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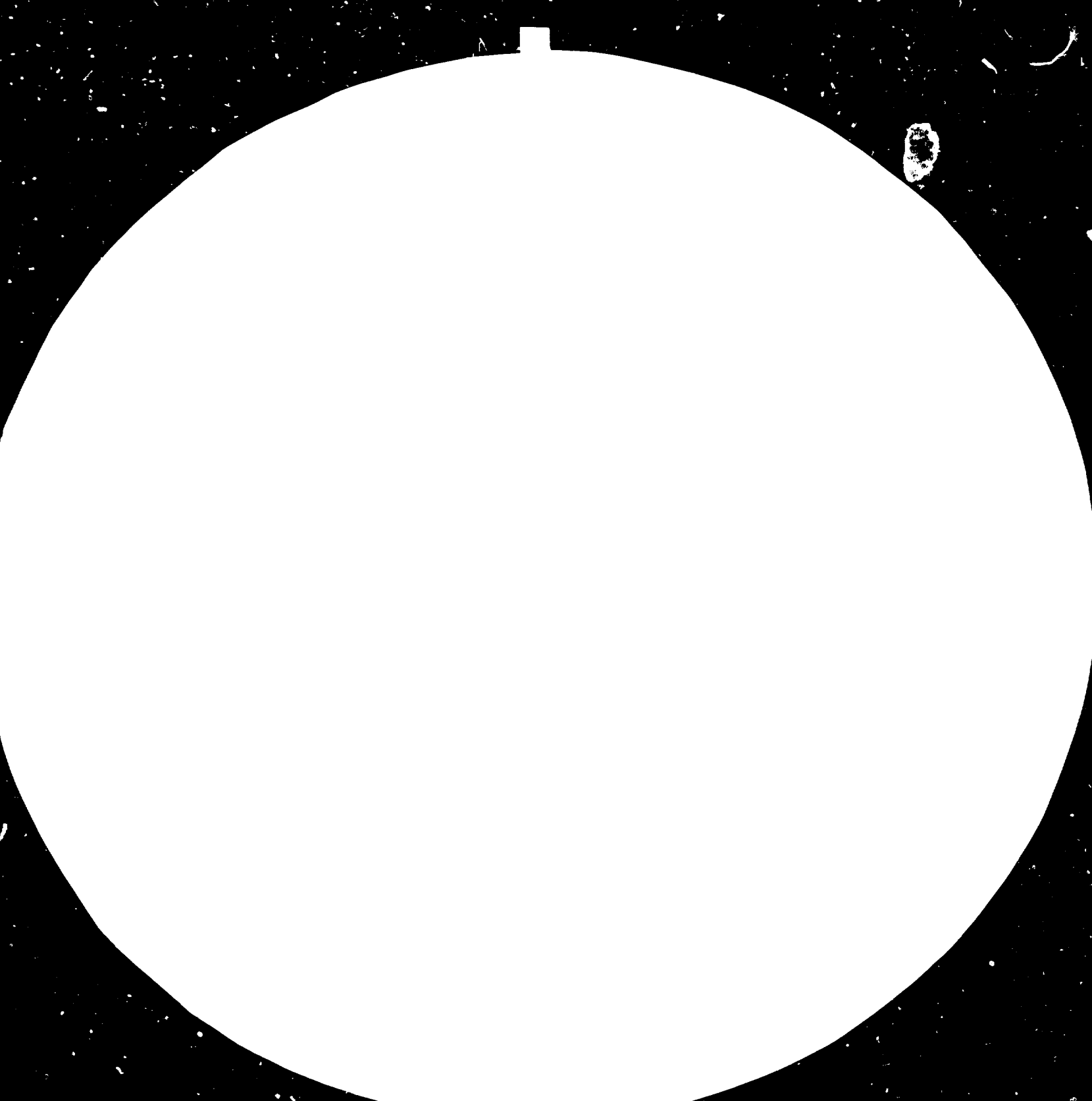
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*Vienna, Austria, 2-18 August 1984*

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*Item 5(e)*

**WORLD INDUSTRIAL RESTRUCTURING  
AND REDEPLOYMENT.**

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**ISSUE PAPER**

13526

Item 5(e) of the provisional agenda

INTERNATIONAL CO-OPERATION, RELEVANT NATIONAL ACTIONS  
INCLUDING INDUSTRIAL POLICIES, AND UNIDO'S CONTRIBUTION  
IN CRITICAL AREAS OF INDUSTRIAL DEVELOPMENT 1985-2000:

World industrial restructuring and redeployment

Issue paper prepared by the UNIDO secretariat

## INTRODUCTION

1. Industrial restructuring and the redeployment of industries from developed to developing countries have been two connected areas of major concern to the international community over the past years. This concern was reflected in a series of resolutions and considerations by international forums, such as the Second and Third General Conferences of the United Nations Industrial Development Organization (UNIDO) and various resolutions of the General Assembly.\* Today, these two areas are of greater concern to both developed and developing countries than ever before, in view of the current world economic crisis and the resulting drastic changes in the pace, direction and features of the internationalization of industrial production (ID/CONF.5/3, para. 88 ff).

2. The nature and full impact of these emerging changes can at the present point in time be only partly recognized and understood. The key issues that need to be considered by the international community at the Fourth General Conference of UNIDO therefore cover: (a) the joint examination and assessment of the changing process of internationalization of industrial production and its impact on the process of industrial restructuring; (b) the constraints and emerging prospects for industrial restructuring; (c) the formulation of policies and mechanisms conducive to industrial restructuring towards an equitable international division of labour; and (d) the role of UNIDO and its System of Consultations, as well as of the United Nations system, in supporting the restructuring process.

3. By focusing on these issues the Conference may achieve a common recognition of the national concerns of individual developed and developing countries in respect to industrial restructuring and redeployment and initiate an effort to reconcile the various national concepts and approaches and the acceptance of a common framework for future co-operation. Indeed, the central task of the Conference should be a deliberate movement towards a consensus on nationally perceived and internationally acceptable and effective modes of industrial restructuring.

### I. THE CONCEPT

4. The terms industrial restructuring and redeployment have, parallel with the changing pattern of world industrial development, been subject to changing interpretations and definitions. It may be complicated and even counter-productive to attempt to establish a lasting internationally accepted definition of these terms: full attention should rather be given to the key substantive issues involved.

5. It is therefore only as general guidance for the debate on these issues that the present paper and the corresponding background paper (ID/CONF.5/3, paras.11-15) suggest that the term "industrial restructuring" be used as an

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\* See the background paper prepared for the Fourth General Conference on this subject (ID/CONF.5/3), paras. 1-8.

expression for a long-term change in the composition of manufacturing output as brought about by agents concerned - Governments, regional authorities, corporations - within the framework of a defined development goal or target. Global industrial restructuring as seen in the context of the Lima target \* would thus mean the active pursuit of policies to gradually change the world structure of industrial production towards an increased share of developing countries in total world production. In a national context, industrial restructuring would mean government policy-induced shifts of industrial production towards a nationally preferred structure. "Structural adjustment" would, on the other hand, primarily entail a systematic shift of the structure to reflect or respond to occurring or anticipated changes of the international trade or production pattern. "Restructuring" and "structural adjustment" thus presuppose a normative connotation, but the normative criteria may again be subject to different judgements and applications by different agencies. Whether an adjustment programme is "positive" or "negative" obviously depends on their assessment of the choice and timing of policies and of the various implications of the resulting structural shifts.

6. The concept of global industrial restructuring should be seen not as a mere statistical measure of changes in the location of the industrial production, but it must entail also a normative and qualitative connotation. Industrial restructuring as a long-term process would encompass not only establishing manufacturing capacity per se (such as the isolated production of components or assembly) in developing countries but also the mastery by developing countries of their own industrialization process. This involves the building up of the capacity of a country to manage, expand, adapt and direct industrial development as part of a national development process.

7. "Redeployment" of industries from developed to developing countries is generally seen as the transfer of production factors and shifting market flows through international co-operation between more developed and less developed countries in order to achieve rapidly a better balanced world industrial production, taking into account the national objectives and interests of the individual countries concerned. This entails on the one hand the transfer of capital, technology, know-how, plants and other resources and on the other hand international and national adjustment of industrial production structures in the light of the objective of a critical increase of developing countries' share in world industrial production.

## II. THE CHANGING PATTERN OF INDUSTRIAL DEVELOPMENT: THE NEED FOR CONVERGING APPROACHES

8. Industrial production structures in individual developing countries were built up as a result of industrial development processes in the 1960s and 1970s, through government policies, plans and redeployment strategies, through the efforts of entrepreneurs and developed country-based corporations and on

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\* That the developing countries account for 25 per cent of world manufacturing value added by the year 2000 (Lima Declaration and Plan of Action on Industrial Development and Co-operation (A/10112, chap. IV)).

the basis of indigenous resources, international bank financing and technology bought largely from developed countries. These national production structures - established within an international policy framework and under premises which now are subject to fundamental changes - show large differences in the level of sophistication, subsector structure, socio-economic viability, the degree of international integration, foreign dependence and the pressures and capabilities to adjust to emerging new conditions. The current break in past trends reveals with all clarity the general vulnerability and brittleness of established structures, on the one hand, and the differences and increasing disparities among developing countries, on the other hand.

9. The conditions for industrial restructuring and redeployment in the 1980s and 1990s are likely to be significantly different from those in the previous decades. It is likely that in general the internationalization of industrial production will continue, but that other constraints to the restructuring of industry in favour of developing countries will emerge.

10. Such constraints may emerge in some subsectors where new forms of intensified technological competition and emerging protectionism, particularly between major developed market economy countries, may work against further international relocation. New forms of sectoral and geographical division of labour may emerge. The growing debt burdens of several developing countries may discourage companies from taking further risks through investments or loans in those countries. Decisive changes in the general environment for international investment could also counteract redeployment. Thus, increasing economic risks in some third world growth poles may considerably reduce the effect of investment incentives and subsidies.

11. Owing to high unemployment and internal rigidities, developed market economy countries may tend to restrict restructuring and, for example, safeguard selected production lines through specific policies such as rationalization, innovation and trade measures. A general uncertainty among decision-makers in Governments and corporations in both developed and developing countries about other countries' national policies and the future prospects and limitations to world restructuring may make it difficult for them to systematically pursue market-induced restructuring of their industry in a global context. Such tendencies may lead to a further deterioration of the prospects for multilateral, equitable and progressive modes of industrial restructuring in the 1980s and 1990s. Against these expected developments, a number of observations can be made.

12. First, the current world economic crisis and the deflationary and protectionist policies of major developed countries have brought a large number of developing countries with more advanced structures to a severe crisis, which tends to block effectively their industrial and economic development for many years to come unless the increasing debt burden problem is solved and the increasing protectionism in the North is reversed. This in turn calls for a new set of "internationally positive" structural adjustment policies in the industrialized market economy countries and greater, long-term importation arrangements for manufactured goods from developing countries by developed, centrally planned economy countries. These "internationally positive" adjustment policies would entail longer-term policy commitments by the actors concerned for industrial subsector developments in developing



countries and their market access in the developed market economy countries. Only through such measures can a longer-term international restructuring process be launched with benefits to both the concerned developing countries and the developed countries through the international system of production, trade and finance.

13. The external debt of developing countries currently amounts to about \$US 800 billion. With an average rate of interest of at least 10 per cent, interest on debt amounts to approximately \$US 80 billion each year. Developing countries can only service this debt by running an overall trade surplus of some \$US 80 billion with the developed countries; that is, the developed countries would therefore run an overall trade deficit of that amount. Furthermore, this calculation shows that each percentage point decrease in the interest rate would reduce the annual payment of interest by \$US 8 billion and hence the overall trade surplus/deficit by the same amount. Equally, any attempt to reduce the overall debt outstanding requires the logical commitment - by the developed countries as a group - to run an additional trade deficit by a corresponding amount. This demonstrates the crucial linkage between debt, the interest rate and developing country exports, notably of manufactured products, and underlines the logical symmetry of the relationship.

14. Continuous consultations on substantive and technical matters between developed and developing countries would be required to ensure transparency and international consistency of national policies and to avoid international disruptions caused by nationalistic policies.

15. Secondly, developing countries need to reassess past industrial strategies and policies, to establish new concepts for long-term industrial development as part of overall economic and social development and to evaluate and direct more systematically the redeployment of industries to key subsectors. Due attention would need to be given to the utilization of internal growth dynamics and to integration with other economic sectors. (ID/CONF.5/3, para. 120).

16. Furthermore, redeployment should not be seen as a once-and-for-all, mere physical acquisition of plant and equipment. It should include considerations of continuous upgrading and adjustment through flexible production processes and the diversification of markets. Indeed, in pursuing their industrial development, developing countries will need to give initially utmost consideration to the adjustment of existing structures to new and anticipated international and national conditions rather than concentrating on the establishment of new grand investment projects.

17. The industrial restructuring process will for most developing countries imply the gradual building up of a national capital goods industry. To overcome major constraints against the buildup of capital goods production, the issue for developing countries is the selection of the type of capital goods to be produced and the negotiation and co-operation modes by which this would be achieved. This will require that due consideration be given to prospective modes of industrial co-operation between developed and developing countries and new forms of economic co-operation between third world countries.

18. Thirdly, technological breakthroughs are already and will be imposing drastic changes on prospects and modes of restructuring and redeployment. Developing countries need to carefully monitor these developments and assess the impact of major innovations on their industrial production and trade and on their own technological capabilities. This will entail not only preventive actions to counter the negative impacts on the competitiveness of existing structures but also the systematic utilization of new technologies for key industrial activities.

19. Fourthly, past developments indicate that disparities in industrial growth among developing countries have become greater. The least developed countries are affected by both the current crisis and a chronic situation of low levels of industrial development and low growth rates. Least developed countries seem to be caught in a vicious circle of inability to attract required foreign resources and to direct resources towards building up the required base for sustained development. A key issue is thus the need to break this vicious circle and to enable the participation of the least developed countries in the industrial restructuring process in the 1980s and 1990s. Both developed and other developing countries should participate in these endeavours by providing technical, financial and other support to the least developed countries.

20. Fifthly, past development has been accompanied by the emergence of country groupings that adopt regional, subregional and interregional schemes for production and trade co-operation. Such groups have been established by developed countries, by developing countries and between developed and developing countries. With changing modes and new challenges of industrial restructuring, it is to be expected that new prospects and constraints will emerge for such country groupings. There may be attempts by developed countries to strengthen or expand their groupings and even to seal off their markets from outsiders, and several developing countries may endeavour to enhance and to build up new regional schemes for industrial co-operation, thus enlarging their individual markets. Especially for smaller developing countries it seems imperative to utilize regional co-operation schemes as a joint market. On a subregional and regional level, developing countries could utilize their joint negotiating power to attract and direct the redeployment of industries.

21. It is essential for the international community to monitor the developments of regional groupings and to foster co-operation in industry. However, it should also be recognized that a new world pattern of closed groupings and a network of bilateral schemes may endanger multilateral co-operation. Careful monitoring of country groupings and the harmonization of regional and subregional restructuring policies are called for.

22. In conclusion, it can be said that internationalization and the multipolarization of industrial production are bound to accelerate. What matters is whether developing countries, both collectively and individually, will be able to anticipate these developments in time and thus increase industrial co-operation between themselves, including trade, technology and finance. For the future long-term world restructuring process, more systematic consideration will need to be given to achieving an international convergence of national approaches. New national concepts for a "preferred" industrial structure in the 1990s would need to be formulated within a common framework of approaches at the subregional, regional and international levels.

### III. RECOMMENDED ACTIONS TOWARDS WORLD INDUSTRIAL RESTRUCTURING AND REDEPLOYMENT

23. On the basis of the above observations regarding some expected changes of the prospects, constraints and modalities affecting the processes of restructuring and redeployment in the years to come, a synthesis could be made of various types of action which would need to be considered by the Conference in order to gradually create a new international framework for these processes. In a period of increasing nationalism and bilateralism in industrial production and trade policies and uncertainties about the pace and direction of industrial development, the central issue is to attain a consensus of major actors on the basic principles of future restructuring. This would include a consensus about the mechanisms for the continuous dialogue and monitoring by all Governments of the policies affecting world restructuring. It will also presuppose a reiteration of the international goal to foster the industrialization of developing countries and enable a gradual increase of developing countries' share in the total world production.

#### A. Action by the international community

24. A continuous dialogue and concertation of policies is of the utmost importance if the restructuring of world industry is to take place in an orderly fashion and if the share of developing countries in world industrial output is to reach 25 per cent by the year 2000 (ID/B/284, paras.132-162). Furthermore, dialogue and concertation would enable all interested parties to monitor trends in world industry so that problems anticipated may be prevented and those detected may be dealt with as they emerge (PI/84, paras.1-6). Indeed, several forums for those purposes have been set up by groups of countries: by developed market economies, centrally planned economies and groups of developing countries. There is, however, a unique forum where all countries can fully participate in discussing the problems of world industry and international industrial co-operation: the UNIDO System of Consultations. However, the full potential of that System has to be utilized (see para. 36(a), below). To translate the dialogue in such forums into specific action, the international community may wish to consider the extent to which indicative sectoral agreements could constitute an instrument for the orderly change of world industrial structures with minimal disruption (ID/CONF.5/3, para. 129).

25. In addition to this central issue, a set of specific recommended actions could be singled out for developed and developing countries and international organizations.

#### B. Action by the developed countries

26. The developed market economy countries should be seen to have a stake as well as a responsibility in the revival of the international development process. These countries are therefore called upon to launch an international recovery programme in which the developing countries' debt servicing problem,

the access of developed country markets to manufactures from developing countries and the enhancing of official development assistance should form the key elements.

27. More specifically, the developed countries should establish a concept and modalities for an "internationally positive adjustment" process that would be anticipatory in nature and aim at an internationally equitable non-disruptive restructuring of world industry. An increasing transparency of developed country policies affecting the world restructuring process and of the likely impact of these policies on developed countries' industrial production and trade would constitute a crucial element of this process.

28. Developed, centrally planned economy countries are called upon to establish long-term programmes in which their internal restructuring process increasingly includes an intensified division of labour with developing countries in manufactures.

29. In pursuing and enhancing their official development assistance, developed countries must ensure that developing countries' capabilities for more effective participation in the international restructuring of industry be built up. This would entail providing support to the scientific services and administrative infrastructure for industry, full utilization of actual or possible local inputs at the national and regional levels and ensuring attention is given to requirements for upgrading existing production structures.

30. Particular support by developed countries is called for to assist the least developed countries in their difficult industrial development. Special arrangements for massive resource transfers, market arrangements and training of industrial manpower are needed within a nationally perceived framework of each least developed country's total resources and the economic sectors as a whole.

#### C. Action by the developing countries

31. In their endeavours to enhance industrial restructuring to meet their long-term socio-economic objectives, the developing countries would need to introduce at the national level a concept of a future "preferred industrial structure", which would form an integral part of the overall economic structure within the context of international forces and trends. These "active" restructuring and redeployment policies would need to be based on more systematic analyses of the restructuring process.

32. It is therefore recommended that developing countries take the following actions:

(a) Establish an institutional mechanism for continuous "structural reporting"; such systems of monitoring national and international structural changes exist in some developed countries on the basis of a network of national economic research institutes;

(b) Carry out regular assessments of industrial subsector development trends, especially in terms of regional and world market trends;

(c) Make suitable arrangements at the national and regional levels for the continuous surveillance of major technological developments and an assessment of their impacts; build up a third world network of technological surveillance units specialized in key areas of technological breakthroughs; \*

(d) Counter growing internal disparities, e.g. between urban and rural areas, by giving priority to social aspects of industrial restructuring through systematic locational, employment-creating and other industrial policies;

(e) Articulate the role of industry in relation to development objectives, including the desired pattern of domestic demand; utilizing the growth potential offered by such a pattern of demand; increase production of equipment and intermediate products required by key sectors of the economy; determine the conditions under which foreign participation is to be encouraged and the levels of technology required in line with strategies for self-reliant industrialization; and develop human resources in order to enable the mastery of technology and its related know-how;

(f) Utilize appropriate forums for continuous consultation on policies and strategies, industrial restructuring among countries in the same region and countries at similar levels of development.

33. An important issue in third world industrial restructuring is the increasing growth disparity between the least developed countries and the other developing countries. These other developing countries are called upon to give full attention to the need of the least developed countries for technical, financial and institutional support in building up an industrial base. It is recommended that more advanced countries establish regional solidarity programmes for the least developed countries. These programmes may include redeployment to the least developed countries and the provision of consultancy services at concessional rates.

#### D. Action by international organizations

34. Several of the developing countries have now established rather sophisticated industrial production capacities and have built up skills and experience in a range of industrial activities, planning and services. Their need for technical assistance and advisory services will be primarily in specialized technical and economic areas in regard to international developments and will have to be met by highly specialized, rapid and often short-term services. In view of the increasing interaction between the economic sectors industry, agriculture, mining, services etc., technical assistance is likely to be required more across-the-board than in previous decades. The United Nations system of technical assistance should examine these changing needs and establish new means to effectively meet these needs.

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\* See the issue paper on agenda item 5(b) of the Fourth General Conference (ID/CONF.5/5).

35. In view of the increasing constraints encountered by the developing countries in industrial restructuring, competent international organizations are called upon to formulate and implement mutually complementary supporting programmes in co-operation with UNIDO.

36. Since UNIDO is responsible for industrial development, increasing and complex tasks seem to emerge in the coming years. These tasks could be outlined as follows:

(a) The System of Consultations:

(i) Consultations could lead progressively from the exchange of information towards the definition of general principles of co-operation and thereafter to indicative framework agreements for sectoral co-operation of various types, so as to support the industrialization of developing countries with minimal risks of disruption to the world economy. These indicative agreements could then be translated into programmes of action to be implemented at the country and regional levels with the involvement of member States and international organizations (background paper, para. 133);

(ii) Recommendations as adopted by Consultations could be reviewed by the Industrial Development Board after examination by subsidiary technical committees and then transmitted to the General Assembly as a means of facilitating positive actions by Governments (background paper, para. 134);

(b) Establishing a UNIDO advisory system on industrial restructuring. Through this system UNIDO would service on an ad hoc basis individual developing countries with data and expertise on international trends in production, technology, markets and on relevant strategies, policies of major actors of international industrial development and give advice on the formulation of subsector development programmes, adjustment policies, co-operation agreements etc. UNIDO would thus support the developing countries in their endeavours firstly to carry out monitoring, surveillance and assessments of international restructuring trends and secondly to formulate and exchange information on national strategies and policies;

(c) Strengthening UNIDO investment and redeployment promotion services by continuing to build a network of national promotion centres in developed and developing countries and by actively mobilizing outside resources for identified investment projects;

(d) Establishing a set of interrelated special programmes to assist developing countries in formulating and implementing programmes to adjust existing industrial structures. This service would need to operate in a speedy and uncomplicated way and would thus require an innovative administrative approach.

