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UNIDO III — A Preview

by Manfred Stegger, Hamburg*

The Third UN Conference for Industrial Development (UNIDO III) will be held in New Delhi on January 21-February 8, 1980. Which demands will the developing countries address to the industrial countries on this occasion? And what are the chances of these demands being met?

The United Nations Industrial Development Organization (UNIDO) was set up in 1967 as a sub-organization of the United Nations Development Program (UNDP) for the purpose of rendering technical assistance to the developing countries in their industrialization efforts. At its second conference, in Lima in 1975, it adopted the "Lima Declaration" and a plan for action with long-term development targets. At the same conference it was decided to transform UNIDO, which had been dependent upon the UN General Assembly, into an autonomous special organization of the United Nations. The details were agreed after several years of negotiation and from 1980 onwards UNIDO will probably carry on its work with an independent administration and budget.

In preparation of the third conference a UNIDO working group elaborated a study which is intended to serve as a basis for the discussions at UNIDO III¹. It contains several hundred pages of situation analyses in regard to various problem complexes bearing on industrial development. Concrete measures have been deduced from each of these analyses, and these are recommended to the conference for adoption.

What will be the attitude to the UNIDO proposals of the "Group of 77" which includes by now 119 developing countries is not yet known. Since UNIDO regards itself as the representative of the interests of the Third World, it may however be assumed that its basic position is shared by most developing countries and that the discussion at the conference will follow the

lines traced in the UNIDO study which are summarized here.

The "Lima Objective"

A sufficiency of job opportunities to solve the ever more urgent employment problems can, according to UNIDO, be achieved in the developing countries only by means of increased industrialization. Only in this way production can be diversified and the dependence upon the industrialized countries diminished. The UNIDO conference in Lima in 1975 therefore adopted an ambitious industrialization target: by the year 2000 the developing countries are to raise their share of the world's industrial production from its then level of 8.6 % to 25 % so as to make up for at least part of their enormous industrialization arrears. The moral justification for this target is undisputed. It is after all a fact that two-thirds of mankind are living in the Third World. But doubts must be registered about the possibility of reaching a 25 % share of world production in such a short time. By 1977 the Third World's share had risen only insignificantly to 9.0 %, and by the end of the century it will most probably – despite the greatest efforts – not be much more than 15 %². Nevertheless UNIDO abides by its publicity-commanding target figure and bases all its industrialization proposals on it. Whether this shows

¹ UNIDO: Industry 2000 – New Perspectives, Vienna 1977, ID/CONF. 4/3.

² This also emerges from the model computations of UNIDO itself. Cf. UNIDO: Industry 2000 – New Perspectives, op. cit., p.89 ff.; and J. D o n g e s : Zur Industrialisierungsprojektion der UNIDO (On UNIDO's industrialization projection), in: Wissenschaftlicher Beirat: Auf dem Weg zu einer neuen Weltwirtschaftsordnung, Stuttgart 1978, p.98f.

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lack of realism or political prudence need not concern us here.

However, if it turns out in 20 years' time that the developing countries have overrated their own resources and the potential for change in the world economy, an evil waking will be inevitable. In any case it would make more sense to set concrete and realistic short-term targets and to base one's policies on these rather than on unattainable long-term objectives.

Collective Self-Reliance

The old international economic order is, according to UNIDO, marked by a preponderance of the industrialized countries. Not only does this show up in industrial production but it is reflected by the international law and in the institutional and administrative sphere. The future industrial development must not follow the principles of the old international economic order any further. The developing countries must be aware of their own potentialities and trust in "Collective Self-Reliance".

On the international scale the model of "Collective Self-Reliance" which has been much talked about in recent years is contrasted with the traditional development through "Global Interdependence" as an ideal type. The substantive content of the new strategy is still rather vague and indeterminate³. Cooperation between developing countries is to be strengthened — for instance, by increased trade. By this means and with the help of international organizations the developing countries are to increase their — so far limited — bargaining power and to press for a modification according to their ideas of the "rules of the game" in North-South relations. Collective Self-Reliance does not however, according to UNIDO, amount to a segregation of the developing countries from the world market. They will admittedly continue to be dependent upon cooperation with the industrialized countries.

In the industrial area UNIDO advocates a concept of "endogenous industrialization" as distinct from the two strategies of export promotion and import substitution which are held to be too outward-orientated. Indigenous resources and appropriate technologies are to be used in great measure, the basic needs of the population are to be taken into consideration, and distribution aspects are to be borne in mind.

The Lima objective cannot be attained even approximately unless industries are on a large scale relocated from the industrialized to the developing countries. How this regrouping process, the "redeployment", is to be handled has long been a bone of contention between the First and Third Worlds as became clear again at the most recent UNCTAD conference. While the industrialized countries are as a rule arguing in market-economy terms and stressing the autonomy of the individual businessman making his own decisions which leaves the state only with indirect means of exercising an influence, the developing countries are fundamentally suspicious of the directive mechanisms of the market economy. In their view the industrialized countries should pursue an active anticipatory structural policy, with the state identifying sectors which are no longer competitive and inducing the relocation of productions in developing countries.

UNIDO dissociates itself in a significant manner from this widely-favoured *dirigiste* approach. The redeployment is regarded as a necessarily and quasi-automatically progressive process in which the individual countries have to specialize in accordance with their comparative cost advantages. UNIDO therefore considers centrally planned relocation unnecessary. From the governments of the industrialized countries it only demands that they should accept this process in principle and that they should not preserve an obsolete structure by subsidies and protective duties — to the detriment of the developing countries and in the long run also to their own disadvantage.

The only concrete measure recommended in this sphere is a further extension of the sectoral consultation system which has been operated by UNIDO for several years already. Under this system firms and governments involved in structural changes are brought together for informative talks, and this is to continue in a permanent form and for all important sectors.

New Financial Order

The large investments needed to achieve the Lima objective cannot be financed by the developing countries alone. Part of the finance will have to be made available to them by the industrialized countries in the form of credits or grants. Model computations of the long-term requirements of additional finance vary widely according to the underlying assumptions, but may give an approximate idea of the magnitude of

³ Cf., e.g., Volker Matthias: Collective Self-Reliance: Concept and Reality, in: INTERECONOMICS, No. 2/1979, p.75 ff.

these needs. The World Bank, for instance, forecasts total annual requirements of US \$ 165 bn (in 1990) while UNIDO puts them at US \$ 500-750 bn (for 2000) – both at constant (1975) prices; about a quarter is to go into the industrial sector⁴.

It will be difficult, according to UNIDO, to effect such a large resource transfer without restructuring the international financing system which is at present still too much geared to the requirements of the industrialized countries. The developing countries enjoy only limited access to the market and have no complete picture of the market. The existing big multilateral financing institutions are dominated by the industrialized countries and meet the needs of the developing countries only to a limited degree. UNIDO wants to remedy this situation by proposing to set up two new financing organizations:

One of these is to be an International Industrial Finance Agency (IIFA), planned to act as an organization only of developing countries. It is to have the task of passing on the surpluses of rich developing countries (especially of OPEC) directly to needy developing countries without involvement of the northern financial markets.

The establishment of such a self-help organization which conforms precisely to the Collective Self-Reliance concept is unlikely to be opposed by the industrialized countries. It is clear however that the financing problems of the Third World cannot be solved completely by the surpluses of a few developing countries alone. The capital stock of US \$ 500 mn proposed for the IIFA is indeed relatively "modest". The other financing organization which it is proposed to set up is to be of quite a different size.

Global Fund

A Global Fund with a capital stock of US \$ 75-100 bn is to be used for North-South capital transfers and to provide funds of the order of US \$ 15 bn a year to the poor countries. Its financial dimension makes this the most far-reaching UNIDO proposal. It is likely to become the dominant topic at the impending conference and will therefore be described here in greater detail.

All countries will be free to become members of the Global Fund. Only a small percentage of the capital stock (at least US \$ 3.75 bn) is to be actually paid into

the Fund. The remainder will be liability capital and guarantee the solvency of the Fund to its creditors. The capital will of course have to be raised mainly by the industrialized countries. The Fund will borrow the amount of US \$ 15 bn which it needs each year on commercial terms in the international capital markets and make it available to the developing countries in the form of long-term loans (for 12-20 years). A fixed proportion of these credits (25 %) is to be lent to the least developed countries (LLDCs) on "soft" terms, which implies that the Global Fund is to receive grants of unknown size from other sources – presumably the industrialized countries.

As distinct from the World Bank loans, the Global Fund credits are not to be used for concrete development *projects* but for the financing of development *programmes*. They are thus tantamount to a form of balance of payments assistance for the developing countries which will enable them to acquire "northern" technologies and plants. Unlike that provided by the IMF this balance of payments assistance is conceived as a long-term measure. It will be possible to give more consideration to the interests of the developing countries because they will clearly hold a preponderant position in the decision-making structure of the Global Fund, which they do not have in the World Bank or the IMF.

By facilitating long-term programme financing, in part on soft terms, the proposed Fund is thus to fill a gap in the financing arrangements between the World Bank and the IMF. It would, besides, satisfy the demand for a greater say, which the developing countries have voiced for a long time, at least in one international financing institution.

Long-Term Project

The Global Fund will nevertheless probably be rejected by the industrialized countries at the UNIDO conference. For one thing there is a growing reluctance to set up any new development institutions. It was only recently that UNCTAD got its Common Fund and FAO a Fund for Agricultural Development (IFAD), and one wants to wait and see how these will fare. Secondly there is the proposed size of the Global Fund which would be about as large as the two hitherto biggest financing organizations, the World Bank and the IMF, together. Besides, there are many practical questions, such as the absorptive capacity of the capital markets, the credit worthiness of the Fund and its need for subsidization, which still await clarification. The Fund therefore probably represents a long-term

⁴ Cf. World Bank: World Development Report 1979, p.7; UNIDO: Industry 2000 – New Perspectives, op. cit., p.118.

project. It has all the qualities of a hardy perennial likely to embellish the discussion on development policy for some years to come.

Apart from the two new organizations three subsidiary proposals are being submitted for a new financial order by means of which the negotiating positions of the developing countries are to be generally strengthened and the resource transfer (e. g. by increased barter trade emulating the East-West compensation deals) is to be increased. They all relate to promotional and advisory services pure and proper and could be handled by existing organizations, in the first place of course by UNIDO itself.

Direct Investments

A large part of the private resource transfer to developing countries takes the form of direct investment. For the developing countries this is a swift and efficient method of enlarging the national industrial basis as it amounts to a transfer of capital together with technical know-how, management and marketing services in the form of a "package". UNIDO considers direct investment "useful" but it creates many problems which need not be enumerated here. Its aim is, at bottom, a private commercial profit. Direct investments are therefore not necessarily oriented towards the host country's interest in development. For the developing countries the difficulty is the effective control of projects which are mostly carried out by big transnational corporations and their integration with national development plans without frightening off would-be investors.

UNIDO believes that increased participation of small and medium-sized firms and bilateral inter-governmental agreements for the promotion of direct investments would be of some help. Its main proposals concern the legal superstructure. A Commission for International Industrial Development Law is to work out a suitable legal framework for industrial cooperation in the long term, to draw up model contracts, submit alternative proposals and offer its direct assistance in negotiations when required. In spite of its many tasks it is to consist only of a panel of "high level experts" assisted by a "small but qualified secretariat". Besides, a System for the Resolution of Industrial Conflicts comprising arbitration centres on a national, regional and international level is to be implemented. How existing arbitration boards (e. g. the World Bank's ICSID) are to be integrated with this system is not clear.

Technology Transfer

Developing countries account for no more than about 3 % of all spending on research and development, and the dependence of the Third World on outside technologies will not significantly change in the near future. Few developing countries possess sufficient capacities for evolving their own technologies on a significant scale. Most of them will remain dependent upon the acquisition of technologies from the industrialized countries. These are however often very expensive, ill-adapted to the conditions in the developing countries as far as resource input is concerned, and liable to aggravate the existing differences in income distribution.

UNIDO would like to improve the exchange conditions from the developing countries' point of view through the creation of three new institutions:

□ A non-profit-making International Industrial Technology Institute, planned as an autonomous UN sub-organization, is to be available to governments and firms in the developing countries as an information centre on existing technologies. It is to make suggestions and provide part-finance for research, help to avoid costly duplication of research efforts and promote technology transfers between developing countries.

□ In the area of North-South technology transfer the developing countries have very little bargaining power. It is therefore proposed to create an International Centre for the Joint Acquisition of Technology which is to cooperate closely with the Technology Institute and to assist the developing countries in negotiating contracts and to provide information on prices and alternatives.

□ While both the Centre for the Joint Acquisition of Technology and the Technology Institute have been planned as self-help organizations of the developing countries, the third one of the proposed institutions for improved technology transfer is to be run with the cooperation of the industrialized countries. An International Patent Examination Centre is to help the authorities in the developing countries with their patent administration and to provide information about changes in patent law anywhere in the world. Besides, it is to pass on to the developing countries the large amount of new knowledge about dangerous substances and drugs currently gathered in the industrialized countries.

Other UNIDO proposals which however may be of less importance at the conference relate to the areas of

international trade, the production and processing of mineral raw materials and the group of least developed countries.

In regard to the international trade in industrial products UNIDO expects certain advantages to accrue from the setting of a normative "trade target". At present the trade between industrialized and developing countries is far out of balance as traditionally the latter supply the former with raw materials in return for manufactures. By the year 2000 the developing countries are to finance their industrial imports as to 100 % by own exports of industrial products. At present they do so only as to 25 %. It is intended to report annually on progress towards the "trade target" for every single industrialized country and thereby to exert some kind of moral pressure on the black sheep to relax restrictive trade policies.

For the production and processing of mineral raw materials — an area which is now dominated largely by big transnational enterprises — the developing countries are to combine in accordance with the principle of Collective Self-Reliance for the operation of joint producing units and in particular also for the marketing of their outputs.

Finally, UNIDO makes a proposal for the LLDCs, the group of the 30 least developed countries. These suffer because of their limited absorptive capacity from a dearth of viable projects, a shortcoming which has also been noticed very often by the international aid organizations. This is to be remedied by an Industrial Project Preparation Facility which is to examine the feasibility of about 250 potential projects each year.

A Strategy of Limited Conflict

The UNIDO proposals for the conference in New Delhi are spread over the whole range of industrial development but indicate certain key-points. While the fundamental problems of redeployment and also the complexes of problems concerning energy and trade are treated as peripheral, the subjects of the new financial order, direct investment and technology transfer are clearly emphasized.

It may be a shrewd tactical move to confine the debate at a conference to a small number of demands as is demonstrated by the negative example of UNCTAD V which talked about everything and nothing and was described by participants as the "conference of the missed dialogue". The UNIDO strategy of limited conflict is also a response to the present situation in the field of development policy: it seems impossible to put through maximum demands, for in the face of the

economic problems currently encountered in many industrialized countries there are limits to the readiness to help the developing countries. Moreover, some of the developing countries' demands, for instance that for a planned and centrally directed process of relocating industries in developing countries, touch the pillars of the market-economic order and are unanimously rejected by the industrialized countries.

Divergent Interests of the LDCs

The unity of the developing countries on the other hand is weakening. There has been no spectacular rupture so far but UNIDO has to make a great propaganda effort in order to persuade everybody that "Together we are strong" is true. The balance of interests of threshold countries like Brazil and Singapore which have come to terms with the existing international economic order is patently different from that of the least developed countries, and the feelings of solidarity of the oil-importing developing countries are bound to cool in the face of the OPEC "successes" on the price front when they have to pay part of the price in scarce foreign currencies.

A surfeit of competition between development institutions would serve no useful purpose. In the present situation it would indeed be fraught with danger. It was therefore good commonsense that UNIDO left questions of trade largely to UNCTAD and GATT, refrained from challenging the industrialized countries unnecessarily by demands for redeployment by *dirigiste* means, and did not deal with divergent views on energy questions.

Formally the UNIDO proposals are on two levels: on the one hand there is plainly a tendency in favour of new organizations of which eight are to be set up; on the other hand UNIDO is to be given more competences in the field of development promotion and consultancy. Many industrialized countries are however looking askance at new institutions. They will probably point to the lack of clarity on questions of finance, deficiencies in their coordination with existing institutions, overlapping functions, etc., and be inclined to temporize, especially on the Global Fund.

In such a situation at the opening of the conference UNIDO may well, as a matter of tactics, put aside its demand for new institutions, including the costly Global Fund in particular, and press for a reward for this calculated renunciation in the form of concessions in another field, namely by an enlargement of the tasks and powers of UNIDO itself.