change and only secondarily adjustment to new international trade threaten to unleash new forms of protectionist sentiment even if economic growth is re-ignited.

11. South-South co-operation has become an increasingly important policy option for the developing countries. The courses for the South must include consideration of how their collective strength can be utilized in their own interests and towards their own goals. The South can offer an enormous market and abundant resources both natural and human. Growing complementarities between the countries of the South mean that a new collective effort can provide the basis for an alternative development path. South-South co-operation, however, should not be regarded as a substitute for full North-South co-operation; they are not necessarily mutually exclusive propositions. Indeed, South-South co-operation could be regarded as a strategy to induce the North-South co-operation.

12. In view of the past and present dynamism of developing country markets and the likelihood of a continuation of relative trends in the future, it would appear that the formulation of industrial strategies and policies would assign a high priority to increasing trade among developing countries, including in the regional and sub-regional context, where complementarities in production and trade are likely to be more prevalent. In this context attention should be directed at exploiting existing arrangements which may already exist as well as the promotion and support of new arrangements to facilitate industrialization and trade efforts.

13. Therefore, even if the economies of the industrialized countries and developing countries recover, new long-term initiatives in which the developing countries must be central actors are needed to strengthen and enhance the international trading system as well as promote South-South trade. These include:

- (iii) Progressive removal of tariff and non-tariff measures facing manufactures of developing countries such as quotas, voluntary restraints, etc.
- (iv) Strengthening of the multinational trading system by the phasing out of discriminatory and special trading arrangements, such as the multifibre agreement.
- (v) Encouraging developing countries to liberalize trade, especially with other developing countries to promote South-South trade, through the initiation of multilateral discussion to reduce trade barriers in existing regional and subregional groups as well as in new groups.

Domestic industrialization policies

14. The developing countries when deciding on their industrial strategies for the 1980s and 1990s have to take into account the problems of increasing competition in the developed markets and the consequent effects on the markets of developing countries. These decisions are within the proper national responsibility of each individual developing country concerned, but assistance and advice by their international community, in particular by UNIDO, is of greatest importance. As there can be no single master plan for all developing countries, the conditions of each individual case have to be taken into account.

15. In shaping their domestic industrialization policies, developing countries, in particular those with a potential for increased exports of manufactures, have to draw a clear distinction between short-term and longer term aspects of their industrialization policies.

Short term

16. In the short term, difficult policy choices have to be made: the efficiency in the use of scarce capital has to be improved, the level of domestic saving and investment should be increased and - at the same time - the basic direction of their export-oriented industrialization policy has to be continued because there is no short-term alternative (based on the experiences of the 1970s only this course offers the greatest prospect of economic development). In short, the developing countries in their conduct of export-oriented industrialization policies have to make the most efficient use of their own resources and of the various economic policy instruments at their disposal. At the same time, international co-operation, bilateral and multilateral, has to be continued and intensified.

17. Two other constraints confront the countries with potential for increased exports of manufactures. First the prevailing environment of uncertainty of the world economy (fluctuating exchange, interest rates and fluctuating commodity prices) constrain the capacity to plan for changes in the external sector. And second, TNCs' policies and strategies at the international level with regard to production and marketing may constrain the policy options of national policy makers.

18. The developing countries are at a cross road especially those countries who have been relying on the external market as their primary source of growth incentives. Although this group of countries have proven in the past as the most dynamic element in the global economic scene, the current international economic shrinkage confronts this group of countries with the most serious transitional problems. Until the world-wide demand improves, therefore, these countries should utilize this opportunity to:

- (i) Rationalize the existing industrial structures by phasing out the non-competitive industrial capacity and upgrading and innovating machinery and equipment in industries which have the potential in the international market. To this end, a careful analysis of international market development is necessary.
- (ii) Consider the possibility of expanding and catering more effectively the neglected domestic market.
- (iii) Consider investment in the agricultural sector and social infrastructure not only to maintain the necessary level of aggregate demand but to improve the foundation for a sound future industrialization.

Long term

19. In a way the current international economic difficulties are the net result of frictions created in the process of the most sweeping industrial restructuring taking place in the world. As countries move up the ladder of economic development, they should introduce a new line of industries but at the same time should give opportunities for the countries at the next step of the ladder to compete internationally in the old line industries. Planning for long range a continuous structural change and adjustment, therefore, is essential not only as a responsible member of the global economic community but to ensure smooth transitions in the development process.

Specifically

- (i) Developing countries already exporting considerable amount of manufactured products should change their present industrial structure in order to ease the exports of manufactures from the less industrialized countries and at the same time to maintain and improve their international competitive positions.
- (ii) Those countries which have the potential for increased exports of manufactures should endeavour to improve their competitiveness in terms of price and quality of products internationally and expand domestic market for these products for balanced growth.
- (iii) In order to effectively compete internationally the countries would require a sound education and manpower plan and skill upgrading programme. Countries should also be aware of the potential impact of so-called advanced technologies (micro-electronics, genetics engineering, etc.) in the industrial process.

- (iv) Modern methods of financing have to be explored: there is a definite need to attract additional financial means for industry investment.
- (v) Consider strengthening national planning capabilities to cope with uncertainties associated with the international economy.
- (vi) Higher share of more sophisticated industrial products in international market require increasing sophistication in marketing, international financing, shipping and insurance. Encouraging establishment of a multiservice multiclientele general trading companies might provide opportunities of acquiring such sophistication in marketing.
- (vii) Pursuance of export-oriented strategy requires active economic diplomacy with the partner countries. The economic relationship between countries would be enhanced if opportunity for trade between countries could be extended to encourage complementary production structure in the partner countries. Co-operation through trade would be strengthened therefore if co-operation can be also attained through joint efforts in production in a form of joint ventures.
- (viii) Many developing countries may find it in their national interest to invite foreign direct investment to contribute to national industrialization efforts. These countries should make every effort to establish fair and equitable rules consistent with national development objectives.

International finance

Short term

20. At the level of external problems and constraints, a most significant change has taken place during the 1970s. The international capital markets have become increasingly "privatized" in the sense that private sources of credit have increasingly become more important than public sources. The so-called international debt crisis and the vulnerability of private banks with heavy foreign exposure are largely a reflection of this phenomenon.

21. The implications of this systematic process of privatization of world capital markets for the formulation of development strategies and policies needs to be fully comprehended. It has meant (a) higher borrowing cost with lower maturity; (b) transfer of risk of exchange and interest rate fluctuations to the borrowing developing countries, particularly due to the flexible interest loan arrangements widely practiced by commercial banks

during the late 1970s and early 1980s, (c) and extraordinarily heavy debt service burden, which in effect is steadily reducing the net flow of foreign private loans to developing countries; and (d) finally, it has also meant heavy discrimination among developing countries, where the poorer ones among them have simply not been considered sufficiently creditworthy by private banks, leaving them largely out from access to private credit.

22. Countries with reliance on exports of manufactures depend mostly on the North to sell their products, obtain commercial loans and obtain industrial technologies. In many instances, they obtain both such industrial technology and commercial loans through multinational companies with branches located in these countries. The large transnational banks lend to the multinational companies through public or privately-guaranteed credit arrangements. Any shrinking of the international commercial market for loans will make export-based strategies of industrialization highly problematic on the supply side in these countries, while on the demand side they increasingly face the problem of lack of markets.

23. Recently, a few developing countries with a heavy reliance on export-led growth experienced severe difficulties in servicing their external debt obligations. The immediate financial needs of these countries were met and the near-term crisis appears to have been abated.

24. Nonetheless, countries wishing to industrialize and expand their exports must have adequate near-term financing to overcome serious debt service burdens which dims immediate growth prospects. It is therefore recommended that:

- (i) Developed countries work closely with the developing countries to ensure that the flows of international capital are sufficient to maintain adequate imports necessary to industrial growth and development.

Long term

25. The solution for the long term, however, remains uncertain. If the most pessimistic assumption about world-wide growth rates, interest rates,

commodity prices and developing countries' terms of trade materialize to produce a worst case scenario, the high debt developing countries could inadvertently become the centre of a deeper international financial crisis.

Therefore it is recommended for the long term that:

- (ii) Every effort be made to strengthen and stabilize the international financial system.

Technology

Short term

26. Narrowing the gap in technological development that separates the rich and poor countries is of the highest priority for developing countries wishing to become internationally competitive in a wide variety of manufactured products. Similarly, simply improving the level of technological development and rate of progress is essential to industrialization for all developing countries.

27. Despite the flows of technology from North to South, these transfers are still plagued with problems requiring immediate attention. These include: the sometimes high cost of technology, the appropriateness of technology to the factor endowments of developing countries, and the capacity of developing countries to generate their own technology. While these problems can be dealt with by developing countries individually, it is recommended that:

- (i) Developed countries provide advanced and suitable technology on fair and equitable terms and developing countries provide a stable context for mutually beneficial technological transactions.

Long term

28. Technology will increasingly play a central role in comparative advantage in manufactured exports. Developing countries, like developed countries, can be predicted to use all instruments at their disposal to enhance their technological capabilities. These could include public subsidies to technological development, risking Government-to-Government competition for advanced technology which could lead to new trade and investment conflicts. Therefore, it is recommended that:

- (ii) Efforts be made on both the part of developed and developing countries to deal with the investment and trade problems arising from technology-based comparative advantage.

Infrastructure

29. One of the big problems of the developing countries in the field of the industrial development is the lack of an adequate infrastructure. This problem is even more important for the stimulation and development of exports of manufactures. The lack of an adequate infrastructure inhibits the general development of these countries, particularly their exports. Most of the developing countries do not have an adequate infrastructure in areas such as the following: inter alia; transportation, technological resources, education and technical development, technological information, local standardization system and an efficient system for improving quality control.

30. Sometimes the origin of these problems is due to inadequate resource allocation, others are due to the lack of financial and technological resources. In order to solve problems, it is necessary to have increased co-operation at the national and the international levels including co-operation amongst the developing countries themselves.

31. Recommendations in this key area include the following:

A. Standardization

- (i) Urges the developing countries to establish local standardization systems, taking into account those international standards that are in accordance with their resources and objectives.
- (ii) Urges the developing countries to make efforts to exchange their local standards, particularly in those industrial sectors where the international market is based on the existence of one advanced standard.
- (iii) Recommends the revision of the current international standards, and the creation of new ones, with the active participation of the interested developing countries, taking into account their level of advancement in certain industries.

B. Technical information

- (i) Particular importance must be given to the dissemination of technological information in the fields of industrial development paying particular attention to those export products containing important value-added. In this connection it would prove useful if international co-operation and particularly with the developing countries to establish permanent system of technological information in such sectors as pharmaceuticals, the petrochemicals, electronics and the bio-technologies.

C. Quality control

- (i) The developing countries, with the support of the international organization and developed countries must pay close attention to the quality control aspects of their industrial exports, it would be useful for an exchange of experiences in this vital area.
- (ii) Urges the establishment of national and regional laboratories with international recognition to certify quality which takes into account the level of advancement which takes of the developing countries.

D. Transportation

- (i) It is important to improve and increase the developing countries' transportation, particularly by shipping; for this would be necessary to identify new projects of joint ventures among developing countries, taking into account experiences as NAMUCAR who operate for certain countries of Latin America.
- (ii) It is important that international institutions as UNCTAD, the World Bank, support regional, or multinational projects of the

developing countries, addressed to improve their own transportation for the international markets and eliminate discriminatory practices.

E. Packaging

- (i) With the purpose of improvement and increase of exports of manufactured products made by the developing countries, it would be useful for them to enhance the technical co-operation provided to them by international organizations, like UNIDO, to identify design and develop adequate packaging for exports products, taking into account the possibility of the recycling of the same packaging.

Composition of Working Group 1

Mr. J. Vega, Chairman

Mr. E. de Blanco

Mr. R. Cebrecos

Mr. Y.R. Cho

Mr. A.A. Justin Dias

Mr. P. Ginman

Mr. G. Bedoya

Mr. A. Inotai

Mr. A.A. Khathlan

Mr. K.S. Koak

Mr. J. Kuehn

Mr. J. Licetti

Mr. S. Morita

Mr. R. Newfarmer

Mr. C. Pinney

Mr. D. Ritchie

Mr. S. Rivas

Mr. M. Rovayo

Mr. B. Sosnowski

ANNEX II

The report of Working Group 2 on strategy and policy issues
relating to developing countries with potential for domestic
market-oriented industrialization

1. The 1975 Lima Declaration, noting that the developing countries constituted 70 per cent of the world population had generated less than 7 per cent of industrial production, had called for accelerated industrial development and for the developing countries' share of world industrial production to rise to at least 25 per cent by the year 2000. This was in effect a call for industrial revolutions to be brought about in third world countries, however late in the day, and thereby for a fundamental change in the world economic order. These aspirations for accelerated industrial development process in the third world nations were re-emphasized in the New Delhi Declaration of 1980.

2. There are many reasons why the third world countries should strive for fast industrial growth, the most important being that such industrialization is essential to meet the minimum basic material needs of their people and to create productive employment opportunities for an expanding labour force. The working group noted that: (a) the basic material needs of the poor of the third world can only be met on a long-term basis by a continuing expansion of their economies; (b) at the level of per capita GDP of a typical third world economy, a one per cent increase in GDP normally entails a 1.5 per cent increase in industrial production.

3. It was recalled that the ILO, which had first put forward the concept of basic needs, had estimated that if the minimal needs of the poorest 20 per cent of the families in the third world are to be satisfied by the end of this century, national incomes in the third world countries would need to grow on average at a rate of 7 to 8 per cent per annum. The working group noted that if such a goal for the required rate of economic growth to remove absolute poverty were accepted, it would imply an expansion of manufacturing industry in the third world by over 10 per cent per annum.

4. During the 1970s, despite unfavourable economic conditions, third world countries on average achieved a reasonable degree of industrial development. Today many of them, including some of the most advanced of the third world's industrial economies, are faced with an unprecedented crisis. The central question before the working group was what measures the third world nations and the world community as a whole can adopt, in both the short and the long term, so as to minimize the interruptions to their industrial development process and to continue with their industrial revolutions.

5. The working group met in four sessions. On the basis of the discussions held in the plenary sessions covering agenda item 4 and of the documentation of the meeting, the group reviewed the set of issues which seemed to be of particular relevance to those developing countries which have a large domestic market potential. It tried to single out a number of concrete actions and measures for overcoming short-term industrial development problems, and strategies for enhancing the long-term industrialization process in this category of countries.

6. The working group commenced its work by attempting to find a valid definition of the particular group of developing countries which have a potential for domestic-market-oriented industrialization. From the discussions it emerged that the countries with potential for domestic-market-oriented industrialization fall into two categories: one is countries with very large populations so that even per capita incomes are low, the total size of the market for industrial products, including capital goods, is large enough to provide a basis for domestically-oriented industrialization. The second category will be countries which have a relatively smaller population but higher per capita incomes, resulting in a substantial effective demand for consumer goods and capital goods. Thus the discussion in the working group would be relevant to a wider group of developing countries in Africa, Asia and Latin America, with a variety of socio-economic systems and industrial experience.

7. According to data provided in document ID/WG.391/8, table 2, some 20 developing countries would belong to this category. On the basis of the analysis of trends, it is concluded in this document (p. 22) that domestic demand indeed stands in the forefront of the growth process in developing countries and that policies conducive to spurring growth of domestic demand would seem to be of key importance. At the outset of the discussions attention was drawn to the Secretariat's papers and special reference was made to those parts which were of particular relevance to this working group. Thus emphasis was given to the general observations made in document ID/WG.391/2 (paras. 50-52).

8. The working group noted that many countries under discussion, far from increasing industrial capacity, were suffering from greater and greater under-utilization of existing industrial plant because debt service requirements mean that they cannot afford the essential complementary imports. This growing underutilization of capacity not only leads to dislocation and disequilibrium in industry, but also in other economic and financial spheres. As government revenues in many countries depend significantly on sales and excise taxes on industrial products, reduced industrial production generates, inter alia, fiscal and budgetary deficits.

9. Attention was also called to the alarming de-industrialization trends presently at work in several of the more advanced developing countries, such as various Latin American nations with a relatively high degree of integration in the international economy, particularly with the financial, technological and export markets of the industrialized world, and being forced to adopt short-term stabilization measures and recessionist policies. It was also noted that such trends are coupled with a rapid transnationalization^{a/} of industrial branches with a large and long-standing presence of medium-sized domestic enterprises. The latter are more sensitive to the crisis than subsidiaries of TNCs. This situation requires serious attention by the Governments. Particular policies should include the active government support of nationally-owned enterprises both in the public and private sectors and the continuous control of the access of TNCs to domestic markets.

10. The external financial problem and the indebtedness of developing countries thus was seen as a major concern for these countries at the present time. Given the nature of the external dependence and restricted strategy options, it was seen necessary to look for new options emerging from internal dynamics of industrial growth as well as greater co-operation.

11. In addition to the present serious short-term problems, the third world countries may be faced with a long-term deceleration in world economic

a/ The increasing weight of foreign in total property.

growth. The crucial consequence of this for them is that world trade will expand much more slowly than in previous decades. It was suggested that this will necessitate a re-examination of the general third world perspective on the relationship between trade and development. For if overall trade increased very slowly, then even if there were no tariff or non-tariff barriers in advanced countries to imports of third world manufactures, the latter would still probably only be able to grow at a pace inadequate to generate the socially required rates of economic expansion in the developing countries. The situation, of course, will be seriously worsened if the developed countries persist with or increase the tariff and non-tariff barriers discouraging the export of processed or manufactured products from developing countries.

12. In the coming decade the countries of the South will therefore have to rely more than in the past on their internal dynamics, on the growth of internal demand, than on world market forces to generate economic expansion. They will need greater import substitution, more internally originating technological development and more economic and technological co-operation among themselves.

13. It was pointed out that the "large" size of the countries under discussion means that they are in principle much more capable of insulating themselves from the impulses of the world economy; foreign trade normally accounts for a relatively smaller proportion of their GDP as they usually have large enough internal markets for reaping economies of scale in a very large number of products. In principle, the rate of growth of such economies is therefore much less dependent on the growth of world economy. Moreover, many of them already possess fairly diversified industrial sectors with trained manpower, managerial and organization skills, so that on the supply side they have the possibilities of self-sustained internal growth to a degree which are much less open to smaller economies at lower levels of industrialization.

14. Reference was made to the experience of some of the large developing countries in building up a basic industrial structure. Varying degrees of industrial development planning and a policy of systematic import substitution were the main topics pursued at these first stages.

15. The working group then considered the industrial experience and industrial situation of a small number of specific developing economies. It was pointed out that China is now in a period of economic re-adjustment. Involved are a series of changes in guiding principles, in development strategy, in policy measures as well as in the system of management. China's present industrial policy gives particular emphasis to the following: (a) balanced development of industry and agriculture; (b) a rational industrial structure; (c) expanding production through technical transformation; (d) use of science and technology to promote industrial development; (e) reform of the industrial management system.

16. It was noted that India had also long chosen to follow a policy of "self reliance", and it is also relatively much less integrated with the world economy than most third world countries. It was suggested that because of this feature, India's rate of economic growth is more or less independent of the world growth rate. The indigenous factors, e.g. the weather and the growth of agriculture, are far more important in determining the expansion of the Indian economy than the world economic situation.

17. It was mentioned that in India, for instance, in order to ensure an adequate rate of growth consistent with the accepted objective of avoiding any excessive concentration of income or wealth in the hands of a small number of persons, the building up of a strong and efficient public sector was seen as a pre-condition for growth and modernization of economy. The commanding heights of the economy were, therefore, assigned to the public sector and massive resources have been invested. A major area of concern and action in the coming years is therefore the management of public enterprises and particularly the need to ensure proper accountability without inhibiting initiative. Unless the public sector can function in an atmosphere of greater autonomy and also an environment in which success can be rewarded and slackness punished, the large volume of nations' resources invested in these enterprises may not yield the best return. If the returns on past investments are inadequate, the public sector cannot perform its role as accumulator of capital.

18. However, in contrast to China and India, the present situation in other third world industrial economies - namely Brazil and Mexico - which had followed more open economic policies with respect to foreign trade and investment, is extremely serious. They are faced with an enormous debt burden. The consequence is that if the world economy grows only at a slow rate, the required servicing of the debt would condemn these countries to a zero or a negative rate of economic and industrial growth for a number of years. The social consequences of prolonged economic stagnation in countries with expanding labour forces such as Brazil and Mexico need hardly be spelled out.

19. In Egypt, it was said, the dual wage structure between public and private sector industry is analogous to the dual price structure which also discriminates against the large public sector which accounts for two-thirds of industrial value added. These distortions make it difficult to distinguish between efficient and inefficient producers and the net implicit bias against public enterprises has turned even the most competitive of these firms into loss-makers, thus impeding the process of generating surpluses for re-investment. But what is of more serious concern in labour-intensive industries is the apparent trend of increased scarcity of labour when it is clear that the underlying long-term factor proportions for Egypt are such that excess labour is bound to re-appear in the near future, when emigration subsides and when the Government's finances become tighter so that it can no longer continue to provide artificial jobs to perhaps one-quarter of the total annual new entrants to the labour force. The Government has the hard choice to make between continuing in its policy of creating new jobs in the government administration or allocating these funds to productive investment in labour-intensive industries.

20. Egypt has also realized that its long neglect of the private sector was causing an undue limitation on the important funds and initiative which could be tapped for industrial development both from domestic and foreign investors. It has consequently made a series of reforms to revive and encourage private entrepreneurship in industry. In an effort to stimulate the supply of savings from the general public and from

specialized institutions, the Government has gone a long way by taking steps to revive the stock market. It was suggested that Egypt's potential for exports is far more concentrated in the labour-intensive industries which are traditionally private, small-scale, domestic-market-oriented such as furniture, leather goods and especially clothing. This would seem to be a viable pattern of industrialization following the example of countries such as Brazil, Japan, the Republic of Korea and Mexico, provided that the world economy continues to grow.

21. In the case of Nigeria, it was pointed out that the country had experienced a high rate of industrial growth in the 1970s. The important substitution policies had, however, tended to create "an illusion of industrialization" which entailed little local value added in the largely import-dependent sector. The strategy for industrialization in the 1980s stresses the self-reliance of the economy, agriculture/industry integration and enhanced research and development.

22. The need was stressed for an integrated approach in policy and strategies for industrialization incorporating short- and long-term development concepts on the basis of the specific conditions of a particular developing nation.

23. Some of the other general points raised in the working group concerned the problems resulting from past choices and the high cost of local manufactured products for which capacities were established in a first phase of import substitution. The current international economic crisis does exert hard pressure on the developing countries, revealing the internal vulnerability of the structure of production in many of those countries. Countries with a large domestic market should strive to create more integrated and flexible as well as less vulnerable production systems.

24. It was pointed out that many developing countries had succeeded in building up an industrial base through state sector and a thorough industrial planning. In these cases, on the basis of a long-term economic policy rooted in a firm material and technical foundation of the

public rather than the private sector, the use and application of the imported scientific and technological experience and a creation of a national scientific and production potential are possible.

25. On the basis of these general observations, the following specific issues were discussed in relation to the short- and long-term industrial problems faced by the developing countries. The short-term issues focussed naturally on the immediate question of external deficits and debt faced by a number of economies and how such deficits could be financed without damaging industrial development. With respect to the long term, the issues considered were: (a) the need to raise industrial investments through mobilizing domestic financial resources and external capital; (b) the development of science and technology and the need for developing countries to adjust and modernize their production process for responding to the challenges now emerging; (c) the role of the public sector in pursuing a domestic-market-oriented strategy; (d) the need to integrate urban with rural development; and development in agriculture with that in industry; and income redistribution with all these; (e) questions of regional development; (f) the international co-operation.

Options and recommendations

The immediate requirements

26. In many third world countries (e.g. Brazil and Mexico) faced with an acute external financial constraint, it was noted that as far as short-term industrial policy is concerned, there is no option except to (a) reduce the propensity to import and (b) to enhance external liquidity to the extent it is possible. Both (a) and (b) are clearly extremely difficult to achieve in the present circumstances of the world economy and require exceptional measures suited to the particular conditions of each country.

27. The external financial constraint is closely connected with the third world debt problem. In order to protect the international financial system and to limit the damage to industrial development in the third world countries, it is essential that there should be international economic co-operation, that the restrictive monetarist policies of some leading industrial countries are reversed, leading to an immediate and strong upturn in the world economy. If such international economic co-operation is not forthcoming, the economic and industrial situation today is so critical that a number of third world countries may be forced to consider extraordinary economic and financial measures.

28. However, if the world economy grows only slowly, then even in the long term the creation of viable industrial structures in the developing countries will require strategic attention to be focussed on both (a) and (b) above, particularly (a). This in turn would require reconsideration of traditional economic policies on the demand as well as the supply side.

Long-term measures for industrialization

A. Financing aspects

29. It was noted that the developing countries had made remarkable progress in mobilizing domestic savings and in increasing the share of investment in GDP. Such progress has been achieved by a variety of measures adopted by different countries appropriate to their circumstances and conditions.

30. This development should be continued by appropriate actions. It has been proposed by the members of the group:

- to extend banking activities and to improve the incentives for private savings
- to increase taxation of the higher-income and wealthy groups so that their contribution to national effort is commensurate with their capacity
- to establish a mechanism for the exchange of experience between developing countries within the framework of an intensifying economic co-operation

- to avoid capital flight and other unjustified financial transfers from developing to developed countries by means of direct or indirect control.

31. Avoiding the long discussion on the well-known pros and cons of private foreign investments, it was emphasized that this type of capital will continue to play an important role in the financing of industrialization in the 1980s and 1990s. Due to the fact that foreign investments are mainly oriented to countries with large markets, there seem to be good prospects for the longer term. In addition, it was mentioned that new forms of private and public co-operation should be reviewed intensively, e.g. non-equity arrangements, production sharing contracts, etc. UNIDO should support international co-operation in the private and public sectors by technical assistance and help developing countries to build up the negotiation capabilities as regards new forms of industrial co-operation at the enterprise level.

B. The public sector

32. The role of the public sector in the industrialization process of the recent past and in the future was brought up as one of the issues relevant to strategies and policies. It was emphasized that the public sector would be an important element of future strategies since it could serve as a vehicle to bring about required complementary investments such as in infrastructure and investments failing to attract private capital.

33. It was also suggested that the public sector could serve to introduce new technologies for industrial development. In their reliance on public sector investments, the developing countries would need to ensure non-discriminatory policies of public versus private industries. This issue should also be seen in connection with the need to ensure efficiency of industrial companies in protected domestic markets of developing countries through enhanced internal competition.

C. Science and technology

34. Larger developing countries need to build up their scientific and technology base for industry as part of their industrialization strategies for the future. Previous resolutions and declarations from international fora, in particular the Lima and New Delhi Declarations and Plans of Action, touched on this broad and important subject area. The working group concurred and referred specifically to the report of the recent preparatory meeting by UNIDO in Tbilisi.

35. Technological advances have socio-economic impacts one must not neglect. The technologies to be imported must be carefully chosen and developing countries must strengthen their negotiating capability for their acquisition. But generalization is difficult: each developing country should follow a selected and differentiated approach in the light of its development objectives and the economic and social situation.

36. It was also recommended that the larger developing countries examine individually and collectively the possibilities of introducing new technologies for smaller series of production.

37. The high rate of open and disguised unemployment requires that technologies are adopted or preserved which create a considerable number of additional permanent jobs or safeguard existing ones. For employment is a value in itself, often more important than income, and it can easily be better to produce less by employing more. On the other side, the choice of technology is influenced by the necessity to safeguard international competitiveness. Thus, developing countries would need to pursue industrial strategies entailing the use of both low and high technologies.

38. Country by country, the industrial sector will continue to be characterized by a mixture of more and less capital-intensive technologies. Developing countries should strengthen their capacities in the field of science and technology for the innovation of more adequate

possibilities, especially in the future priority sectors of industry. Innovation policies are called for as an integral part of strategies for adjusting current production structures. UNIDO should improve transparency for developing nations interested in these technologies and assist the exchange of information on technology between developing countries.

39. When choosing technology one must remember that structural changes in future will be necessary and that therefore built-in flexibility of production be considered. The vulnerability of countries with large markets, which became already clear during the current crisis, will be sharpened by their intensified integration into the world economy. In some countries a restructuring and modernization of the industrial sector has to take place within the next years. A permanent adjustment will be necessary with the development of the entire third world. To this end, we must ensure a growing trade in manufactures between the countries of that world. Mutual market access and efforts towards a certain degree of complementarity of production were seen as essential means to this end.

D. Regional development

40. The working group realized that in spite of all efforts of Government to allocate industries not only in urban centres but also in rural areas, there are still considerable regional disequilibria in most of the countries. The main disadvantages of rural areas as potential locations for industrial firms were seen in the lack of infrastructure, which increases production costs and reduces the possibilities of attracting highly qualified personnel. The example of those countries successful in a broader regional dispersal of industrial activities shows that government initiatives play a key role to make investments in rural areas more attractive. As to which subsectors can be dispersed, there is a wide range of possibilities, particularly small-scale industries which process agricultural commodities and minerals or produce inputs for agriculture. It was recommended that Governments should give continued emphasis in their strategies for the 1980s and 1990s to a more balanced regional development by promoting rural industries, so as to avoid growing regional dualism and over-agglomeration in urban areas.

E. Co-operation among developing countries

41. For small countries co-operation is imperative, for large ones desirable. It was noted that since the large countries happen to be rather more advanced, co-operation with smaller ones can be very helpful to the latter.

42. The developing countries with a large domestic market recognize that while they have substantial potential for industrial development, many of their industries are facing increasingly serious constraints in terms of lack of imported material inputs and markets. It was pointed out that in order to respond better to these challenges, co-operation between the larger countries would be an essential move, partly for an increasing exchange of manufactures and partly for joint action and negotiation for the acquisition of technologies and intermediate goods from developed countries.

43. Developing countries should utilize their complementarities to promote industrial co-operation programmes that would overcome some of the difficulties faced by growth efforts at the national level. Many opportunities can be exploited through joint ventures and technology arrangements in sectors and branches presently suffering severe recession.

Personal opinion of Mr. V.D. Popov

44. The group further noted Mr. Popov's personal opinion that "One of the main sources for increasing savings and increasing the share of productive investments in industry of developing countries, is to reduce step by step the expenditure of resources for military aims, especially reducing military expenditure of the permanent members of the Security Council of the United Nations and devoting this money to the financing of development industry in developing countries."

Composition of Working Group 2

Mr. G. Sicat, Chairman

Mr. I. Angelov

Mr. H. Handoussa

Mr. R. Hocine

Mr. D. Keschull

Mr. S.S. Marathe

Mr. R. Matthews

Mr. S. Menon

Mr. H. Muegge

Mr. Muruhaka Ntako Barhujira

Mr. I.O. Oluwunmi

Mr. V.D. Popov

Mr. E. de Patiño

Mr. Somak Taembunlertchai

Mr. C. Silveira Santos

Mr. A. Singh

Mr. R. Torres

Mr. E. White

Mr. P. Wiles

Mr. Zhang Bingjian

The report of Working Group 3 on strategy and policy issues relating to countries in the initial stages of industrialization

1. In the countries at the initial stages of industrialization, manufacturing activity is generally low and employment in this sector has also remained at a very low level, with a high proportion of the population relying on subsistence agriculture. Since such economies are in general the most vulnerable to changing economic and political conditions, the global economic trends of the last few years have worsened the situation in these countries. The impact of the world wide recession has been to produce, at best, stagnation and, more generally, negative growth trends in these countries.
2. No attempt has been made to define the finite list of countries under consideration. Whatever the typology which is used to identify them - be they least developed, landlocked, least industrialized - the countries concerned have some common characteristics. At the same time, there is no good reason to restrict the analysis just to countries and not to extend it to regional communities within countries which share those same characteristics.
3. It is felt that the situation of these countries, be as it is, will only marginally differ according to the growth scenario which is assumed for the world economy as a whole. This comment is made on the basis of the fact that the income elasticity of demand for primary products of these countries is quite low.
4. It was agreed that we have reached the end of "dogmatism" in industrialization; neither a basic needs strategy, import substitution, nor any other single doctrine is seen as holding the key to industrialization. But the old wisdom has not been replaced by any new concepts, and we are instead experiencing short-term responses that do not provide the basis for long-term industrialization in the developing countries.
5. Contrary to the usual "stages of growth" approach, it does seem important for these countries not to follow the course of the development of the countries ahead of them. The future extension of mass consumption of non-basic goods - the extension of the so-called fordist system - will not do them any good in this case.
6. Taking account of the initial characteristics of these countries at the very early stage of industrialization, the emergence of self-sustained industrialization forces will require those countries to concentrate on a limited number of consistent objectives and strategic options and to maintain them for an adequate period of time. It will also be necessary for the industrial activities in the process of being developed to be strongly and systematically integrated within the actual socio-economic development strategy.

7. One key set of policy and strategy measures must be designed to generate balanced economic and social development. The recent past has shown the danger of imbalances in society due to excessive urban concentrations, imbalances between agriculture and manufacturing, and imbalances within the manufacturing sector itself. It therefore seems vital that the strategies which will be implemented be directed toward a balanced socio-economic industrialization process.

Characteristics of countries at the initial stages of industrialization

8. The working group decided that the appropriate way to proceed would be to single out the characteristics that distinguish the countries under discussion; then to elaborate the objectives of industrial development strategies and policies: and, on this basis, to deduce the policy and strategy requirements for these countries.

9. Characteristics of those countries (or communities) would include the following.

- Static:
- small domestic market;
 - limited industrial activity;
 - concentration of employment in agriculture;
 - limited saving capacity;
 - lack of skills;
 - lack of necessary infrastructure; and
 - importance of tertiary sector.
- Dynamic:
- shortage of foreign exchange, depending on:
export of a limited number of primary products,
worsening of terms-of-trade;
 - dwindling foreign aid;
 - technological and capital goods dependency;
 - appropriation of surpluses into non-productive uses;
 - high degree of vulnerability;
 - development of indigenous resources;
 - insufficient maintenance of capital goods.

10. These characteristics show very important limitations. There is a great lack of human capital. This is complicated by the absence of capital accumulation. Finally, there is the lack of a technological infrastructure, which in turn makes it impossible to respond to the new technologies.

11. At the same time, it should be taken into account that specific opportunities are open to them. On the one hand, because of the non-existence of an industrial base, there is no need to readjust the industrial structure. On the other hand, starting from scratch, it is possible - at least in principle - to take advantage of new technologies.

Objectives of industrialization

12. For countries sharing these characteristics there are a number of objectives at which industrial development strategies and policies should aim. These policies should:

- satisfy the basic needs of the population;
- increase the share of manufacturing value added;
- simultaneously generate employment;
- exploit the existing local resources;
- foster the development of the agricultural sector;
- pursue a balanced social and regional development with due regard to the distribution of the benefits;
- develop a "response capacity" in the countries to allow them to respond positively to technical change and promote indigenous technology; and
- rationalize the country's economic infrastructure.

13. These objectives, thus expressed in general terms, do refer to all developing countries; but their relative importance will vary depending on the specific country or group of countries. In the case of the countries at the initial stages of industrialization, they face both constraints and opportunities in their industrialization process as compared with other developing countries.

Strategies for the future

14. The main accent in the strategies to be adopted for the future would have to be put on the development of a self-reliant production system, on the basis of the development of human resources, and of autonomous technological capacities.

15. A first strategic option concerns the development of a domestic market for manufactures. The set of measures to be taken in this context would concern simultaneously the channeling of demand towards the satisfaction of the basic needs of the population, the redistribution of income and, whenever possible, regional co-operation schemes in order to add markets which by themselves appear to be too small. Of course, the industrialization process in itself is also expected to increase the size

of the market.

16. The foreign trade dependency of these countries - which is very high indeed and constitutes one of the major constraints - has to be reduced using various consistent approaches. The concentration on the domestic satisfaction of food and other basic needs, which has already been mentioned above, is a first one. In addition to this, it would seem necessary to select industries so as to reduce the negative impact of the demonstration effect of foreign consumption patterns. Further, together with more selective approaches as concerns the choice of techniques, the development of maintenance activities and, whenever possible, of the domestic production of mechanical parts and components would help to reduce the actual dependency.

17. Parallel to this, the promotion of exports appears to be an important point. The diversification of export partners would decrease the vulnerability of export activities. But, at the same time, the diversification of exports should be systematically promoted. The accent has been put, on the one hand, on exports of handicrafts and, on the other, on the processing of natural resources.

18. Taking account of what has been said about external constraints, increasing the sources of finance must be given a high priority. At the domestic level, an increase in the internal financial flows can only be achieved through the promotion of savings and through intersectoral transfers. Both of these should be systematically developed in order to mobilize the necessary resources, taking into account the fact that the internal resources will necessarily be financing the bulk of the required investments.

19. At the same time, and because of the high import content of most investments, the foreign exchange available to the country will have to be systematically increased. The above mentioned promotion of exports will represent one factor contributing to this, together with the stabilization of the export prices of primary products. But similar increases should also be attained both through increased aid flows and through further foreign, public and private, investment.

20. More important still would seem to be the implementation of a human resources strategy. Without going into much detail, some of the main aspects of this kind of strategy have to be highlighted. There is a general need for technical training at very different levels and for very different purposes. The main departure from actual educational policies is the accent on professional training: the systematic development of the required skills - be it technical skills, or management, or planning, or technological skills. The investments in human resources should precede in time and be given

priority over physical investments. A special mention has to be made as concerns the provision of management.

21. Complementary to this, it is becoming more and more important that strategies be adopted by the countries concerned which focus on the development of technological capabilities. In cases where the gestation period appears to be too long and/or the technology too costly, this could be done at a more collective level. One aspect of this is the building up of an autonomous scientific and technical system.

22. This system in itself should be defined in accordance with the specific industrial options which will be adopted. Co-operation with developed countries would have to be pursued in order to accelerate this process. But a more collective approach among several of the countries being examined would also be helpful. For these countries it is recommended to enhance the feasibility for joint research programmes, including both private and public sector firms and organizations in both developed and developing countries. This type of joint research programme would seem to be conditional upon the development of appropriate technologies.

23. In this respect, it would seem appropriate for UNIDO to expand its current activities in this area and contribute to fostering joint research programmes which focus particularly on the specific needs and conditions of the countries at the early stages of industrialization.

24. The question of which technology seems to be appropriate is crucial and seems to have been acquiring a new dimension due to the technological breakthroughs of recent years and the characteristics of some of these technologies. It does seem important not to exclude the application of very modern technologies for areas of the country that might otherwise appear to be at a rather less sophisticated technological level. On the other hand, however, modalities have to be developed to ensure that at the same time the countries do not become technologically dependent.

25. What appears to be crucially important is the formation of adequate forms of organization of production facilities. This has two main aspects. The first is that it is necessary to focus on establishing an industrial structure that is oriented towards fostering small-scale enterprises, including the handicraft industries, rather than large-scale enterprises. And with regard to these industries, the accent should not be placed on isolated industries, but rather on building up consistent industrial complexes and industrial sub-systems.

26. For various reasons, and notwithstanding the difficulties and past experiences, regional technical and industrial co-operation should definitely be developed as a vehicle for enhancing the industrialization of these countries. It has already been said that the markets can be enlarged on a regional basis. This is particularly important when economies of scale have to be exploited. It has also been argued above that the requisite technological capabilities may be established through collective approaches, particularly at the regional level.

27. A last point must be stressed, from the standpoint of the strategies to be identified: this is the necessity to utilize local resources to the utmost. This requirement has to be built into the system, i.e. within the system of public and private choices. The feasibility to do so will, of course, in many cases be dependent on the acquisition of their own technological capabilities.

28. It must be understood that these strategical options are not per se totally consistent with each other, even if they can all be integrated within the overall orientation of the industrialization strategy centred on the development of human resources and technological capacities for the implementation of a more self-reliant industrialization process. There are problems linked with possible inconsistencies here, and these have to be looked at systematically and realistically and choices will have to be made that depend both on the specific circumstances and on the value systems adopted by specific countries.

Policies for the future

29. Among the various policy requirements for the implementation of the above defined strategies, priority should be given to the development of integrated planning and decision procedures. The dangers of imbalances have already been pointed out. At the same time, the generalized lack of resources implies a well co-ordinated approach to the allocation of these resources. These requirements can only be satisfied on the basis of the development of both the necessary skills and an adequate institutional setting. It will at the same time, however, be necessary to develop a sound linkage between entrepreneurship and the process of planning.
30. Within the integrated planning system, the importance of demand management has been stressed. While the basic needs of the population must be given a high priority, the extension of foreign consumption flows on the other hand has to be controlled.
31. Parallel to this, measures have to be taken in order to provide for the systematic utilization of local natural resources. This means that direct and indirect demand for natural resources and materials should be directed towards domestic sources of supply instead of relying on external sources.
32. Demand management should be carried out to a large extent through adequate price policies. The foreign trade deficit, both on the export and on the import side, means that these countries are linked to the international price system. But apart from the external flows, it would seem necessary to manage the price system - i.e., to substitute, whenever possible, in place of the reference to the international price system, prices which are to be managed according to the socio-economic objectives as defined within the framework of the given development strategy of the specific country.
33. Demand management measures also have to be enacted through tax policies. The principle aim will be both to redistribute income and to increase public income further, so as to allow for the satisfaction of the basic needs of the population. Behind this lies the necessity to ensure that the benefits of the industrialization process will be effectively distributed to the population, taking account, however, of the necessity to feed the accumulation process.

34. One way to delink the internal market from the international market is through trade policy. While it is necessary not to indulge in overprotection and to avoid possible inefficiency effects, it is on the other hand necessary to follow a trade policy which is consistent with the price policy as defined above, to ensure the commercial viability of both infant industries and the processing of local natural resources.
35. Two other components of the trade policy have to be highlighted. One is the necessity, beyond prices and tariffs, to have a selective approach to imports. The other is the necessity to promote the export potential, through the setting up of adequate export promotion institutions and organizations.
36. A special point has been raised concerning the modalities of trade. The first aspect concerns the possibility for these countries not to be solely dependent on the international currencies for their trade relations with other countries. This possibility can only be worked out through collective action. Suggestions have also been made on the other hand relating to the possible advantages to be acquired from barter or other forms of contractual trade relations.
37. The implementation of the industrialization strategy requires an adequate institutional setting for the formulation of productive investment from both public and private sector sources. Without entering into the modalities, it must be stressed that financial investments and entrepreneurship can only be carried out in a climate and within a framework of administrative rules which satisfy the requirements of initiatives and management. Foreign investments need the necessary guarantee of a well-defined code of investment.
38. More important still is the necessity to pursue new approaches for the development of professional training at different levels. The training system must aim at the development of specific skills corresponding to the purported needs of the industrial activities on which the efforts are to be concentrated. This link between the training programmes defined in terms of skill levels and content and the industrial structure which is decided upon is clearly a very crucial policy problem, and its resolution can only be brought about within the framework of an integrated plan of which it represents a critical ingredient.

39. A special point has to be made in this context. It does not seem possible to concentrate available resources on the development of human resources for the purpose of industrialization without implementing measures aiming at preserving these human resources for the sake of industrialization purposes. Taking account of the damage done by the outflow of these resources, it will be necessary to find ways and means to reduce this outflow, without being obliged to overpay these human resources. This would endanger the feasibility of this human resource strategy, to which it seems necessary to give a very high priority.
40. The same kind of priority has to be given to the definition of a specific research and development policy. This is a difficult - but a crucial - task. Taking account of the volume of resources which are needed in order to set up a scientific and technical system, difficult choices have to be made as to the research programmes on which the available resources will have to be concentrated. (This will include both applied and fundamental research with both long-term and short-term objectives and specific sectoral priorities.) The decision criteria adopted will have to depend on the industrialization strategy adopted. For the same reason, the research and development programme must also systematically integrate various forms of co-operation, both with other developing countries and with developed countries.
41. Technological and industrial co-operation with other countries - both developing and developed - should play a very important role in enhancing the limited capabilities of the countries at the initial stages of industrialization. The importance of this lies in the necessity to link the two aspects of co-operation and to integrate, alongside more long-term future scientific and technological co-operation, the organization of transfers of technology and know-how at the level of the production firms.
42. Two important considerations should, however, be stressed. The first is that the co-operation arrangements should be integrated within the planned industrialization strategy and not appear as so many isolated elements. The second condition is that the modalities of these arrangements guarantee the effective transfer of technological and industrial capabilities.
43. Taking account of the increase in the international transfers of technology, these countries should be able to obtain, through collective actions, appropriate modalities to allow them to take effective advantage

of possibilities of co-operation with foreign firms and research organizations. In addition, the question of preferential access to technology for these countries has to be considered.

Policy recommendations for the developed countries with respect to the countries in the initial stages of industrialization

44. It also seems necessary that, within the developed countries, the taxpayers and the public at large should be made aware of the specific problems and difficulties of the countries at the initial stages of industrialization as well as of the responsibilities and of the obligations of the developed countries as concerns these countries - to a large extent independent of any commercial considerations.

45. Taking account of the high degree of vulnerability of these countries, the necessity of preferential treatment must be recommended as a matter of principle. This preferential treatment must be implemented both in matters of trade, aid, and finance.

46. As concerns the trade effects, the elimination of all problems of access to the markets of the developed countries should be agreed upon. This does not seem to be likely to raise difficult problems, taking account of the fact that the possible export flows are very small indeed in absolute terms. These problems of access to the Northern markets should be solved immediately for handicrafts.

47. It has been mentioned that developmental assistance has been dwindling. Not only is it necessary to reverse this trend, but - due to the specific problems of these countries - the developed countries should increase the current level of aid flows and guarantee higher levels of aid per capita, whatever the economic situation in the donor country might be.

48. In matters of finance, the preferential treatment must be made more systematic and the treatment increased. These countries obviously need the extension of soft loans and - more so - the acceptance of the fact that the commercial viability of some projects cannot be attained in the short and medium term. It is suggested, moreover, that the surplus countries should be obliged, as a matter of principle, to transfer part of this surplus to these countries.

Composition of Working Group 3

Mr. A.E.K. Idris, Chairman

Mr. I.H. Abdel-Rahman

Mr. J. de Bandt

H.E. Mr. J.A. Ferguson

Mr. M. Incisa di Camerana

Mr. W.L. Nyachia

Mr. F. Sagasti

Mr. C. Stoffaes

Mr. J.P. Storfa

Mr. P. Wiedemann

Mr. A. Yeshaw

ANNEX IV

Agenda

1. Opening of the Meeting
2. Election of the Chairman, Vice Chairman and Rapporteur
3. Adoption of the agenda
4. Setting the scene - Plenary
 - A. Achievements, setbacks and constraints on industrial development in the third world in the 1970s: A critical review of recent strategies, policies and developments
 - B. The current international economic crisis and its impact on developing countries' industrial development: An overview
 - C. Consideration of strategies and policies in the 1980s and 1990s: An introduction
5. Industrial strategies and policies of developing countries in perspective: A detailed review of current trends and emerging strategy and policy responses - Working Groups
 - A. Strategy and policy issues relating to developing countries with potential for increased exports of manufactures
 - B. Strategy and policy issues relating to developing countries with potential for domestic market-oriented industrialization
 - C. Strategy and policy issues relating to developing countries in the initial stages of industrialization
6. Report of the Working Groups to the Plenary
7. International co-operation, relevant national actions including industrial policies, and the role of UNIDO: Conclusions and recommendations
8. Adoption of the report of the Meeting
9. Closure of the Meeting

ANNEX V

List of participants

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ANNEX VI

List of Documents

Basic documentation

ID/WG.391/2	E, F, S	Industrialization strategies and policies: possible options for developing countries
ID/WG.391/4	E, F, S	Industrial strategies and policies of developing countries in the 1980s: some issues for consideration
ID/WG.391/8	E, F, S	Some trends in world industrial development: policy implications for future action
ID/WG.391/9	E, F, S	World industrial development: dynamics of growth through co-operation

Background documentation

ID/WG.391/1	E	Selected statistical indicators
ID/WG.391/3	E	Mr. P. Streeten - Industrialization, restructuring and adjustment
ID/WG.391/10	E	Mr. I. H. Abdel Rahman - Strengthening of scientific and technological capacities for industrial development in developing countries
ID/WG.391/5	E	Ms. Bragina, Ms. Kyznetsova, Ms. Morozenskaja, Ms. Novikova - Development in the developing countries in the 1980s
ID/WG.391/7	E	Mr. A. Inotai - International trends affecting industrial strategies in the developing countries
ID/WG.391/6	E	A brief introduction to re-orientation of strategies for industrial development in China
CRP.1.	E	Mr. P. Wiles - On the control of technology

Background documentation

CRP.2	E	Ms. H. Handoussa - Industrialization in Egypt: Lessons for the recent past for other comparable developing countries and outlook for industrial development in the 1980s and 1990s.
CRP.3	E	Mr. R. Newfarmer - The developing conflict: North - South trade and investment relations
CRP.4	E	Mr. E. White - The role of third world multinationals and small and medium sized companies in the industrialization strategies of developing countries
CRP.5	E	Mr. J. Kühn - Industrial development strategies and policies in developing countries, with particular reference to cooperation with the Federal Republic of Germany
CRP.6	E	ICDA - Industrial restructuring and adjustment: An NGO viewpoint on considerations for North and South
CRP.7	E	Mr. J. Keschull - Major international proposals and their implications for industry in developing countries
CRP.8	E	Mr. L. Zevin - Some considerations concerning the industrial development strategy and policy of the developing countries in the 1980s and 1990s
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CRP.10	E	Mr. A. Singh - Third world industrialization: Industrial strategies and policies in the policies in the 1980s and 1990s
CRP.11	E	Mr. P. Evans - The changing international position of U.S. manufacturing and U.S. industrial policy: Implications for Latin American industrialization (a summary)
CRP.12	E	Mr. A. A. Justin Dias - The evolution of industrial policy and strategies adopted by the developing countries, with special reference to Sri Lanka
CRP.13	E	Mr. B. Sosnowski - Strategies and policies for industrial development in the developing countries ^{a/}
CRP.14	E	H. E. Mr. J. A. Ferguson - Strategies and policies for the 1980s and 1990s: An Australian perspective
CRP.15	S	Mr. I. Rivera - Política industrial Peruana: Pasado y presente

a/ Indicated as CRP.22 in preliminary list of documents.

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| CRP.16 | E | Mr. Morita - Past and Future strategies and policies for developing countries' industrialization and the current international trends and their implications |
| CRP.17 | E | Mr. Marathe - Strategies and policies for industrial development: some observations on the Indian experience |
| CRP.18 | E | Mr. Somsak Taembunlertchai - Thailand's experience in industrialization |
| CRP.19 | S | Mr. Storfa - Desarrollo y industrialización |
| CRP.20 | S | Mr. Rovayo - Visión de las Estrategias y políticas del desarrollo industrial Ecuatoriano |
| CRP.21 | E | Mr. de Bandt - Discontinuities within the working of the international industrial system |
| CRP.22/Rev. 2 | E | List of documents |
| CRP.23 | E | Note by the UNCTAD Secretariat for the UNIDO: Some trade issues for consideration in the formulation of strategies and policies for industrial development in the developing countries during the 1980s and 1990s |
| CRP.24 | S | Ms. Eglée Iturbe de Blanco - La estrategia industrial de Venezuela en la última década y perspectivas del desarrollo industrial |
| CRP.25 | E | Mr. Kong Sik Koak - Industrial strategies and policies of Korea for the 1980s |
| CRP.26 | E | Provisional Programme |
| CRP.27 | E | Mr. V. D. Popov - Some results and prospects for industrial development of newly independent countries and their co-operation with the CMEA countries |
| CRP.28 | E | Mr. Gerardo P. Sicat - Developing country debts and industrial growth |
| CRP.29 | E | Office Bearers |
| CRP.30 | E | Mr. I. Angelov - Strategies and Policies for Industrialization in the Developing Countries |
| CRP.31 | E | ECLA - Some considerations on the Latin American industrialization strategy |
| CRP.32 | E | Mr. El Karim Idris - Industrial production in the Sudan |

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| CRP.33 | E | Mr. I. Angelov - Strategy for economic development of the People's Republic of Bulgaria in the 80s |
| CRP.34 | E | Mr. Abdaluziz A. Khathlan - Economic and Industrial Consultant Services, Riyadh, Saudi Arabia |
| CRP.35 | E | Mr. V. D. Popov - Some results of and prospects for industrial development of newly independent countries and their co-operation with the CMEA countries |
| CRP.36 | E | Mr. A. O. Oluwunmi - Experiences of Nigeria in the area of industrial development strategies and policies with a particular emphasis of future perspective (with annex - Nigerian Industrial Policy and Strategy: Guidelines to Investors) |
| CRP.37 | E | Final report |

