

# COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL  
ON THE PREPARATIONS FOR UNIDO III :  
POLICY ORIENTATIONS

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## PREPARATIONS FOR UNIDO III : POLICY ORIENTATIONS

### Introduction

1. The Third General Conference of the United Nations Industrial Development Organization (UNIDO) to be held in New Delhi from 21 January to 8 February 1980 will be an important stage in the progress of the North-South Dialogue coming after UNCTAD V held in Manila in May of this year and before the 1980 Special Session of the General Assembly of the United Nations. The UNIDO Industrial Development Board will meet in Vienna from 12-16 November in order to finalize preparations for the Third Conference. The Group of 77 developing countries are at present meeting within three regional groups to consider the issues which will arise at the Conference and there will probably be a meeting of the whole group in December. The purpose of this Communication is to propose the political orientations that should shape to the Community attitude before and during the Third Conference.

2. The Conference will take place against a background of other meetings in the continuing North-South Dialogue which have had or will have a bearing on the industrialization of developing countries. These include the meeting of the Trade and Development Board in October and the continuing work of the Committee of the Whole. At the latter's session held in September there were long discussions on industrialization which ended without agreement being reached on a draft text which was submitted by the Group of 77. Depending on the outcome of discussions in the 34th Session of the General Assembly, the Committee of the Whole may be called upon to prepare a new round of global negotiations on North-South issues. This preparation would probably take place in the first half of 1980.

3. The work of the Conference should take account of progress being made in related areas in other fora and commitments made by the Community and other countries should be seen in the light of commitments they may have made elsewhere. It may also be appropriate to bear in mind the need which could arise for the Community to be able to take concrete initiatives at the global negotiations on North-South problems which may be held in 1980.

4. Because of the importance and complexity of the questions to be tackled, UNIDO III will need detailed and carefully programmed preparation in the context of political orientations decided by the Council. Following this Communication the Commission services will submit working documents intending proposals relating to the various agenda items of the Conference. These proposals should enable the Community to maintain its unity and take initiatives where appropriate on the different subjects under consideration. Moreover, as and if necessary the Commission will comment on the situation which emerges following the November meeting of the Industrial Development Board and the outcome of the developing countries' preparatory conferences.

5. Work on the preparation of the Conference is in progress at the UNIDO Secretariat in Vienna. Among other documents UNIDO has produced a survey entitled "World Industry since 1960 - Progress and Prospects" in July of this year, which will provide an information background for the Conference. UNIDO has also published a document entitled "Industry 2000 - New Perspectives", which among other things contains eight major proposals for action to stimulate industrial development in the developing countries. These proposals may form an important part of the basis for the New Delhi discussions and the Commission services will comment on them in detail in the working documents.

6. While UNIDO III has to be seen as part of a wider process of dialogue, it is necessary to bear in mind the specific vocation of UNIDO on matters relating to industrialization. Agreement has recently been reached on the transformation of the organization into a specialized

agency of the United Nations and according to the preamble of its constitution UNIDO " ... shall play the central role in and be responsible for reviewing and promoting the coordinating of all activities of the United Nations system in the field of industrial development". In concentrating on these tasks UNIDO will avoid interfering unduly with negotiations which are presently in progress in other fora, particularly those being held in the United Nations on transnational corporations, in UNCTAD on a code for the transfer of technology and in WIPO on intellectual property. It should also be clear that UNIDO is not a forum for negotiation of trade problems, which should continue to be treated in GATT and UNCTAD.

7. There is a general need to improve coordination between different agencies and organizations within the United Nations system and especially between UNIDO and UNCTAD whose work is generally carried on in fields which are more or less closely related. This approach should help avoid unnecessary overlapping and duplication of effort and make it possible for United Nations agencies to improve their own effectiveness. The Community should generally adopt a very cautious approach on the creation of new institutions and rather stress the need for making the best possible use of the existing institutional framework.

8. In considering the financial implications of any decisions taken at the Conference it will be necessary to bear in mind the existing arrangements for funding of projects and activities which exist within UNIDO and the United Nations system in general, so that an overall view of funding arrangements and priorities can be maintained.

9. In the Community's general approach to industrialization issues it will be extremely important to avoid the temptation to classify countries into two groups, industrialized and developing, and bear in mind the great differences in types of industrial structures which may be found within the group known as the industrialized countries and among the developing countries where widely differing levels of industrial development require different approaches to for example the fast growing newly industrialized countries on the one hand and the least developed countries on the other.

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10. Industrialization is part of a wider process of development and cannot be seen in isolation. It is essential that the work of UNIDO III takes into account overall development priorities and sees industrialization goals in their proper perspective among these priorities. It is also necessary to keep in mind linkages between industrialization and developments in other sectors. For example rural development and the development of the agricultural sector can have an important impact on the type of industrial development which may be appropriate for any particular country. The linkages between agriculture and the development of agro- and food processing industries and the fertilizer and agricultural machinery sectors are clear.

#### The Lima Target

11. It is expected that one of the major issues arising at New Delhi will relate to the fulfilment of the Lima target adopted at the Second General Conference of UNIDO, which stipulates inter alia that the share of developing countries in world industrial production "should be increased to the maximum possible extent and as far as possible to at least 25 % of total world industrial production by the year 2000 while making every endeavour to ensure that the industrial growth so achieved is distributed among the developing countries as evenly as possible". As became evident at the September session of the Committee of the Whole, the developing countries would no doubt like to see the international community accept an absolute commitment to realization of the 25 % figure. Although the Community would certainly wish to see the developing countries achieve such a target, it is difficult to see how the Community could accept an absolute commitment of this kind. Various predictions have been made about the likely share of developing countries in world industrial production at the end of this century and an extrapolation of the tendencies observed in the period 1960-1975 would give developing countries a share of approximately 14 % by the year 2000 compared to their share of about 9 % in 1977. However, trends observed since 1974 would tend to suggest that the 14 % figure is too pessimistic, particularly in the light of the slowing of the rate of growth of industrial production in developed countries. Nonetheless the 25 % target figure remains very ambitious and whether it is attained or not depends on a wide range of factors whose evolution is difficult to foresee at the

present time, not the least of which will be the efforts made and policies pursued by the developing countries themselves in their industrialization. The Community should therefore continue to view the 25% figure as a desirable target as accepted in Lima without in any way suggesting that this is a firm commitment on its part.

#### Industrial Cooperation between Developing Countries

12. Recent discussions in meetings held among the Group of 77 developing countries have placed great emphasis on the ideas of cooperation and collective self-reliance among developing countries. These ideas have found an echo from the international community as a whole in the Buenos Aires Programme for Technical Cooperation among Developing Countries adopted in 1978 and in the UNCTAD V Resolution on economic cooperation between developing countries. It may be anticipated that this theme, under the heading of Industrial cooperation between developing countries, will be important at UNIDO III. The Community has generally adopted a positive approach to developing countries' efforts in this field and has for example given assistance to the ASEAN countries and the members of the Andean Pact in their efforts at regional integration. Moreover, the substantial contribution made by the Community in supporting the ACP countries' own efforts should be borne in mind. The Community should be willing to support appropriate initiatives in this field which may be put forward in New Delhi. There is no doubt that there are complementarities in the industrial structures of developing countries which are waiting to be exploited and the possibilities of assistance from one group of developing countries to another in the industrial, trade, technological and financial fields are considerable. The idea of collective self-reliance should not be seen as a panacea which will on its own make the realization of all developing countries' industrialization aims possible, but rather as a complement to the existing indispensable activities in the field of North-South cooperation. In the institutional field it will be necessary for the Community to ensure that arrangements made to stimulate efforts at cooperation between developing countries are compatible with the universal vocation of UNIDO and other United Nations agencies.

### Social Aspects

13. The Commission believes it would be desirable for the theme of social aspects of industrialization to emerge clearly from the work of UNIDO III. In particular it should be stressed that industrialization is not only a desirable goal in itself, but must make possible an overall improvement in living standards in developing countries, including especially the workers directly concerned. Rising living standards in developing countries, desirable in themselves, also provide economic benefits by increasing the domestic markets available to manufacturers in developing countries. In this respect, the Commission should underline the proposals put forward in its communication to the Council (Document COM(78)492 final). These examine the problems of ensuring that certain international norms in working conditions are respected when aid policies and trading advantages for developing countries are being put into effect.

### Redeployment

14. The question of redeployment of industries from developed to developing countries is likely to occupy a prominent place in the New Delhi agenda. It will be necessary to define what is meant by the concept of redeployment and here the UNIDO Secretariat has put forward the useful idea that redeployment may be defined as the transfer of capital, technology, know-how, plants and other resources by an operating industrial enterprise in a developed country to a developing country in order to establish a manufacturing capacity in that country. The process of redeployment is closely linked to the issue of structural adjustment within individual economies. In its approach to this question the Community will need to emphasize the fact that adjustment is a continuous process which has been going on in its economy and will continue into the future. In this context, the opportunity of being able to foresee, as far as possible, such adjustments should be underlined. The Community should also explain its view of the role of public authorities in stimulating and facilitating the adjustment process, whether this be in the form of direct intervention or through measures such as the provision of unemployment benefits, re-training facilities and measures in the context of social and regional policies which can create the conditions in which adjustment can take place more easily<sup>1/</sup>. The Community should be ready to pursue structural adjustment ./.

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<sup>1/</sup> In this context it would be useful to be able to provide appropriate documentation in New Delhi on adjustment policies pursued by the Community and member states.

policies with a view inter alia to encouraging domestic factors of production to move from the lines of production which are less competitive internationally, particularly where the developing countries have or will have an identifiable long-term comparative advantage.

#### Processing of Raw Materials

15. In the related field of reprocessing of developing countries' raw materials production the Community should stress the need to base decisions on the location of the processing plant, on considerations of comparative advantage and express readiness through its policies with respect to processed and semi-processed forms of raw materials to contribute to the establishment or expansion of the industrial capacities of developing countries for processing raw materials which they export. It is clear that the growth of industrial production in developing countries which is implied in the Lima Declaration and Plan of Action means a great increase in the processing capacity of developing countries both for exports of processed raw materials and for domestic use in the manufacturing sectors.

#### Financing of Industrialization

16. A more rapid industrialization of developing countries will require financing both from domestic and external sources on a massive scale. The external financing needs should be provided from both private and public sources in the developed countries and from developing oil producing countries which enjoy balance of payment surpluses. It is clear that no one type of financing will be appropriate for all the varied needs in the industrialization field and a balanced overall approach to the problem will be needed. As far as the Community is concerned, the greater part of the financial support for industrial projects in developing countries will probably come from private sources, whether this is through foreign direct investment or loans for industrial projects provided through the banking sector. There will also be an important role for non-concessional funds provided through public agencies and for official development assistance, particularly for the least developed and other low-income developing countries. Official



aid will also provide an important contribution to the creation of the infrastructural base in low-income countries and will be used in cases where it can contribute to set in motion an industrialization process or in support of regional industrial cooperation between developing countries.

### The Role of Foreign Direct Investment

17. The Community should stress the role of foreign direct investment in the industrial development of the developing countries, particularly through the transfer of resources, managerial and administrative expertise and technology to developing countries, the expansion of productive capacity and employment and the establishment of export markets. The importance of this role is already clear from the fact that about 25% of the foreign-based production of transnational corporations is now found in developing countries. In the past too little stress has been placed on the contribution which small and medium-sized investments can make in developing countries, for example through their contribution to rural development. This aspect should be stressed by the Community in New Delhi. It will also be important to stress that the best way to promote private direct investment in developing countries is to create and maintain mutually accepted investment conditions. In this respect, the importance of sufficiently clear and certain conditions favouring the inflow of foreign investment to aid economic development should be underlined. At the same time the Community should make it clear that it does not wish to impose any particular model for industrial development on developing countries and that developing countries should be free to determine the role that foreign investment may play in their development process.

### Technology

18. In the field of technology the Conference should avoid interfering with the work going on in other United Nations fora. The need for efficient coordination between UNIDO and other organs of the UN family dealing with science and technology (UNCTAD, Intergovernmental Committee on Science and Technology for Development, etc.) should be stressed. The Community should be ready to adopt a constructive position towards proposals aiming at concrete action of UNIDO in the fields of

industrial technological information and of technical assistance to developing countries for the adequate application of industrial technologies and for the strengthening of their indigenous scientific and technological capacities.

### Energy

19. One of the major problems in world industrialization until the end of the century will certainly be in finding adequate sources of energy. This question is not formally on the New Delhi agenda, but could well appear in one form or another in the discussions. It is clear that, should this arise, energy constraints will have to be taken into account, especially in the context of attaining the objectives set at the Lima Conference. The question of UNIDO's role in this field will also have to be considered.

### The System of Consultations

20. UNIDO III will have to take concrete decisions on the continuation of the system of sectoral consultations which was initiated in the Lima Declaration and Plan of Action. Sectoral consultations involving representatives of governments, business, industry, trade unions, consumers and international organizations have been organized for six sectors since 1977 and the Conference will be called upon to adopt appropriate rules of procedure for the consultations to continue as an ongoing activity of the UNIDO. The Community should take the view that the consultations should be continued but that they should not become a forum for negotiations between governments but rather be seen as a forum for discussions which will help to give a clearer picture of the future development of the various sectors concerned and thereby assist governments and industries in policy formulation. However, the Community should now consider accepting the principle that governments be represented as such at each consultation meeting where the member states have delegations and should be willing to examine whether the system of consultations could be established on a permanent basis providing that agreement is reached at New Delhi on satisfactory rules of procedure which take account of the Community's view of the nature of the consultations.

Community Coordination

21. Throughout the Conference the Community will express its points of view in conformity with the dispositions already agreed for international discussions. The participation of the Community as such will be assured in those areas which fall within its competence and the Community should act in common on those questions which have a particular interest for it. In the opinion of the Commission the Community will only be able to play a role commensurate with its stature if it succeeds in putting forward and defending common positions on all of the points on the Conference agenda. Experience at a number of recent major international gatherings has shown the great advantages to be gained by the maintenance of common positions and demonstrated the influence which such positions can have on this type of forum.