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DEVELOPMENT STRATEGIES AND INDUSTRIALIZATION FOR THE 1990's:

UNIDO's ROLE

IN LATIN AMERICA AND THE CARIBBEAN

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## Table of Contents

Introduction .....	p.	1	
Part One			
TRANSFORMATION OF PRODUCTIVE STRUCTURES UNDER CONDITIONS OF SOCIAL EQUITY .....			3
Section A:			
Introduction and Synthesis of the ECLAC Position .....			3
Section B:			
Main Areas of Policy Proposals by ECLAC for the 1990's .....			9
Part Two			
UNIDO'S ACTIVITIES .....			28
Section A:			
UNIDO's Present Involvement in the Americas: some comparative critical evaluations .....			28
Section B:			
UNIDO's Medium Term Plan, 1990-95 .....			38
Section C:			
Concluding Remarks and some Further Recommendations .....			45
Annex		A-1	

## Introduction

The present report was prepared in the context of UNIDO's efforts to strengthen and improve its role and overall contributions to the Latin American and Caribbean industrialization processes. It was also prepared by keeping in mind the need to assure a closer interaction between UNIDO's work in the Region and that of key government agencies and intergovernmental organization or multilateral institutions, particularly ECLAC, SELA, UNDP and the IDB.

The report consists of two parts. The first presents a synthetic analysis of a major position document prepared by the Secretariat of ECLAC and concluded only a few weeks ago. (Changing Production Patterns With Social Equity, ECLAC, Santiago, Chile, 1990). With this document ECLAC is proposing, to the highest levels of the Latin American and Caribbean governments, a coherent and longer term strategy for the Region's socioeconomic development during the 1990's. The policy contents of this proposal centre around some fundamental challenges posed during the present decade. They are likely to significantly affect the Region's relative position in the evolving international distribution, the content and location of industrial activities in the years to come. Such challenges concern (i) the effects of radical technological changes, (ii) the process of rapid globalization of the international economy and the demands it poses on national competitiveness in the world markets, and (iii) the Region's weak dynamism and highly unsatisfactory socioeconomic performance during the decade of the 1980's, seriously aggravated by the burden of the foreign debt crises and the resulting macroeconomic disequilibria.

The presentation of the ECLAC thesis is undertaken in three sections: the overall position and orientation of ECLAC's proposals, the main policy areas and specific policy instruments, and a summary comparison with the policy "orthodoxies" of previous decades as viewed by ECLAC.

The second part of the report presents a critical analysis of UNIDO's actual involvement and work in Latin America and the Caribbean in view of the demands posed by the decade of the 1990's on the

industrialization prospects of the Region. Recognizing the need to strengthen the role of UNIDO, the report bears in mind two important objectives: first, to develop a comprehensive and substantive orientation for UNIDO's involvement instead of relying only on a series of useful yet piecemeal requests and responses for technical co-operation; second, to link and coordinate more fully UNIDO's work with the initiatives of other multilateral organizations and inter-governmental institutions active in the Region.

Three Sections comprise this latter part of our report. The first deals with a comparative critical analysis of the main features of UNIDO's actual involvement in the Latin American and Caribbean economies during the recent period. The second presents a synthesis of and briefly evaluates the content of the Medium - Term Plan, 1990-1995 presented by UNIDO in its General Conference held in Vienna, November 20-24, 1989. Finally, the third Section presents some concluding remarks and further recommendations.

Part One

The ECLAC thesis for the 1990's:

TRANSFORMATION OF PRODUCTIVE STRUCTURES  
UNDER CONDITIONS OF SOCIAL EQUITY

Section A

Introduction and Synthesis of the ECLAC Position

During a period in which certain fundamental changes took place towards democratic and more participatory societies, the decade of the 1980's also left a legacy of multiple crises for Latin America and the Caribbean. These crises have inflicted diverse and serious implications on the socioeconomic performance and the economic potential of the whole region. As a consequence, out of what has been called the "lost decade", there emerges a crucial and urgent need to create new sources of longer term economic dynamism for the corresponding countries.

Acknowledging the wide diversity of socioeconomic conditions of the region, such a dynamism cannot be pursued within a unique development "formula". Instead, it will be guided by a series of multiple yet coherent overall sets a strategic orientations. The latter address key challenges of the contemporary development process, as presented in the ECLAC position document.

At the centre of these orientations there exists a dual objective: to transform, through an explicit and longer term strategy, the production structures of the region and to promote conditions of greater social equity. The joint pursuit of these objectives needs to be sought in the context of and to confront the requirements for achieving greater international competitiveness.

The sustained improvement of such a competitiveness calls for a deliberate and systematic incorporation of technical advancements and of skills in the corresponding productive structures. In contrast, the region's competitiveness has tended in the past to rest more on the "perishable rents" of natural resources and/or on the relative reduction of real wages and salaries.

The above position recognizes that, at the beginning of the 1990's, the principal factor of major future transformations in the world productive base depends, in a fundamental manner, on the process of consolidation and on the further expansion of the horizons of new technologies and their application in the production and exchange of goods and services. The level, the content of coverage and the degree of incorporation of Latin America and of the Caribbean in these radical technological changes will seriously affect their relative position in the rapidly evolving international division of labor. Also crucial will be the process of diffusion and assimilation of more mature technological and skill intensive activities in the region.

Furthermore, the ECLAC strategy presented below recognizes the systemic character of contemporary international competitiveness. In other words, the present multipolar world economy constitutes an arena where market power expresses and involves not only the corporate behavior of specific enterprises which compete among each other to satisfy diverse demands. Instead, the corresponding firms constitute a crucial yet only a part of the competitive forces. The latter encompass and link enterprises with their respective educational systems, the technological infrastructure of their societies, basic producer services and other key support mechanisms in finance, energy, communications and transport, etc. Also crucial are (i) the nature of relations advanced between management and employees, (ii) the institutional complementarity and support between the public and the private sectors, and (iii) the effectiveness and scope of resource coverage to promote the required investment undertakings. Thus, broader socio-economic conditions constitute key elements of international competitiveness. Finally, the latter expresses the successful diffusion of specific intra-sectoral productivity advantages at the firm level. It also incorporates major inter-sectoral linkages and the generation of added value at more aggregate performance levels which involve the synergy of diverse economic actors related to each other across traditionally defined sectoral boundaries.

The above approach to the understanding of international competitiveness also assists, according to ECLAC's analysis, to overcome and to "de-ideologize" certain false dilemmas, often encountered in the development literature. Namely, if appropriately

managed, such an integrated approach to the pursuit of major development goals, stresses the complementarity rather than the antagonism between key policy choices such as:

- (i) the required linkages in inter-sectoral development patterns (instead of assuming clear cut choices between industry versus agriculture, or services versus industrial development),
- (ii) the broader and inter-related market base of growth and the market requirements of productivity (instead of assuming a divorce between the domestic and the external sector economic spaces, and the corresponding policies),
- (iii) the mutually supportive and coexisting influences of market forces and diverse planning -- including corporate planning -- mechanisms (instead of assuming the exclusion of one by the other), and
- (iv) the complementarity of specific roles and functions between the private and the public sectors (instead of raising policy or ideological barriers between the two of them in the context of the demands posed by contemporary societies).

In summary, the longer term and sustained improvement of international competitiveness of the Latin America and Caribbean economies will depend on both firm specific and broader socio-economic conditions. It will also be a function of organizational characteristics of key social actors and of the relations between them. A determining factor in achieving such an improved competitive position rests on the effectiveness of a systematic and longer term strategy for the active incorporation of technological changes in the productive process and for investing in human capital.

This strategy sharply differentiates its policy targets and commitments from conditions which seek competitiveness through the relative impoverishment of real wages. Also, within democratic



societies, the attainment and longer term cohesion of such an orientation to development policies are incompatible with conditions of growing socioeconomic inequalities. Thus, explicit redistributive mechanisms are required to accompany the efforts of productive transformation. Furthermore, an overall strategic concertation is necessary among key social actors and/or main economic groups. Such a concertation acquires a decisive importance in democratic societies. It comprises some major explicit or implicit agreements among the main socio-political actors and between them and the State. They need to cover the central elements of the strategy which meets each country's needs and particularities and their major inter-temporal sequences.

The above stated dual objectives of improved international competitiveness and of equity contrast sharply with the region's overall performance during the last quarter of a century. Thus, the crisis of the 1980's and the heavy burden of external debt came to accentuate and to seriously aggravate a development path which already portrayed serious limitations in attaining a sustainable process of growth, equity and overall development.

The region's longer term evolution differs significantly not only from to the corresponding experiences of the OECD countries but also in comparison to a number of "successful late comers" among non-OECD members. The latter were able to incorporate more fully the fruits of technological change and to improve the productive capabilities of their human capital within more equitable socio-economic conditions.

The empirical evidence, presented in the ECLAC document, depicts such longer term trends of comparative performance. Over the last twenty five years or so, these trends clearly indicate a very marked difference between the experience of the Latin America and Caribbean region and that of a number of other countries (both within the OECD region and elsewhere). The more salient of these differences involve the following key indicators.

- (i) In the Latin American and the Caribbean region the highly inequitable income structures coexisted with (and/or caused) an average level of savings as a ratio to GNP which, over time, was significantly lower in comparison to the equivalent for

selected international comparisons. (Savings in the region accounted for about 16% of GNP over the period 1965-86 as compared to close to 28% for a number of South European and South East Asian late industrializing countries).

- (ii) The pattern of insertion in the international division of labor exemplifies a much lower level of international competitiveness for the whole Latin American and Caribbean region. This performance can be interpreted by analyzing the composition of their external trade structures and the differential growth rates of their components for the corresponding countries.
- (iii) The relative weakness and lentitude in the incorporation of technical progress is manifested in the intertemporal changes of the technological content of production and export activities, as captured through the use of diverse proxy variables. Also, indicators about the national R&D levels (particularly those by the productive sector) present a much lower relative performance for the region as a whole than those encountered in successful late comers among relatively lesser advanced economies. Comparable differentials in resource commitments and performance are evident in educational efforts and productivity levels.
- (iv) Finally, the reorientation of the development path and the transformation of their economies (especially after the devastating experiences of wars) in Southern Europe and South East Asia encountered less resistance by powerful social groups than in the corresponding cases in Latin America and the Caribbean. Resistance and open opposition to change, especially if such change combines a greater extent of economic justice with a much wider and intensive use of technological up-grading and educational standards with their corrolary socio-political implications, constitute major forces which influence the choises of longer term development opportunities. Within democratic societies it is, thus, essential to seek options and to institutionalize mechanisms which allow areas of strategic concertation among

key socio-political and economic groups. Such a concertation will be essential in achieving the required changes on the basis of longer term interests.

It is on the basis of this understanding and with reference to the above stated development objectives of international competitiveness with equity, that the ECLAC policy proposals are presented for the 1990's. In the following section we briefly analyze the main elements of these proposals. Our presentation concentrates mainly on issues which relate directly to what are or could be UNIDO's overall functions and technical assistance activities in the Latin America and the Caribbean region. Certain key areas of ECLAC's strategy (such as specific proposals on agriculture and land tenure) are not covered here since they extend on matters beyond UNIDO's direct fields of competence.

## Section B

### Main Areas of Policy Proposals by ECLAC for the 1990's

(a summary presentation)

#### B.1. Macroeconomic context and proposals

Two broad policy orientations need to be taken into account in introducing ECLAC's recommendations on macroeconomic management linked to the proposed development strategy for the 1990's.

First, as the decade of the 1980's has amply shown, the existence of disequilibria in major macroeconomic variables can reach only certain limits. Beyond them, a spiral of highly distortive effects is set into motion, transcending the overall functioning of the whole socio-economic system. Thus, as an integral part of the overall development strategy, concerted efforts must be undertaken so as to achieve acceptable levels of macroeconomic performance in key areas of the domestic and external sectors. The necessary corrective mechanisms, through policies of productive restructuring and macroeconomic stabilization, need to address and to act upon the main elements of both the aggregate demand and those of the supply side.

Second, the productive transformations pursued so as to satisfy the development objectives set for the present decade do not automatically result from the required correction of the macroeconomic disequilibria and by "getting the prices right". The achievement of an appropriately balanced macroeconomic environment constitutes a necessary yet not a sufficient condition. Instead, the quest for such a reliable aggregate environment needs to be combined with (i) key sectoral policies, (ii) strategic institutional changes, and (iii) a coherent and integrated orientation between short and longer term policy objectives and instruments.

Three main areas of macroeconomic policy formulation appear central in the ECLAC position. They concern: investment and export led growth strategies, fiscal reforms, and external trade policies (mainly commercial and foreign exchange policies). The key components

and orientations of each one of these areas of policies are briefly discussed immediately below.

#### B.1.1. Growth and productive transformation

A central theme of ECLAC's thesis rests on the conclusion that the attainment of the required productive transformations will be a function of the region's capacity to induce an economic recovery and to enter into a dynamic and sustainable growth period. One cannot overemphasize the importance of such a proposition, namely that without such a growth performance in the Latin American and the Caribbean economies, the possibilities for achieving the proposed strategy of transformation with equity are greatly reduced if they are not, in effect, extremely limited.

The fundamental relationship between growth and transformation centres around a key condition which transcends the overall development options. Namely, it concerns the extent and nature of the investment commitments during the 1990's. The magnitude of investments constitutes a precondition of sustainable growth, while the effects of growth on the transformation of the productive structures depend on the activity composition and the socio-economic productivity of investments.

This dynamic path, which links investments with growth and growth with transformation, confronts today in the region two crucial macroeconomic disequilibria. They, in turn, pose major constraints on the intended development process. These disequilibria refer to the public sector budgetary deficits and the foreign exchange deficits of the countries under consideration. Both of them limit the investment process through a series of macroeconomically induced distorting effects. Consequently, the management of these budgetary and foreign exchange gaps need to be addressed jointly and in a coherent context in ways which preserve a much more solid fiscal base and a foreign exchange balance with emphasis on a significant export drive.

The specific overall proposals which concern separately the particularities of each one of the above mentioned two main macroeconomic constraints are presented immediately below in sections B.1.2 and B.1.3 of this report. On an integrated basis the joint

confrontation of both of these disequilibria can be synthesized under an overall criterion: the reactivation of growth has to be led by concerted efforts which promote a sizable aggregate increase in investments, directed towards the improvement of international competitiveness, and a significant enhancement of export activities under controlled conditions in the increase of consumption and of imports.

The effective possibilities of pursuing such a growth oriented strategy led by investments and exports, confront today a determining adverse reality. The latter concerns the burden of servicing the external debt and its implications on future access to both internal and foreign resources to cover the required investments.

On this issue ECLAC's interpretation rests on an unequivocal position. It states that "... in the future, no productive transformation will be feasible nor greater equity will be achieved .... without a substantial reduction of net financial transfers paid abroad". During the last eight years the officially and explicitly registered accumulated net financial transfers reached a figure above U.S.\$200 billion. Also, debt induced inflationary pressures, politicoeconomic uncertainties and overall policy inconsistencies have triggered additional and important implicit capital flights from the region mainly through the foreign trade account, (i.e. underpricing of exports and overpricing of imports).

The sheer magnitude of such transfers has caused extraordinary effects on key performance indicators. GNP growth was severely depressed for the whole region, leading to an average per capita income which, in 1989, was equivalent to that of 1977. The social costs of the resource drainage and of the related adjustment policies felt significantly upon the middle and low income brackets, while extreme poverty increased to more than 164 million inhabitants. This amounts to about 38% of the region's households, thus reaching relative poverty levels which are presently higher than the equivalent ones at the beginning of the decade. Also, as it is known, investment coefficients felt dramatically from 22-25% of GNP in the previous decades to 16.5% in 1988. This has led to alarming problems of obsolescence and lack of competitiveness in the existing productive stock and to a serious deterioration in the overall productive infrastructure.

The ECLAC document on productive transformation with equity does not elaborate on the measures needed for the substantial reduction of the debt servicing burden. Instead, reference is made to other ECLAC work and publications on the debt problem of the region, (e.g. CEPAL, America Latina y el Caribe: opciones para reducir el peso de la deuda, LC/G. 1605 (SES. 23/5). This appears to constitute an explicit choice by ECLAC: it did not wish to "dilute" or politically overshadow its analysis and proposals on technological and production transformation by being caught in the ongoing and often highly charged debate, negotiations or confrontations on the debt situation.

Instead, ECLAC's concrete policy proposals include a series of macroeconomic policy orientations on fiscal and external sector matters (see B.1.2 and B.1.3 below). They also cover a whole set of sector, resource and activity oriented strategic development concerns (see various proposals under Section B.2 below). Furthermore, by analyzing the whole question of investment requirements within a macroeconomic context, ECLAC presents the overall orders of magnitude of resource needs to cover these investments. Such real resource commitments for an investment led growth and transformation strategy are: (i) contrasted with the drainage of debt induced net financial transfers and (ii) related to the savings --both private and public -- efforts needed to match such development objectives.

In particular, ECLAC stresses the need to reach again -- as in previous decades -- investment coefficients for the region at levels above one fifth of GNP. It is noted that comparable levels are registered by a number of successful late industrializing countries in the rest of the world. Such an increase of investment performance for Latin America and the Caribbean constitutes a major policy challenge necessitating a massive aggregate reallocation or recourse usages. For example, an increase of the overall investment coefficient from 16 to 22% of GNP will require resources which exceed the level of U.S.\$ 70 billion per year for the whole region. This figure is more than double the explicitly registered annual net financial transfers from the region during the past few years. Thus, even if debt servicing requirements were to be offset by additional net inflows of foreign savings, hence leading to zero net financial

transfers, a still major domestic effort will need to be undertaken by both the private and the public sectors, to finance the resource requirements of a quantum jump in investments

The above considerations raise the fundamental importance of fiscal reforms to which we now turn.

#### B.1.2. Fiscal, especially tax, reforms

An important element in the ECLAC development strategy refers to the major need to introduce comprehensive fiscal reforms. The latter are crucial so as to:

- (i) contribute to an increase of public savings necessary for investment purposes, and
- (ii) significantly assist in the resource management and coverage of the redistributive requirements posed by greater equity and economic justice.

It is generally recognized in the region that the existing aggregate margin of maneuvering for fiscal policies, as far as the expenditures side is concerned, confronts important limitations. In this case far more relevant in the ECLAC position are the recommendations concerning the nature of allocations in public expenditures. The latter need to assign a significantly higher priority to medium and longer run investment commitments. In complementarity with private investments and private initiatives, public expenditures need to address more explicitly the requirements of international competitiveness in such areas as education, technological development, labor force training and basic infrastructural services. (See recommendations further below).

On the other hand, the more promising scope of fiscal policies has to do with the whole area of tax reforms and their impact on fiscal earnings under conditions of greater economic justice. Drawing from the international experience of various "success cases", a number of basic criteria are recommended by ECLAC. They include the establishment of wider in coverage and fewer in number tax bases with more uniform tax rates, a re-evaluation of the level of incremental income tax rates, a generalized application of value added taxation, a greater emphasis on simplification, transparency and distributive efficiency, a significant strengthening of tax



administration, and the introduction of effective fiscal control and tax information systems.

### B.1.3. External sector trade policies

Commercial and exchange rate policies need to gradually lead, according to ECLAC's position document, towards more open economic systems. This is necessary so as to induce an increase in the overall efficiency in the allocation of resources. It will also be instrumental, through the incentives of competition and the incorporation of technological changes, in stimulating an increase in productivity.

On the import side such a progressive yet committed effort to open-up the region's economies to international competition involves specific initiatives on foreign trade policies. The latter include the replacement of quantitative restrictions and other direct control mechanisms by tariffs, while progressively reducing the level and dispersion of the latter. In this way, together with the de-bureaucratization and rationalization of the protection system, the existing enormous differences in effective protection will be reduced. Furthermore, the anti-export bias which in practice has been applied for several decades will also be reduced. Compensatory moves, though, need also to be undertaken through a real devaluation of the exchange rate so that the overall protection (tariffs plus level of real exchange rate) will not cause an abrupt increase of imports.

On the export side, the corresponding changes in exchange rate management need to be complemented by institutional and sector specific initiatives. For the former, it is recommended by ECLAC that real exchange rates should be set at high and stable levels in order to assist the expansion and diversification of non-traditional exports.

The pace of opening up the Latin American and the Caribbean economies needs to be matched by an effective export expansion and be a function of overall foreign exchange availabilities. On the whole, consistent rules and a harmonization should be sought between (i) policies which protect the local market and domestic productive activities, (ii) those which induce a more active orientation

towards export promotion and (iii) the corresponding foreign exchange regimes.

This overall approach for the promotion of more open economic systems needs to take into account the following four main considerations:

First, the opening up of the Latin American and Caribbean economies does not necessarily imply that there is a reduced need to actively pursue policies and to intervene, by both the public and private sectors, in the management of the external sector. As the experience of the industrializing countries of Asia has shown, the relative openness of their economies co-existed with a very active institutional (private and public) intervention in export promotion. Also, directed support was provided to specific local productive activities. Thus, the much needed opening of the region's economies to the forces of international competition does not necessarily imply a laissez-faire policy. Quite on the contrary, it requires institutional novelty and new instruments for complementary actions between the private and the public sectors on external trade matters.

Second, there is no unique and exclusive formula to advance in the opening up of the region's economies. Size of countries, accumulated institutional and business experiences, the nature of specialization, etc, call for differentiated approaches. Yet, according to ECLAC, two overall conditions could have a more generalized validity:

- (a) At the aggregate level and unless there are very specific and explicitly recognized policy objectives for particular product areas, the range of effective protection offered to export activities needs to be equivalent to that benefiting import substitution.
- (b) The effective expansion and diversification of exports require access to inputs and capital goods which, at least in the case of acquisition costs, are comparable to those registered internationally. For that purpose a combination of tariff and incentive policies are required

to assure such a price comparability. As far as quality and productivity considerations are concerned, more sophisticated strategies are called for which depend on the particular product cases and the country involved. Such strategies need to confront important intertemporal trade-offs between domestic linkages and imported efficiency considerations.

Thirdly, the opening up of an economy usually confronts two sets of contrasting effects on the domestic productive sector. In the medium run increased efficiency and improved competitiveness could be induced. In the short run, foreign competition can create unemployment and displacement effects in specific production areas. Thus, a gradual process of opening-up is required to better balance these trade-offs. Also, the introduced policy changes call for an adequate credibility and efficacy so as to induce appropriate adjustments and efficient re-allocation of inputs by the domestic productive sectors.

Fourthly, the overall objective of increasing the international competitiveness of the region's economies through the progressive and more uniform opening-up of the external sector could be tempered in specific and selected activities of major importance. Thus, for such operations, which provide elements of strategic articulation in the productive system, higher than average protection could be offered on a phasing-out basis. Also, selective incentives of a fiscal, monetary, commercial or other basis could be provided, again on a selective and temporal form, for specific export or import activities. Finally, special institutional support systems need to be considered (e.g. credit and insurance facilities for export promotion). The design and application of these special policies necessitate an appropriately studied and selective process to fit the particularities and needs of each economy. Also, they require to take explicitly into account the limitations of the government system to efficiently apply such selective policies.

#### B.2. Resource, sectoral and infrastructural proposals

In addition to the macroeconomic policy concerns and instruments signaled out in B.1. above, the ECLAC position document in-

cludes a series of other policy orientations of central importance to the proposed development strategy. These can be grouped into three major areas of development priorities and commitments each one of which are presented separately below:

- first, critical resource generation so as to improve the region's international competitiveness,
- second, sectoral -- especially industrial -- development, and
- thirdly, basic infrastructural support and key services requirements.

### B.2.1. Critical resources generation

Three major resource generating policy areas were identified and developed in the ECLAC position document as constituting strategic concerns for achieving an improved international competitiveness. They cover:

1. Technology policies.
2. Human resource development capabilities.
3. Support to entrepreneurial activities and to the creation of productive enterprises.

We introduce below the main policy orientations of each one of these three areas with the purpose of more explicitly relating their content to UNIDO's work in Latin America and the Caribbean in subsequent pages.

#### B.2.1.1. Technology policy considerations

International experience indicates that successful strategies on technology policies linked to developmental and international competitiveness objectives usually combine two broad and diversified policy areas. The first includes the presence of general and appropriate market conditions which induce the development, diffusion and assimilation of technological progress in productive sectors. The second involves explicitly designed and longer term commitments which, through selected policy instruments, concentrate

in a rather reduced number of sectoral specializations in which productive excellence is pursued, given the size of the economy and its areas of productive specialization.

In the first case of general conditions, the content of macro-economic environment and the degree of competitive tendency and openness of the economy influence the overall propensity for technological up-grading. The policy orientations suggested in B.1. above are consistent with the creation of such an environment. Furthermore, as far as general conditions are concerned the direct articulation and overall integration of technology policies with the sectoral policies in industry and agriculture and with the management of the external sector constitute crucial institutional and decision making elements in the overall direction and content of technological development. Finally, the extent of the productive sectors' participation, through explicit resource commitments and direct linkages, with the innovative and knowledge diffusion processes are also central in the creation of appropriate conditions for the overall technological development of an economy.

In the second category of technology policies, which include explicitly designed instruments and commitments for the advancement and use of productive know-how, three major areas of policy orientation are recommended:

- (a) specific interventions which foment the technological infrastructure of each country,
- (b) special support instruments to and explicit acknowledgement in policy formulation of the broader socio-economic value of productive know-how, of innovative activities and of the creation of enterprises operating in technology intensive areas, and
- (c) institutional and other means for the promotion of networks and linkages involving (i) producers and users of productive know-how, (ii) producers of goods and producer service activities and (iii) integrated inter-sectoral linkages so as to open-up opportunities

which relate added value operations with the resource base and other advantages of the region.

Among the key policy instruments explicitly designed for the promotion of knowledge intensive activities, the following, among others, are recommended:

(i) A considerable increase is required in public budgetary support to cover the overall resources invested in the technological development of each country. As the experience of the relatively more advanced industrial economies has conclusively shown, investments in science and technology tend to generate socio-economic benefits which exceed the private returns appropriated by the correspondingly executing private economic actors. This justifies the subsidization of and general support provided by the public sector to the R&D or other technological activities undertaken by private enterprises. It also justifies the direct generation of knowledge and of knowledge inducing services through the allocation of public funds. This is especially important in appropriately selected pre-competitive knowledge areas and in key activities of large scale and of risk to attract private resource commitments. Finally, it lends support to the public assistance for specialized human resource development and overall educational activities.

(ii) The increased financing and subsidization of technological activities require the development of institutional capabilities and the proper functioning of specialized policy instruments. Thus, particular attention needs to be placed on the development of special incentive systems for the promotion of knowledge intensive activities, the establishment of risk capital funds, preferential credit policies, direct subsidization and grant systems, etc. Obviously, considerable bureaucratic competition exists for the control of these publicly originated funds to be dedicated to the technological development of a country. Nevertheless, it has often been concluded that the institutional and professional management of such public sector interventions probably exceeds the qualifications and certainly the practices of traditional public service administrations. Instead, it requires special qualifications,

institutional flexibility and professional authority which combines high technical competence, project and technological evaluating capabilities and discretionary and risk taking decision making powers based on adequate planning procedures.

(iii) The whole field of public procurement constitutes a crucial area of, by definition, public intervention. The latter has consistently and significantly proved central in the technological development of most success cases internationally. The adequate programming, institutional management of the procurement power of the public sector and its direct linkage to the productive and private sector representatives of a country represent areas of the highest priority.

4) A series of important institutional changes need to be actively pursued which concern the conduct and interrelationship between key actors in the knowledge creation and the diverse productive activities or main sectoral development areas. Such institutional changes include:

- (a) the multiple legal, organizational and operational changes and policy initiatives needed to bring closer together the institutions of higher education and of research with the productive sectors of an economy, and
- (b) the closer articulation and complementarity between the public and private sectors in the targeting and execution of priority initiatives and projects in a country.

5) The selection and longer term implementation of strategic initiatives for each country, which promote productive cum technological transformations, could involve the design of integrated and "tailored made" packages of policies. The latter would tend to cut across a number of investment, credit, commercial, fiscal, procurement and other instruments. Key such areas for concerted actions include:

- (a) the development of high quality and competitive producer services to advance the possibilities of intra- and inter-sectoral production and exchange linkages leading to higher domestic added value results,

- (b) specific subsectoral development projects in the production of specialized inputs and capital goods, and
- (c) major regional, national or international projects leading to knowledge creation and/or to the large scale production of goods and services.

6) The setting up of informational and sectoral extension services require particular support so as to assure a more diversified and opportune access as well as to improve the diffusion process and assimilation of productive knowledge.

B.2.1.2. A diversified strategy on the development of human resource capabilities.

Investments in human capital and in skill and knowledge creation need to be given a top priority in development strategies. They also require a longer term policy commitment involving the participation of a number of distinct institutions and agencies. The ECLAC approach in this area stresses the integrated nature of such a policy focus, in the sense that it covers a number of distinct educational levels. The latter include (i) pre-school and basic educational requirements in primary and secondary education, (ii) university education and in centres of research and scientific excellence and (iii) training and professional recycling programmes, adult and "popular" educational initiatives.

For each one of these levels, a number of concrete proposals are made concerning the recommended policy initiatives. Also, considerable importance is attached to the dual objective of a continuous educational process and the knowledge demands posed by the contemporary technological context. The latter's implications on the educational requirements combine a proliferation of specialties with a flexibility, adaptability and a need for more integrated and overall knowledge base.

B.2.1.3. International competitiveness and support to entrepreneurial activities and to the establishment of new enterprises:

The revalorization of the social role of entrepreneurial functions and the required support for productive business activities



are acknowledged by ECLAC as important elements in a strategy towards improved international competitiveness. It is recognized that, obviously, in these matters a number of non-traditional economic or other issues are involved and intervene. They relate to the value systems and social sanctions of the corresponding societies as well as to the economic dimensions of human creativity and overall productivity. These matters require closer overall policy attention and support mechanisms.

In addition, a series of strictu sensu economic policy considerations are involved. They include the preparations and execution of projects, the financial and other resource support of productive enterprises, and the improvement of organizational and managerial capabilities. Furthermore, through a process of strategic concertations between the main social and political actors, a series of agreed initiatives could be promoted involving institutional innovations which support the activities of the productive sectors of societies.

#### B.2.2. Sectoral development considerations:

##### Industrialization as a key axis of productive transformation.

The central emphasis placed on the advancement of productive know-how and the requirements posed by comprehensive technology policies, reassert the importance attached to the development of the industrial sector. This relates directly to the production requirements for the embodiment and diffusion of technical progress through industrial operations. It also responds to the need for productive articulations with other sectoral activities in which know-how is also advanced and applied.

Two sets of policy initiatives are included in the ECLAC thesis as key recommendations for advancing industrial operations during the 1990's:

First, as noted above, industrial development is to be sought through a process of progressive opening of the external sector. This is in order to foment international competitiveness and to create a more conducive environment for the diffusion of know-how and the up-grading of the region's technological base.

Also, a special priority needs to be attached to the promotion of industrial exports. Furthermore, assistance and incentives should be given to smaller and medium size enterprises, particularly those active in technical advancements, and to institutional innovations -- including new business instruments in leasing, factoring, sub-contracting, etc -- for the improved management of the productive system and the strengthening of private sector activities.

Second, the support of the overall productive sector and especially of industry, needs also to recognize some major constraints which have emerged from the legacy of the economic crisis of the 1980's. A key such constraint refers to the restrictions imposed on the finances of the public sector and the latter's institutional weakening during the last decade.

Three major challenges are signaled out by ECLAC on these matters which will tend to have important implications on the proposed overall development strategy:

- (i) coherent selection of areas of state intervention, placing special emphasis on achieving a strategic concertation with key socio-economic actors and on the requirements for an active interaction between private and public entities and initiatives,
- (ii) placement of priority on the reconstitution and improved institutional management of strategic public sector roles in key areas such as in major physical infrastructural investments, development oriented public procurement practices, educational and technology policies, income redistributive functions, novel forms of medium and longer term development targeting plans, and
- (iii) institutional innovation in the management of state roles through a selectivity and self-limitation of government interventions, a simplification/de-bureaucratization of activities, and a decentralization of responsibilities.

These public sector management improvement initiatives together with the ones cited above for the strengthening, expansion and di-

versification of private activities, aim towards an articulated and more demanding complementarity between the two sectors for the productive transformation of the region's economies.

### B.3. Basic infrastructural services

Three main areas of strategic infrastructural and/or business services are signaled out in the ECLAC document as particularly important in the proposed strategy of productive transformation based on improved international competitiveness. They concern:

- (i) Telecommunications, electronic information and informatics.
- (ii) Financial sectors reform policies.
- (iii) Key transport activities.

#### B.3.1. Telecommunications, electronic information and informatics

This area of productive activities possesses a double significance: It has a major economic impact in view of its high market growth rates, its diverse operations and linkages and its high technology content. It also represents a strategic infrastructural element for the rest of the productive sector. In the latter case, it is particularly important for the overall productivity and quality improvement of key producer services and a central factor in export promotion activities. Thus, its priority development constitutes an important element in ECLAC's strategy for the 1990's.

The following policy initiatives are recommended in this area:

- (a) Long term investment commitments will need to be actively promoted so as to achieve an internationally competitive telecommunications and telematics infrastructure for the region. Such investment undertakings could be combined, under conditions of efficiency, with some selective local productive activities and with a careful knowledge diffusion and human resource development efforts in cooperation with foreign enterprises. Also, regional cooperation initiatives in this area could prove to be highly relevant in pooling together not only markets but also technical and financial resources.

- (b) Political and policy support needs to be given to the international co-operative character of the telecommunications system. In this respect, the strengthening of Intelsat and its co-operative nature will need to be preserved.
- (c) Direct and indirect linkages need to be established by the local industry and research centres with major international and business research initiatives. In some of these cases access to markets could be traded-off with access to knowledge.
- (d) Integrated strategies could be developed on the informatics industry of countries or groups of countries of the region. This could cover intellectual property matters, compatibility issues, standards and norms, data bases, transborder data flows, protection of privacy, informatics criminality, etc.

#### B.3.2. Financial system and productive transformation

The transformation of the region's productive system and the relative scarcity of foreign capital availabilities during the decade of the 1990's, places a particular burden and importance on the mobilization and use of local savings. In this respect, the capturing and intermediation of financial resources towards the formation of investible capital will acquire an economically strategic importance.

It is, thus, particularly important for the region to develop integrated and comprehensive strategies of reform in the financial sector. Such reforms should address issues of macro-economic or other aggregate concerns as well as institutions and specialized financial instruments.

In particular:

- (a) Comprehensive and development oriented critical assessment of interest rate policies and credit policies need to be pursued in the light of (a) the inflationary pressures confronting the region, (b) its exchange rate and foreign

exchange control practices and (c) the fungibility of financial funds between different subsectoral activities which might be confronting different interest rate and credit policies. For the creation of a neutral incentive system in the financial markets it is recommended to establish ranges of moderately positive real interest rates in close relationship with realistic and effective exchange rate policies.

- (b) The establishment of less specialized credit institutions, which are in a position to more actively diversify their assets and liabilities, requires appropriate legislative changes. The latter involve specialized concerns of operational harmonization, special financial service activities, multibanking operations, mergers and acquisition practices, etc.
- (c) Specialized financial intermediaries, e.g. development banks, could require significant legislative and operational improvements. One of the key objectives during the 1990's should address the capacity of such institutions to capture medium and longer run funds so as to complement the resources provided by the public sector. Thus, a review of policies is required on titles emissions, efficiency and profitability of investment allocations, credit risk coverage, etc.
- (d) Similarly new instruments of leasing, factoring, etc need to be designed in support of the corresponding operations of specialized financial institutions.
- (e) The introduction of appropriately managed guarantee funds could activate credit expansion to productive, particularly export and technology oriented, medium and smaller size enterprises.

### B.3.3. Key transport activities

A strategy of productive transformation based on improved international competitiveness puts a high priority on the infrastructural capabilities of the region so as to be able to export and to reach

foreign markets and/or to obtain from them goods and services in ways which are cost effective, timely and supported by quality services. Thus, the degree of success and the implementation of the proposed ECLAC strategy for the 1990's depend significantly on the transport and communications infrastructure of the region within a broader context of producer support services.

This whole area requires the development of comprehensive and far reaching strategies for Latin America and the Caribbean, given the diversity of physical conditions, accumulated investments and experiences up to the present. The policy and resource interventions required are substantial while the gestation periods of implementation might be relatively long. Also, given the public good character of various of these indivisible infrastructural investments and the considerations of overall size of commitments and of time duration noted above, call for serious targeting and implementation plans. Furthermore, a number of regional, private, trade union and users' initiatives need to be introduced so as to obtain the necessary flexibility and specializations of the respective services.

It is important to note the complexity and specificity of diverse instruments and means involved in such distinct areas as port authorities, railroad company management, air cargo services, road and truck transport, etc. It is also important, though, to bear in mind the broader policy requirements of this whole sector which call for an integrated approach of evaluation and hierarchization of strategic options and key investment or policy commitments.

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A summary presentation of various "orthodoxies" on economic development strategies, as interpreted by ECLAC, and their comparison with its recent proposals are reproduced from ECLAC's publication in the Annex, at the end of the report.

Part Two

UNIDO's ACTIVITIES

Their scope and impact on the industrialization  
of Latin America and the Caribbean

Section A

UNIDO's Present Involvement in the Americas:  
some comparative critical evaluations

In order to better understand the extent, content and incidence of UNIDO's activities, it will be relevant to commence by first presenting some aggregate comparative figures on the magnitude and composition of the Organization's world-wide operations. Subsequently, both quantitative and qualitative references will be used so as to critically evaluate UNIDO's operations in the Americas during the recent years.

a) The world-wide activities.

As it can be deduced from UNIDO's Annual Reports, the order of magnitude of its total yearly expenditures grew from around U.S. \$ 130 million, at the beginning of the last decade, to reach more than U.S. \$ 190 million by 1988. Also, from these Annual Reports, it is evident that, in terms of resource usages, the main thrust of UNIDO's activities focus on the area of technical co-operation programmes. Such programmes account directly for more than 60% of the Organization's total expenditures for each of the last fifteen years.<sup>(1)</sup> Additional resources are indirectly allocated to technical co-operation programmes as part of UNIDO's overhead expenses, mainly at headquarters and related operations.

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(1) The share of technical co-operations programmes in UNIDO's total expenditures averaged 62.3% for the period 1977-81. The corresponding figure ranged annually between 60.3% and 66.9% during the 1980's with the exception of 1987 in which it dropped to 56.2%. Table 1 of Statistical Annex of Annual Report of UNIDO-1988, p. 86.

Two preliminary overall observations can be made here with respect to UNIDO's technical co-operation programmes. First, as it will be substantiated by detailed financial data and analyses cited further below, the content, activity and sectoral distribution of such programmes reflect a piece meal response to requests "from the field" by diverse institutions or business entities. As a consequence, at least in Latin America and the Caribbean up to now but also elsewhere, the actual resources spent on technical co-operation do not seem to follow -- in the projects effectively executed -- an explicit policy design set by UNIDO on the basis of certain priority criteria. Thus, serious divergences can arise between broad activity intentions stated in a number of policy documents of UNIDO and actual project disbursements. Second, it is also important to note that the geographic allocation of funds for projects in the technical co-operation area depends heavily and reflects the overall policy criteria of UNDP. The latter constitutes the overwhelmingly major source of finance for these activities.

During the last year for which published financial data was available to us (1988), the total direct expenditures by UNIDO on technical co-operation activities (excluding, that is, its headquarters' costs) amounted to U.S. \$ 119.78 million. Slightly less than 87% of these funds, or U.S. \$ 103.94 million, went to the category of "Industrial Operations" while the area of "Programme and Project Development" absorbed less than 2.5% of the total funds used. Another 8.3% went to "Industrial Promotion, Consultations and Technology".

Of the total financial resources expended in 1988 in the field of "Industrial Operations", almost two thirds (U.S. \$ 64.69 million) went to assist activities in four industrial sectors: mainly the chemical industries, which absorbed about half of the total (or U.S. \$ 31.44 million), while the remaining was divided between the engineering industries, the agro-based industries and the metallurgical industries. This, more-or-less, reflects the recent specialization of UNIDO in sectoral operations, at least as expressed by the distribution of technical co-operation programme funds.

The other one third of the financial resources allocated to "Industrial Operations" is used to cover a series of intersectoral support activities. In ascending order of used funds for 1988,



these refer to feasibility studies (U.S. \$ 4.9 million), industrial planning (U.S. \$ 5.8 million), industrial management and rehabilitation (U.S. \$ 6.0 million), industrial training (U.S. \$ 6.7 million) and institutional infrastructure (U.S. \$ 15.8 million).<sup>(1)</sup>

It is of interest to note that the overall technical co-operation resources used world-wide by UNIDO for industrial training of all types and skill categories amount to only about one fifth of the corresponding amounts spent by the Organization for the support of operations in the chemical industries. This is a clear example of how actual resources are allocated on the basis of a "demand pull" performance rather than being established by UNIDO's stated priorities.

Similarly, financial resources dedicated directly to overall skilled human resource development and including not only industrial training but also various fellowship categories account for about 50% of the equivalent spent for the procurement of industrial equipment. If only industrial training is accounted for, then it represents less than 19% of equipment procurement financed with UNIDO technical co-operation funds. Furthermore, UNIDO's global annual resource commitments on industrial rehabilitation (i.e. a part of six million U.S.\$) can be put into a certain perspective if compared to the overall requirements usually needed for a comprehensive sectoral or subsectoral rehabilitation programme of even a medium or small economy.

These comparisons are useful to bear in mind in stressing the fundamental importance which must be attached to the quality, focus and "externalities" of UNIDO's activities, if one wants to evaluate their broader incidence. Also, the two support areas mentioned above (i.e. training and rehabilitation) were selected for comparative purposes in view of the priorities included in the UNIDO Medium-Term Plan, 1990-1995, as presented further below from page 39 onward.

A final reference to UNIDO's global expenditures concerns the allocation of funds in its headquarters. In this respect the Regular and Operational Budgets of the various UNIDO departments reported and overall level of expenditures which, in 1988, amounted to

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(1) For a complete breakdown by department/programme component and source of funds on the expenditures on technical co-operation see Table 5 of the Statistical Annex of UNIDO's 1988 Annual Report, p. 93.

U.S. \$ 86.3 million. This compares with the U.S. \$ 119.8 million spent, during the same year period, on technical co-operation activities. In other words, for each U.S. dollar spent "in the field" on technical co-operation by UNIDO, an additional sixty cents were needed to finance headquarters costs.

A key feature of the Regular Budget and the Operational Budget of 1988 concerns the fact that about 75% of the total expenditures involve staff related costs including those working on administrative tasks.<sup>(1)</sup> In comparison, expenditures on outside consultants were less than 1.7% of the corresponding total expenditures. The remaining involved mainly general service expenses other than staff costs. Thus, the ability of UNIDO to offer support for future industrial development activities will critically depend, in addition to the technical co-operation programmes referred to previously and financed by outside sources, on the caliber and nature of specialization and expertise of its own personnel.

B) UNIDO's activities in Latin America and the Caribbean.

As deduced from diverse published and unpublished documents, the following salient features are important in understanding UNIDO's involvement in the region:

In terms of total resources dedicated on technical co-operation programmes, the Americas account for the smallest relative share (around 10%) among all major geographic areas of developing countries. This smaller share has steadily been further reduced during the latter half of the 1980's. See the data presented immediately below. They were drawn and/or computed from information available in various UNIDO Annual Reports:

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(1) For a complete breakdown by department, programme and object component of expenditures see Table 9 of the Statistical Annex of UNIDO's 1988 Annual Report, p. 97.

UNIDO Expenditures on Technical Co-operation Activities during the 1980's								
Total expenditures and relative shares by region.	1981	1982	1983	1984	1985	1986	1987	1988
<u>Total expenditures</u> (in thousand U.S. \$).	88,643	81,879	78,019	87,191	94,468	99,600	97,726	119,780
<u>Regional shares</u> (in percentage terms).								
Africa excluding Arab States	31.1	26.5	26.2	24.3	29.7	27.3	23.6	21.4
Americas	11.7	11.7	12.9	10.3	12.7	10.6	9.5	9.0
Arab States	13.3	12.8	15.2	14.8	12.7	11.9	12.8	15.0
Asia and Pacific	32.4	36.7	31.6	35.8	32.2	37.2	38.8	36.7

The figures presented above indicate that, under reasonable assumptions on inflationary effects, the absolute level of resources dedicated to UNIDO's technical co-operation programmes was, in real terms, smaller for most or for all of the years at the end of the 1980's than at the beginning of the decade. In relative terms, the share of Africa (excluding the Africa Arab States) has fallen significantly since the middle of the previous decade despite the urgent needs presented by the economic crisis afflicting most African economies. Also, the relative share of Latin America and the Caribbean started by being the smaller among the major geographic areas of developing countries and fell even further down

after the mid-1980's. It is note worthy that the last UNDP multi-year cycle started in 1987, that is precisely in the period when the Americas' relative share begun to drop.

Given the criteria used for the distribution of UNDP funds among distinct regions, it is evident from the above that any concerted effort to increase the volume of UNIDO's financial commitment in an expanded industrialization effort for the Americas will require the pursuit of additional outside financial support. In this case the possible involvement of the Interamerican Development Bank could prove to be very important in a joint inter-agency strategy to foster an expansion of the industrialization prospects of the Americas during the 1990's. Similar contributions should be sought from the various subregional development financing institutions (e.g. the Corporación Andina de Fomento).

The relatively small weight of Latin America and of the Caribbean in UNIDO's activities up to now can also been portrayed from a number of other indicators. For example, out of 18,191 cumulative appointments of experts by UNIDO over the 1971-1988 period, less than 8% were from the Americas. For the whole region, this represented a figure which was less than the corresponding appointments made individually for the cases of the U.K., Poland, the U.S.A. and France.<sup>(1)</sup> Also, out of 93 workshops, seminars and courses, expert group meetings and symposia organized by UNIDO during 1988 only five were held in the Americas.<sup>(2)</sup>

As far as technical assistance projects are concerned, during the last ten years, UNIDO developed and completed the implementation of more than 400 such projects in the Latin American and Caribbean region. In 1988 alone, 262 projects were in the process of execution in the Americas as compared to 507 in Asia and the Pacific and 515 in Africa.

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(1) See Appendix B of UNIDO's 1988 Annual Report, p. 110.

(2) Ibid at 101-107.

Undoubtedly, a number of the UNIDO sponsored projects in Latin America and the Caribbean involved a series of highly relevant initiatives contributing significantly to the industrialization process of the region (e.g. various national capital goods projects, the Regional Programme on Biotechnology, the Centre for Leather in Central America, etc). Nevertheless, as expressed at governmental levels or by the Latin American Group in Vienna, there exists a definite need to reformulate and to implement a more coherent and substantive (both in quantitative and qualitative terms) strategy for UNIDO so as to advance its contribution to the region's development needs. Furthermore, as already acknowledged by UNIDO's in-house analysis, the handling of technical co-operation as a series of unplanned requests and responses, often leads to serious gaps in industrialization efforts.

The economic realities of the 1980's in the Americas have further complicated the role that UNIDO can exercise. In recent years, Ministries of Industry and technological institutions (with whom UNIDO traditionally maintains closer contact) are often not themselves the key actors in formulating the determining policy making decisions at the national level. Instead, the economic crisis during the "decade of the lost opportunities" of the 1980's has meant that the centre of gravity has been tilted heavily towards the Ministries of Economy and Finance and the Central Banks. These latter institutions are confronted with the more immediate and pressing needs to correct the severe macroeconomic disequilibria afflicting the region. Such imbalances and their management often conflict with the longer term development requirements demanded by the process of industrialization.

Also strict conditionality considerations imposed in the process of foreign debt renegotiations cannot avoid but impinge on highly controversial and highly political issues of development strategy. In commenting on the "technocratic answers" to political questions, the Minister of Finance of Brazil, speaking for the countries of Latin America in his address to the 1989 Annual Meeting of the World Bank and the IMF, noted the following:

"..... the new realities of democratized societies ... [result] in political representation in parliaments having an in-

creased role in the definition of national policies .... We should avoid any tendencies to concentrate important political decisions, disguised as technical, in international bureaucracies..."

Given these new realities affecting both the overall environment and prospects for the region's industrialization as well as the constraints imposed on the policy making context, the demands posed for UNIDO's role become even more exacting and challenging. It is with respect to these new challenges that a critical evaluation and understanding of UNIDO's past activities become highly relevant. Two sets of such critical evaluations will be briefly highlighted here, both of them being the work of internal monitoring and assessment by UNIDO personnel.

The first resulted from an avaluation effort promoted in 1989 whose conclusions appeared in an internal UNIDO document prepared <sup>for</sup> the Latin American Group (LAG). Among other activities, a series of interviews were undertaken with UNIDO top staff members having first hand practical knowledge of programmes and sectoral initiatives in the Americas by UNIDO. In evaluating the lessons to be drawn from the past technical co-operation projects, three main overall conclusions were reached:

1. The development objectives of most technical co-operation projects were not linked to any specific industrialization strategy. Instead, they were either related to general intentions and policies for broadly assisting the industrial sector as a whole or they responded to ad hoc requests concerning particular project requirements.
2. Most of the technical assistance projects by UNIDO in the Americas have as a partner or as an exclusive counter-part diverse public sector organizations. Despite official pronouncements to the contrary, very few exceptions exist which involve directly the private sector. This could be taken as a sign of the low level of diffusion or of visibility of UNIDO services. Even worse in certain cases, this could be interpreted as reflecting the low credibility and acceptance of such assistance programmes by the local private sector.

Also, a number of responses tended to suggest that UNIDO's activities in the Americas often depended not so much on institutional links reinforced by the overall reputation of the services provided but, instead, on individual personal initiatives.

3. Despite the often ambitious objectives set in a number of technical co-operation projects, in most cases their actual implementation did not involve an integrated programme of activities. Instead, these projects not only responded to ad hoc requests but, also, their contents covered disperse and non-comprehensive activities. Yet, integrated approaches could constitute a necessary ingredient so as to respond to the multiple demands posed in executing successful industrialization initiatives.

As noted above, these conclusions were drawn from interviews which expressed the overall experience and perceptions of top UNIDO personnel on the technical co-operation projects executed in the Americas. A second and more formal critical evaluation was concluded very recently. It appeared as an internal working document with a number of conclusions reached under the responsibility of personnel from the Project Review and Appraisal Section of UNIDO. (See "Analyse Statistique des Programmes d'Assistance Technique Financés et/ou Mis en Oeuvre par l' ONUDI en Amérique Latine et dans les Caraïbes en 1988 et 1989", doc 1733c, February 1990).

A number of well documented and important findings were presented in this case derived from the critical comparative analysis of 110 technical co-operation projects financed or initiated in the Americas during the 1988-89 period. The corresponding overall UNIDO support amounted to slightly more than U.S.\$ 22 million covering both national and regional programmes. The main findings confirmed some serious imbalances and shortcomings which refer to the following performance issues:

1. Of the total financial allocations by UNIDO which referred to national projects for the whole region for the Americas (close to U.S. \$ 19 million), two large and industrially relatively more advanced countries (Brazil and Argentina) absorbed funds amounting to

55.9% of the whole budget. All other countries shared very thinly the remaining of the UNIDO managed funds. It is noteworthy that three medium size and industrially advancing countries (Colombia, Chile and Venezuela) absorbed jointly less than 5% of the total funds or a figure equivalent to that allocated to Mexico. A large number of other countries had allocations which were less than 1% of the total or reported no projects at all.

2. Most of the projects turned out to involve small size allocations by UNIDO. This raises serious questions about their overall effectiveness in view of the critical mass requirements necessitated by integrated industrialization endeavors. In particular, more than 50% of the projects involved an overall and multi-year budgetary contribution by UNIDO of less than U.S. \$ 50,000. Similarly, for more than 80% of the projects the corresponding amount was less than U.S. \$ 150,000. Only seven projects exceeded the level of half a million U.S. dollars. All of the rest (103 projects) had an average budget of less than U.S. \$ 90,000. As a consequence, 80% of the number of the projects mobilized only 20% of the UNIDO resources, while 5% of the projects (concentrating in Brazil and Argentina) absorbed more than 50% of the whole technical co-operation budget in the Americas.

3. The activity orientation of the projects also portrayed significant imbalances. It is important to underline that training and fellowships accounted for only about 2% of the UNIDO funds. All of these human resource activities were undertaken regionally while practically zero funds were involved at the national level. In contrast, direct support activities for on-going industrial operations absorbed about 63% of local resources. An important portion of these went to finance imported equipment, compared to less than 3% which involved pilot plant assistance for new industrial initiatives.

At the infrastructural level, UNIDO's relative contribution was, in relative terms, more significant. Around 30% of the UNIDO financed activities went to institutional building operations.

4. The sectoral distributions of technical co-operation projects presented another important dimension of imbalances. Although



the capital goods sector has been, for a number of years now, signaled out in UNIDO's policy positions and analysis as a strategic area for developing a viable industrialization strategy, this whole area absorbed less than 17% of the overall resources on technical co-operation in Latin America and the Caribbean. In contrast, the metallurgical sector received close to 40% of the corresponding funds in the 1988-89 period. Also, out of the 110 projects, 36 amounting to about 30% of the resource allocations, concerned the category of "Other" sectors and activities. They expressed no particular focus, nationally or even regionally. Instead, they were spread very thinly and on an ad hoc basis over a number of diverse initiatives. It is indicative that, in this category of UNIDO resource allocations, "industrial restructuring programmes" concerned only three projects with relatively small budgets for the whole region over the two-year period.

5. At the national level, the sub-sectoral distribution of projects indicated no complementarity or any form of intra-sectoral linkages among UNIDO's diverse initiatives. Very few cases exist which could reflect any sectoral concentration or activity focus of the projects promoted in each country.

Consequently and as a general conclusion drawn from all of the above critical evaluations and limitations as identified by various in-house UNIDO analyses, it is important to recommend a thorough reconsideration of the focus and of the overall effectiveness of the Organization's contribution to the industrialization process of the Americas. Two crucial realizations make this reformulated role by UNIDO especially important: first, the serious institutional vacuum which presently exists internationally as far as the definition and effective pursuit of concrete development oriented sectoral industrial strategies and, second, the national constraints cited above in view of debt related problems and the prevailing severe macroeconomic disequilibria.

Such a restructuring in the orientation and incidence of the national and regional approaches followed by UNIDO in Latin America and the Caribbean becomes particularly relevant in light of the Organization's Medium Term Plan, 1990-95, to which we now turn.

Section B

UNIDO's Medium Term Plan, 1990-95

On September 6, 1989 the Director General of UNIDO circulated, in connection with the third session of the Organization's General Conference (Vienna 20-24 November, 1989), an up-dated draft of the Medium Term Plan, 1990-95. This represents a sophisticated and serious commitment which defines, in a coherent fashion and with a point of view on broad directions of industrialization strategies, UNIDO's intended initiatives during the first half of the 1990's. It is conceived as a rolling plan, subject to review from one biennium to the next given the budgetary and personnel/administrative structures of the Secretariat.

The UNIDO plan commences with two important acknowledgements in defining its contents and concrete initiatives. First, it stresses the fact that "industrialization is a long-term process of structural tranformation". As such it calls for programmes of action which extend beyond short-term economic adjustment policies and focus on certain fundamental resource and process requirements to promote industrial development. Second, it underlines the importance of "accelerated industrial development" as a central strategy in the overall development efforts. This approach is considered particularly appropriate for the realities of the 1990's. During this decade, certain fundamental changes are taking place due to radical technological evolutions (often embodied in industrial goods), new contexts of globalized industrial production systems, more demanding corporate strategies, intensive competitive forces coupled with new forms of restrictive practices. Such major transformations create structural changes in the evolving economic environment and the essential requirements posed for sustained development.

In the face of the above, five target problem areas are identified to be tackled by discrete thematic programmes in UNIDO's Medium Term Plan. They are supplemented by three elements of common concern for each one of these five target areas. (i.e. mobilization of financial resources for industrial development, economic co-operation among developing countries, integration of women in industrial development). Finally, the policy objectives set by UNIDO are to be implemented through six major areas of programme instruments.

Very briefly, the five target problem areas concern:

1. Human resource development is established as a major feature of UNIDO activities to be pursued through, what is referred to in the Plan, "aggressive knowledge and skill development schemes". Special emphasis is placed, through institutional and in-industry training, to the linking of human resource development with the development and transfer of technology. Also, particular support is to be given to research for policy formulation which extends and reinforces the linkages between education, R&D, training and industry.

2. The crucial role of diffusion and development of technology is recognized as strategic in advancing macro, sub-sectoral and firm specific industrial strategies. In this respect, four major guiding principles are identified concerning (a) the changing forces within the world technology market, (b) the need to develop domestic technological capabilities as a decisive factor for industrial survival, (c) the importance of establishing long-term and persistent technology policies and (d) the integration of industrial and technological development through the gradual establishment of productive capabilities in the capital goods sector and in the technological infrastructure to serve that sector.

3. Industrial rehabilitation is recognized as a dominant expression of industrial policies during the 1990's. The focus here encompasses three distinct levels: broad industrial policy matters, industrial sub-sectoral adjustment programmes with their technical support infrastructures, and enterprise specific rehabilitation initiatives. These are to be pursued through UNIDO initiatives in promoting policy and survey studies, technical co-operation programmes, investment promotion on financial and technical inputs, and policy fora on consultations.

4. Small- and medium-scale industries are recognized as presently absorbing 40-60 percent of industrial employment in developing countries and reporting a much smaller share of industrial output (10-20 percent). The emphasis placed by UNIDO in this area is two-fold. First, there is a need to critically assess the macro-industrial policy instruments affecting this area. Second, due attention should be attached, through technical co-operation programmes, in linking the activities of small and medium sized enterprises within broader industrial systems. Within the latter, two areas have been selected: (a) skill intensive and export oriented activities and (b) business activities in rural areas.

5. Finally environment and energy related issues are recognized as areas of explicit concern within the process of industrial development. In close co-operation with other specialized agencies, UNIDO is to set a number of key industrially related initiatives in these two areas. They mainly concentrate on initiatives which involve the creation and dissemination of appropriate data bases, the hosting of special consultation fora, the establishment of adequate standards, the critical evaluation and diffusion of new technologies in these two fields and the production of energy and environment related capital goods in developing countries.

The six major programme instruments proposed for UNIDO's work refer to:

1. Studies and research
2. Policy fora
3. Industrial promotion for (mainly foreign) investment and technology diffusion
4. Information services
5. Technical co-operation for programme development and management, and project operations
6. Inter-agency coordination.

The particulars and concrete initiatives within each one of these six areas of programme instruments are succinctly synthesized in a consistent and policy oriented framework within the Medium-Term Plan presented by the Secretary General (see Chapter II of the UNIDO draft document GC.3/17, p.p. 19-30). Instead of repeating the main points of each one of these programme instruments, we will present here some overall and critically evaluating observations. These should be read in conjunction with the issues raised in Section C below of the present report which attempts to compare and inter-relate the UNIDO Plan with ECLA's proposed development strategy (Changing Production Patterns with Social Equity).

(i) Priorities:

The Medium Term Plan correctly identifies a series of crucial policy concerns and instruments so as to promote the industrialization of developing countries. These cover comprehensively a very wide range of important initiatives. Given, though, budget constraints (both from internal and outside sources) and the Organization's in-house expertise, the Plan does not proceed to identify the priority fields in which it is likely to develop some task or programme specialization.

Clearly not all areas signaled out in the Plan can adequately be served, particularly if one bears in mind past performance, especially as evaluated with respect to UNIDO's contribution to the America's during the 1980's, (See p.p. 31-38 above). Judging from past momentum and the length of presentation in the proposed Plan, two areas are likely to continue to dominate, at least in resource terms, UNIDO's future endeavors. They concern the areas of technical co-operation and industrial promotion.

In these cases or elsewhere, the Plan does not indicate how and to what extent human resource development and the development of domestic technological and related productive capabilities will imply a shift of emphasis from UNIDO's past performance. Similarly, the correct emphasis placed on industrial restructuring leaves begging the <sup>question of the</sup> extent, nature and subsectoral emphasis of UNIDO's contribution. Corresponding comments can be raised for practically all other target areas and policy instruments. Comprehensiveness in analytical coverage undoubtedly necessary in understanding the complex requirements of industrial development. Yet it cannot be a satisfactory substitute for the need to focus on effective policy implementation.

(ii) Geographic emphasis:

The regional dimension, especially as far as Latin America and the Caribbean are concerned, has been identified in the Plan, yet in much too broad terms. The diversity of existing industrial experiences and future potential between the distinct countries of the region calls for a much more carefully specified and discriminatory strategy at least in three general country categories: relatively advanced and sophisticated industrial bases (where Brazil

stands out), medium size industrializing countries with varying resource (natural and human) endowments (e.g. Colombia, Chile, Venezueal, etc.) and small lesser developed economies confronting a host of distinct challenges.

In order to overcome the shortcomings of UNIDO's past performance in the America's, as critically discussed in Section A above, the proposed UNIDO Plan will need to relate directly with specific policy initiatives emanating from within the region. In this respect the proposed programme instruments for inter-agency co-ordination and, furthermore, for the direct linking with national priorities and related industrial policy targets should constitute an area of priority concern for UNIDO. As such, a series of explicit and concerted preparatory commitments need to be advanced by UNIDO so as to elevate the regional dimension at the centre of its strategic policy orientations. Otherwise, its correct conceptual proposals run the risk of being frustrated in the context of concrete policy relevance and implementation.

(iii) Financial requirements:

The Plan adroitely points out to the extensive financial requirements and major investment commitments needed to support sustainable industrial development drives. Undoubtedly, part of these financial resources are available within integrated business plans for the global use of technology. These joint financial and technological contributions primarily materialize within the corporate context and the activities of transnational enterprises in their foreign direct investment operations. Other commitments, especially for infrastructural and pre-competitive or other technological developments, require serious resource inputs and related policy management by public authorities.

The UNIDO proposals extensively cover the promotional, informational and policy aspects for advancing private foreign direct investments in developing countries. In comparison, the complementary requirements for linking UNIDO's proposals with other sources of funds, especially from non-private multilateral and bilateral financial sources, are not dealt with sufficient rigor. Instead,

crucial issues as to the size, conditionalities and other terms of financing are generally left largely unexamined. This leaves an important gap, as far as the economies of the Americas are concerned, particularly after taking into account the concrete experiences of the 1980's and the likely scenaria for the immediate future years.

It has already been noted above that the application of UNIDO's proposed policy instruments in Latin America and the Caribbean will need an explicit reckoning of the resource availabilities, priority areas and terms established in the industrial sector through the activities of the Interamerican Development Bank. Similar considerations need also to be addressed with respect to the activities of other regional development banking institutions (e.g. CAF) or extra-regional ones. As far as the latter ones are concerned, a more thorough evaluation is needed with respect to the compatibility of UNIDO's proposals (and those of ECLAC's for the Americas) with the corresponding practices advanced by the World Bank and its affiliated institutions. Major areas of complementarity and/or conflict need to be made explicit so as to promote realistic implementation programmes.

(iv) The limitations of some of UNIDO's proposals:

A number of UNIDO's proposals are consistent with the more up-to-date and conceptually sound analyses on industrial development matters. Yet, the five year Plan, being a policy oriented exercise, requires a more thorough understanding of the extent of its efficacy and of its limitations. As an example we will mention the case of technological monitoring and information services.

Serious industry studies in the advanced economies suggest that monitoring outside technological developments is generally an active and quite costly business. In most subsectors the means of monitoring judged most effective by successful enterprises have meant either doing independent R&D or reverse engineering. They both command very sizable resources. At the individual enterprise level such firm specific resource commitments could turn out to be a multiple of what is likely to be available to UNIDO to cover, on a world-wide basis, a large number of technological options in many sectoral areas.

It is, thus, deemed appropriate to have a more precise understanding of the nature of support services provided by UNIDO and preferably to concentrate in selected priority areas of specialization. The lack of focus and thinness of coverage proved in the past to be an important limitation of the otherwise valuable services provided by UNIDO on a regional or national basis. Also conceptual soundness, which is present in the issues raised by the 1990-95 Plan, needs to be matched by a realistic assessment of the capacity for delivery.



Section C

Concluding Remarks and Some Further Recommendations

There exist a number of major consistencies in important areas of interpretation and policy focus between the ECLAC position on development strategies for the America's during the present decade (see Part One above) and the UNIDO Medium Term Plan 1990-1995 (briefly presented in Part Two). Despite the different purposes for which they were written and their distinct priorities and content, these two institutional position documents underline the central importance of the following key considerations:

1. Development options for the 1990's will heavily depend on accelerated industrial performances. The extensive rhetoric on "post-industrial societies" can not overshadow the crucial importance of competitive, deepened and modern industrial bases and capabilities within an evolving international division of labor. Radical technological changes, significantly transforming the economic spaces and organizational patterns of the world production and trade systems, are heavily relying upon and are embodied in sophisticated and knowledge intensive manufacturing goods. In fact, traditional differentiations between sectoral categories do not reflect the contemporary requirements and implications of major breakthroughs in productive know-how. During recent periods, technological change transcends diverse sectoral and subsectoral activities and interrelates various high added value production operations.
2. Open economic systems which promote sustainable development strategies increasingly rely on a comprehensive concept of competitiveness. The latter's developmental strengths depend heavily on (a) organizational requirements and non-material considerations of competition (e.g. product differentiation, market power, quality, technological and/or performance reliability and compatibility) and (b) on nation-wide and/or regional capabilities which are created and are not nature given.

3. Human resource, institutional and technological developments constitute the central axes through which contemporary development processes transform the productive structure of societies within the world economy. Development oriented strategies which directly and indirectly address these areas constitute central policy considerations in the pursuit of economic survival and growth within the international economic system.
  
4. Technological and organizational transformations are also altering the context of policy requirements. Active policy measures, at both the macro and micro levels, are accompanying recent trends on trade and other areas of policy liberalization and deregulations as well as the stronger reliance on market forces and private sector initiatives. These active policies need to be explicitly recognised and be designed in formulating development strategies instead of assuming that there exists an automaticity of results within "anonymous and neutral" economic systems.

Given the above common considerations between the ECLAC and the UNIDO positions for the 1990's, the main discrepancies noted on the effective role of and contribution by the diverse UNIDO activities in Latin America and the Caribbean rest on the following comparison:

- (a) the priority goals and policy instruments as advanced in the 1990-1995 Medium Term Plan and
- (b) the actual performance and UNIDO's resource allocations in the region during the past decade.

In other words, the main problem area concerns the difference between, on the one hand, UNIDO's conceptual perception and policy recommendations on industrialization and, on the other, its actual involvement and effective practices in the Americas.

The understanding of and institutional implications for needed changes which explicitly acknowledge these discrepancies between UNIDO's stated and actual roles, face today a dual opportunity:

First, UNIDO can directly relate and co-ordinate the effective

design and concrete implementation of its Latin American and Caribbean operations with some major initiatives presently promoted by other key institutions in the region. This will provide a unique opportunity to significantly increase the relevance and overall acceptance of UNIDO's technical co-operation and other programmes in the Americas. To the extent that ECLAC's proposals and SELA's planned initiatives (e.g. the Ministerial Conference on Industrialization at the end of the coming November) will obtain the needed government support and commitment, UNIDO's present inter-agency co-ordinated efforts will bring the Organization's work at the centre of the Regions policy making. Also, if additional financial resources (e.g. through the IDB, CAF, etc.) could be forthcoming in support of such active industrialization policies, UNIDO's relatively limited budgetary allocations in the Americas could serve as a more effective catalyst to induce further investment financing.

Second, the initiatives cited above could also give the opportunity to UNIDO to significantly reorient and restructure the types of programmes it presently executes in the Americas, thus overcoming the serious limitations discussed in previous pages. This is likely to constitute an important inducement for a major improvement of the overall effectiveness of UNIDO's work in the region.

A more focused approach in UNIDO's operations in Latin America and the Caribbean and a more consistent performance with the priorities signaled out in its Medium Term Plan, could involve the following package of activities:

1. A significantly enhanced resource use could be promoted to develop an "intelligence base" for recommending policies and designing activities in the region. This will require a much greater commitment in advancing country and regional strategic studies on subsectoral industrialization matters. As distinct from previous experiences, a much stronger emphasis needs to be placed in explicitly identifying and qualifying the strengths, weaknesses, opportunities and threats posed in strategic subsectoral cases for the industrial development of each national or subregional economy.

2. The design of active industrialization policies should be a major concern of UNIDO. Such policies will need to be tailored to the concrete realities of the countries of the region and result from the "intelligence base" referred to in the previous paragraph.
  
3. A much stronger commitment needs to be also assured in linking UNIDO's operations with the priorities and policy targets resulting from consultations and concertations efforts of key actors and institutions from within the region. Such initiatives will complement and better focus the diverse promotional endeavors presently advanced by UNIDO. The latter concentrate largely in bringing foreign partners closer to the investment opportunities available in Latin America and the Caribbean.
  
4. A number of strategic local resource inputs and their further development merit a much greater support within UNIDO's technical co-operation efforts. This calls for a major reorientation of present sectoral, activity and program resource usages. In particular, as already indicated by the Medium Term Plan, a far greater emphasis needs to be put in actual operations and the disbursement of funds on:
  - (a) human resource development
  - (b) local technological capabilities, and
  - (c) the direct linkage of technological advancements with industrial operations.
  
5. Given the budgetary constraints facing UNIDO, its areas of competence need to concentrate much more heavily in specific priority tasks of work both sectorially and actively-wise. In this respect, special attention needs to be given to the role and type of contributions offered by UNIDO in two priority fields:
  - (a) rehabilitation programs, and
  - (b) new technologies and their applications in industrial development.

6. A much clearer understanding and focus needs to be developed with respect to the support capabilities offered by UNIDO. This is especially applicable in the areas of information services and technology monitoring. The present hollistic approach lacks effectiveness and mesrepresents the hollistic approach lacks effectiveness and misrepresents the actual contribution of the services provided. A more explicit and qualified understanding of what such services cover, whom they serve and for what purposes they are relevant, will contribute to a much more responsive support by UNIDO to the region's needs.

## Annex

Comparative "Orthodoxies" on Development Strategies  
as interpreted by ECLAC

Orthodox approach in the 1950s and 1960s	Orthodox approach in the 1980s	Changes in production patterns in the 1990s
<b>1. POLICIES USED TO SUPPORT INCORPORATION IN THE INTERNATIONAL ECONOMY</b>		
<b>a) Commercial and exchange rate policy</b>		
- A high degree of permanent protection through high and dispersed tariffs and quantitative restrictions.	Trade and financial liberalization, and simultaneous rapid deregulation.	Tendency towards a low level of protection, low dispersion and lack of quantitative restrictions. Temporary protection provided on a selective basis for new sectors contributing to technical progress. Use of compensatory mechanisms in approved cases.
- Anti-export bias partially redressed by export promotion schemes.	Tendential neutrality between domestic and external market. Generation of trade surplus in the short term.	Application of neutrality criterion in tariffs and exchange rate policy combined. Integral system for promotion of exports of manufactures.
- Multiple exchange rates tending to overvaluation, especially in respect of mass consumer goods.	Exchange rate determined by market.	High and stable real exchange rate to promote competitiveness.
- Regional integration to expand domestic market.	Free international trade.	Regional integration designed to strengthen the capacity to compete in regional and international markets. (Research and development, marketing, communications.)
<b>b) Technological policy</b>		
- Various instruments to support technological activity, with little effect because of small demand on the part of enterprises and institutions in the process of consolidation.	Reduction of fiscal resources for technology and little institutional support.	Set of instruments covering a broad range of entrepreneurial requirements, ranging from efforts to increase awareness to the marketing phase. Decisive strengthening of bodies working in this field. Availability of resources in line with the growing demand associated with the requirements arising out of incorporation into the international economy.
<b>c) Manpower training</b>		
- Laying of institutional bases for initiating massive manpower training process and centralized, relatively rigid schemes, removed from entrepreneurial activity.	Weakening of public training institutions. Recommendations that this task be handled in the entrepreneurial sector.	Priority for these activities, with regard both to the absorption and dissemination of technical change and the promotion of equity. Institutional pluralism, differentiated programmes for different groups of workers, national training scheme.
<b>d) Creation of enterprises</b>		
- Generation of large public and private enterprises operating in captive markets with oligopolistic structures. Insufficient development of small and medium-sized industry.	Policy furthering growing domestic and external competition.	Provision of systematic support for the creation of enterprises and for entrepreneurs; greater respect for the role of the entrepreneur, identification of groups with entrepreneurial potential, support for the formation and financing of projects, reduction of bureaucracy, establishment of technological infrastructure and "incubators" for new enterprises. Support for small and medium-sized enterprises.

Orthodox approach in the 1950s and 1960s

Orthodox approach in the 1980s

Changes in production patterns in the 1990s

## 2. POLICIES TO STRENGTHEN PRODUCTION LINKS

a) Industry: geared to the domestic market in the following sequence: consumption of non-durables, more generalized use, consumption of durables and consumption of capital goods. In the larger countries, progress made towards the final stages. Leading role taken by transnationals in sectors showing the greatest growth and technological content and by public enterprises in the most capital-intensive fields.

b) Agriculture: policy design within narrow sectoral framework with very little regional differentiation and on the basis of types of producer, with preeminence of a casuistic approach in line with the demands of producer organizations capable of exerting greatest pressure.

c) Natural resources: exploitation of resources perceived as unlimited.

d) Infrastructure and services relating to products: expansion of the physical capacity to support industry supplying the domestic market and exports of natural resources.

### e) Financial system:

- Public development institutions (development banks); formulation and promotion of large projects, preferably public industrial projects geared to the domestic market. Specialized sectoral banking with no systemic approach.

- Private financial system: a passive intermediary in the attraction of funds; preferential transfer of funds to large enterprises and financial groups. Absence of selectivity and viability criterion.

Generalized doubts concerning efficiency. Increased exports of manufactures related to drop in domestic markets.

Transfer to the private sector of public activities in the domestic and external supply and marketing of basic commodities. Emphasis on supervision and information activities designed to make markets more transparent. Occasional recourse to anti-dumping measures.

Intensification of the use of resources for export. Use of market mechanisms to determine scope and technology or resource use ("correct prices").

Financial orientation; self-financing and charging users for the cost of infrastructure.

Development institutions (development banks); financial agents transfer external credit to commercial banks which invest it in the production sector.

Generalized erosion of solvency of financial systems of the region, partly because of the recessive adjustment and changes in exchange rates and in the price system brought on by the external debt crisis and also, in part, by defects in the systems for regulating and supervising credit institutions, especially in countries where the financial sector has been liberalized.

Neutrality criteria applied in wide range of sectors in combination with criteria of market stimulation, selectivity based on indivisibility and intersectoral co-ordination.

Systematic approach which seeks to strengthen the links between agriculture, industry and services, on the basis of the capacity of para-agroindustry and agroindustry to induce technological progress in processes and products, using strategies which differ by region and by type of producer.

Combination of market mechanisms with market regulations and intervention in such a way as to simultaneously ensure proper exploitation. Structuring of production networks including industries and services. Movement away from public participation in property to regulation, tapping of income and surveillance of the use of resources.

Support for changes in production patterns with emphasis initially on maintenance and on significant changes in management. Priority for the expansion of telecommunications and producer services. Quality of services given preference over new works.

Change in role of banks and development funds in financial systems: must take responsibility for attracting medium- and long-term investments in the market to supplement resources provided by or channelled through the public sector. Priority is shifted to credit for small and medium-sized enterprises.

Considerable domestic savings effort to finance larger investment made necessary by changes in production patterns and also to service the external debt during the 1990s. Savings requirements point to the need to expand all domestic sources of funds, including voluntary private savings, institutional savings and public savings.

Orthodox approach in the 1950s  
and 1960s

Orthodox approach in the 1980s

Changes in production patterns in  
the 1990s

### 3. POLICIES TO PROMOTE INTERACTION BETWEEN PUBLIC AND PRIVATE AGENTS

#### a) Regulation

- Extensive, non-selective public regulation with a substantial gap between the range of objectives and the institutional capacity for evaluation.

Generalized liberalization and use of market to guide decisions of economic agents.

Specific definition of areas subject to public regulation and those in which the market mechanism prevails. Institutional excellency in areas of selective intervention. State responsibility for the surveillance of the results of market action. A degree of uncertainty concerning areas regulated because of consensus-building involved in pluralistic political systems.

#### b) Public enterprises

- Establishment of basic infrastructure. Higher priority given to public works than to the provision of services. Generalized subsidies.

Privatization, elimination of subsidies, restriction of investments.

Innovations in the management and financial reorganization of enterprises remaining in the public sector. Consistent personnel policies and remunerations. Transparency with regard to suppliers. Strengthening of technological synergies with the private sector.

#### c) Small and medium-sized enterprises

- Insufficient development in low-technology areas. Support institutions and policies with little operational content. Weak links with large enterprises.

Decline in the number of small and medium-sized enterprises. Further weakening of institutions engaged in sectoral development policies.

Distinction drawn between economic and social objectives of small and medium-sized enterprises and development of institutions and policies consistent with those objectives. Integration of policy on small and medium-sized enterprises with policies on changes in production patterns. Decentralization of support. Priority to dissemination of technology. Neutralization of weak spots of small and medium-sized enterprises in the areas of technology, financing and marketing.

#### d) The social sector

- With the exception of isolated countries and sectors, weak and insufficient presence of self-managed, labour- or peasant-owned co-operative enterprises and other co-operative enterprises. Centralized, declarative, and ineffective support policies.

Apparent informal expansion of the social sector under survival strategies to cope with the recession. Further reduction of the weak public support offered previously.

Explicit, decentralized policy to promote forms of social association for production purposes. Within these associations, support and promote the development of technical assistance, financial and training bodies.