



# COMMITTEE FOR DEVELOPMENT PLANNING

## REPORT ON THE TENTH SESSION

(25 March – 3 April 1974)

ECONOMIC AND SOCIAL COUNCIL  
OFFICIAL RECORDS: FIFTY-SEVENTH SESSION

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NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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## INTRODUCTION

1. The Committee for Development Planning held its tenth session at Vienna, at the invitation of the Executive Director of the United Nations Industrial Development Organization (UNIDO), from 25 March to 3 April 1974. The members of the Committee who attended the session are: Chedly Ayari, Ester Boserup, Gamani Corea, Paul Kaya, V. N. Kirichenko, Janos Kornai, Julio A. Lacarte, John P. Lewis, Ian Little, J. H. Mensah, Philip Ndegwa, Saburo Okita, H. M. A. Onitiri, Jozef Pajestka, K. N. Raj, Jean Ripert, Leopoldo Solis and Jan Tinbergen.

2. The Officers of the Committee, elected at the eighth session for a term ending on 31 December 1974, are:

Chairman: Gamani Corea

Vice-Chairman: Janos Kornai

Rapporteur: John P. Lewis

3. The Executive Director of UNIDO welcomed the Committee to Vienna and expressed appreciation for its decision to discuss, as the main substantive item of the agenda for the session, principal aspects of industrialization in developing countries. He expressed the belief that the deliberations of the Committee at the session would be of great value for the second General Conference of UNIDO, scheduled to be held in March 1975, and for a number of other important conferences and activities of the United Nations.

4. Substantive services at the session were provided by the Centre for Development Planning, Projections and Policies of the Department of Economic Affairs of the United Nations Secretariat. In addition, the Committee was assisted by representatives of the secretariats of the Economic Commission for Europe, the Economic Commission for Asia and the Far East, the Economic Commission for Latin America, the Economic Commission for Africa, the United Nations Industrial Development Organization, the Asian Institute for Economic Development and Planning, the International Labour Organisation, the Food and Agriculture Organization of the United Nations, the United Nations Educational, Scientific and Cultural Organization, the World Health Organization, the International Bank for Reconstruction and Development, the International Monetary Fund, the International Atomic Energy Agency, the General Agreement on Tariffs and Trade, the Council for Mutual Economic Assistance, the European Economic Community and the Organisation for Economic Co-operation and Development.

5. The Committee adopted the following agenda:

1. Opening of the session
2. Adoption of the agenda
3. Principal aspects of industrialization in developing countries

4. Current world economic situation and its implications for development
5. Matters referred to the Committee by the General Assembly and the Economic and Social Council
6. Arrangements for future work
7. Adoption of the report of the Committee to the Economic and Social Council

6. The Committee's deliberations on principal aspects of industrialization in developing countries were greatly facilitated by a preliminary draft prepared by its Working Group on Industrialization and Development that met under the chairmanship of Germánico Salgado at United Nations Headquarters from 4 to 8 February 1974. The Committee wishes to put on record its appreciation to the Chairman of the Working Group and its other members - Ester Boserup, Janos Kornai and Saburo Okita - for their valuable contribution.

7. The Committee also wishes to put on record its gratitude to the Executive Director of UNIDO for the invitation to hold its tenth session at Vienna and to the staff of UNIDO whose courtesy and co-operation made it possible for the Committee to complete its work smoothly and efficiently.

8. The views and recommendations of the Committee on the subjects discussed at the session are set out in the chapters that follow. In putting forward, in chapter I, its comments and suggestions with regard to major aspects of industrialization, the Committee has borne in mind the fact that, in addition to the Economic and Social Council at its fifty-seventh session to which the present report is primarily addressed, the underlying issues will be discussed by the Second General Conference of UNIDO, scheduled to be held in 1975, and a number of other intergovernmental bodies that will undertake, also in 1975, the mid-term review and appraisal of progress in the implementation of the International Development Strategy for the Second United Nations Development Decade. The views expressed in chapter II on the current world economic situation and its implications for development are necessarily of a preliminary nature. Empirical information about the effects of the events that began in the last quarter of 1973 is as yet scanty but there is no doubt that the effects will be of a far-reaching character. The Committee felt that it would be failing in its duty if it did not turn its attention to the possible repercussions of these events and the emerging policy needs.

9. For the discussion of the topics dealt with in chapter I, the Committee had before it seven substantive papers: "Industrialization and development: progress and problems in developing countries" (E/AC.54/L.61) and "Planning for industrial progress: goals and policies of developing countries for the 1970s" (E/AC.54/L.67), prepared by the Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat; "Industrial technology for developing countries: the policy perspective" (E/AC.54/L.68) and "International co-operation for industrialization: towards a new international division of labour" (E/AC.54/L.63), prepared by the secretariat of UNIDO; "Linkages in industrialization" (E/AC.54/L.66), prepared by K. N. Raj, member of the Committee; "The economic integration of developing countries and the function of joint industrial planning" (E/AC.54/L.64), prepared by Germánico Salgado, member of the Committee; and "The planning of industry in the European socialist countries: conclusions for developing countries" (E/AC.54/L.65), prepared by

V. N. Kirichenko, member of the Committee. Although the analyses and conclusions put forward in these papers do not necessarily reflect the opinions of the Committee, it believes that the papers will be of value to development planners and policy-makers and that they could usefully be read in conjunction with chapter I of the present report. Accordingly, the Committee transmits these seven papers to the Economic and Social Council to serve as background material when the Council examines, at its fifty-seventh session, the present report of the Committee.

## I. INDUSTRIALIZATION OF DEVELOPING COUNTRIES

### A. Lessons from experience

10. In the 1950s in the developing world, "industrialization" served almost as a synonym for modernization and development. There was much to be said for this view. Once it passes the barest subsistence levels, rising consumption requires the products of manufacturing and of the infrastructure supporting manufacturing. Moreover, in the experiences of already industrialized countries, there is nothing to suggest that these manufactured components of consumption are best supplied exclusively through international trade, that is, with some countries specializing only in the production of raw materials and other primary products and obtaining all their manufactured goods from abroad.

11. Instead, not only is the development of manufacturing most likely to supply the modernizing dynamic that enables traditional societies to start mobilizing capital and otherwise begin their escape from national poverty; and not only can such indigenous manufacturing provide valuable inputs and feedbacks into primary-products production itself; the resulting division of labour can be more fruitful for the international community as a whole. Industrialization breeds trade across boundaries as well as within them. The greatest quantities as well as diversity of trade are among industrialized and semi-industrialized States. When developing countries industrialize, the already-industrialized economies typically gain more markets than they lose.

12. For these and other reasons, it was natural to see industrialization as the centrepiece of the development process. Yet in the past few years, in thinking about development, industrialization has come under a cloud. It is charged with having led to neglect of agriculture. It is charged with at least having failed to solve, perhaps with having aggravated, the problems of mass poverty and under-employment of the poor countries. It is charged with having aggravated the foreign-exchange constraints on development without generating adequate offsets to those constraints through export expansion and/or import substitution and/or attraction of foreign transfers.

13. Industrialization is charged also with aggravating urban concentrations in the poor countries, on the one hand widening the urban-rural, "dual-economy" gap in many countries, on the other hand, failing to sustain the quality of life for the urban poor. Industrialization is charged with pollution, with befouling the environment. And lastly, now that people have become conscious that the world is finite, some charge that the pattern of world-wide industrialization which the countries of the planet collectively project is inconsistent with the earth's scarcities of non-renewable resources.

14. The effect of this accumulating indictment has been to weaken the confidence with which industrialization is being promoted in the developing countries. Those interests in developed countries that have always been suspicious of manufacturing by developing countries and have been maintaining protective trade barriers against it have had their hand strengthened; a number of bilateral aid donors are shying away from industrial needs and projects. In the case of multilateral assistance, for a long time the support of the World Bank Group for manufacturing has been secondary to its support for infrastructure. In recent years, although there has been some increased lending to manufacturing, either directly or through intermediaries, the dominant redeployment in the Group's portfolio has been that in support of the Bank's laudably growing interest in such "people-oriented" programmes as agriculture, education, urban development and population policy. Certainly the total quantity of the United Nations system's technical assistance and of concrete technical information supplied to industries in the developing countries is extremely modest. Governments of some of those countries themselves have been voicing new uncertainties about their industrial strategies.

15. These are the circumstances under which it has seemed appropriate for the Committee for Development Planning to readdress the subject of industrialization. The Committee, it should be said at the outset, continues to see industrialization as a centre-piece of the development process and regards tendencies to underplay its importance as erroneous. The Committee believes, moreover, that it is unrealistic to expect industrialization to accomplish - indeed, even to contribute uniformly to - all of the objectives of development; that it is unfair to blame industrialization for all of the woes of development; and that many currently adverse appraisals of industrialization are guilty of impatience. The formation of new industrial activities and linkages takes time. It must start in some particular sectors and geographical places before others. In countries where such beginnings are recent it makes little sense to fault particular initiatives for generating inequities or for failing to generate spread effects before the initiatives have had a fair chance to get going.

16. On these counts the Committee, in the discussion that follows, enters a defence for industrialization. On the other hand, the Committee fully shares the revised, "people-oriented" ordering of development priorities that has been advocated. Indeed the Committee has tried to contribute to the articulation of those revised priorities, especially in its two most recent reports, that on its eighth session 1/ focusing on the problems of mass poverty and unemployment, and that on its ninth session, 2/ which sustained the same theme in the context of the first review and appraisal of the Second United Nations Development Decade.

17. Accordingly, the present report is an extension of its two predecessors. It is an effort to re-examine the status of and needs for industrial development in the low-income countries in the light of the revised priorities. Industrialization also, the Committee suggests, can and should be explicitly "people-oriented". Plainly, this does not mean that one pattern of industrialization can be prescribed for all countries, regardless of their size, location, preferences or other

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1/ Official Records of the Economic and Social Council: Fifty-third Session, Supplement No. 7.

2/ Ibid., Fifty-fifth Session, Supplement No. 5.

characteristics, or that one brand of industrial strategy is appropriate for all developmental stages. But there are certain industrial choices that appear more consistent than others with priorities that seek early and substantial inroads on mass poverty and unemployment, that recognize the importance of agriculture, that aspire to a more equitable and humane way of life for whole populations in a context of global as well as national resource scarcities, and that, to these ends, would pursue optimum economic efficiency.

18. Section B of this chapter tries to identify goals and patterns of industrialization that are more responsive to such priorities. The balance of the chapter examines some of the policy implications for the developing countries and for the international community. First, by way of backdrop, it will be useful to summarize certain lessons to be drawn from the industrial experience of the developing countries in the 1960s and early 1970s.

19. The preoccupation of many developing countries with industrial expansion from the 1950s onwards has led to reasonably impressive average results. In the 1960s, for example, the developing countries recorded on the average an annual increase of about 7 per cent in their manufacturing activity as against an increase of about 5.5 per cent in their total gross domestic product. There was, however, a wide dispersion in the experience of individual countries. Some countries experienced an annual increase of 10 per cent or more in their manufacturing activity, whereas others recorded an annual rate of 5 per cent or less. In the course of their expansion of manufacturing activity, the economies of developing countries are becoming gradually diversified. In several developing countries, the share of manufacturing activity rose significantly during the 1960s. Yet, despite the expansion of the past decade, this share remains small - less than one tenth in many developing countries.

20. The current plans of developing countries project a continuing industrialization drive. For approximately the first half of the 1970s, on the average, these countries have set a target of an annual increase of around 10 per cent in their manufacturing output. The actual record in this regard since 1970, although short of this target, shows a significant acceleration over the average growth rates of the 1960s. Up to the closing months of 1973 manufacturing output was exceeding the indicative target of 8 per cent annual increase included in the International Development Strategy for the Second United Nations Development Decade.

21. However, the current national targets, also, vary substantially. Some countries have projected an annual increase of 14 or 15 per cent in their manufacturing production; some others have as a target an annual increase of only 4 or 5 per cent. By the middle of the 1970s, a few developing countries expect manufacturing to account for a quarter or more of their gross domestic product; but there are some others in which this share is still envisaged to remain less than one tenth.

22. The very low rates of growth of some countries in manufacturing, as in general economic performance, remain disturbing. But it can be said that, as a group, the developing countries have been and are achieving a considerable industrial advance. Most countries have at least made a beginning. The range of articles manufactured has widened substantially. Many countries are manufacturing consumer goods for export as well as the home market; a number are manufacturing capital goods, in some cases for export.



23. But it would be a mistake to exaggerate the scope of those beginnings. According to United Nations estimates, the developing countries, which accounted for less than 7 per cent of world manufacturing output in 1960, have not perceptibly increased their share since then. From 1963 to 1970, the developing countries' share of world exports of manufactured goods, apart from processed foods, beverages, and tobacco products, barely increased from just under 6 per cent to just over that figure.

24. Nor should one exaggerate the contributions that industrial expansion has made to development needs thus far. As noted previously, some of the disappointments expressed in this regard are premature. They ask too much of the industrialization effort too soon. But there have also been gaps, shortfalls and distortions in the experiences to date that appear avoidable in retrospect, and are worth avoiding in the future.

25. In the first place, countries have not always been astute in their choices of techniques for giving infant industries the stimulus they undoubtedly need. For several years many countries, without much regard for the potential size of their internal markets and therefore their capacity for inward specialization, tended not only to concentrate their efforts on import substitution strategies; they chose forms of protection that were excessive to their needs. Barriers composed of combinations of tariffs, exchange rates, exchange controls, and quantitative import controls have afforded domestic industries either exceedingly high or, in some cases, absolute protection. These barriers have, by the same token, denied domestic producers the stimulus of competition from imports, encouraged inefficiency, raised costs and prices to domestic users unduly and yielded excessive returns to the owners and managers of the protected enterprises. Both foreign and domestic entrepreneurs have shared in these windfalls.

26. The same policies have inhibited the abilities of countries to export manufactures competitively. In many of the more advanced developing countries the remaining feasible room for import substitution now is narrowly limited. Both Governments and enterprises are looking more actively to exports, either to the world as a whole or within the framework of co-operative effort at regional economic integration.

27. Recently a few countries scored striking successes in exports of manufactured goods. Some of these have been closely keyed to particularly rapid developed-economy growth, especially that of Japan. Some of them have depended heavily on the marketing networks, particularly, for manufactured components, afforded by foreign companies that have not been either interested in or of interest to other developing countries. Many countries with less successful export records have, as indicated earlier, been burdened with overly protected cost-price structures. A number have been slow to develop effective market research, selling, and promotional skills.

28. At the same time, all of these countries have faced a world market in which the performance of developed countries to provide access for poor-country manufactures has fallen far short of the need. The generalized scheme of preferences for manufactured and semi-manufactured exports from developing countries has been much heralded but insufficiently implemented. Some developed countries have not activated it at all; some of them have riddled it with escape clauses; and the scheme, in any event, does not extend to as broad a range of commodities as it should.

29. Finally, as to trade and industrial stimulus, the developing countries themselves have not yet done as much as might have been hoped about trade and economic co-operation among themselves. The general volume of manufactured goods that developing countries import from other developing countries remains exceedingly low. Several regional economic integration schemes have faltered or failed. Some - in particular, the so-called Andean Pact, to be cited in the Committee's policy comments below - have great promise. But the lesson in general is one of much unfinished business.

30. The second opportunity for improvement that the past industrialization record reveals is that in the area of agricultural-industrial and rural-urban linkages. Some countries have been slow to accord priority to the manufacture of the inputs needed for modernizing agriculture. High-cost consumer manufactures have remained beyond the reach of the rural masses. Industrial wage and salary levels, although usually lower in relation to property incomes than is the case in advanced countries, probably have been allowed, in most cases, to pull too far away from the incomes of the rural - and, indeed, the urban - poor. Educational and training systems have not been well enough geared to the development of relevant non-agricultural as well as agricultural skills in the rural labour force.

31. It is true that, in a newly industrializing system, some centres must come before others, and investments in urban infrastructure and the development of industrial services must be concentrated. Yet, in many countries, the building of smaller, nationally decentralized, industrial and urban concentrations as the centres of rural subregions probably has not been sufficiently promoted. It is also true that, in part because of this excessively centralized industrial development, a number of opportunities have been missed to build linkages between organized industry and the so-called "informal" sector - opportunities, that is to say, to encourage smaller and/or more labour-intensive ancillary manufacturers and processors as well as a variety of commercial and service enterprises.

32. In the third place, industrialization in the developing countries has been disappointing to date on the employment front. In this regard, it is true, it is easy to expect too much: when account is taken of the size of the industrial base, the size of the labour force, and the rate of labour-force growth in most developing countries, it becomes quite clear that in most developing countries manufacturing at best can directly provide only a modest fraction of the needed gains in employment in the next few years. At the same time, industrialization strategies frequently have failed to realize their employment potentials by neglecting, as just noted, to build adequate linkages to agriculture and the informal sector. Moreover, along lines emphasized in both of the Committee's preceding reports, industrialization strategies also have fallen short of their employment potentials as a result of erroneous pricing of the factors of production: thanks to the practices both of developing countries themselves and of agencies supplying foreign aid, capital typically has been under-priced and labour over-priced in the selection of product lines and of production processes. The capacity built, therefore, has often been too capital-intensive and insufficiently labour-intensive to match the comparative advantages of the host countries. The manufacturing capacities built, moreover, have very commonly been under-used for a complex of reasons including the underpricing of capital just noted, inadequacies in demand, errors in planning, ramifications of protective import régimes, non-competitiveness of exports, and interferences that wage and/or capital-price structures have interposed to the employment of second-shift and third-shift workers.

33. The fourth deficiency in the industrialization experience of developing countries concerns income distribution. In a sense, it underlies or encompasses the two preceding points concerning rural-urban linkages and employment, and it must be delineated with some care.

34. It is misleading to say that industrialization has "caused" worsened inequalities in many developing countries. What has happened to inequalities is a matter of countries' basic social and political choices, and industrialization is more a reinforcer than an initiator of those choices. If régimes are determined to promote social justice, and have the political will and muscle to do so, then they will take whatever measures - fiscal, land-reform, assets-nationalizing, employment-creating or others - are necessary to promote effective redistribution. And in that event industrial developments, producing, for example, a pattern of consumer goods to match a more egalitarian income distribution, can effectively reinforce the process. Such, in fact, is part of the thrust of section B of this chapter.

35. To date, however, despite the importance they accord to income distribution in their statement of development priorities, many developing countries have not been very persistent in promoting this objective. In consequence, quite naturally, industrial developments - by sequestering high returns to an urban and foreign élite, skewing the production of consumer goods to that market, and widening the gap between city and countryside - have accentuated the inegalitarian tendencies already inherent in the social and political environment. But in most cases, quite clearly, industrialization did not by itself create those tendencies.

36. High levels of saving and investment have been achieved in many developing countries. There is a fear that this achievement may be threatened by a more equal distribution of the benefits of economic growth. This is not necessarily the case, for marginal savings rates among small agriculturists and in small enterprises are sometimes very high. The situation may be different for wage and salary earners who lack direct investment opportunities, and for whom savings in the form of paper assets can be very unattractive, if interest rates are low relative to inflation. Too little, however, is known about savings habits in developing countries to be at all sure about whether greater equality will be detrimental to savings. If it is, then the public sector will need to play a more powerful part in offsetting any such tendency through public sector profits as well as through interest rate policies and the creation of new savings media.

37. Finally, in reflecting on what lessons are to be drawn from the industrial experience of the developing countries in the past decade or so, the Committee notes the basic importance that any country's preferences as to the quality or way of life it seeks has for its industrial choices. While using the industrial experience of developed countries, developing countries should implement their own preferred life styles, at the same time recognizing and accommodating the spill-over effects on other countries. As a matter of self-interest and global interest, they should try to implement their preferences in the most economic, socially efficient, resource-conserving ways possible.

38. With respect to industrialization, these broad principles become particularly interesting in the case of technological choices. There are sound economic grounds for preferring indigenous, self-reliant technologies - at least indigenously adapted technologies. Most of the world's ready-made technologies,

created in the advanced economies, are parochially optimally suited to the factor proportions and factor prices of the advanced economies, not of the developing economies.

39. Yet one has to be careful not to slip into romanticism on this score. Appropriate technologies are not extruded from the pens of economists. Nor, typically, can they be borrowed from the past. Rather, their creation, more often than not, requires much time, much scientific and technical sophistication, and a good deal of expensive activity that is difficult to organize. In the experience of the developing countries to date, most manufacturing technologies have, in fact, been drawn from the advanced-economy "cafeteria"; many, however, have been very usefully adapted to local conditions; in the case of many it has been possible, in particular, to make valuable labour-intensifying adjustments around the peripheries of core machining or chemical processes. The need, moreover, for more genuine indigenous innovation has been clearly revealed. And in some cases, especially in larger countries, to a lesser extent in certain regional country groupings, the institutional capacities for such innovation have been partially established.

40. Finally - a point critical to the Committee's subsequent argument - it has been quite plain that choices of industrial products, including their variety and finishes, can be considerably more plastic to local preference than are the choices among processes to produce specified products. But the whole burden of the experience suggests that industrial technology, let alone the applied sciences underlying it, will remain a subject that will invite, and whose vitality will need, the liveliest continuing international exchange.

#### B. Goals and patterns of industrialization: a second look

41. The experience of the last two decades underlines above all the need for taking a fresh look at the basic purposes of industrialization and the methods adopted to promote it. Industrialization is not an end in itself, it is only a means of achieving other more basic objectives; and, if the progress made so far has been well below expectations, part of the explanation may be that these objectives have been lost sight of and, consequently, that policies and instruments adopted have not matched the objectives. The dangers of a purely technocratic approach are greater in industrialization than in almost any other sphere of development.

42. The Committee emphasizes that industrialization should be viewed primarily as a means of improving the conditions of work and living standards of poverty-stricken masses the world over, and not merely as a means of producing a wider variety of products by application of modern technology. If this is not kept in mind, efforts to industrialize may leave the lives of the majority of the people untouched.

43. If industrialization is to have a broad impact on living conditions in the less developed countries it has to be closely interwoven with the development of all other sectors of the economy, more particularly agriculture. In fact, without the harmonious development of agriculture and industry, neither can proceed very far. Many of the tensions that have emerged in the developing countries in recent times are directly or indirectly a reflection of imbalances in the development of these two sectors.

44. It is not enough, however, for agriculture and industry to achieve high rates of growth of output; such high rates can sometimes be realized by fostering a kind of enclave development within each. It is essential that incomes generated in the process of economic growth are distributed sufficiently widely to promote perceptible improvements in living standards all round. If there is such broad-based generation of incomes, it will also tend to become reflected in the composition of the output corresponding more closely to the requirements of the masses of the people.

45. Another important objective of industrialization is that it should promote a greater sense of confidence and self-reliance among the developing countries which have hitherto suffered from excessive dependence on others. Yet such self-reliance does not imply autarky. One of the merits of industrialization is in fact that, while it makes it possible for countries to satisfy their own requirements to a greater degree, it also creates through the very complexity of the processes involved a web of interrelationships which over a period of time bring the countries closer together and make them more dependent on one another. The Committee believes that this kind of balanced interdependence promoted by industrialization can be an important factor in building up the economic foundations for more stable co-operative relationships among nations.

46. None of these objectives can however be realized unless special attention is paid to the adequacy of the policies and instruments adopted for industrialization. As in other spheres, the broader environment within which particular programmes are undertaken and the means used often have an independent effect of their own on what is actually achieved. Failure to take this into account has been a major weakness hitherto, and the Committee would therefore like to dwell on it at greater length.

47. Since the industrial sector is, to begin with, a relatively small one in the developing countries, whether its importance is measured in terms of its contribution to total output or its share of the total labour force, the pattern of its further development is apt to be influenced very considerably by the pulls and pressures generated by the rest of the economy. Particularly important in this context are the distribution of wealth and income in the agricultural sector and the biases introduced by trading and financial institutions. Unless the institutional framework in this broad sense of the term is suitably oriented to the promotion of broad-based development, the process of industrialization will inevitably become lop-sided. This has happened in many countries. To that extent the remedy lies not so much in policies and programmes relating to industry as such as in creating a social and economic environment more conducive to development along the desired lines.

48. Still another general environmental factor affecting industrialization in the developing countries has been the policy of protection followed by the more advanced industrial countries. This has restricted the options available and forced many developing countries to follow policies which they would not have had to follow otherwise. In many instances these policies have taken the form of import restrictions which have led to oligopolistic profits and capital-intensive methods of production with undesirable impacts on exports, income distribution and the standard of living of most of the people. For many developing countries, especially those with a narrow economic base, the opportunity to participate in a more liberal and open world economy and to plan their development in harmony with that of other countries, developed and developing, is indispensable if they are to make full use of their natural and human resources for industrialization.

49. It is the Committee's view that, if industrialization is to achieve the goals set, there have to be stronger and more concerted efforts to come to grips with these larger issues. If this is not forthcoming, progress in the future may not be very much better than experience hitherto.

50. In order to encourage future industrialization along sound lines, it is necessary to provide an expanding market both internally and externally, and this requires a series of co-ordinated measures. The basis for industrialization must be broadened geographically by giving more attention to the expansion and modernization of agriculture and to the development of small and middle-sized urban centres in the rural areas. This would create the conditions for the development of a pattern of industrialization that would include among its objectives the processing of agricultural and other local materials. Such a pattern of industrialization would in turn help to raise incomes in rural areas and thus provide an expanding market for mass-produced industrial consumer goods. Moreover, there would be a need for increasing manufactured inputs for agriculture and other rural activities.

51. Such efforts to create a larger market for the products of industry need to be promoted by a lowering of costs in these industries. One means to this end is to improve labour productivity at all levels by training and technical assistance. Another is a progressive reduction of the level of protection in the already well-established industries by more trade in industrial and other products among developing countries. Many developing countries have now reached a stage in their industrial development where they could greatly benefit from more trade among themselves.

52. The impact of industrialization on employment will however depend mainly on the over-all rate of investment and on the allocation of investment among sectors and subsectors. A sufficiently high rate of investment, together with a harmonious allocation of investment among sectors and subsectors, can offer rapidly expanding employment opportunities. Industrialization will fulfil its key role in the development process when increased production of manufactured goods makes possible substantial increases in other sectors such as agriculture, construction, housing services and infrastructure. It is in that wider sense that industrialization is to be regarded as the main instrument for expanding levels of employment.

53. Industrialization entails of course not only a quantitative expansion of industrial output but also an improvement in the variety and quality of goods. New and better commodities must appear. This is necessary both for meeting a widening range of domestic demand and for gaining competitiveness in external markets. At the same time, developing countries have to avoid as far as possible excessive differentiation within products, when such differentiation leads to wasteful use of resources, including redundant advertising, and serves no purpose other than helping producers to practise monopolistic pricing.

54. Most developing countries are heavily dependent on the technologies for industrialization available in the industrialized countries. Research efforts in the developing countries to develop technologies more suited to their requirements need to be strengthened. A primary aim of technological innovation in these countries should be to make available at the lowest possible cost the basic necessities of life for the mass of the people utilizing to the fullest extent the resources of manpower and materials available in them. The Committee believes that

there is considerable scope for such innovative work in which the industrially advanced countries could also help. While, as to technological adaptation, the dominant need now is for developing, by adaptation or innovation, appropriate technologies that are less capital-intensive, it should also be noted that in due course developing countries will tend to experience technological adjustments of the opposite kind: as they accumulate capital and industrial experience and broaden the range of their industrialization and scientific sophistication, their technologies can be expected to converge more and more with those of the most advanced economies.

55. It is often argued that a transfer of technologies for industrialization can best be accomplished by foreign investment that combines technology, management, marketing and capital in a package form. This type of transfer, however, sometimes causes social and political friction in the host countries. Moreover, foreign investment sometimes enters into areas of low priority in terms of the national objectives of development. To avoid such undesirable effects of foreign investment it may sometimes be desirable for the Governments of developing countries to import foreign investment selectively or to import technology separated from foreign capital and management controls.

56. Naturally industrialization requires not only the expansion of physical capital, but also the expansion and development of human capital. The latter is perhaps even more important than the former, since it will be the permanent basis of self-reliance. Training of skilled workers, education at all levels, a good selection and training of managerial staff, support for research - these are activities indispensable for successful industrialization.

57. The choice between specialization and diversification is a dilemma for some developing countries. Pushed to an extreme, neither emphasis is likely to be satisfactory. Specialization offers the chance to exploit economies of scale and to acquire an increasing routine and a growing international reputation as a producer of certain manufactured goods. At the same time, risk is involved. If an external market is lost, the troubles of a highly specialized industry may affect the whole economy. High specialization brings with it an increased dependence on the external market, sometimes on a narrow set of foreign buyers. "Defensive" diversification, on the other hand, may lead to a scattering of resources, higher costs and a less established selling position. Each country must make its own choice, not overlooking the possibility of a deliberate combination, as is the case, for example, in those countries which have chosen to diversify among industries but then to specialize - and to exchange products with trading partners - within industries. Countries are likely to make different specialization-diversification choices at different stages of development and also, of course, to relate their choices to their size and geographical position. All of these factors, together with the country's general development goals and the possibilities of integration with other developing countries, deserve to be taken into account.

58. Industrialization, the Committee wishes to reiterate, is for people and has to be accomplished by people. It will help them to live better if it widens and cheapens the range of goods they can consume, in the long term as well as the short. There must also be concern for the welfare of people as participants in industrial enterprises - for their job satisfaction, training, working conditions, freedom of association, protection from abuse - and likewise for their protection against the health hazards that so often accompany industrialization.



59. The International Development Strategy for the Second United Nations Development Decade envisages greater efforts at promoting the industrial development of the developing countries as a principal means of enabling them to produce for themselves the resources for modernization and for the solution of the problems of mass poverty, unemployment and general backwardness. The Committee believes that this is still a necessary part of an appropriate development strategy for the years ahead. For several countries the task of industrialization has of course to start from a very low base; they need to create first the appropriate environment and the institutions for the promotion of industry, and this will take time. For those countries, therefore, the case for an immediate start is all the stronger.

#### C. National policy implications

60. Industrial planning must achieve a proper integration of policies over a wide field. The various instruments must operate harmoniously so as to encourage those processes and products which contribute most to employment and the satisfaction of the wants of the masses, whether directly or by permitting, through exports, a large volume of imports. Too often planning has been seen as a technical or mathematical exercise separate from policy, and is pursued with little regard for possibilities of implementation. Planning is good only if it is a prelude to good policies.

61. In order to reorient industrial development along the lines indicated in the preceding section, it is necessary to adapt and strengthen the process of planning. Until now, in many developing countries, industrial planning has involved mainly the specification of projects that are often weakly linked with one another and with programmes of development elsewhere in the economy. Even when project analysis has been made, it has frequently been done in an inconsequential way. Moreover, industrial planning has often been equated, erroneously, with bureaucratic controls over enterprises, private or public; whereas, commonly, little has been done to weave together taxation, licensing, credit and other policies in a manner conducive to industrial development. At the same time it is true that technical assistance from abroad, which could have led to a significant improvement in industrial planning, has fallen far short of the need in many countries.

62. The nature and scope of industrial planning will inevitably be influenced by the circumstances prevailing in individual countries - for instance, whether countries rely entirely on the market mechanism or use the modalities of mixed economies or of state-controlled economies; whether countries have large or small economies; whether countries have already reached a certain advanced stage of industrial development or are just at the threshold of industrialization. In all countries, however, Governments bear a major responsibility. The plans formulated by them need to spell out clearly both the goals denominated and the policy measures to achieve the goals. Governments also need to convince various sections of the population, and in particular those that will have to take industrial initiatives, that the goals and measures are both realistic and appropriate.

63. In market-oriented and mixed economies, Governments need to fulfil certain basic conditions. First of all, it is necessary to ensure a minimum continuity of policies. A plan by itself is no protection against discontinuities, but to the economic agents it does offer an indication of political will. In this respect,



it can be useful for various interested parties outside the governmental apparatus to be involved in the elaboration of the plan. Secondly, Governments need to keep the general environment conducive to industrial development. The preparation of a national development plan offers an opportunity to re-examine all governmental policies that have a bearing on industrialization and other key aspects of development. Fiscal, financial, trade and other related policies need to be adapted to the development strategy chosen by the country. Measures aimed at the development of power, transportation and other infrastructure need to be consonant with industrial development. Similarly, programmes of education and training to enlarge vocational and managerial skills as well as wage and other social policies need to be harmonized with development requirements, especially in consultation with interested groups in the country. Thirdly, even when taking short-term decisions, such as those necessitated by unforeseen events, Governments need to ensure that the long-term framework of development is not brushed aside. Sometimes such events may compel revision of an ongoing plan. The process of adaptation and revision in the light of changed circumstances is normal; but the revisions should be explicitly stated so that planning does not lose credibility. For interventions by the Government, it is better, wherever possible, to operate through general rules of legislation and public regulation rather than through random measures, case by case.

64. In development matters, the responsibility of Governments goes well beyond the maintenance of general conditions conducive to industrial and other aspects of development. Industrial entrepreneurs need to be given adequate access to industrial finance and technical knowledge, through public institutions or through the facilitation of contacts among private enterprises. Since market signals are often insufficient to indicate the required strategic changes, industrial planning has to include a careful study of the industrial path. This does not mean that a detailed study must be made of all industrial products or markets or that production or investment programmes must be established for all industrial branches; but it is useful to delineate programmes for key industries which are sufficient to ensure inter-industrial and inter-sectoral consistency, including the adequacy of such factors as finance and skills. For activities of strategic importance or where the scale of investment involved is large, moreover, industrial planning may require the specification of much greater detail.

65. As discussed at greater length in section D of the present report, it is necessary for many developing countries to promote industrial development through schemes of regional economic integration or, at least, through inter-country co-ordination. The process of integration or co-ordination entails

- (a) harmonization of national measures to give impetus to industrialization,
- (b) harmonization of aggregative and sectoral projections to avoid conflicts among national plans and unnecessary duplication of efforts in such matters as market research for exports, and
- (c) establishment in some cases of joint programmes for industries of crucial importance.

66. Both for industrial planning at the national level and for industrial co-ordination among countries, it is best to elaborate medium-term plans in the framework of a long-term perspective. Some countries have already tried to fashion perspective plans, but their number is few; the more common way has been to plan ahead for periods of some five years or so. Such a period is not long enough for any major policy reorientation to be contemplated, since the choices will have been predetermined by earlier events or decisions already taken.

67. If there are sufficient data to support it, detailed quantitative planning of industrial sectors can be very useful. At the same time, such planning should not be inflexible and, especially in the absence of good knowledge of the project possibilities, and of their social costs and benefits, obviously it should not be allowed to inject unreasonable rigidity in the pattern of industrialization. The use of social cost-benefit analysis in feasibility studies and project formulation is an essential element in planning. As knowledge of the country's possibilities and advantages develops, so planning can become more realistic and itself provide guidelines that will improve the assessment of the costs and benefits from particular investments.

68. In many developing countries, the bulk of industrial investment is in the private sector, where, even if subject to negative controls, initiatives are taken in response to market prices (net of indirect taxes), and in the light of direct taxes, subsidies, and other incentives or disincentives given by the Government; indeed the same is largely due of the public sector. The influence of Governments on the pattern of industrial development is thus very powerful. Governments not only provide direct incentives and disincentives, but they also usually exercise a dominant influence on internal prices through their trading, tariff, exchange rate, and import control policies. Governments also often influence wages and conditions of employment.

69. Particular industrialization schemes should be assessed as to their influence on income distribution as well as their contribution to gross national product. The more, directly or indirectly, they increase the demand for unskilled labour, the more beneficial will be their income-distribution effect. Governments, through incentives and their influence on prices, should avoid encouraging unnecessary capital intensity, whether in the form of labour-saving choices of technology for particular industries or encouragement of industries that are unavoidably capital-intensive. Attention should also be paid to the complementarity of industrial development with agricultural and other rural output. Finally, Governments should avoid encouragement of disproportionately high wages and salaries in the modern sector, as well as of private profits higher than are needed for incentive purposes.

70. As indicated in section A, in many developing countries the instruments used for encouraging industry have tended to bias the pattern of development in a capital-intensive and inequalitarian manner. Very high protection tends towards either excessive profits or inefficiency. It discourages exports, both industrial and agricultural. Overvalued exchange rates also, of course, retard exports and make imports appear cheap.

71. The aim should thus be to promote industrialization in ways which do not discriminate against exports. The smaller and poorer the country, the more important this is. The Government should ensure that industry can obtain its inputs at prices no greater than the social cost of providing them; and where basic domestic industries have been set up, they should be required (and, if necessary, subsidized) to sell their outputs at prices which do not put the users of their products at a disadvantage in export markets. Firms can and should also be assisted with training, research and development, and in the acquisition of technical and marketing knowledge.

72. Fiscal incentives to industry have almost invariably encouraged capital intensity. Tax holidays, accelerated depreciation, tariff rebates on capital

imports, and the financing of social security benefits out of employment taxes rather than general revenues are all examples. The aim of tax policy should be to provide sufficient incentives for industrialization without at the same time increasing the amount of capital required to employ a worker. The same is true of credit policy, where large capital-intensive firms usually pay far lower interest rates than do much more labour-intensive enterprises.

73. Labour policy is the third main field that affects the amount of employment offered by industry. The social effects of labour laws that inhibit employment by making multishift working difficult, or that make it so difficult to lay off workers that they discourage employment, need careful consideration. In some countries, relatively high industrial wages, which in turn may necessitate higher salaries than would otherwise prevail, inhibit the total volume of industrial employment both by encouraging capital substitution and by reducing savings. Such countries need a comprehensive incomes policy, however difficult that may be to contrive and sustain - one operating not only on wages and salaries but on property incomes. The training of supervisory staff is also of great importance, for the lack of such staff makes it difficult to operate labour-intensive processes efficiently, and also limits multishift working. There is need also for training in industrial relations, and for the development of effective consultation and participation procedures. In some semi-industrialized developing countries bad industrial relations are beginning to be a serious problem.

74. The kinds of policies already suggested require, first and emphatically, a realistic exchange rate. Given that condition, then they also point, secondly, to a reduction in the level of protection so that agriculture and exports are not seriously handicapped. General tariff rates should not be so high as to encourage inefficiency and/or excess profits, and they should be periodically re-examined for their consistency with this standard. In some countries where possibilities of industrialization are very limited, but where nevertheless a certain minimum level of industrialization is desired, additional measures may be necessary. In most countries, certain industries are also desired for strategic reasons, or because it is felt that an industry has some special spin-offs. In all such cases it is believed that the special encouragement required is best given in the form of subsidies, otherwise the external effects are likely to be negative rather than positive, as when high-cost steel discourages the development of engineering industries or high-cost fertilizers discourage that of agriculture.

75. Subsidies raise the problem of taxation to pay for them. It should first be noted that the domestic consumer in any case subsidizes protected industry by paying high prices. In principle, then, the substitution of subsidies for protection is only a matter of channelling more of the consumer money to industry by way of taxation and subsidies, rather than directly. The problems are administrative and political, not economic - although this does not make them easier to overcome. Secondly, and in practice, high protection tends to reduce the revenue from tariffs as import substitution occurs; this is clearly seen in many developing countries. Local taxation of luxury and quasi-luxury consumer goods is often rather low, in order to maintain a protective differential between tariffs and national taxes. Thirdly, as noted earlier, industry is already much subsidized, by tax remissions, export subsidies, low interest rates, etc. Furthermore, imports are often limited by controls rather than tariffs, which can be regarded as another kind of subsidy to domestic industry. It has been suggested earlier that these ways of subsidizing industry mostly encourage the use of capital. In many cases,

they could be beneficially replaced by subsidies that instead encourage employment. The fiscal problems can be precisely discussed only in relation to particular countries. But it is clear that in most countries there is a good deal of fiscal room for manoeuvre in the directions indicated.

76. Better linkages with agriculture need further consideration, although such linkages should in any case be encouraged by general measures which favour more labour-intensive industry and exports. Many food and agricultural material processing industries have an export component, and some are almost exclusively export-oriented. Here, apart from general measures, attention must be paid above all to an adequate rural infrastructure, not only so far as transportation is concerned, but also in agricultural and industrial extension services and education in general. Marketing organizations and government-supported studies of domestic and foreign markets are most essential in this field and can seldom be left to private institutions if maximum advantage is to be reached. Another important element in the integration of industry and agriculture lies in the provision of manufactured inputs to agriculture. Agricultural exports will suffer if these are supplied at much more than import prices. Basic chemicals apart, many required agricultural inputs, such as ploughs, tools and spraying equipment, can easily be produced by small-scale rural industry, which can sometimes take advantage of seasonal unemployment in agriculture.

77. With respect to industrial dispersion, industries can only operate efficiently in areas that are supplied with economic infrastructure, such as power supply and transport facilities. For obvious economic reasons, developing countries have usually concentrated investment in economic infrastructure in a few regions or centres. Accordingly the location of manufacturing industries in those centres has been induced, and even subsidized. By the same token, investment in both agro-related and other types of industries in other parts of the country tends to be prevented. But now, in some countries, a reorientation aiming at reducing income inequalities by spreading the benefits of industrialization to a much larger share of the population is possible. This will require a devotion of more resources to investment in infrastructure outside the regions and centres where such investment is now concentrated.

78. If government policy is designed to encourage the use of labour-intensive methods for such an expansion of infrastructure investment, major employment opportunities may be created outside the metropolitan areas. Both the improved opportunities for employment in agro-related and other industries and in agriculture, as a result of the improvement of infrastructure and the employment created by the investments, will help to reduce the present wide inequalities of income between centres and other parts of the country.

79. Experience has shown that, although the existence of economic infrastructure is a necessary condition for industrialization of an area, it is not sufficient. Investment is also needed in ancillary services, such as credit institutions and mechanical workshops, and in facilities designed to train the local population in technical and management skills. It is widely agreed that agricultural development has benefited from the creation of agricultural extension services; similarly, the setting up of industrial extension services may be an important means of promoting the spread of medium and small-scale industries to hitherto unindustrialized surroundings. Likewise co-operative services can supply materials and equipment to medium and small-scale industries and help in their marketing.

80. All countries probably want to limit the extent of control of domestic industry by foreigners, and also to limit or prevent it in certain politically sensitive or strategic areas. Many people in developing countries believe that excessive economic or political influence is exercised by foreign corporations. Recent events have however demonstrated a new confidence and realization of power on the part of Governments of the developing countries. A very significant proportion of the older foreign assets has been nationalized. A more relaxed climate may now develop which will permit developing countries, on acceptable terms, to benefit from the knowledge and expertise embodied in multinational corporations. The international measures that might facilitate a better accord are discussed in section E of the present chapter.

81. Co-operation with foreign companies has much to offer by way of capital transfers that help employment and produce taxable revenue; by the provision of training in general management, marketing and industrial expertise; and by the transfer of specific techniques and know-how to nationals, that they will eventually be able to use without foreign participation. On one or all of these grounds, foreign enterprise is accepted by many Governments of developing countries.

82. Countries may put differing weight on these various kinds of benefit. A country that has plenty of money, but lacks entrepreneurs, experience and know-how, will be most interested in a high degree of local participation, both of people and capital. Others may fear tying up too much capital, or too much potential entrepreneurial ability, in joint ventures that spread foreign influence, and may inhibit growth of fully indigenous enterprises. Again, other countries may be attracted by the employment and training of an industrial labour force that the new export-oriented component manufactures - ones with few links to the domestic economy except by employment - provide, without being concerned as to whether any integrated industrial product potential is thereby transferred. They may be content with, and their workers derive much benefit from, fully owned foreign subsidiaries that provide rather little capital, but do bring know-how and access to markets that are otherwise unapproachable. A country's attitude towards private foreign capital and co-operation with foreign firms will thus necessarily vary according to its economic endowment and its own assessment of the costs and benefits, both economic and political. It is clear that views will continue to differ.

83. Despite the potential benefits, there is little doubt that a considerable part of private foreign investment in industry has done little good and that some has been damaging. One of the reasons has been excessive protection. Part of the reason for high protection was presumably to stimulate a laggard local entrepreneurship by offering the enticement of high profits. But when it is a foreign industry that is stimulated, and the high profits go to foreigners, the theory misfires. No doubt some expertise and training results, but sometimes at an altogether disproportionate cost to the economy. The régime of lower protection advocated here would help greatly to reduce this problem.

84. Given the variety of developing countries - from those with virtually no industry to quite highly industrialized countries like Argentina, including those like India, which have a very large and heterogeneous industrial base with much accumulated expertise, even if the proportion in manufacturing is low, and also including some countries that are capital-hungry, some that are capital-rich, some well placed, others remote and land-locked - it is hard to suggest any general

guidelines concerning the instruments to be used vis-à-vis the foreign investor. Nevertheless a few things of general applicability can be said.

85. Almost all countries will want to ensure that the maximum degree of training and transfer of skills takes place. Most if not all lay down conditions in this respect, whether by insisting on participation or on the employment of local people in high managerial positions. But if these conditions are felt to endanger the profits of the foreign corporation, the host country will surely pay for this transfer, by securing less revenue. Developing countries, therefore, will wish to continue to re-examine the question of whether they are not paying too much for such transfers. Especially when indigenous managerial and entrepreneurial ability is in evidence, and when capital is not an important consideration, the Government should always consider the possibility of buying the missing know-how without accepting foreign investment. The Japanese economy has developed almost exclusively in this manner.

86. Only a few countries are, or should be, indifferent to the possibility of immediate gains of employment and revenue. The labour intensity of private foreign investment is, like domestic investment, very much influenced by the instruments of encouragement offered, and by the whole régime of managing the country's trade.

87. Taxation is an important source of benefit. That it is felt to be so is obvious from the attention devoted to the problem of transfer pricing, which is essentially an evasion of local taxes. It is to be noted, however, that although the effect of transfer is a reduction of the local taxes paid, the main reason for it often is not tax evasion. Unless tax-havens can be used, the multinational corporation more often than not increases its total tax bill by an evasive transfer of profits from the account of the subsidiary to that of the parent corporation. In part such evasions seek to avoid controls on transfers; in part they are prompted by political fears as to the consequences of declaring high local profits.

88. Probably it is to the advantage of host countries to permit free legitimate transfers. They are likely to gain revenue by so doing, because evasion will be reduced. Moreover, the private foreign investment that may be more or less forced by controls on transfers is unlikely to be a very good investment. Where transfer pricing is nevertheless feared to be a problem, host countries should consider tax bases other than declared profits. This is, of course, common in the extractive industries; and a few countries have now introduced corporation taxes which do not depend on actual profits in the industrial field.

89. Whether a country should deal with private foreign investors on a global basis, relying on general rules and general tax régimes so devised as to ensure that foreign investment is not excessive and also yields good social returns on balance to the host country, or whether a Government should bargain on a case-by-case basis with differing rules and taxes for different investors, is a difficult problem. Again, and as always, much depends on the particular host country and its circumstances.

90. When the host country's price mechanism is rather heavily distorted, so that private profits are a poor guide to social advantage, and when the tax régimes and rules which may be devised cannot adequately rectify this, then there is a very strong argument, pending removal of the price distortions themselves, in favour of case-by-case analysis and bargaining. If the bargaining, however, is to lead

to greater advantage for the host country, it has to be very well aware of the potential costs and benefits of the foreign investment, and of any alternatives open. This may require intricate and difficult social cost-benefit analysis, which is demanding of local expertise that may be in very short supply. This is an important field for international technical assistance.

91. Where very large foreign investments are concerned; where a national monopoly is to be exploited as in the extractive industries; where a monopoly is to be created because the country should have no more than one producer in the light of market limitations - in these cases serious project analysis along cost-benefit lines, as well as intricate negotiation and hard bargaining, seems essential. In other cases, reliance may be placed on general rules, which should in any case be enacted.

#### D. Joint action by developing countries

92. Economic co-operation and integration arrangements are of great importance to developing countries, especially to those with medium and small economies. Such arrangements have attracted the attention of Governments in recent years. Though the efforts made and the results achieved have fallen short of the original aims and expectations, there is reason to believe that, if vigorous action is taken, past disappointments will give way to gratifying achievements. The results obtained by several developed countries, both with market economies and centrally planned economies, provide a useful illustration. These developed countries have successfully deployed economic integration schemes not only to sustain high levels of economic growth but also to diminish disparities among members of the schemes to which they belong. The lessons from such experience are valuable; but naturally, as already stressed, the arrangements devised by developing countries must be suited to their specific needs.

93. It is important that developing countries should seek means of economic co-operation among themselves to the fullest extent so as to overcome the limitations of domestic markets and achieve efficiency of production through industrial as well as other specialization. To ensure success, the formulas of integration should be designed in such a way that all participating countries will achieve substantial benefits from them in their development efforts. This point is fundamental to the practical feasibility as well as equity of integration schemes.

94. Trade liberalization is a necessary but not a sufficient condition for successful industrial expansion under schemes of economic integration. For enduring success, what is needed is to complement it with joint industrial programming of investments in key industries with substantial economies of scale. Such programming should be closely linked with the development objectives of the countries members of the integration scheme and should establish appropriate institutions for carrying out the programming tasks efficiently and by minimizing uncertainty and tension. The necessary political will needs to be inculcated to provide these institutions with the requisite authority. Special responsibility rests in this regard on the participating countries with larger and stronger economies.

95. To ensure that they all have the opportunity to benefit from economic integration, the countries members of the integration schemes should participate

equitably in the development of key integration industries. Due regard has to be paid to some participation in certain industries - for instance, in some components of engineering - that may be desired by all participating countries, since such industries provide the wherewithal of further industrialization. For other industries, the questions of location depend more on decisions with regard to complementarity and specialization.

96. To be successful, industrial co-operation within the framework of an integration scheme often requires parallel efforts at co-operation in other fields, in particular in the development of agriculture and physical infrastructure. This once again attests to the fact that industrialization has to be viewed not in isolation but as part and parcel of an over-all development strategy.

97. It is true that economic integration among countries of markedly different dimensions is fraught with a number of difficulties, both political and economic in nature; but worth-while formulas are available, such as those leading to integration of clearly-defined economic activities, provided there is a will to reach reciprocally beneficial arrangements. The problems of small countries or territories that are in need of benefits from integration arrangements but have been precluded from participating in the integration process because of their size deserve special consideration.

98. Inevitably, economic integration is a long and arduous process. It needs a long time perspective in which the intended structural changes can be discerned clearly. It also needs a framework in which the relative economic interests of the participating countries are allowed to adjust to one another to the benefit of all.

99. Some recent developments indicate that past obstacles to integration may be surmountable and, in this respect, the Cartagena Agreement of the Andean Group of countries can be cited as a promising example of joint forward-looking action being taken by a group of developing countries. The Cartagena Agreement contains principles and obligations that are designed to ensure the harmonious and balanced development of all the member countries. For this purpose, organic trade liberalization measures among members are intended to complement and stimulate a jointly-planned industrialization process, which incorporates in a practical manner the concept of mutually-agreed localization of industry as part of the utilization of the enlarged market. Special treatment for less developed members is very specifically spelt out in the Agreement and in this way all participating countries are ensured a fair share of the benefit to be attained through the joint effort. Furthermore, the institutional aspect has been taken into account, and mechanisms intended to provide a driving force for the whole system have been established. For example, the Board of the Cartagena Agreement - made up of three independent members - complements the activities of the Commission, on which Governments are represented, and has the means of proposing action and taking initiatives.

100. Whether or not they can and do participate in regional integration schemes, developing countries should explore possibilities of industrial co-operation with other developing countries generally. There is very much at stake for the prosperity of the developing countries, and they need to take vigorous steps to promote industrial co-operation among themselves wherever opportunities exist, particularly in relation to transfers of technology and foreign investment. Joint ventures among developing countries should be encouraged. If the developing countries could



co-ordinate their positions on issues of importance rationally, they would gain greatly in world forums where matters relating to international trade and finance are discussed and international policy action devised.

101. A number of developing countries are now in an exceptionally favourable position as a result of the extraordinary upsurge in their export earnings. They have built up very large reserves of liquid capital. It would indeed be an appropriate act of development co-operation on their part if they were to canalize part of their liquid assets to help in the financing effort through loans or grants; establish joint industrial and other ventures with other developing countries; support the strengthening of institutional arrangements for securing access to scientific and technological resources; and consider financing regional payments arrangements.

102. Developing countries should complement action carried out at the world level through intergovernmental organizations by establishing, within their respective regions, institutions designed to promote the exchange of technological and scientific information among themselves, as well as to obtain, for the benefit of the entire region, similar information from industrialized nations. In this manner, it would be possible to obtain the best possible use both of technologies already at the disposal of developing countries or which they will themselves generate in the future, or will collectively obtain from industrialized nations. At the same time, higher levels of rationalization and collective information will be reached than can be obtained individually by developing countries. A number of developing countries have reached the stage where they can fruitfully pool their efforts in this matter, including interregional joint research and the exchange of experience and information.

103. In short, partly because of events discussed in chapter II of this report and partly due to increasing recognition of the beneficial effects of joint action - whether on the part of industrialized or developing countries - a very wide range of prospects opens up for effective common action among the latter, far exceeding what they have undertaken up to now. While recognizing that developing countries have already set up a number of mechanisms both at the world and regional levels, it appears as if the time is ripe for deeper and more permanent, institutionally based action, in the regional and in the interregional spheres. Such subjects as world trade and financial negotiations, the exchange of technical and scientific information, joint action in commerce, in raw materials and in food-stuffs, the promotion of interregional trade - including as necessary a modification of existing international commitments - and the creation of multinational enterprises among developing countries with their well-recognized capacity for creating trade are some of the areas in which developing countries should press forward with a new emphasis on practical measures for joint co-operation.

#### E. International policy implications

104. As emphasized in the Committee's preceding report under the theme of renewing the development priority, 3/ the preoccupations of the developed countries in very recent years have turned inward and, in the international field, away from the

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3/ Ibid., chap. I, sect. A.

subject of development. The highly skewed distribution of wealth and productive potential among countries, offering insufficient prospect for relative change unless some basic forces underlying it are changed first, creates growing political tension and conflict. It calls for a reshaping of the patterns of international co-operation so that there can be much faster advancement for the poorer part of the world and, therefore, more peaceful and rational world development. Many of the recent developments on the world scene, which give rise to critical challenges, are but a demonstration of this growing need.

105. Attention is focusing on the possibility of growing scarcities of non-renewable resources - an issue that has been dramatized by the energy crisis, triggered by the rise in the price of petroleum and of other raw materials and food-stuffs. The need, in the Committee's view, is to prevent this new situation from degenerating into a confrontation between developed and developing countries. Rather it pointedly demonstrates the need for international policies that realign economic relationships between developed and developing countries, most especially in the structure of world production and world income distribution

106. It is in this broader context that future policies in the industrial field can be constructively discussed. The present position seems to be that (a) the share of developing countries in world industrial output will increase very little in the foreseeable future if present trends continue; (b) lacking major changes in present practices and arrangements, the transfer of industrial technology to developing countries is unlikely to achieve the needed scale; and (c) the sort of world-wide use of resources that, promoted by international co-operation in the industrial field, would contribute to a slow-down of world inflation is not presently in the offing.

107. At the present time the developing countries, because their hopes of "development partnership", so widespread at the start of the current decade, have been disappointed, have no choice but to make the best use they can of their most influential resources, namely, raw materials and fossil fuels. Such use is now evident in the case of oil. It may be incipient in such other commodities as bauxite, copper and phosphates. The basic option now is to choose between greater world-wide co-operation, based on the well understood, long-run self-interest of all nations, on the one hand, and the alternative of growing conflicts. This option lies primarily in the hands of the developed countries, since they control a vast share of the world's resources and of its technological potential. Nevertheless the option will have to be jointly designed, and it will have to be designed within a new framework that integrates the need for development in the poor countries with the limitations imposed by the potential scarcity of non-renewable natural resources. One of the characteristics of this framework will be the necessity to arrive at a cautious population policy; the other will be an accelerated increase in consumption by the poor masses, to be matched, as the need arises, by a flattening of per capita use of natural resources by the richer part of the world.

108. It is the belief of the Committee that the world will, though perhaps slowly, learn to opt for the first and more co-operative of the alternatives it now faces. As this happens, industrial co-operation will become a central theme of a more sensible world economic order.

109. For the developed world the kind of co-operative effort envisaged can entail more gains than losses: research can help sustain income and output growth while

non-renewable resources are conserved; access to natural resources, including more space, where needed, for chemical industries, can be made more reliable; world-wide health hazards can be abated; pressured from migrant labour can diminish; and immediately there should be an abatement of inflation as a larger volume of cheaper labour-intensive imports is experienced. In terms of total national economies, the adjustments that these benefits from a further rationalization of the division of labour between rich and poor countries will require of the developed countries are not massive. Employment has to shrink in some industries, but it will grow in those which produce goods demanded by the developing countries; in industries in which the developed countries have greater comparative advantage; and in services. These gains, together with the normal continuing reduction in the hours of work, should readily offset the employment losses. And the lower price of labour-intensive goods should, in the end, raise the welfare of both the developing and the developed countries.

110. But there should be no mistake: attainment of a new international division of labour will require adjustments that are exceedingly painful for particular interests and groups. It therefore demands great political resourcefulness and skill from the Governments of developed countries and it implies substantial modification of traditional instruments of financial aid, technical assistance and trade, while newer areas of industrial co-operation are explored. Most particularly, it requires new breakthroughs in the realm of adjustment assistance. Such policies in developed countries have hitherto received scant attention from policy makers; they need to be agreed upon as a first priority. Some consistent and comprehensive programmes have already been developed that can serve as models concerning both worker retraining and redeployment, and the phasing out of marginal industries. But a clear distinction must be made between forward-looking, proper adjustment assistance policies, on the one hand and, on the other, those that, through tax-exemption and subsidies to sub-optimal industries merely perpetuate situations they allegedly seek to change (with the costs of the resource-misallocation to the developed countries thereby also perpetuated).

111. The financing of their industrialization is a major concern for most developing countries. It has suffered in recent years from the stagnation in the flow of concessional finance from the developed countries. In particular, the difficulty encountered in the replenishment of the financial resources disbursed through the International Development Association is a matter of grave concern. There is an acute need to provide preferential treatment in international aid efforts to the developing countries that are encountering special problems, either because they have a weak industrial base or infrastructure or because both long-term and recent developments in international trade have had especially serious repercussions for them.

112. In addition to concessional transfers, some countries are desirous and capable of securing additional funds from the international financial markets. There is a need to stimulate the activities of specialized financing institutions, multilateral and bilateral, public and private, that are able to collect funds in the economically advanced countries, as well as in developing countries with significant surpluses in their balance of payments, and to channel those funds towards the industry of other developing countries. The development of industrial financing also requires a more flexible system in developing countries. The co-operation of development banks among themselves and with the financing institutions in advanced countries would be one way of financing industry in a more reasonable and stable fashion.

113. The expansion of exports of manufactures is of vital importance to nearly all developing countries. In many cases access of those countries to industrialized country markets is limited or denied by tariff and other barriers. Therefore, the organizational effect of the forthcoming multilateral trade negotiations must be critically scrutinized. It is essential that developing countries participate fully in decision-making at these negotiations and that no final commitments on liberalization of commerce be made that basically ignore - as has happened in the past - the interests of those countries. These negotiations are intended to set important patterns in world trade for years to come and they must offer developing countries new, stable and encouraging outlets for their exports if they are not to bring frustration in their wake. Meanwhile, there should be no further delay in implementing and expanding the generalized scheme of preferences, especially as it is not being applied by important industrialized nations and is likely to be eroded both by the trade negotiations and by the integration process in which some developed countries are engaged. The scope of the scheme needs to be enlarged widely so that it fully encompasses goods of particular interest to developing countries. Moreover, the non-tariff barriers presently maintained by the developed countries must be eliminated in accordance with existing commitments, since their continued application nullifies tariff treatment.

114. Developing countries at present have great difficulty in evaluating and controlling the terms and conditions of technology-transfer transactions. Countries should be assisted in setting up efficient systems for the selection of foreign investment and for controlling the impact of technology. Arrangements need strengthening both at the intergovernmental level, multilaterally and bilaterally, and at the enterprise level.

115. What can be done at the governmental level is partly a matter of technical assistance of the more or less conventional type, and such efforts need to be enlarged, especially for the benefit of the least developed countries. But Governments of developing countries may also wish to enter into industrial, scientific and technical co-operation agreements with the Governments of individual industrialized countries. A few examples of this already exist. Such agreements would be similar to those which some advanced countries, with both centrally planned and market economies, have been concluding among themselves in increasing numbers. They could include clauses concerning transfers of technologies, training, advisory services and building up of research facilities, and also provide a framework within which more detailed inter-enterprise agreements could be established.

116. At the enterprise level, the lessons of industrial co-operation between developed countries with different socio-economic systems are also relevant to co-operation between developed and developing countries. Lines of possible co-operation range from the establishment of industrial plants to the supply of equipment and raw materials, technological transfer, licences for the manufacture of specific products, and subcontracting.

117. In order to ensure that these enterprise-to-enterprise agreements are beneficial for the developing countries, it has to be recognized that industrial co-operation between enterprises of developed and developing countries involves two partners, usually unequal in many aspects: technology, information, bargaining power, administrative and commercial skills, etc. The legal framework conceived for negotiation and agreements between equal partners may therefore need to be revised where developing countries are concerned. Moreover, measures should be taken to

strengthen the weaker partner through domestic or international assistance. In particular, attention should be given to providing better access to information and to creating mechanisms for increasing competition in favour of developing countries.

118. It is natural for the world community to examine objectively the activities of multinational companies which have a large impact on the activities of many developing countries. These companies have played and are playing a part in expanding and diversifying the economies of developing countries; but, as noted earlier in this chapter, the economic power some of these companies wield and the influence they exercise on critical aspects of national development policy give many countries concern, even to the point of fearing for their sovereignty. There is clearly a need to maintain a continuing and impartial scrutiny over the activities of multinational companies. The inquiry now in hand in the United Nations, in accordance with Economic and Social Council resolution 1721 (LIII), is an important step on the part of the international community. It is to be hoped that the findings of the inquiry will provide a basis for formulating concrete measures.

119. Meanwhile it can be said that foreign companies should undertake ventures in developing countries in a spirit of partnership, not only with specific local partners, in the case of joint ventures, but with the host country as a whole. Such undertakings should pursue a principle of equality, typically seeking maximum involvement of local human and natural resources. In a number of countries the expectation should be that they will entail concrete participation by the host Government as well as other local interests.

120. The kind of co-operative restructuring of the world economic order that has been suggested earlier could be assisted by, indeed might require, some kind of system of economic consultation among countries, and if so, industrial patterns and prospects would be one of the major fields about which such a consultation process should be established. Agreed perspectives on probably future patterns, prices and orders of magnitude of industrial production, for example, would be needed for any meaningful study of raw materials in relation to development. A concerted approach is especially important for those industries which have long periods of gestation or lengthy production processes, and which are consequently subject to erroneous investment decisions, particularly damaging for the weaker producers.

121. Common prospects for the industrial future, jointly worked out by Governments through a harmonizing process, may provide a framework that will prove useful for each to plan its own policies. The abilities of Governments to engage in such consultations are gradually increasing and, no doubt they would wish first to begin such an exchange of studies and projections experimentally, focusing on only a few industrial lines of particular importance to developing countries or to scarcities in global resources. But some sensibly evolved processes of international consultation regarding industry clearly are needed and, most logically, they will develop within the framework of the United Nations system.

122. Meanwhile, as to the United Nations contribution to industrialization of the developing countries, there is urgent need, as already stated, for reinforcement of appropriate technical assistance activities, including those of UNIDO and the funding therefor. There is need for a greatly improved information exchange and referral system, particularly as to alternative technologies, processes, and

industrial products. And there would be great virtue in the progressive establishment of confidence in developing countries, that, as would-be buyers of technology, they can turn to expert organizations of the United Nations system for hard-hitting dispassionate evaluations of the comparative costs and benefits of competing alternatives, stripped of all proprietary advocacy.

123. The Committee is of the opinion that so far industrialization has not received sufficient attention in the aid programmes of the developed countries and of the international organizations. In addition, the Committee recommends increased and more co-ordinated efforts by the whole United Nations system to encourage the industrialization process as a major instrument of progress, modernization and social change in developing countries.

## II. THE CURRENT WORLD SITUATION

124. Although the subject of industrialization has been the main theme of the present session, the Committee believes that it is appropriate to offer some broad comments on recent developments in the world economic situation that can have far-reaching implications not only for the goal of industrialization but for the wider objective of development itself. The Committee has not had before it specific documentation on the price, payments and related changes that have dominated events very recently; the information on these matters is, in any event, still incomplete; and the Committee will not attempt a detailed analysis. But it does wish to draw attention to some of the problems and dangers that are inherent in the situation and to underline the very urgent need for remedial measures.

125. The continuing instability of the international monetary system and the persistent inflationary trend in the world economy have for some time now exerted a disruptive influence on the world economy as a whole. Mainly because of bad harvests, the prices of foodgrains had already begun to rise alarmingly in 1972. In recent months the rapid increase in the price of oil has added a massive new element to the situation. As far as the developed countries are concerned, these events have aggravated the problems of adjustment - problems caused by the possibility of substantial imbalances in payments and of pressures on currencies arising out of the rapid movements of short-term funds. These difficulties could, in the absence of appropriate arrangements to deal with them, give rise to such phenomena as competitive currency depreciation, restrictions on trade and other developments of a contractionary character. Such repercussions could have pervasive effects throughout the world economy and damage developed and developing countries alike. It is clearly important, therefore, that appropriate solutions be found for these problems through new arrangements and facilities which would assist the developed countries in the adjustment process.

126. Given such arrangements, there is every reason to expect that the developed countries will successfully adjust to these difficulties, although it should be noted that, because of their different degrees of dependence on imported oil, the degrees of impact on those countries vary considerably. Despite its dramatic character, the increase in outlays on oil imports by the developed countries represents only a very small fraction of their gross national products; and apart from the short-term problems involved, there is no inherent reason to justify a weakening of the role that these countries should play in the field of trade and aid policies for development. Indeed, it is very important that the present rise in oil and other raw material prices be seen in a broader perspective. Apart, again, from its evident short-run dislocation of balance-of-payments positions, it has not altered the distribution of wealth in favour of the developing countries in any fundamental or major way. It should therefore not be used as an argument for relenting on international commitments to the flow of assistance to the developing countries.

127. For the developing countries, on the other hand, the problem is of a more basic character. The recent increase in the price of oil is for them but one of

a series of increases in the prices of their imports from which they have suffered in recent times. As a result of inflationary trends in the developed countries and other factors, there have been sharp increases in the prices not only of imported manufactured goods but also of such items as food and fertilizers. These developments have resulted in a sharp rise in the import bill of the developing countries and have, in many cases, already brought about a highly critical situation.

128. The incidence of these problems has, of course, varied among developing countries. Some countries have been able, in part at least, to offset the increases in the prices of their imports through improved earnings from exports. The prices of many primary products other than oil have also increased notably in the recent period, and this has helped cushion the exporters of these products. But even this improvement should not give grounds for complacency. There is little to indicate that the buoyancy in primary product prices will become a continuing feature of the world economic situation. To a large extent, the rise in prices has been linked to such factors as higher rates of economic growth in the developed countries, shortfalls in output due to climatic and other factors, and increased demands for commodities for speculative purposes, as hedges against inflation and currency depreciation. These factors may well prove to be temporary. There are indeed already signs of slackening of the rate of economic growth in the developed countries.

129. Moreover, it is important to remember that not all commodities or all countries have benefited to the same extent from the commodity boom. The prices of such commodities as jute, citrus and tea, for example, have remained weak, with very serious consequences for the countries that are heavily dependent on them. In fact, some of the poorest countries and those with the largest populations have not benefited markedly from the recent improvement in commodity prices; these are precisely the countries which, even earlier, had suffered from such problems as the depletion of their external reserves, heavy debt service burdens, scarcities of food, and reductions in external resource flows. They have but little margin left for adjustment and are facing a very real threat, not only of a sharply reduced flow of development imports, but also of food and the other basic necessities of life.

130. It is quite apparent that there is now an extremely urgent need for action to avoid widespread dislocation and disruption. The action needed is both of an immediate and of a long-term nature.

131. The immediate need is for measures aimed at providing relief for the rising import bill that the developing countries have to face on account of the rise in the price of oil and other essential imports. Various solutions of a short-term character are, of course, possible; but it must be emphasized that, if these are to be effective, they need to satisfy at least three conditions: they must, in the first place, be of the right order of magnitude and ensure that the quantum of relief provided measures up to the size of the problem faced by the countries concerned; they must, secondly, ensure that relief is not provided on terms that store up future problems, such as a sharp increase in future debt service burdens; thirdly, the solutions must be of a kind which provide quick, even immediate relief. For many countries the problems are so immediate that solutions which involve delays in the transfer of resources are of little avail.



132. In regard to the nature of the solutions themselves, the Committee does not wish to advocate specific proposals, but it hopes that some of the broad approaches mentioned below may point to the various possibilities that exist. One set of solutions could, for instance, take the form of bilateral arrangements related to the flow of trade in particular commodities. These would include, for example, the possibility of concessional pricing for such commodities as oil and certain food-stuffs sold to developing countries. There is also a possibility of arrangements for deferred payments covering part of the cost of imports, or of soft loans or grants provided by exporting to importing countries.

133. There is also scope, as well as a need, for arrangements of a multilateral character. The new oil facility envisaged by the International Monetary Fund is one such arrangement. This is a welcome initiative; but if the facility is to prove of value to the developing as well as to the developed countries, it will be necessary to ensure that the terms of lending and the conditions governing the eligibility for accommodation do not limit too narrowly the extent of relief that could be provided to them. There is also scope for other facilities of a multilateral character, including an increase in the funds of existing international institutions, such as the World Bank and the regional development banks.

134. There is also an opportunity in the present context to institute further arrangements for the direct investment of funds of the oil-exporting countries in the developing countries. Indeed, such a process would satisfy the dual objective of providing additional resources for development and of reducing the current account deficits of the developed countries through additional exports to the developing countries. One of the problems that might arise in this context is the need to combine adequate returns to the investing countries with easy terms for the receiving countries. This could be achieved through arrangements for the subsidization of interest charges on the lines of proposals that had been discussed earlier in international forums. A further need is for arrangements for debt relief. The latter assumes a new importance in the present context. Together with increases in conventional aid, this is a means of meeting the needs of those countries most adversely affected by recent developments.

135. All such arrangements for helping the developing countries would need to be linked to criteria governing the eligibility for assistance. In this connexion, it would be necessary to take into account not only the higher import bill facing individual developing countries, but also their export earnings, the strength of their reserves, etc. Similarly, the financial contributions to the new arrangements would also need to be distributed equitably. These contributions should be made by all countries in a position to do so, which would include not only the oil-exporting countries with high per capita increases in export earnings, but also the developed countries with high levels of per capita income and wealth, taking such account as necessary of their current payments situation.

136. The institution of short-term arrangements of the kinds indicated above would constitute a new element in the mechanisms for assisting developing countries faced with payments problems. Hitherto such mechanisms have aimed at cushioning shortfalls in export earnings. The current situation has made it amply clear that there is also an urgent need for facilities that compensate countries for sharp increases in import outlays as well.

137. The problems created by recent developments could not, however, be wholly met

by compensatory arrangements that provide financial assistance for meeting higher import costs. It is clear that part of the answer has to be found, in addition to the industrial trade adjustments discussed elsewhere in this report, in measures that strengthen the commodity export earnings of the developing countries more generally, that is, measures to ensure that improvements in the prices of primary products are not ephemeral and measures that encompass those products whose prices have remained weak. Indeed, the present situation underlines the need for a new thrust in the field of commodity policy. The commodity problem remains, despite recent price trends, a major weakness in the international economy, and the time is opportune for new initiatives in this area.

138. It is outside the scope of the present discussion to elaborate upon the possible elements of a new policy for commodities. Nevertheless, since the search for commodity agreements has not so far proved to be particularly successful, save for a very few products, the Committee wishes to emphasize the need for new approaches. These may encompass groups of commodities, instead of commodities treated singly; and they may include arrangements for buffer stocks as well as mechanisms that link commodity prices to movements in the prices of other products. There are new opportunities for financing buffer stocks and similar arrangements through the investment of surplus short-term resources of oil-exporting countries and others. There are also opportunities, where adequate international action is not forthcoming, for a greater co-ordination of policies on the part of the producers of primary products. Moreover, the opportunity for a new international approach to commodities is enhanced in the present situation by the growing convergence of interests of developed and developing countries alike. Both are interested in arrangements that combine an assurance of supplies for consumers with adequate earnings for producers.

139. As to its long-term implications, the present situation relates very closely to the subjects of chapter I of this report, especially section E on international policies. The need for the conservation of scarce natural resources points to new patterns of investment and to new possibilities governing the world-wide distribution of industry. It also points to new opportunities for co-operation among the developing countries in the field of trade and investment. It is true that the present situation is fraught with difficulties and dangers that could disrupt the world economy. But it is equally true that there are opportunities in the new situation for a new and constructive phase in international co-operation and in international economic relations. The need to grasp these opportunities is a challenge that the international community must surely meet.

### III. FUTURE WORK

140. The Committee has taken note of the recent decisions of the General Assembly and the Economic and Social Council that have a bearing on the Committee's future work. The relevant resolutions and documents before the Committee in this connexion are listed in annex I to the present report. The two decisions, one by the General Assembly and the other by the Economic and Social Council, that call for an explanatory comment by the Committee are referred to in the next two paragraphs.

141. In its resolution 3177 (XXVIII) of 17 December 1973 on economic co-operation among developing countries, the General Assembly requested the Committee "to give high priority to the study and evaluation of economic co-operation among developing countries, including in particular scientific and technical co-operation, and to report to the Committee on Review and Appraisal for its consideration at the mid-term review of the International Development Strategy". The problems of economic co-operation, to which the Committee attaches great importance, are discussed as an integral part of its ongoing work as is indicated in several of its reports, including the present one. For convenient reference, the parts of the reports of the Committee and the technical papers prepared for its use on the subject of economic co-operation among developing countries are listed in annex II. At its next (eleventh) session, the Committee will examine problems of economic co-operation as part of its work relating to the mid-Decade review and appraisal of progress. In accordance with the decision set out in General Assembly resolution 3177 (XXVIII) and also with a decision taken by the Economic and Social Council at its 1877th meeting on 8 August 1973, that work will be transmitted to the Committee on Review and Appraisal and to the other bodies concerned with the subject.

142. The Committee has also been examining as a central part of its ongoing work, questions relating to the mobilization of financial resources. In line with a decision of the Economic and Social Council at its 1878th meeting on 9 August 1973, the Committee will continue to give pointed attention to such questions in the context of its work relating to the biennial review and appraisal of progress in the implementation of the International Development Strategy.

143. The Committee has been informed by the Secretariat that a United Nations study is in preparation on the impact of prospective environmental issues and policies on the International Development Strategy. It is also aware that other work on relationships between environment and development is being carried out, both within and outside the United Nations system. It has learnt with interest that preparations are being made by the United Nations Environment Programme to convene a meeting in the latter part of 1974 to follow up on the topics discussed by a panel of experts which was convened by the Secretary-General of the United Nations Conference on the Human Environment and which was held at Founex, Switzerland, from 4-12 June 1971. <sup>4/</sup> Also relevant in the context of these subjects is the work under way in a number of countries and international organizations on long-term demand and supply prospects for major raw materials. The Committee believes that all such work will need to be taken into account in connexion with the mid-Decade

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<sup>4/</sup> For the text of the report, see A/CONF.48/10, annex I.

review and appraisal of progress. Accordingly, the Committee has decided to convene a working group in the latter part of 1974 to go over the key problems involved (including the problem mentioned in paragraph 145 below) in the light of the relevant information available at that time. It would be useful, as pointed out in the Committee's report on its ninth session, to have two or three specialists from outside the Committee as co-opted members of such a working group. 5/ The Committee has requested the Centre for Development Planning, Projections and Policies to make, in consultation with the bureau of the Committee, arrangements for convening this working group.

144. In line with the established procedure, the major part of the Committee's eleventh session, to be held in 1975, will be devoted to aspects of the mid-Decade review and appraisal of progress. A working group of the Committee will meet in the early months of 1975 to go over the documentation and pave the way for a systematic discussion at the session. In connexion with its work on review and appraisal, the Committee will do its best to draw upon the expertise of all relevant bodies in the United Nations system and the documentation to be prepared for the use of those bodies by the secretariats concerned. It expresses the hope that all aspects of the International Development Strategy will receive full attention on the occasion of the mid-Decade review and appraisal, especially those which, for lack of information, could not be covered adequately or at all in the first over-all review and appraisal, for example, nutrition, health, science and technology, and integration of women in the development process.

145. The Committee has learnt with interest that the Statistical Commission will discuss at its forthcoming session the question of supplementing the system of national accounts for purposes of welfare measurement. The Committee expresses the hope that the technical documentation to be prepared on the subject will be made available to its members. The documentation will be particularly useful in connexion with the tasks to be carried out for the mid-Decade review and appraisal, including the responsibility entrusted to the working group mentioned in paragraph 143. Indeed it is hoped that the working group will consider such documentation briefly in the course of its meetings and include any pertinent comments in its report to the Committee.

146. The Committee has given thought to possible topics to be taken up by its working groups that may be convened after its eleventh session. The topics mentioned for consideration include (a) the concept of a dynamic international division of labour, (b) aspects of food and nutrition, (c) aspects of multinational companies, such as criteria for evaluating the impact of foreign private capital and methods of controlling multinational companies, and (d) exploitation of resources of the sea. The topics for discussion by the working groups will be decided in the light of the deliberations of the Economic and Social Council at its fifty-seventh session with regard to, among other things, preparations for the mid-Decade review and appraisal of progress in the implementation of the International Development Strategy, preparations for the special session of the General Assembly, to be convened in 1975 in accordance with Assembly resolution 3172 (XXVIII), to discuss development and international economic co-operation, and the impact of multinational corporations on the development process and on international relations.

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5/ Official Records of the Economic and Social Council, Fifty-fifth Session, Supplement No. 5, para. 115.

ANNEX I

LIST OF DOCUMENTS BEFORE THE COMMITTEE AT THE TENTH SESSION

<u>Symbol</u>	<u>Title</u>
A. <u>Documents of the Committee</u>	
E/AC.54/12	Provisional agenda
E/AC.54/L.61	Industrialization and development: progress and problems in developing countries - paper prepared by the Centre for Development Planning, Projection and Policies (CCDPPP) of the Department of Economic and Social Affairs of the United Nations Secretariat
E/AC.54/L.62	Matters referred to the Committee for Development Planning by the General Assembly and the Economic and Social Council
E/AC.54/L.63	International co-operation for industrialization: towards a new international division of labour - paper prepared by the secretariat of UNIDO
E/AC.54/L.64	The economic integration of developing countries and the function of joint industrial planning - paper prepared by Germánico Salgado, member of the Committee
E/AC.54/L.65	The planning of industry in the European socialist countries: conclusions for developing countries - paper prepared by V. N. Kirichenko, member of the Committee
E/AC.54/L.66	Linkages in industrialization - paper prepared by K. N. Raj, member of the Committee
E/AC.54/L.67	Planning for industrial progress: goals and policies of developing countries for the 1970s - paper prepared by CCDPPP
E/AC.54/L.68	Industrial technology for developing countries: the policy perspective - paper prepared by the secretariat of UNIDO

<u>Symbol</u>	<u>Title</u>
B. <u>Other documents</u>	
General Assembly resolution 3172 (XXVIII)	Holding of a special session of the General Assembly devoted to development and international economic co-operation
General Assembly resolution 3176 (XXVIII)	First biennial over-all review and appraisal of progress in the implementation of the International Development Strategy for the Second United Nations Development Decade
General Assembly resolution 3177 (XXVIII)	Economic co-operation among developing countries
General Assembly resolution 3178 (XXVIII)	Preparations for the mid-term review and appraisal of the International Development Strategy for the Second United Nations Development Decade
A/9003	Report of the Economic and Social Council on the work of its Fifty-fourth and Fifty-fifth Sessions ( <u>Official Records of the General Assembly, Twenty-eighth Session, Supplement No. 3</u> )
ID/107	<u>Industrial Development Survey, vol. V (United Nations publication, Sales No. E.73.II.B.9)</u>
ID/B/140	<u>Annual Report of the Executive Director, 1973 (Report of the Executive Director of UNIDO to the Industrial Development Board)</u>
ID/B/142	Report and Conclusions of the <u>Ad Hoc Committee on Long-Range Strategy for UNIDO</u>

ANNEX II

LIST OF REPORTS AND DOCUMENTS OF THE COMMITTEE ON THE SUBJECT OF  
ECONOMIC CO-OPERATION AMONG DEVELOPING COUNTRIES

<u>Symbol</u>	<u>Title</u>
A. <u>Reports of the Committee</u>	
E/4362 and Corr.1	Report on the Second Session ( <u>Official Records of the Economic and Social Council, Forty-third Session, Supplement No. 7</u> ), chap. I, sect. B - discussion in the context of planning and plan implementation in Latin America
E/4515	Report on the Third Session ( <u>ibid., Forty-fifth Session, Supplement No. 7</u> ), chap. I, sect. C on multinational economic co-operation and planning in Africa
E/4682	Report on the Fourth and Fifth Sessions ( <u>ibid., Forty-seventh Session</u> ), chap. II, sect. C on economic integration in Asia
E/4776 and Corr.1	Report on the Sixth Session ( <u>ibid., Forty-ninth Session, Supplement No. 7</u> ), chap. I, sect. C - discussion in the context of preparation of guidelines and proposals for the Second United Nations Development Decade
E/5126	Report on the Eighth Session ( <u>ibid., Fifty-third Session, Supplement No. 7</u> ), chap. I - discussion in the context of attack on mass poverty and unemployment in developing countries
E/5293	Report on the Ninth Session ( <u>ibid., Fifty-fifth Session, Supplement No. 5</u> ), chap. I, sect. C - discussion in the context of the first over-all review and appraisal of progress in the implementation of the International Development Strategy
E/5478	Report on the Tenth Session ( <u>ibid., Fifty-seventh Session, Supplement No. 4</u> ), chap. I, sect. D on joint action by developing countries for industrialization

SymbolTitleB. Documents of the Committee

E/AC.54/L.26

Economic co-operation and integration in Africa: note by the Centre for Development Planning, Projections and Policies (CCDPPP) of the Department of Economic and Social Affairs of the United Nations Secretariat

E/AC.54/L.26/Add.1  
and Add.1/Corr.1

Economic co-operation in Eastern Africa:  
paper prepared by CCDPPP

E/AC.54/L.26/Add.2

Economic co-operation in West Africa: paper prepared by CCDPPP

E/AC.54/L.26/Add.3

Economic co-operation and integration in Central Africa: paper prepared by Paul Borel, Consultant

E/AC.54/L.27

Development planning and economic integration in Africa: paper prepared by the secretariat of the Economic Commission for Africa

E/AC.54/L.35

Towards integration in Asia: paper prepared by the secretariat of the Economic Commission for Asia and the Far East

E/AC.54/L.54

Economic co-operation schemes in developing regions: an appraisal of mechanisms, policies and problems - paper prepared by CCDPPP

E/AC.54/L.64

The economic integration of developing countries and the function of joint industrial planning: paper prepared by Germánico Salgado, member of the Committee