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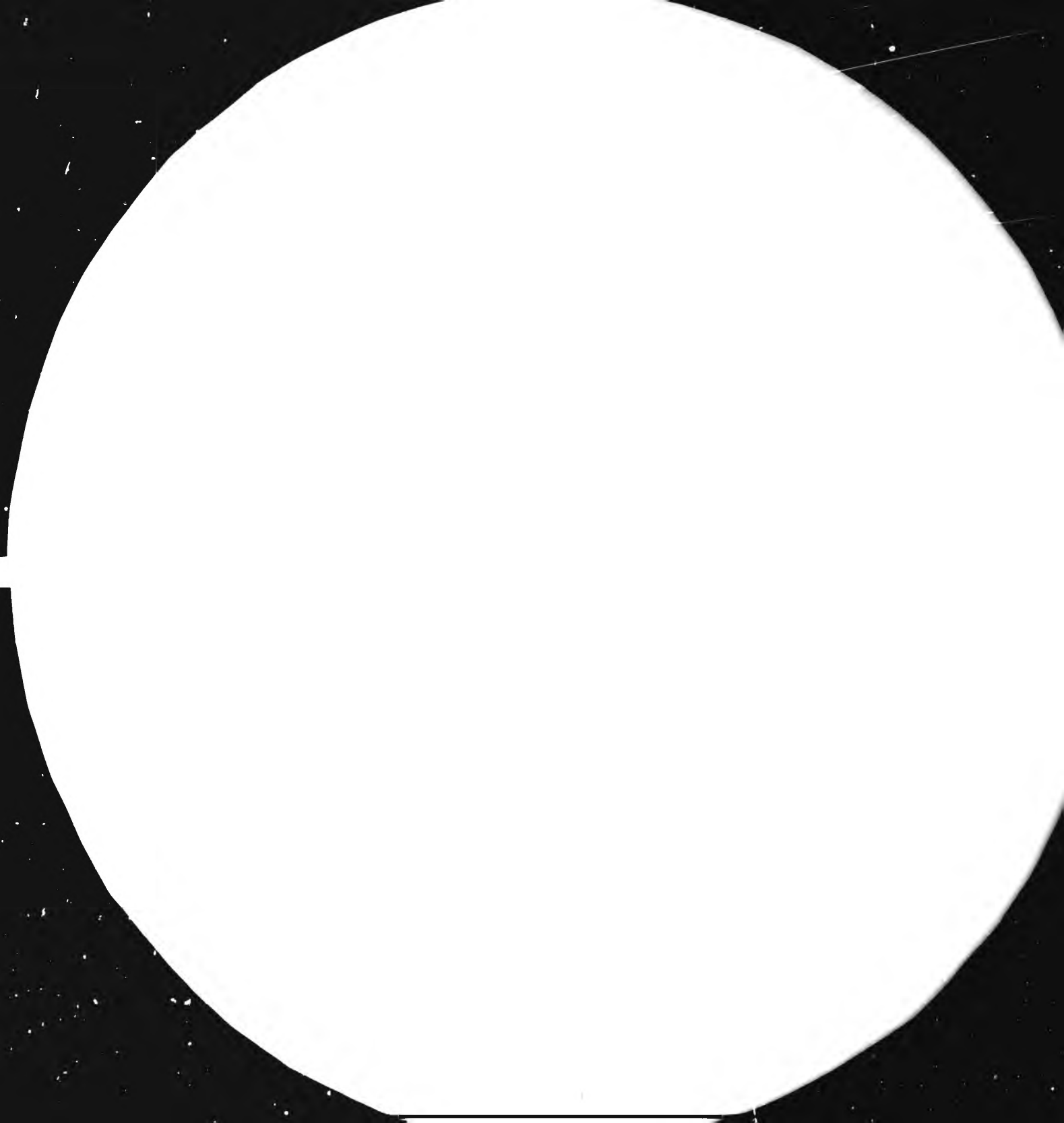
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RESTRUCTURING OF WORLD INDUSTRIAL PRODUCTION AND REDEPLOYMENT

Studies and research undertaken by UNIDO
on industrial redeployment and restructuring

Report by the Executive Director

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Summary

A brief overview is given of the findings of UNIDO studies on industrial redeployment and restructuring conducted during 1983. An attempt is made to highlight tendencies in the developed market economy countries and the European countries of the Council for Mutual Economic Assistance regarding potentials for, and constraints to, redeployment to developing countries. Current policies and programmes for industrial restructuring in the various developing regions are described on the basis of selected country studies. Some observations are made on the need to enhance global restructuring through appropriate efforts.

Introduction

1. In pursuance of General Assembly resolution 31/163 and ensuing relevant resolutions and recommendations, in particular those of the New Delhi Declaration and Plan of Action on Industrialization of Developing Countries and International Co-operation for their Industrial Development (ID/CONF.4/22 and Corr.1, chap.VI), the Division for Industrial Studies through its Regional and Country Studies Branch continued its analytical study and research programme on the subject of industrial redeployment and restructuring. The present report, prepared in accordance with the Industrial Development Board conclusion 1983/3 as well as in compliance with General Assembly resolution 31/163, describes the main elements of the 1983 study and research programme and highlights major findings emerging from the studies made. It should be noted that various other programmes of UNIDO are also active in research on several aspects of industrial restructuring and redeployment. Thus the Global and Conceptual Studies Branch is carrying out studies on global issues of industrial restructuring, and the Sectoral Studies Branch undertakes analyses of redeployment potentials and restructuring tendencies in selected Industrial subsectors. Furthermore, the System of Consultations, the Technology Programme and the Investment Co-operative Programme are pursuing work in this field. The present note is confined to the work carried out in the Regional and Country Studies Branch and reference to the above-mentioned other sections of UNIDO is made in the Annual Report of the Executive Director.

2. As described in paragraphs 6 and 7 of document ID/B/294, submitted to the Board at its seventeenth session, the study and research programme follows a two-pronged approach. First, and most important, studies are undertaken jointly with individual and groups of developing countries regarding their redeployment and restructuring priorities, prospects and constraints. Second, there is continuous surveillance of the industrial structural changes taking place in the industrialized countries and analysis of the implications of such changes for the developing countries.

3. In its programme the Regional and Country Studies Branch collaborates closely with other parts of the secretariat. Measures are taken to co-ordinate UNIDO fact-finding activities in developing countries with related activities of other organizations; such steps include an active exchange of studies and data on structural changes in developing and developed countries with other United Nations and international organizations and national research institutes. Also, in a number of instances country studies are linked with related research activities and data collection carried out by the World Bank.

4. The study and research programme is financed from regular budget resources but extrabudgetary funding has increasingly been used to meet a growing number of requests for diagnostic studies in individual developing countries. Indeed, the programme on industrial redeployment and restructuring has developed towards applied research work with the aim of servicing developing countries with policy-oriented and more operational analyses and recommendations. It is expected that this development will continue and constitute a link between more basic economic research and UNIDO operational activities.

I. REDEPLOYMENT PROSPECTS AS VIEWED BY COMPANIES
BASED IN DEVELOPED MARKET ECONOMY COUNTRIES

5. Lower labour costs, natural resource availability and growing markets in many developing countries or regions seem to continue to provide strong incentives for enterprises based in developed market economy countries to relocate production capacities to developing countries, to maintain or expand established international production networks and/or to provide for various resource transfers, sub-contracts and other forms of enterprise co-operation to developing countries. However, available data and analyses in the developed market economy countries indicate that the constraints faced by companies in these endeavours have grown significantly in recent years and that countervailing strategies are emerging. Particular attention is drawn to the following developments:

(a) Structural adjustment in developed market economy countries, which is a basic precondition for redeployment, encountered constraints and slowed down because of both the current economic recession and inherent rigidities in the economic structure of these countries. In a period of low economic growth, high levels of unemployment, foreign exchange constraints and restrictive fiscal finance, the capacity of many developed market economy countries to carry out thorough, timely and speedy adjustments of their production structures clearly is reduced. The recession has also revealed rigidities in terms of built-in resistance of productive factors to mobility and the institutionalization of the economies. There are increasing doubts among political groups as to the potential gains to be made from fuller adjustment to international economic forces. There are signs that even in the partial recovery expected in the economies of the developed market economy countries, high levels of unemployment will prevail for an extended period, mainly owing to an apparently irreversible trend towards labour-saving production technology.

(b) The depressed international economy and increased uncertainties reduce the long-term investment horizons. Uncertainty about the international finance system and price structures, markets, exchange rates, etc., has produced reluctance to make longer term commitments to production locations in developing countries and a preference for short-term solutions.

(c) Investments to safeguard competitiveness tend to reduce the scope for redeployment. Most investments in industry are intended to increase productivity and to rationalize processes and corporate structures in order to improve competitiveness in domestic and foreign markets, whereas investments to expand capacity or redeploy production facilities are restrained. Thus, both the restructuring of domestic industry through investments in new lines of production and the redeployment to developing countries of production capacities in branches which are less competitive tend to be severely limited.

(d) Perceived economic, financial and political risks and changing industrial and policy frameworks in developing countries restrain companies in developed countries from redeployment of production to developing countries, even to countries which previously offered major attractions for international relocation. Business "barometers" make it appear more advantageous to sell to developing countries rather than invest in them.

(e) Rapid technological developments, the impacts of which are hard to predict, make it less certain that developed country-based companies will seek to establish production in developing countries, in particular in labour-intensive industries.

(f) Government trade and industrial policies and measures in developed market economies, and unpredictable changes in these policies contribute to the uncertainty for companies and reduce the scope for longer term re-importation of products from redeployed capacities.

6. From a consideration of conditions in developed market economy countries and the prospects for structural adjustment and redeployment, it can be concluded that the large market in these countries would offer significant scope for imports of manufactures from developing countries and thus provides a basis for continued, gradual redeployment of industrial capacities to developing countries. Imports of manufactures from developing countries have not been a major cause of economic disruptions in the developed countries; on the contrary, such imports make available lower cost goods and encourage the re-allocation of domestic resources to more productive uses. In

addition, foreign exchange earned through exports of manufactures permits developing countries to increase their imports from industrialized countries. Redeployment can thus lead to an increase in employment and in consumer welfare in both developed and developing countries.

7. However, in the coming decades inhibiting forces may reduce the possibilities for companies in the developed countries to proceed with redeployment. As long as inherent rigidities prevail and unemployment is high in the developed market economy countries, there is likely to be a continuation of protectionism and resistance to structural adjustment.

8. Governments of developed market economy countries view the reduced capacity for structural adjustment as an important issue for the 1980s. Most developed market economy countries and the Organisation for Economic Co-operation and Development (OECD) are analysing the prevailing needs for structural changes and examining the policy framework for increasing the capacity for and support to adjustment. However, the analyses seem to be mainly ex post and not ex ante in nature. Moreover, they concern primarily the national economy and, to a certain extent, adjustment processes within the European Economic Community (EEC) and OECD. The key issue of the international restructuring process, i.e. the industrialization of developing countries, appears at best to constitute a residual element of the adjustment processes within developed countries. Against this background it has been suggested (see ID/CONF.5/3) that the OECD concept of positive adjustment should be replaced by a concept of "internationally positive" adjustment which takes due account of the impact of adjustment-related policies on third world industrialization. Finally, developed country adjustment policies are not automatically applied and consistent in their effects; instead they tend to be designed for ad hoc, specific purposes. The result is a very complex pattern of policies and measures. There are immense problems in assessing the implications of adjustment policies which are not clear and predictable.

9. Within the General Agreement on Tariffs and Trade (GATT) the Working Party on Structural Adjustment and Trade Policy made attempts to identify structural changes of firms and to undertake an exchange of information on structural adjustment. This is an important endeavour towards increasing transparency, but its limitations are evident. First, as the secretariat of GATT stated in a note on "Changes in the structure of production, employment and trade since 1963" (Spec.(82) 5/Rev.1, para.9), observed structural changes need not provide an adequate basis for an evaluation of the adjustment process in a given economy. Second, the listing and brief description of national adjustment measures by various countries and country groupings provide only a very limited overview of the major principles and tools for adjustment. It is difficult to discern the actual application of these tools and their impact on national decisions to adjust and redeploy. To make such an assessment, it would be necessary to know what pattern of adjustment major decision makers in Government and industry consider to be desirable and what measures they intend to take to achieve this pattern. With such information, an impression could be formed of the expected impact of the adjustment, with particular emphasis on major trading partners in the third world. There seem to be four possible scenarios of adjustment policies in the developed market economy countries: (a) passive industrial policy and ad hoc protectionism; (b) active retardation of structural change; (c) accelerated adjustment towards increased competitiveness of domestic industry in international markets; and (d) accelerated adjustment oriented towards an international restructuring process. At present, prevailing policies fall largely in the first three categories, but the guiding principle for developed market economy countries should be to move to adjustment policies in the last category.

II. REDEPLOYMENT AND RESTRUCTURING PROSPECTS IN DEVELOPED
CENTRALLY PLANNED ECONOMY COUNTRIES

10. On the basis of studies undertaken on structural changes in the European countries of the Council for Mutual Economic Assistance (CMEA), some tendencies and perceptions in this group of countries may be considered. In the course of rapid "extensive" industrial development until the later part of the 1970s, significant pressures for structural adjustment built up in various European CMEA countries; in recent years challenges to prevailing production structures became increasingly evident. There is a move towards a more "intensive" type of industrial development to take account of growing constraints in such areas as supplies of energy, raw materials and manpower. This means that the structure of industrial production would be shifted towards processes which would make more intensive use of physical and human capital and less intensive use of raw materials and energy. This would be done through the application of newer technologies and the rationalization of organizational structures so as to increase productivity and efficiency.

11. With their increased participation in the international division of labour, most European CMEA countries have been significantly affected by external economic conditions, such as the general slowdown of world economic growth, more intense competition in reduced and protected foreign markets and increased costs of servicing foreign debt. These conditions clearly contributed to a reduced rate of economic growth in most of the European CMEA countries. As a result, many of the overall targets and in some cases crucial parts of central economic plans could not be fully met. The plans for 1981-1985 reflect these tendencies.

12. Amidst the prolonged period of global austerity, the European CMEA countries are attempting first to improve their balance of payments and, in the case of some of these countries, reduce their debt burden by curbing imports and boosting exports. Second, they are seeking to increase co-operation among themselves to satisfy the region-wide demand in such product groups as energy, fuels and raw materials, food, machinery and equipment, various consumer goods and transport equipment. To this end policies and plans are to be further co-ordinated.

13. These developments imply both opportunities and constraints for European CMEA countries in furthering global industrial restructuring towards increased industrial production in developing countries. The rationalization of industrial production in European CMEA countries could lead to an expansion of trade in manufactures with developing countries. As a result of the general tendency observed in CMEA countries towards more capital-intensive production, more labour-intensive manufactured exports of developing countries could find new outlets in the European CMEA countries.

14. In this context, however, there are several developments which may inhibit trade between CMEA and developing countries and the concurrent restructuring of industrial production. First, CMEA countries are restricting convertible currency payments for imports, in view of their need to improve their balance of payments. Second, measures to solve structural problems within CMEA and increase co-operation among the member States themselves may imply that developing countries outside CMEA would be consigned to a more limited role as trading partners. Third, - and linked with the above argument - trade agreements between European CMEA countries and developing countries may be expanded mainly through rather cumbersome bilateral compensation agreements which

could limit the scope for trade expansion, in a period of difficult adjustment in all countries involved. Fourth, many of the developing countries are also pursuing policies of upgrading physical and human capital-intensive production which would lead to a structure of production similar to that of European CMEA countries rather than a complementary structure.

15. If systematic attempts were undertaken by European CMEA countries to increase the imports from developing countries, the pattern of trade transition between these two groups of countries could increase the export of manufactures from developing countries to CMEA countries in a broad range of commodities. Redeployment could thus be undertaken in (a) the processing of natural resources, such as non-ferrous metals or petroleum products, (b) domestic resource-based manufactures such as wood products, leather goods, textiles and processed foods; and (c) various labour-intensive manufactured goods, such as clothing, carpets, travel goods, footwear, toys, sports goods, simple electronic products and metal manufactures.

16. To encourage such redeployment, the European CMEA countries in their long- and medium-term planning should take into account the prospects for expanding co-operation with the developing countries by importing not only raw materials and fuel but increasingly manufactured goods. Redeployment from European CMEA to the developing countries would seem to be particularly promising in the mineral and fuel extraction and processing industries. This would release scarce domestic resources in the European CMEA countries (particularly labour and energy) and support the resource-based industrial development endeavours of the developing countries.

III. REDEPLOYMENT AND RESTRUCTURING PROSPECTS IN DEVELOPING COUNTRIES

17. The prolonged world-wide recession has seriously affected the pace of industrial growth in developing countries, revealed the vulnerability and fragility of their established industrial structures and showed the need for a re-assessment of the pattern of industrial development and redeployment. The need for structural adjustment in the developing countries has grown over the years as a result of the rapidly changing conditions for world industrial restructuring and redeployment, the inadequate attention to adjustment in developing countries' policies and insufficient internal dynamism in established industries. Most of these countries now face the task of significantly adjusting their structure at a time characterized by low growth, severe foreign exchange constraints, reduced scope for redeployment and capital transfers from developed countries and uncertainties in terms of market access and policies of developed countries. In this situation developing countries have to embark on a process of reformulating their strategies for the future and their approaches to adjustment and redeployment according to the perception of their specific prospects and constraints. Such strategies and policies differ among developing countries, *inter alia*, according to the stage of their industrial development, the size of their domestic market, their resource endowments, the prevailing integration of their economies with foreign markets and the characteristics of their particular region.

18. Studies carried out on industrial restructuring and redeployment in selected developing countries in Asia show that the world-wide economic recession has significantly affected their economic growth and industrialization. The more rapidly industrializing countries of South East and East Asia, have had to search for innovative approaches for the utilization of raw materials

and the technological upgrading of processes and products to offset the contraction of foreign markets for their manufactured products. For most of the countries of the Indian sub-continent, higher-priced imports of intermediate goods and increased costs of commercial borrowing, coupled with more limited availability of grants and concessional lending, have refocused national planning towards a strengthened endogenous development - in order to accrue the maximum benefits possible for overall socio-economy development from industrial growth.

19. Government policies in Malaysia, the Philippines and Thailand, illustrate the consideration being given to the modification of patterns of industrialization to reduce dependence of the industry sector on increasingly costly imports and to give greater attention to development of the domestic market and the expansion of trade with other developing countries, particularly with those in the Association of South-East Asian Nations (ASEAN).

20. In Thailand, a government restructuring committee is systematically assessing the requirements of major changes in the country's industrial structure to meet the new challenges. The gradual rationalization of existing industries to improve efficiency and better utilization of potential domestic industry linkages together with the search for specific export markets are seen as major contributions to sustainable industrial growth and the building up of a more integrated structure of production. The structure of protection and incentives is likely to be revised and industries will be assisted to move to more competitive product lines. Resource-based basic industries are likely to be established outside the congested location in urban areas (see UNIDO/IS.395; UNIDO/IS.403).

21. The decrease in receipts from the oil-sector and the revealed adjustment needs in established industries in Indonesia caused a significant rephasing of the planned large-scale, capital- and import-intensive industrial investments in 1983. More systematic identification of long-term growth industries coupled with an upgrading of current capacities and a building up of agro-industrial linkages are some key elements of the Government's new policy. Industrial development has so far mainly been based upon production of consumer and intermediate goods for the domestic market. A growing awareness of long-term possibilities for developing a selective core of capital goods industries is gradually emerging. It is in this context that a study on the Indonesian industry sector is being conducted containing proposals for an integrated programme for the development of selected equipment manufactures for various agro-processing industries.

22. To cope with protectionist barriers in the industrialized countries and to offset increasing costs of imported inputs, the ASEAN countries are paying increased attention to ways and means of effective co-operation in industry among themselves and joint bargaining. To this end, an innovative and flexible programme of ASEAN industrial joint ventures is currently being launched in which private sector entrepreneurs would propose joint projects through the framework of the ASEAN Chambers of Commerce and Industry "regional industry clubs" for various branches of industry. To review and support these endeavours a study programme on subregional industrial co-operation in ASEAN (and the Andean Pact) is being carried out by the UNIDO secretariat.

23. Some industrial subsector developments may serve as illustrative examples of the restructuring process in Asia. For instance, redeployment in the textile and clothing industry from developed countries seems to be hampered by the limited scope for obtaining assured outlets in the industrialized country markets. In existing growth poles in Asia increased automation and

capital intensity is likely to occur combined with a shift of product lines and redeployment to other Asian countries with large domestic markets. The secondary wood-processing industry (e.g. furniture) could offer redeployment opportunities from Japan to some timber-exporting developing countries in the region such as Burma, Indonesia, Malaysia, Papua New Guinea and the Philippines. The realization of these opportunities would need to be supported by consultations, negotiations and co-operation between the Governments concerned (see UNIDO/IS.395; UNIDO/IS.403). In Malaysia, the Republic of Korea and Singapore, the electronics industry will be developed further and production may be upgraded towards semiconductor assembly and wafer production by developed country corporations for OECD markets. Other developing countries in Asia (such as Bangladesh, the Philippines and Sri Lanka) are likely to seek redeployment from developed countries and from established producers within the region in the field of consumer electronics. India's new promotional policy in this subsector aims at building up larger capacities in consumer electronics through revised licensing, taxation, and public investment policies and measures to encourage innovation. Public sector production, supporting private industry, is to cover strategic areas such as silicon, microwave tubes and large-scale integrated circuits.

24. In the larger developing countries and in the more advanced among the smaller developing countries, the importance of capital goods industries is expected to increase in the future. A selective redeployment of capital goods production from developed countries will be sought. For example, the Government of Indonesia, as mentioned above, is systematically examining opportunities for establishing industries to supply equipment to agro-based processing industries.

25. A study on industrial development in Nepal revealed increasing constraints on industrialization typically encountered by least developed countries. Structural adjustments are a less prominent feature in these countries and redeployment from developed and other developing countries requires a very selective approach due to internal resource limitations. The limitations of the domestic market and the distance from overseas markets underscore the importance of a strategy of endogenous industrial development utilizing available, albeit limited, local resources, meeting growing domestic demand with locally manufactured products, and, as far as possible, pursuing carefully selected opportunities in export markets.

26. In general, the patterns of industrialization of developing countries in Asia may be summarized as follows. The larger countries are postponing large investments in new industrial production capacities and are concentrating instead on investments to make adjustments in the existing structure to increase efficiency, achieve greater domestic integration, satisfy domestic demand, and improve foreign exchange reserves. The smaller countries and territories with a relatively advanced industrial structure are promoting the application of higher technology in processes and products and the redeployment of some more traditional production lines to other Asian developing countries. The least developed countries with a small domestic market are increasingly dependent on concessional aid and trade arrangements and face growing constraints in establishing an industrial base in a fiercely competitive environment.

27. Studies on industrial development prospects in West Asian countries show progress in the restructuring of these economies - to a large extent on the basis of petroleum resources. However, recently there have been signs of growing protectionism in the OECD countries against the petrochemical products of oil producing nations. The developments in petroleum markets have also somewhat weakened the negotiating position of the producers to link the petroleum supply with the

export of its derivatives. Moreover, the rapid pace of technological innovation in the industry and its increased specialization also affect the international competitiveness of third world petrochemical industries. There have been thorough revisions of once-ambitious plans and adjustment of capacities in the Middle East oil producing countries which are seeking to install the second generation of petrochemical plants. Saudi Arabia has gone ahead with its basic petrochemical export industry and expects to achieve an export sale record of \$3.5 billion (at current prices) for its exports of petrochemicals by 1987. Further diversification downstream in the petrochemical industry is to occur with the implementation of a number of large petrochemical projects; in addition other heavy industries, such as steel and fertilizer, are being developed. A striking example of redeployment is the location of Japan's largest overseas petrochemical project, an ethylene production plant, in Saudi Arabia. As third world oil producers move into basic feedstock, traditional producers have been moving downstream into speciality products thus bringing about a major and fundamental restructuring of the industry. One key issue for the 1980s is therefore the pace and pattern of the structural adjustment process in petrochemical industries in major developed country markets. In an effort to co-ordinate industrial development and redeployment policies, the Gulf States through the Gulf Co-operation Council (GCC) are examining the scope for joint operations and strategies on the basis of common resources (UNIDO/IS.423).

28. Studies of developing countries in Africa found that the established industries - mainly light consumer goods industries - are generally constrained by heavy reliance on increasingly costly imported inputs in a period of critical shortage of foreign exchange, inefficient management, lack of qualified manpower, irregular supplies of raw materials and spare parts, irregular water and electricity supplies, ineffective distribution systems and limited domestic markets because of wide income disparities. As a result many units are operating far below installed capacity and at a loss. Overall value added in industry has declined.

29. In the light of these constraints, African countries are now re-orienting their industrial policies towards structural adjustment of existing units although resource constraints are likely to severely limit the scope for actual rationalization of production. An example of this approach is the Sudanese investment programme in the six-year development plan (1976/1977 - 1982/1983) which concentrated on the rehabilitation and modernization of existing import-substitution industries with particular stress on the sugar industry. Other countries such as Egypt, Ivory Coast, Madagascar, Mali, Niger, the United Republic of Cameroon, and Upper Volta also attach an increasing importance to improvement in existing industries, especially those related to agriculture-based products, textiles, building materials and chemical products.

30. The Government of the United Republic of Tanzania is also pursuing a programme of structural adjustment. This programme includes a review and reformulation of policies pertaining to budget, credit, prices, parastatal deficits, etc. and involves a shift from investment in new capacity to the maintenance and full use of existing capacities. The structural adjustment aims at reaching future economic activities through altered incentive systems, rationalizing and improving planning as well as control systems.

31. In many countries these efforts would have to be complemented by a change of public investment patterns. For example, a study undertaken by UNIDO in Somalia (UNIDO/IS.426), reveals that the previously promoted public industries were directed towards the more capital-intensive branches. In branches with greater private engagement, capital intensity - and wages - were below

average. If industrial and socio-economic development is to be accelerated in the 1980s, employment and the utilization of natural resources would need to be enhanced. To this end public investments and redeployment would need to be increasingly geared to branches with a high employment potential and more attention would need to be given to the informal and small-scale private sector. Foreign exchange earnings or savings, and an acceleration of overall, self-reliant socio-economic development should also be based on a fuller use of domestic renewable and non-renewable resources. Indeed, the Somalia five-year development programme partly reflects this priority by allocating some 50 per cent of the public investment resources to a resource-based agro-industrial complex (sugar).

32. In Zimbabwe, attempts are being made to upgrade the current industrial established structure which was built up under very different conditions. In Malawi, which had pursued an export-oriented, resource-based industrial development policy and achieved significant rates of industrial growth, there was evidence of stagnation of growth in recent years (UNIDO/IS.389). In view of shortages of certain key resources, limited overall purchasing power and the handicap of the country's landlocked position, it would seem necessary to modify the past strategy so as to encourage the establishment of a wider range of second-stage industries. This would require a progressive upgrading of labour skills along with more active and systematic selection of investment projects and opportunities for redeployment.

33. The large majority of African countries under review in the UNIDO study and research programme are looking for suitable means to re-orient and re-establish their pace of industrial development and to attract and direct suitable redeployment. Special studies have been undertaken or initiated to support these endeavours. The findings of a series of studies on the potentials of processing natural resources for industry support the strategy of resource-based industrialization. Plant-level analyses demonstrate the need for systematic diagnosis of adjustment requirements and for formulating programmes of structural adaptation. Studies on fiscal and price policies reflect the need for more clearly defined industrial policies which give better direction and support to the restructuring of industry. Redeployment to Africa of many larger new industrial capacities has been postponed or cancelled; at the same time foreign resources are increasingly sought for technological and managerial upgrading of existing plants.

34. African Governments are also trying to enhance subregional co-operation with a view to easing, at least partly, such constraints as low per capita income, narrow domestic markets, limited domestic resources for productive investment, duplication of investment and undiversified production structures. Among the African subregional groupings are the Central African Customs and Economic Union (UDEAC), the Preferential Trade Area for Eastern and Southern African States (PTA), the Economic Community of West African States (ECOWAS) and the Southern African Development Co-ordination Conference (SADCC). In spite of limited success in industrial co-operation and integration in the past, there is a recent tendency for a revitalization and building up of subregional co-operation as a means for pooling resources and co-ordinating redeployment policies. A study under preparation for SADCC examines the scope and mechanisms for enhanced co-operation in industry. It appears that while such co-operation could bring significant mutual benefit, it would need a longer period of time to overcome substantial built-in constraints.

35. In Latin America significant industrial production capacities were built up in past decades through redeployment oriented largely to serve domestic markets. As industrialization progressed,

increased internal constraints were encountered. Many countries found that there was a net loss of foreign exchange savings in the industry sector because the requirements of foreign exchange for imports of raw materials and intermediate goods exceeded savings of foreign exchange through production of import-substituting final goods. In many countries a tendency of "de-industrialization" was observed with slackening industrial growth rates, declining or stagnating shares of manufacturing in the gross domestic product (GDP), increasing external trade deficits and declining productivity. This tendency was accentuated by the world-wide recession and in some countries by a sudden shift of policies towards a far-reaching "deregulation" in this period of drastically increased international competition. The previous model and modes of largely unselective redeployment based on considerable foreign borrowing, to a significant extent initiated by foreign companies, now became questionable. On the supply side, the internationally high interest rates did not allow the financing of the essential imports required for the internal restructuring process. On the demand side, the world-wide recession and the accompanying neo-protectionist tendencies in the developed countries curtailed the markets for non-traditional manufactured exports of the Latin American economies. Therefore, the previously adopted policies of extended import substitution could not be continued nor could the economic growth pattern be quickly re-oriented. Consequently, external deficits and the need for external borrowing increased, at a time when the debt-servicing capacities of the Latin American countries and correspondingly the availability of external credit were reduced.

36. In the present conditions of world-wide economic slow-down - with only limited signs of recovery in some OECD countries - many Latin American countries are facing the formidable task of "re-industrialization" in the 1980s. In some of the Latin American countries currently under review, notably Argentina, Costa Rica, Mexico and Peru, programmes to restructure industrial production processes, products and organizational patterns are being launched. The restructuring is aimed at systematically establishing a new, sound basis of continued industrialization and, to a varying degree in each country, involves the following measures:

Identification and effective utilization of domestic demand potential, thus stimulating production for national markets including consumer durables and intermediate products;

Systematic rationalization of production in key industrial subsectors (textiles, automobiles, selected capital goods, etc.) to enhance efficiency and competitiveness;

Improvement of the national integration of industrial production so as to utilize potential domestic linkages;

Increase of intra-regional trade and trade with other developing regions.

37. To this end, these Latin American countries are elaborating both general and specific industrial policies which seem to entail: selective import substitution, "local content" regulations, subsector restructuring programmes, compensation-redeployment agreements, intra-regional trade promotion, selective innovation programmes for upgrading subsector technologies and new approaches for enhancing capital goods. In measures to attract redeployment emphasis is shifting to national rather than foreign considerations. Council decision 86 of the Latin American Economic System (SELA), adopted in March 1981, reflects these principles as it considers that the industrial redeployment should have as a main target the modification of the structural distortions of the developing countries' economies by means of r. . . investments corresponding to the national strategies of development and to a regional policy of integration and should not be conditioned to the developed countries' adjustments. On the other hand, there

is increasing awareness of subsectoral and international interdependence and of the need for closer analysis and consideration both of global trends in technologies and production and of adjustment policies in industrialized countries. This will call for an increasingly active role of government authorities in the analysis of international developments and in international negotiations.

IV. CONCLUSIONS

38. A general global overview of the tendencies in industrial restructuring and redeployment shows that the need for structural adjustment in industry at the national levels of developed and developing countries has accumulated over the years and that policy-makers are increasingly aware of this need. The pace and scope for structural adjustment, however, are constrained, inter alia, by the prevailing world-wide low economic growth, by structural rigidities and social considerations in developed countries and by inefficiencies in resource allocations and other constraints in developing countries.

39. The prevailing uncertainties, the character of trade and the industrial policies adopted by national Governments in developed countries, and the large gaps between existing and optimum industrial structures and between available and required resources which are now evident in the developing countries tend to severely hamper development in the Third world. The adjustment pressures which have been built up as a result of past developments are being aggravated by the current world-wide recession and the changing international policy framework. Imports of new technology and equipment - required for upgrading of production processes - are blocked by falling export earnings. Both labour-intensive, export-oriented industrial development and the endeavours to upgrade industrial production structures in some developing countries towards more sophisticated, less labour-intensive product lines seem to be restrained by new rounds of protectionism in developed countries.

40. The industrial sector is currently dominated by adjustments rather than expansion of capacities. These adjustments are restrained in scope and pace and directed to national solutions. Under such conditions prospects for world industrial restructuring and redeployment of industries from developed to developing countries will be drastically reduced in comparison both to previous decades and to expectations and calls expressed by the international community in various forums.

41. Against this scenario it would seem crucial:

To support national efforts in developing countries for assessing the need for and carrying out restructuring of industry;

To monitor adjustment policies and trends in developed countries;

To formulate joint international and regional approaches for restructuring and redeployment to ensure at least minimum compatibility between policies at the national level;

To identify new modes of international co-operation in restructuring and redeployment, reflecting the need for technology upgrading and rehabilitation of industry in developing countries and the need for corresponding market access in developed country markets for manufactured products as payment for the imported technologies;

To establish a set of schemes for South-South co-operation to generate mutual benefits and support in the new period of "industrial development through adjustments".

42. The UNIDO study and research programme on industrial restructuring and redeployment, jointly with the System of Consultations, might usefully contribute to the above objectives.

V. ACTION REQUIRED OF THE INDUSTRIAL DEVELOPMENT BOARD

43. The Industrial Development Board is invited to consider the findings and suggestions contained in the present report. In particular, the Board may wish to advise on and provide guidance to the secretariat with respect to the scope, approach and arrangements adopted by UNIDO in its programme on industrial restructuring and redeployment.

