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WORLD INDUSTRIAL RESTRUCTURING AND REDEPLOYMENT

Studies and research undertaken by UNIDO on industrial redeployment and restructuring

Report by the Executive Director

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Summary

The present report reviews the concepts and pertinent issues relating to industrial restructuring and redeployment in the light of the deliberations of the Fourth General Conference of UNIDO and on the basis of observations of recent developments in various country regions. The severity and diversity of the problems currently facing the industrialization efforts of developing countries call for policy action at the country and regional level. The secretariat is increasingly directing its studies and research programme towards assisting decision makers in this respect.

I. THE CONTEXT

1. Pursuant to General Assembly resolution 31/163, UNIDO has been involved in carrying out studies and research on redeployment of industries from developed to developing countries since 1976 and has submitted reports on the major findings and recommendations to the Industrial Development Board at its annual sessions. The studies have covered analyses of prospects and motives for redeployment in developed countries as well as priorities in developing countries, and have in recent years focused on trends and policies relating to prospective structural changes in industry in the developed and developing countries.

2. On the occasion of the Fourth General Conference of UNIDO the secretariat prepared two documents on world industrial restructuring and redeployment (ID/CONF.5/3 and ID/CONF.5/16) for agenda item 5(e) on the subject, in which an attempt was made to examine international trends and national approaches and to assess the scope for redeployment in key industrial subsectors. The content of the documents and the debate which took place on this agenda item reflected the rapidly changing parameters and the increasingly complex pattern of government and corporate strategy decisions relating to in situ structural adjustment, new investments and/or spatial adjustment (redeployment).

3. The concept of redeployment of industries from developed to developing countries as originally conceived in the Lima Declaration and Plan of Action on Industrial Development and Co-operation as well as in subsequent resolutions adopted by policy-making organs of UNIDO foresaw a gradual increase of the developing countries' share in world industrial production and the adoption by developed countries of policies to encourage internationally less competitive industries to move into more viable lines of production, thus leading to structural adjustments in developed countries and redeployment to developing countries.[1/] Structural adjustment policies in developed countries were thus seen as an important element in the process of redeployment and international restructuring.

4. Recent developments in the world's industry have made it necessary to reassess this concept as well as the extent to which it can be used as a guideline for an international debate on the central issues of industrialization in developing countries. The present report is intended to provide some insight into this question. It reviews the concept of redeployment in the light of the findings of studies carried out in the Regional and Country Studies Branch of the Division for Industrial Studies and attempts to identify the most important policy issues now confronting decision makers in industrialization. It should serve as a basis for consideration of the UNIDO programme of work in this field for the next five years, in particular for the 1986-1987 biennium.

5. It should be noted that the present report does not attempt to provide a comprehensive review of all work being carried out by the Regional and Country Studies Branch. Reference is made to the Industrial Development Survey, which is published biannually by the Statistics and Survey Unit of the Division for Industrial Studies and covers various pertinent issues. The Annual Report of the Executive Director, 1984 contains a more detailed description of the work of the secretariat in this field (ID/B/340, chap. IV).

II. ISSUES EMERGING FROM THE FOURTH GENERAL CONFERENCE OF UNIDO

6. The deliberations of the Fourth General Conference of UNIDO under agenda item 5(e) (world industrial restructuring and redeployment), reflect the different views and concerns of national decision makers. The developing countries emphasized the normative aspect of restructuring in line with the Lima target and the role of national government policies including trade policies, whereas the developed market economy countries generally saw restructuring as a market-induced, evolutionary process. The centrally planned economy countries stressed the need for developing countries to heed their established priorities and emphasized that redeployment should not jeopardize the independence and sovereignty of the developing countries. All geographical groups attached importance to UNIDO's activities relating to industrial restructuring and redeployment, although the degree of importance attached to related substantive issues varied. High priority was attached by the developed market economy countries to the creation of economic policies in developing countries which would facilitate the autonomous process of structural change and which would attract foreign direct investment to supplement domestic resources. Developing countries on their part expressed doubts that the existing international system was able to provide the prerequisites for sustaining their industrialization process. They emphasized the need for reform in the international systems of industrial finance, trade and technology and for control of transnational corporations as the main agents of resource transfers.

7. Most, if not all, of the issues raised in international debates on industrial restructuring are complex and involve topics such as transfer of technology, trade policy, international finance, the debt burdens of developing countries, and social aspects of industrialization. It would be advantageous to deal with all of these different issues in a single over-all context to encourage internally consistent and comprehensive agreements. However, it must be recognized that developing countries, individually or in groups, could not afford to rely solely on progress towards agreement in the entirety of these complex areas; they need to pursue individual as well as collective strategies and policies to overcome short-term as well as long-term constraints to their industrialization.

It is therefore important to assess specific problems faced by individual countries and to identify wider issues for the international community as a whole. Efforts should continue to agree upon guiding principles for restructuring, but the international community should concentrate on finding solutions to specific problems now confronting various regions and categories of developing countries.

III. RECENT DEVELOPMENTS

Developed market economy countries

8. A number of trends were apparent in 1984. Clear signs of economic recovery were observed in most of the developed market economy countries although growth rates and patterns and policy approaches differed slightly from country to country. Structural change in the industry of member countries of the Organisation for Economic Co-operation and Development (OECD) continued to shift comparative advantage in many areas of manufacturing towards a greater role for developing countries in industrial production. The intensified application of certain technological advances during the past year has, however, raised important questions as to whether the increasing competitiveness of developing countries in some fields of manufacturing can indeed be sustained.

9. After the years of very low or negative industrial growth, the manufacturing sector in many OECD countries seems now to have undergone a transition to new structures which have far greater competitive strength than before, greater flexibility in terms of production response to market changes and possibly less propensity for redeployment to developing countries.

10. In general, industrial production in developed countries is expected to be characterized by a further rationalization of existing production capacities and the creation of new capacities on the basis of newly-developed process and product technologies. Intra-OECD competition is likely to be increasingly hard, especially in industries based on higher-level technologies. As before, corporate strategies vary. But whereas in the 1970s many industries pursued a strategy of increasing scales of production for growing shares of markets for "mature" products, more strategies now seem to emerge which entail far-reaching production rationalizations, concentration on new, selective product groups and focused marketing as well as the selective acquisition of other domestic and foreign companies. Another feature will be the increasing service content of the manufacturing sector and the increasing services sector _per se_ in terms of supporting activities for industry.

11. Appreciation of the significance of new technologies - especially those in the informatics field - is demonstrated by intensified national and regional efforts in micro-electronics, computing, telecommunications and computer-integrated manufacturing, as well as the wider interest shown in issues of transborder data flows.

12. The growing importance of technology has meant increasing co-ordination between Governments and producers in OECD countries, even in those in which the role of the State is otherwise limited. In areas of high technology such as informatics, many European Governments - e.g. the European Economic Community with its ESPRIT (European Strategic Programme for Research and Development in Information Technology) programme - are implementing schemes of R + D and application in an attempt to compete with Japan and the United States.

13. In general, the competition between OECD countries in high-technology industries makes it unlikely that developing countries will be able to find niches and opportunities in this field without efforts far greater than those being made at the moment. The aims and programmes of OECD Governments have to be seen in conjunction with plans being implemented by the private enterprises of these countries. It is becoming more and more difficult for developing countries to catch up with the accelerating pace of technological change and the levels of investment required at each stage. The decreasing length of product cycles gives more and more value to technological information, thus further inhibiting technological diffusion.

14. International industrial restructuring has been clearly affected by the macro-economic policies pursued by developed countries in 1984. The combination of policies which maintained the high value of the United States dollar, for example, had significant effects on the OECD countries themselves as well as upon developing countries. The value of the dollar in relation to other currencies made foreign products, including manufactures, more competitive in the United States market, and the growth of exports to the United States provided stimulus to industrial production in both developed and developing countries. At the same time, increased import penetration of United States markets may result in further protectionism, and already a number of measures to bring about trade restraints and import barriers have been introduced in both traditional and new imports, affecting such areas as steel, chemicals, plastics, consumer electronics, automobiles and textiles. High interest rates in the United States, together with the growing market and availability of new technology and know-how, attracted a continuing flow of investment funds to the United States.

The African region

15. Africa's share of world manufacturing value added (MVA) was just over 1 per cent in 1984, characterized by uneven and fragmented structures of production. The integration of industry within the national economy remains low. The pattern of industrial development

that most African countries have experienced during the past two decades did not bring about the desired integration of the rural and the urban economies. In many African countries a large subsistence sector which contains the bulk of the country's population continues to exist side by side with modern urban centres. Existing African industry is also heavily concentrated in certain regions. A UNIDO study shows that in the early 1980s four countries - Algeria, Egypt, Morocco and Nigeria - accounted for 60 per cent of African MVA. In the same period 16 African countries could claim less than $100 million each in MVA and together accounted for just 5 per cent of the MVA of the continent.[2/] Intra-African integration is very limited as shown by the extremely small intra-regional trade. Even in economic groupings such as the Economic Community of West African States and the Council of Arab Economic Units intra-member country trade is less than 5 per cent of total exports.[3/]

16. A gradual co-ordination of national investment plans could contribute towards the development of regionally oriented industries as well as to the growth of intra-regional trade, thereby offsetting prevailing limitations of national markets. This is all the more important as export markets in developed countries continue to offer limited scope for most African industrial product groups. Non-ferrous metals, for instance, have faced declining world demand during the 1970s and the demand is expected to be stagnant during most of the 1980s.[4/] Plans to increase capacity for mineral processing (currently pursued by Zambia[5/] and contemplated by Zaire) may thus require full utilization of the regional market.

17. In order to develop the capital goods sector it is also essential to make full use of the regional market. Currently Africa imports almost all of its capital equipment and the national capital goods industries are at an infant stage. The development of an African capital goods industry - on a highly selective basis - is seen as an important way to reduce import needs as well as to integrate industry with the rural economy.

18. The established industrial structures have so far not achieved the desired progress towards solving employment and foreign exchange earning problems in many of the larger African countries, partly because of the present limited size of the manufacturing sector and partly because of the pattern of industrial production itself. The established industrial structures remain dominated by enterprises producing simple import substitutes, with food manufacturing and textile branches accounting for instance for 46 per cent of the total MVA of the four major African manufacturing countries in the late 1970s.[6/] Both public and private sector investors seem in the past, however, to have had a preference for technologies with limited backward and forward linkages and a small capacity for generating employment. In view of the need for manufacturing to absorb labour from the subsistence sector, this structural problem will require increasing attention.

19. Although much of African industrial development has so far been stimulated by import substituting policies, the import needs of industry in most African countries have increased and constitute a serious bottleneck for industry in a period of acute foreign exchange shortage. This problem is prevalent in Nigeria, for example, where it is estimated that about 60 per cent of the total raw materials consumed by the manufacturing sector are

imported. The need for capital goods imports and expatriate labour and management services is considerably higher.7/ Industrial production is thus highly dependent on imports and vulnerable to external shocks. Many African countries experience a high level of surplus repatriation in the form of interest payments, services charges, salary remittances and profit outflows. In Swaziland, the net outflows on the service and short-term capital account equalled 50 per cent of export earnings during 1978-82.8/ Namibia faces a surplus repatriation problem of roughly similar dimensions9/ and in Nigeria foreign exchange repatriations have also remained relatively high.10/ There has, moreover, been a marked escalation in the price of technology imports and management services.

20. One major indicator of the current dilemma affecting industries in most African countries is the rising rate of capacity underutilization in the manufacturing sector. Utilization rates as low as 30 per cent are not uncommon. Many enterprises - in both the public and private sector - have become chronically dependent on government support and generate little investible surplus. Corporate saving rates remain low in Africa in comparison to many other developing countries at a similar stage of development. In a UNIDO study undertaken in 1981, the need for improved management and accounting systems and a restructured system of industrial financing is stressed - encouraging in particular the growth of appropriate financial intermediaries - in order to augment rates of surplus mobilization within the corporate sector.11/

21. Given the serious economic difficulties currently facing Africa, domestic resource mobilization will have to be supplemented by increased concessional assistance for financing industrial development. In 1982, total net annual flows of official development assistance (ODA) by OECD countries to Africa stagnated at around $10.4 billion.* The manufacturing sector's share of OECD's Development Assistance Committee bilateral ODA allocated by sector was small - about 8.4 per cent during 1981-82 - for all developing countries.12/ The share of African industry in total net ODA is likely to be smaller.13/

22. The key issues confronting policy makers in Africa thus seems to be:

(a) The establishment of a more viable - economically, financially and socially - industry, an industry which is more integrated in the national economies and which makes fuller use of regional and subregional market opportunities;

(b) International co-operation which - in view of the important constraints caused by lack of financing, foreign exchange and managerial skills - will be required first for consolidating and upgrading existing industries and gradually for moving into new production lines on the basis of well-conceived programmes for Africa.

The Arab States

23. Although the Arab States are usually treated as parts of the Africa and Western Asia regions, their efforts towards economic and industrial integration reveal a number of

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*$1 billion equals $ thousand millions.

common features and should thus be examined separately. Taken as a whole, Arab States raised their share in world MVA from approximately 0.8 per cent in 1975 to slightly more than 1.1 per cent by 1981. This process had emphasized energy- and capital-intensive hydrocarbon-based industries and export promoting industries with the notable exception of Algeria where a more comprehensive industrialization strategy had been enacted since 1967 with both import-substitution and export-promotion components. Three major typologies of countries could be identified: firstly, the major oil exporters (Algeria, Iraq, Kuwait, Libyan Arab Jamahiriya, Qatar, Saudi Arabia and United Arab Emirates); secondly the more developed countries with little or no oil resources (Bahrain, Egypt, Jordan, Lebanon, Morocco, Syrian Arab Republic and Tunisia); and thirdly, the least developed countries (Democratic Yemen, Djibouti, Oman, Somalia, Sudan and Yemen). While the first category has had ample resources of foreign exchange, the others rely largely on revenue from emigrant workers and official aid.

24. In the oil exporting countries a significant industrial structure has emerged in oil refining, fertilizers, basic petrochemicals and building materials. Less attention has been awarded to the capital goods sector except in Algeria where iron and steel production was subsequently integrated into a growing mechanical engineering industry. Low competitiveness in the relatively labour intensive food-processing and textiles industries, coupled with inadequate supply from the agricultural sector as well as a virtually free imports policy in most countries had, on the whole, discouraged the growth of a viable consumer goods industry. This problem could probably be alleviated by increased utilization and co-ordination of intersectoral linkages and in particular by encouraging the lagging agricultural production. Lack of adequate managerial and labour skills have resulted in a bottleneck for industry in certain countries. Furthermore, high investments and excessive international interest rates have tended to significantly raise foreign debts. Generally, competitiveness of manufacturing other than hydro-carbons decreased, causing an increase in imports and a decrease in utilization of productive capacities.

25. In the non-oil exporting countries with sizeable industrial structures, imports of capital goods and acquisition of foreign expertise were achieved through rising capital resources from repatriations of emigrant workers, official aid, and joint industrial and other ventures. World inflation, "imported" consumption patterns and debt-service have on the other hand reduced the volume of domestic savings and impeded industrial capital accumulation and modernization. The outflow of skilled labour constituted a serious brain drain and reduced efficiency in industry.

26. The lack of finance and labour skills remains a major constraint to restructuring in such countries as Egypt, which was particularly affected by the 1982 drop in wages. The move towards more liberal policies for foreign investments has not so far met expectations in repect of technology transfer and foreign investment. With the manufacturing sector weakened by rising domestic labour costs and inadequate investment in modernization, the foreign trade liberalization did not bring about any major improvements.

27. In the <u>least developed Arab countries</u>, little investible surplus is being generated domestically. More attention will probably be given in the years to come to mobilizing domestically greater investible surpluses. Foreign aid, foreign investment and workers' remittances were the major sources of finance for industry, but were clearly inadequate to promote sufficient restructuring.

28. The key issues confronting policy makers in Arab States thus seem to be:

(*a*) Major constraints exist in the production system of many of those countries;

(*b*) A partial reallocation of investments is required to tackle production bottlenecks in lagging industries as an essential pre-condition for the efficient utilization of installed capacities;

(*c*) The upgrading and creation of managerial and labour skills in more sophisticated production areas are urgently required;

(*d*) The large foreign debts and/or lower hydrocarbon revenues in some countries are likely to reduce the pace and options for industrial adjustments and development, at least in the short run;

(*e*) Exports of chemicals, plastics, fertilizers and refined petroleum products seem to be facing growing trade barriers in developed country markets;

(*f*) The creation of similar, mutually competitive export-oriented hydrocarbon-based capacities can be observed in a number of Arab States. Recent joint Arab ventures in petrochemicals and also in aluminium, iron and steel and ship-building in the Gulf subregion show that attempts are being made to better co-ordinate investments. Complementarity and regional industrial integration remain a crucial issue for the industrial development of Arab States. The capital resources of the large oil producers could be further combined with the labour skills available in, for instance, Egypt, Jordan, Morocco, Sudan, Syrian Arab Republic and Tunisia. Similarly, natural raw materials could be used to a greater extent in the build-up of industries for the regional market as a whole;

(*g*) In the industrially more advanced countries, more weight is likely to be given to developing certain capital goods industries and selected high technology industries as well as industry related services.

<u>The Asia and Pacific Region</u>

29. In the Asia and Pacific region industrial growth has in the past been very rapid although growth performance has varied considerably in different areas owing to the very large size and heterogeneous nature of the region. The share of the Asia and Pacific developing countries in world MVA rose from 2.13 per cent in 1963 to 2.38 in 1973 and continued to grow to 3.74 per cent in 1983. Since the late 1970s, the growth momentum has slowed down and has not yet regained its previous level. New elements in the international economy and the effects of internal constraints will necessitate the formulation and implementation of fresh strategies and policies.

30. The industrialization efforts of many Asian countries have increasingly suffered from foreign exchange constraints. This has involved such aspects as the oil glut in the case of Indonesia, decreasing worker remittances coupled with declining cotton exports in

Pakistan, debt-servicing problems in the Philippines and the emergence of new competitors as well as further protective measures against manufactured exports in the case of the leading exporting countries. As a result, many countries have felt the need to introduce ad-hoc modifications to trade policy measures as well as new instruments in response to their foreign exchange bottlenecks, despite the fact that long-term development programmes would require stability of the relevant parameters and policies. Among these balance-of-payments related policy responses have been the increasing reliance on countertrade practices (most pronounced in the case of Indonesia's counter-purchase regulations), the introduction of local content rules as well as setbacks in efforts aimed at the liberalization of foreign trade or the re-introduction of import restrictions already previously abolished. The increasing subordination of industrial policy measures to balance-of-payments considerations will be among the major issues of concern at the national and regional level.

31. As far as the industrially more advanced Asian countries are concerned, it is noteworthy that the current need for structural changes has emerged essentially as a consequence of the very success these countries have experienced in the past. Industrial restructuring in these countries has become imperative not primarily in order to achieve a basic level of efficiency in production but in order to respond to developments such as rising labour costs (as a consequence of productivity increases) and increasing protection in export markets as well as growing competition from labour-abundant developing countries in the same region. Consequently, the system of investment incentives in some countries has recently shifted from the previous emphasis on export promotion as such to focusing on the internal generation and external attraction of particularly skill-intensive and technology-intensive industries. This has also involved modification in certain institutional arrangements as witnessed by the establishment of so-called "science and technology parks" as a new qualitative stage in the development of special economic zones.

32. A specific feature of the Asian developing region is the incidence of industrial redeployment at the intra-regional South-South level. The secretariat intends to monitor this trend and to undertake studies at the national or sectoral level to ascertain the orders of magnitude involved as well as the specific contributions to industrial restructuring and redeployment following this form of industrial co-operation between developing countries.

33. In many countries there has been a move towards the promotion of small- and medium-scale enterprises. Policy makers have come to recognize that these enterprises are able to make significant contributions to such important policy objectives as the generation of employment, mobilization of savings or linking agriculture and industry. In many of the larger Asian countries, small-scale industries not only comprise the vast majority of industrial enterprises but have in the past contributed substantially to MVA and even to exports of manufactures. Thus, priority should be given to analysing the economic role of these enterprises, the impact of emerging technological developments - as in the field of micro-electronics - on the size distribution of industrial activity, the internal capabilities of smaller enterprises to identify and adopt technological innovations as well as the requirements for policy support measures.

34. The key issues confronting policy makers in the Asia and Pacific region seem to be:

(a) The search for strategies to broaden industrial growth for improving the living standards of the masses and thereby expanding domestic demand;

(b) Policies to facilitate a product choice for the domestic market (particularly in the countries with large populations) based on local materials and labour-oriented technologies as well as the more systematic utilization of domestic demand through relevant policy measures;

(c) The need to increase international competitiveness for locally manufactured products, aimed at either the external or internal markets;

(d) The elimination of unnecessary bureaucratic, administrative procedures on the one hand and the introduction of supportive arrangements to selected industrial subsectors in the form of R + D, technology transfer arrangements, skills upgrading, etc. on the other;

(e) The development of the engineering industries sector by strengthening the traditional labour-intensive manufacturing units and simultaneously supporting development of modern, technologically advanced and flexibly operating enterprises, using machine centres and computer-aided design (CAD) services, applying computer-aided manufacturing (CAM) and producing goods of international quality standard;

(f) Efforts to increase exports in manufactures through various measures including the promotion of trading companies; increased attention to market research, participation in trade missions and trade fairs by representatives of private industry as well as Government and Chambers of Commerce;

(g) The need to assess likely impacts of technological developments on many of the traditional industries in terms of competitiveness, employment, etc.

35. In their efforts to deal with problems of industrial restructuring, the countries of the Asian and Pacific region have recognized the prospective benefits to be derived from subregional co-operation. The Association of South East Asian Nations (ASEAN) has already established an institutional framework and innovative schemes of co-operation, inter alia in the fields of industrial development and trade. The newly established South Asian Regional Co-operation (SARC) involves seven countries in south Asia and is of great potential interest for future industrial development in that area. The large heterogenity of member States - touching on both the level and structure of their economies - calls for a gradual and selective process of enhanced co-operation. The same would be true for the possible formation of Pacific Basin economic co-operation, comprising developing as well as developed countries of the Asian Pacific region. Although the last two co-operation initiatives have to be seen in a very long-term perspective, their potential as a driving force influencing the future shape of industrial structures and patterns of interactions in the Asian region should, however, not be dismissed.

The Latin American region

36. The countries of Latin America have in the past succeeded in pursuing policies and creating conditions for a rapid industrialization and redeployment of capacities from developed countries. The region's share in world MVA reached 5.64 per cent in 1984.

The build-up of a sizeable industrial sector as a consequence of the development model of import-substituting industrialization, corresponded largely to internal demand patterns in the individual countries or - within the framework of regional integration schemes - of country groupings. Since the second half of the 1970s, an increasing number of countries have become aware of the need to adapt gradually the structure of their industries to markets outside the region. The promotion of non-traditional manufactured exports was considered essential in order to compensate for the slackening growth of import-substituting industries and to create additional sources of foreign exchange earnings in the face of deteriorating terms of trade for the region's exports of primary commodities and the need to service the external debt, accumulated during the 1970s. The terms of trade for the non-oil-exporting Latin American countries showed in 1983 a total decline of 38 per cent compared to 1977.

37. The efforts of many Latin American countries to add new momentum to their industrial growth through a greater interaction with markets outside the region was, however, rewarded with limited success in the first half of the 1980s. This was attributable firstly to the slow economic recovery in most OECD countries which was insufficient for Latin American countries to obtain a rapid expansion of their non-traditional manufactured exports. Secondly, continuing trade barriers set additional limits to the expansion of manufactured exports even in those areas, such as textiles and steel, where Latin American countries had nevertheless proven competitive. Thirdly, some sectors proved uncompetitive once exposed to external competition, and finally, the upsurge in international interest rates increased Latin America's debt servicing burden, thus reducing the availability of resources needed for investments to adapt industrial structures.

38. In response to growing external imbalances at the beginning of the 1980s, many countries in the region introduced in 1982 vigorous macro-economic stabilization and adjustment policies. Sharp devaluations, more restrictive monetary policies and efforts to curtail deficits in government budgets did indeed reduce the imbalances in the external sectors of many Latin American countries. In fact, the region, which up to 1981 had regularly shown a deficit in its merchandise trade balance, recorded an unprecedented surplus of almost $31.2 billion in 1983. The successful reduction of the external deficit was, however, largely based on a reduction of imports into the region, instead of an increase of international competitiveness and an expansion of manufactured exports. Inflows of foreign capital into the region dropped to $4.5 billion in 1983 compared to $38 billion in 1981, whereas net remittances for profits and interest decreased only marginally. Thus, Latin America made a net transfer of resources to the rest of the world of almost $30 billion in 1983.

39. As a result of domestic austerity measures combined with a reduced availability of essential imports, investment in most countries dropped sharply, and in many countries there was a substantial deterioration of installed industrial capacity. These in turn had serious social consequences on the countries concerned. By 1983, per capita GDP in the region had fallen back to the level reached in 1977. In some countries, employment and real wages reached the lowest levels since the Great Depression in the early 1930s.

Continuing macro-economic contraction would, therefore, have a disastrous impact on hopes for the resumption of economic and industrial growth in the region, in an environment of social and political stability.

40. The key issues confronting policy makers in the Latin American region seem to be:

(a) The financial issue is currently the most dramatic, with pending or recurrent debt crises and an international crowding out on financial markets due to the dominating capital absorption of some advanced economies at a time when Latin American countries need large investments to upgrade and expand their industrial sector. As recognized by the Latin American policy makers, the scarcity and high costs of foreign capital are the major stumbling-block to industrialization, and therefore the introduction of new initiatives to finance investments and trade expansion through joint, innovative approaches at the regional level would be crucial;

(b) After the successful implementation of structural adjustment programmes at the macro-level, the structural adjustment lag at the micro-level emerging in Latin American industry is substantial. The Latin American countries are now focusing development efforts on this adjustment need. They are aware of the need for joint programmes and policies in order to monitor international trends and adjust products, processes and organizational structures of industry accordingly. In co-operation with the Economic Commission for Latin America and the Caribbean, UNIDO is considering ways of promoting closer intra-Latin American exchange of information on the industrial adjustment processes;

(c) The technology gap has been further widened by the rapid advances which have taken place in the developed countries. For Latin America this technological challenge will need to be met by clearly focused, targeted innovation, more active corporate strategies, closer industry-government-academia communication in the innovation process and greater attention to upgrading existing skills and already well advanced processes;

(d) The low level of present demand and uncertainty regarding the future represents a serious constraint for many Latin American industries. Latin American countries need to encourage their companies to pursue more aggressive and diversified marketing strategies in the North and to better utilize the possibilities which still exist for a wide range of products, including products falling under the Multi Fibre Arrangement (MFA). Some Latin American countries do possess sizeable domestic markets which, owing to the given unfavourable price/income ratio and past government policies are not effectively utilized. With the help of suitable policy measures, they could stimulate industrial growth;

(e) The issue of revitalizing and strengthening regional co-operation and integration should be accorded high priority. Advancement in technology would require a greater and more efficient regional pooling of resources for technology R + D. Efforts to utilize more fully the internal demand potential of the region will have to be supported by policies designed to increase the purchasing power of the population in the region. A new emphasis on integrated agro-industrial development might prove a useful step in achieving this goal.

IV. CONCLUSIONS

41. The above brief overview of current industrial development trends and key issues confronting the policy makers of developing countries in their endeavours to promote industrial development in the years to come, shows the severity and the diversity of the problems involved. The domestic macro-economic disequilibria as well as various external factors have revealed the vulnerability of the established industrial structures. Some of the industries which were foreseen as winners or which had been earmarked for investment, proved to be losers once international or domestic conditions had changed or when no gradual, continuous adjustment was enforced upon the industries through a suitable policy framework.

42. External commercial balance-of-payments loans based on the assumption of continuing price trends, interest rates and exchange rates on the one hand, and external project loans for projects with no major export prospects and often with large import content on the other, contributed to the high vulnerability of the economy and established production structures. Policy makers in developing countries are aware of the limited scope for continued "indebted industrialization" and for the redeployment of industries from the developed countries along the same lines as in the past. Many companies in the developed countries are going through a period of rationalization involving new technological processes and products and mergers with companies in other developed countries. Technological changes and national policies in the developed countries make it problematic to assess redeployment prospects and the likely emerging pattern of an international division of labour with developing countries.

43. Industrial development in the developed countries is characterized by a great diversity of trends in terms of growth, technological upgrading, competitiveness, etc. of the various industries. In addition to the high-technology industries, a number of adjusted mature industries are also showing rapid growth; in other industries, adjustment constraints and resistance are resulting in some cases in continuing overcapacities and claims for import barriers. These trends can hardly be detected on the level of aggregate industrial branches. It is primarily within the branches and individual industries and companies that the adjustment process takes place.

44. Developing countries are thus under pressure to adjust their industrial structures in line with an unclear, unpredictable international restructuring pattern and are confronted with several internal dilemmas. One such dilemma is the problem of reconciling the need for drastic austerity measures in the economy with the need to carry out major adjustments of the structure of the manufacturing sector. A second dilemma is the choice of the pace and level of restructuring of industry in a socially and politically sensitive period, plagued with high unemployment, declining incomes, etc. The third dilemma concerns the participation in the international technology race in terms of selectivity of technological efforts in specific areas and in terms of assessing and counter-balancing the effects of the application of new labour-saving production processes. A fourth dilemma concerns the degree of international versus national integration of industries, i.e. choosing between the internationalization of a few core industries with export-orientation and frequently high import content of production on the one hand, and greater utilization of domestic industrial and industry-agricultural linkages and establishing industries as vehicles for broad industrial and economic development on the other. Fifth, in formulating industrial strategies and policies for industrial restructuring, Governments obviously cannot confine the choice to simplistic pairs of alternative sets of policies such as measures for import substitution - export promotion; market inducement - direct government intervention; large-scale - small-scale industry; high-technology - intermediate technology; and labour-intensive - capital-intensive industrialization. The complexity of industrial restructuring requires elements of all these policy types in the formulation of a stable framework for company decision-making.

45. The creation of a dynamic industry presupposes that both Governments and companies have a long-term vision of development prospects and a built-in capability to respond to changing parameters and to seize emerging opportunities. The key issue in this respect remains the elaboration of a policy framework which allows companies to operate efficiently according to market forces and in line with Government perceptions of long-term strategic options and objectives. Differences in economic systems, domestic market size, degree of advancement of the industrial structure and experience and skills of entrepreneurs will be among the criteria which will influence the precise design of this framework.

46. It is evident that the issues related to industrial restructuring cover a wide area. The industrial redeployment process cannot be seen in terms of entire sectors of industry, nor can it be based on the notion that declining competitiveness or even past trends of declining comparative advantages in developed countries necessarily mean increasing prospects for developing countries and thus for redeployment. In the same way, positive structural adjustment programmes in developed countries do not necessarily indicate increasing scope for production and/or exports in developing countries.

47. Developing countries need to pursue or resume their industrial development in accordance with their national objectives and restructuring and redeployment should be seen in this context. The industrial development process presupposes continuous changes in the structure of production nationally and internationally and also entails locational shifts of production capacities between countries. Each developing country would need to tackle these development problems, their key issues and the problem areas outlined above on the basis of its national situation, but in full awareness of international trends and their driving forces.

48. The role of UNIDO should be to support these endeavours through its programmes of technical assistance, investment promotion, Consultations and studies activities along the lines suggested by the Fourth General Conference of UNIDO in its resolution on world industrial restructuring and redeployment. The UNIDO secretariat is therefore intending to direct its studies and research programme as follows:

(a) Studies will focus on identified key issues confronting individual and groups of developing countries as a service to policy makers;

(b) Studies activities will be partly undertaken and their findings be partly channelled through special advisory services to individual developing countries;

(c) The studies and research programme will include the systematic collection, analysis and provision to requesting developing countries of information relating to industrial restructuring and related policies;

(d) A series of case studies will be undertaken on the social and economic implications of redeployment, including implications in terms of regional development patterns within developing countries; and

(e) Through its studies, UNIDO - jointly with relevant regional bodies - will support the endeavours of national policy makers in various regions to follow and interpret pertinent international trends and driving forces.

V. ACTION REQUIRED OF THE INDUSTRIAL DEVELOPMENT BOARD

49. 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 of the UNIDO studies and research programme on industrial restructuring and redeployment.

Notes

1/ Lima Declaration and Plan of Action on Industrial Development and Co-operation, para. 59(c) (A/10112; ID/CONF.3/31, chap. IV).

2/ "A statistical review of the world industrial situation, 1982" (UNIDO/IS.368).

3/ United Nations Conference on Trade and Development, Handbook of international trade and development statistics 1983. (New York, 1983), p. 51.

4/ J. Toye, "Recession, the Third World and the base metal industries", World Development, vol. 12, No. 9, 1984, pp. 923-934.

5/ "Industrial development review of Zambia" (UNIDO/IS.520).

6/ Industry in a Changing World, (United Nations publication, Sales No. E.83.II.B.6).

7/ "Industrial development review for Nigeria" (in preparation).

8/ "Industrial development review for Swaziland" (UNIDO/IS.516).

9/ "An industrial development plan for independent Namibia" (in preparation).

10/ "Industrial development review for Nigeria" (in preparation).

11/ "Financing of manufacturing in Africa" (UNIDO/IS.256).

12/ Organisation for Economic Co-operation and Development, Development Assistance Committee, Development Co-operation. Paris, 1983, Table E 3.

13/ This question is subject to an ongoing UNIDO study.