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COMMISSION COMMUNICATION TO THE COUNCIL

Preparation of the Fourth General Conference of the
United Nations Industrial Development Organisation (UNIDO IV)
Vienna, 2-18 August 1984

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BACKGROUND AND INTRODUCTION

UNIDO IV will be one of the main events in the North-South dialogue in 1984 and will be the most significant international conference of this type since UNCTAD VI in June 1983. UNIDO IV is being prepared in the absence of a decision to launch global negotiations on international economic cooperation for development. North-South discussions are at present taking place against a background of the poor economic and industrial progress of many developing countries, preoccupation with world financial and monetary arrangements, and concern over the functioning of the world trading system. The preparation of the Conference also comes at a time when signs of economic recovery are becoming clearer in a number of industrialised countries. Apart from being a forum for discussions of problems and issues in world industrialisation through its General Conference and through the UNIDO System of sectoral Consultations, UNIDO has an important role as the U.N. body for delivery of technical assistance in the field of industrialisation.

The history of UNIDO General Conferences has not been a happy one. UNIDO III in New Delhi in 1980 ended in deadlocked negotiations and confrontation, with the New Delhi Declaration and Plan of Action being adopted by majority vote, and with all the countries of Group B except Turkey voting against the text. Among the many stumbling blocks at this Conference had been proposals for a 300 billion dollar fund for industrial development and for disaggregation of the Lima Target for the 25% share of developing countries in world industrial production in the year 2000 by sectors and regions.

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Although the Second General Conference of UNIDO in 1975 ended with a broader measure of agreement, and only the United States voted against the text as a whole, other industrialised countries expressed their disagreement or reserve on parts of the Lima Declaration and Plan of Action, and a number of them did not subscribe to the 25% target for the year 2000.

UNIDO IV will probably be the last U.N. conference in this format on world industrialisation, since it is likely that UNIDO will be shortly transformed into a specialised agency of the U.N., and following this, UNIDO, in its new form, will hold General Conferences of possibly more modest political dimensions on a biennial basis.

Preparation for UNIDO IV has been under way for some time, since it had originally been anticipated that the Conference would be held at an earlier date. The UNIDO Secretariat has organised international expert group meetings to consider five of the main issue areas of the Conference and is at present issuing the secretariat documentation for each of the agenda items. (See annex for Agenda). The major outstanding events in the preparatory calendar will be the four developing country regional ministerial meetings, which will consider the issues before the Conference between March and April of this year, and the meeting of the UNIDO Industrial Development Board, which will act as the Preparatory Committee for the Conference, from 2-18 May.

NEW DELHI AND LIMA DECLARATIONS AND PLANS OF ACTION, RETROSPECTIVE AND PERSPECTIVE

Under agenda item 4 - New Delhi and Lima Declarations and Plans of Action: retrospective and perspective - the Conference will review developments in world industrialisation. Some attention will concentrate on the extent to which progress is being made towards the Lima target, and the Community will be bound to recognise that progress in industrialisation in developing countries between 1975 and the present time has been disappointing. From the outset it should be said that it is very difficult to measure what is the share of developing countries in world manufacturing value added at any point in time, and there are components of industrial value added in developing countries which are very difficult to evaluate precisely or at all. The UNIDO Secretariat itself has had difficulties with this; for example, at the time of the Lima

Conference it was thought that the share was about 7%, whereas the Secretariat now believes that the share was in fact 10% in 1975. The Secretariat's estimate for 1982 is 11%, implying that in the seven years following the adoption of the Lima target the share of developing countries in world MVA had increased by only one percentage point. In fact the years 1975 and 1982 are not entirely representative, since 1975 was probably a relatively favourable year for developing countries in that the industrialised countries were at the bottom of the 1974-1975 recession, whereas for a variety of reasons, both oil-producing and non oil-producing developing countries were able to maintain, or even increase, their levels of economic activity through this period. On the other hand, in the present recession the developing countries have been more adversely affected by the downward movement in the economic cycle than the industrialised countries, so that the figure for 1982 is relatively low in relation to the longer term trend. According to the UNIDO Secretariat an extrapolation of present trends in the share of developing countries in world manufacturing value added (MVA) would give them 14.9% in the year 2000. In the Communication to the Council prepared in 1979 in advance of UNIDO III the Commission noted that there were some grounds for thinking that developing countries might be able to do better than this extrapolation exercise would suggest. Although experience in the present recession is discouraging, the Commission would not change its view of the likely long-term development. It must however be noted that the 25% figure appearing in the Lima Declaration is well outside the range of likely possibilities.

It should also be noted that according to UNIDO statistics, the major shifts in shares of world industrial production have not been essentially from industrialised to developing countries, but over a long period since the Second World War were from the United States to Japan and Eastern Bloc countries. More recently, the share of the European Community in world industrial production has apparently fallen, while the shares of Japan and the Soviet Union have pursued their tendency to increase. At the same time, certain developing countries have made significant gains, while others have seen their shares stagnate or even fall back.

As the UNIDO Secretariat notes, there have been striking differences in performances between areas of the developing world in industrialisation. Progress has been particularly disappointing in

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Latin America, where the share of the region in world MVA stagnated in the period 1975-1982. In fact there was some increase in the late 1970s which was cancelled out in the great difficulties experienced by almost all countries in this region at the beginning of the 1980s. Nonetheless, Latin America still accounts for just over half of manufacturing value added in all developing countries.

In contrast with the poor performance of Latin America has been the relatively rapid increase in the share of south and south-east Asian countries from 2.7% in 1975 to 3.4% in 1982. In fact this region accounted for the lion's share of the increase in the share of developing countries as a whole. Within this group, a number of countries in east and south-east Asia have been particularly dynamic performers.

The share of Africa increased from 0.88% in 1975 to 1.11% in 1982, but this continent's share remains modest, and here again, a large part of the progress in industrialisation occurred in a number of countries including particularly some of those with a Mediterranean coastline, which already enjoyed a significant industrial base, while in Africa south of the Sahara performance was variable, and in many countries progress was slow.

It is striking that there was no relative improvement of the position of the very poorest countries, the least-developed, whose share in world MVA has remained below 0.2% since the end of the 1960s, and has even tended to fall.

Finally it should be noted that the position of China is not taken account of at all in all these statistics, so that the shares given are the shares in world MVA less China's MVA. This is because of the paucity of information on Chinese industrial production. The UNIDO Secretariat provides an estimate for China's share suggesting an increase from 2.93% in 1977 to 3.83% in 1980.

One of the purposes of the Conference should be to see how and why all these developments occurred and to see what lessons can be drawn from this experience. Of course the explanations for differing performances are complex and varied and are to be found both in international economic developments and in the policies pursued and events occurring in individual

countries or groups of countries. One of the major factors explaining developments which have occurred has been the social and economic environment prevailing in different parts of the developing world. Obviously, countries which have enjoyed long periods of stability have had a better chance to improve their position than countries which have known frequent and disruptive internal and external events. However, UNIDO IV should be concerned with economic problems, rather than political developments.

The World Bank's 'World Development Report' of 1983 has drawn attention to the value of an effectively working price mechanism in the allocation of resources in promoting economic development in general, and this is no doubt particularly valid for the industrial sector. This might provide some clue to the background to the strong performance of some east Asian developing countries.

There is no doubt that world financial developments have played a significant role in the evolution that has occurred, and Latin American countries among others have certainly suffered because of the world debt crisis which built up at the beginning of this decade, and then broke in the autumn of 1982. Here the very high level of U.S. interest rates was a key factor in just the same way as the very low level of U.S. interest rates prevailing in the early and mid-1970s helped these countries to maintain their level of economic activity and pursue their industrial development through the 1974-75 recession with the assistance of borrowed funds. It should be stressed, however, that while debt problems are a very major factor in the economic problems of many developing countries, domestic developments have also played a significant role, and some other developing countries have been able to increase exports more rapidly and in parallel with growing debt service, and so combine a high level of indebtedness with continuing economic and industrial growth.

Another factor in industrial performance is the ability to develop technology and then innovate by assimilating this successfully into the production process, and differences in the extent of innovation in different parts of the world have certainly been responsible for some of the differentials in performance. Over the past few years, it appears to have been the case that the United States, Japan and some parts of developing Asia have been able to innovate in industrial production more successfully than Western Europe or Latin America for example. In many parts of the

developing world there is a preoccupation with failure to assimilate new technology in contrast with the development of 'hi-tech' industries in the United States and Japan. To the extent that 'hi-tech' or 'sunrise' industries account for a growing share of manufacturing value added in the world as a whole, countries in which traditional 'smoke-stack' industries maintain their place in the industrial structure will see their share in world MVA tend to decline. This indeed has been at the centre of the Commission's preoccupations with respect to the Community's own industrial performance. It has been argued that high technology industries are not necessarily appropriate for application in developing countries, but in practice it is very difficult to establish any generally applicable rules or principles as to what levels of technology are appropriate in different countries and industries, and it can certainly be concluded that one form of innovation or another can make a substantial improvement to the productivity of many industries in developing countries, and help to create new ones.

There are significant links between industry and other sectors of the economy, and a strong performance in the agricultural sector can have a positive effect on industrialisation by improving the foreign exchange position of a country and by stimulating food processing and other industries connected with agricultural development.

In considering these matters, it is worth reflecting on the fact that UNIDO's subject matter means that it is bound to focus some attention on the performance of individual countries or groups of countries which is not always the case for other U.N. agencies. The Secretariat is therefore obliged to deal with questions which contain inherent political problems, and should on the whole be commended for its handling of these in its documentation.

In commenting on developments at the Conference, the Community should draw attention to the fact that industrialisation is only one aspect of economic development and is not necessarily an absolute priority. In many low-income developing countries for example agricultural development may be more important while in advanced industrialised countries, the service sector will normally account for a growing share of GNP at the expense of the manufacturing sector. This means that there will not always be a close correlation between a country's share in world MVA and its share in world GNP and global economic well-being.

The discussions on item 4 should not necessarily lead to agreement on precise measures by UNIDO or particular countries or groups of countries, but should rather attempt to review what is going on, so that all countries can draw their own conclusions from present developments, and see whether these conclusions will lead them to introduce any changes in their industrialisation policies. The Community could take account of the above comment in its statements in the plenary session under this agenda item.

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

The main substantive issues in the remainder of the agenda appear under item 5 under the overall heading 'International cooperation, relevant national actions including industrial policies, and UNIDO's contribution in critical areas of industrial development 1986-2000'. The Commission staff will submit detailed working papers on these issues as a basis for Community preparation for the Conference over the next few months. The following considerations on these items are therefore intended only to provide general orientations for the Community.

Human Resources

Under the heading of item 5, the first sub-item is 'accelerated development of human resources for industrial development'. This should be a relatively uncontroversial issue, since the need to pay additional attention to human resources' development is almost universally recognised. The Community and ACP states in the second Lomé Convention are paying much greater attention to this area than had hitherto been the case.

At the multilateral level, it is essential that UNIDO, ILO and UNESCO work closely together so as to establish and operate programmes and activities with the maximum effectiveness in this area. At the national level in developing countries, resources should be devoted to industrial manpower training in relation to the industrial needs of the country. For this to be done it is of course essential for a developing

country to have some view of future needs in this field so that there can be a match between education and training programmes in educational establishments and industry, and the actual needs of the country. On this point the First UNIDO Consultation on the Training of Industrial Manpower held in Stuttgart in November 1982 concluded that "Integrated Human and Resource planning including a clear national policy to develop the training of industrial manpower to meet present and foreseeable needs in regard to the complementarity between national education and industrial training systems" was a basic element facilitating the mastering of the industrialisation process by developing countries. As far as the Community is concerned, a very large number of developing country nationals receive education and training in different organisations within the Community, and the Member States will certainly be ready to keep open and even in some cases expand the opportunities available.

Technology

The strengthening of scientific and technological capacities for industrial development in developing countries is likely to be an important agenda item. As already mentioned above, effective development and use of technology is a very crucial component in industrial progress, and it is certainly essential for developing countries to develop and use the most appropriate technology for innovation in industry. UNIDO has an important role to play in this area.

The Conference should not focus too much on terms and conditions of transfer of technology from industrialised to developing countries; these matters are under discussion in other fora, and UNIDO is at present probably devoting at least as much attention as it needs to this area of work through its work in the field of model contracts and licensing agreements. In passing, it may be noted that increased direct foreign investment can in many cases be a valuable way for developing countries to acquire the benefits of production techniques developed elsewhere.

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UNIDO seems likely to place some emphasis on the need for joint efforts to organise research in different fields between countries so that the indigenous technological capability of the developing countries can be increased. More international cooperative efforts in this direction should certainly be welcomed, but they should correspond to a real demand, and not be creations of an essentially bureaucratic or political character. There is no reason why such cooperative efforts should be confined to developing countries alone or indeed to industrialised countries alone; rather they should be organised so as to provide the maximum benefits to the developing countries in particular, at minimum cost to all involved.

Financial Resources

As already noted, this area provided one of the major stumbling-blocks which prevented a successful outcome to the third General Conference. Since 1980, discussions have been going on in the IDB on the question of financial resources for industrial development, particularly in relation to the UNIDO' secretariat's proposal for a 300 billion dollar international bank for industrial development (IBID). The Community has argued that discussion of a proposal of this type is really outside the scope of UNIDO since in reality it must be considered as a proposal relating to the more general question of transfer of resources from industrialised to developing countries, and issues of this type are more properly discussed in the Bretton Woods institutions, or perhaps in UNCTAD. Accordingly, the Community should make it clear from the outset that UNIDO IV cannot be in the business of negotiating proposals which in fact involve major reform of the world monetary and financial institutions. However, the Community should be ready to look at issues which relate particularly to industrial financing, for example, problems which developing countries have in funding individual projects.

At the same time the Community should be ready to enter into a discussion of the implications of world financial developments for industrialisation and see what lessons may be drawn from recent or present experience. In its documentation the UNIDO Secretariat comments on the vagaries of the western monetary system, .

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and recommends that developing countries use local currencies more in trade transactions between themselves. However, in so doing, the UNIDO Secretariat seems to ignore the reasons why developing countries are so dependent on their limited reserves of currencies of western countries. A major reason is of course that the currencies of many developing countries do not represent a sufficiently stable store of value or medium of exchange, but these are matters which relate to financial policy in developing countries themselves and are difficult for a body such as UNIDO to come to grips with in a meaningful way. With respect to the general criticisms of the world financial system which have been made by developing countries, UNCTAD, and the UNIDO Secretariat, it should be mentioned that the Community itself has on a number of occasions criticised the degree of interest and exchange rate instability now prevailing, and particularly the present level of interest rates, and has called for greater stability in world financial arrangements.

The Secretariat is to be congratulated for drawing attention in its documentation to the key question of the savings ratio in developing countries in relation to the need to mobilise adequate resources for industrial development. At the same time, many developing countries will continue to require access to substantial financing from external sources and the Community should give its views of the role of aid flows, commercial bank lending and direct foreign investment in contributing to the industrialisation process.

Energy

It appears to be in the interest of all countries to promote a wide-ranging discussion of energy issues in relation to industrialisation, considering that such problems are not really adequately treated elsewhere in multilateral fora. The UNIDO Secretariat has noted that many developing countries have to import large quantities of energy, and the cost of fuel imports for oil-deficient developing countries is now running at 50 billion dollars annually. Given the financial constraints facing many developing countries, reliance on imported energy can be a restriction on industrial development. However, experience in recent years has shown that

growth and industrial development need not necessarily be as energy-intensive as was once thought inevitable. In particular, technological advances can in many cases reduce the requirement to burn fossilized fuels. The Conference might therefore usefully focus on further developments in improving industrial energy efficiency and in increasing self-sufficiency and strengthening and diversification of the energy resources base in developing countries.

World industrial restructuring and redeployment

Apart from being a particular point on the agenda, this issue is the central theme underlying the Conference discussions as a whole, and is closely related to the evolution of world trade. The Community and other industrialised countries are often criticised for allegedly protectionist policies, and UNIDO's documentation does not fail to recall this theme. The Community should point out that the open multi-lateral trading system has in substance remained intact. In spite of the present recession the volume of world trade has only declined marginally, and is probably once more on the increase. This suggests that trade flows have been affected more by changes in levels of demand than by particular protectionist measures.

The UNIDO Secretariat in its documentation seems to have acquired a more refined approach to issues of adjustment and redeployment, and the idea of simply transplanting industries from industrialised to developing countries has largely disappeared from the Secretariat's thinking. In its approach to this issue, the Community will need to emphasise the fact that adjustment is a continuous process which has been going on in its economies and which will continue into the future. In this context, the desirability of being able to foresee adjustment trends should be stressed, and the Community should explain its view of the role of public authorities of stimulating and facilitating the adjustment process, whether this be in the form of direct intervention or through measures such as 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. The Community should be ready to pursue

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structural adjustment policies with a view inter alia to encouraging domestic factors of production to moves from lines of production which are less competitive internationally, particularly where the developing countries have, or will have, an identifiable long-term comparable advantage. The main instrument contributing to structural adjustment continues to be the maintenance of an open market, which in turn will be facilitated by favourable economic conditions.

Economic cooperation among developing countries (ECDC)

This subject is likely to be one of the main themes of the Conference, and in a general sense is prominent in the preoccupations of the developing countries present. Numerous meetings at ministerial level among the Group of 77 have in recent years looked for ways to strengthen ECDC, but in some cases these gatherings have produced more political rhetoric than identifiable action. Nonetheless, it can be observed that over the last decade, trade between developing countries has increased more rapidly than world trade as a whole. There have been numerous efforts at regional economic integration and in UNCTAD efforts are being made to establish a generalised system of tariff preferences between developing countries. The Community has traditionally adopted an open-minded and positive approach to regional integration efforts, and indeed has in a number of cases provided substantial material support.

In its documentation the UNIDO Secretariat dwells somewhat on the problem of external economic vulnerability of developing countries as a group, relating this to the general phenomenon of world economic interdependence. Some readers of this documentation might be tempted to conclude that developing countries should strengthen the extent of their collective self-reliance to the detriment of further efforts in the field of North-South cooperation, but this is not really the conclusion of the UNIDO Secretariat which, like the Community, feels that South-South cooperation should be a complement to intensified North-South cooperative efforts. The UNIDO Secretariat seems to confuse the external economic vulnerability of the South as a whole, and the vulnerability of individual countries to external developments. These should be considered as separate issues. In general, the Community would maintain that with appropriate management of financial

industrial and trade policies, it is in the interests of individual countries to maintain open economies, and for volumes of international trade and investment to increase, and the thrust of policy should be directed towards bringing about an allocation of resources that will generate the greatest industrial wealth and make the greatest contribution to national welfare. The small economic size of many developing countries constitutes a major handicap to their industrialisation, and further efforts at integration should help to alleviate this handicap. The UNIDO Secretariat comments that South-South joint ventures owned and managed by developing countries may be a superior form of industrial integration to the creation of customs unions and other forms of market integration schemes. It would be better for the Conference to avoid judgements of this kind and rather encourage developing countries to work towards efforts at integration which will have an effect both on the private and the public sectors. Incidentally, it is interesting that the Secretariat should so clearly advocate joint production ventures between developing countries, since in other meetings representatives of the Secretariat often comment on the practical and political difficulty of getting developing countries to cooperate in such ventures.

Finally, it may be noted that UNIDO has recently come to devote an increasing part of its resources to meetings related to economic cooperation between developing countries, and it is striking that activities in this field have attracted less comment from industrialised countries in UNIDO than is the case when the same matters are discussed in UNCTAD. The Community continues to support work in the field of economic cooperation among developing countries by the UNIDO Secretariat, but should at the same time insist on the maintenance of the principle of universality of the United Nations system.

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The activities of UNIDO

The Conference will of course be an occasion to review the different activities of UNIDO in providing direct assistance to industrialisation in the developing countries, and the Member States of the Community will certainly continue efforts to make UNIDO's technical assistance more effective, particularly in the light of the recent U.N. evaluation of these activities. UNIDO should also be encouraged in its work in the field of investment promotion, and a reasonable part of the Secretariat's resources should continue to be devoted to monitoring and examining of trends in world industrialisation both in general and at sectoral level, since this work can be of great value in identifying and in some cases overcoming difficulties in industrial development, and in formulating industrial policy in developing countries. The analysis resulting from this work is often of high quality and this is certainly true in the case of the Secretariat's publication 'Industry in a Changing World', which is a special issue of the Industrial Development Survey for the Fourth General Conference.

The UNIDO system of sectoral Consultations is currently under review in Vienna, and there are many, both in the developing and industrialised countries, who feel that the System of Consultations could be made a more effective instrument in further industrialisation. The Community's representatives should continue to express the view that the consultations sometimes concentrate too much attention on issues which are of rather an abstract nature, and that Consultations should in the first place attempt to examine what is really going on in the industrial sector covered, and then attempt to draw conclusions and recommendations on appropriate policy and actions from this analysis of actual experience. This relates to a more general point that UNIDO sometimes attempts to look for generally applicable solutions, where problems in fact arise in quite different forms in different countries. Obviously, industrialisation issues arise in Least Developed countries in a different way to the newly industrialised countries, but even within these groups individually tailored solutions are required for different countries in formulating industrial policies.

One issue which is not covered extensively in the Secretariat's documentation is the relationship between industrialisation and the environment. The Community might comment on this point and explain that it is better to foresee environmental problems in industrialisation before they arise, rather than dealing with them afterwards. This would be the way to achieve environmentally sound industrial development. The Community could indeed offer assistance to developing countries and UNIDO in this field, as well as encourage cooperation between UNIDO and the United Nations Environment Programme.

CONCLUSION

The matters discussed above will need to be considered in much more detail by the Community in the course of the next two or three months.

It is likely that the Conference will be an occasion for a general review of policy, rather than a decision-making forum, but the Community should consider whether any policy initiatives might be taken, possibly in such fields as human resources development, technology development, energy for industrialisation and assistance in project identification and feasibility studies. The Conference should of course be an occasion to try to establish between the industrialised and developing countries a common view of progress and problems in world industrialisation and to the maximum extent possible, agreement on the general policy orientations which will be required in order to make possible further progress in developing countries. From the organisational point of view it would be better for the Conference to formulate its conclusions in the form of resolutions in separate areas, rather than draw up a single document in the form of a declaration and plan of action in which the overall result of the Conference would depend on agreement being reached on certain issues which might prove particularly controversial. In fact, there are some signs that the Group of 77 in Vienna at least may be looking for the Conference to achieve as broad an area of consensus as possible, so as to provide a better political base for UNIDO's work in the future, and bring industrialisation issues more into the forefront of North-South discussions. It is to be hoped that this moderate and pragmatic attitude will prevail in the regional ministerial meetings of developing countries and that this, combined with a positive lead from the Community and other industrialised countries, will make possible a more clearly positive outcome. UNIDO I then was the case at the