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INTERNATIONAL TRENDS AFFECTING INDUSTRIAL STRATEGIES IN THE DEVELOPING COUNTRIES

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FOREWORD

As part of the preparatory activities for the Fourth General Conference of UNIDO (UNIDO IV), a high-level expert group meeting on industrial development strategies and policies for developing countries is being organized in Lima, Peru, 18-22 April 1983.

This particular meeting is considered to be of crucial importance to the preparations of UNIDO IV, since it has as its objective the review of strategies and policies of the past as well as the identification of key elements in industrial strategies and policies for the 1980s and 1990s as perceived by national policy makers. On this basis, the meeting will identify those issues on which further detailed work in the strategies and policies area should proceed in preparation for UNIDO IV.

International Trends Affecting Industrial Strategies in the Developing Countries considers two quite different sets of factors that will be major influences on the industrialization process in the developing countries in the 1980s - international trade and its interaction with global restructuring, and specialization and the structure of markets, national, regional, and global - and concludes with a summary of policy suggestions in related areas for the developing countries in the 1980s.

The paper is based on material prepared by Dr. András Inotai.
Introduction

The international economic environment has always been, and is currently, considerably influencing the industrial strategy and policy of every national economy. No exception can be made from this fact — even for economies in which industrialization took a definite inward-looking character in order to avoid world economic impacts.

The growing international division of labour in manufacturing which could be observed in the 'seventies, was based on the concept that the reduction of trade barriers, growing international co-operation, and new market possibilities could contribute to increasing growth rates and help solve some of the most acute unemployment problems. The concept had its origin at a time when international conditions were favourable. The real process itself started in the last years of "normal" world economic conditions, but most of its duration fell in a period of worsening external conditions.

At the beginning of the 'eighties the question arises whether the former industrial strategy is still valid or whether — in the light of the recent international economic developments — it must be fundamentally changed. A new problem therefore has to be brought into focus: even if one finds that the earlier paths of industrialization would only lead to an impass, it is absolutely not sure that an alternative strategy is necessarily viable.

The first part of the study points out some salient features of the international economic environment which affect industrial strategies, while the second illustrates alternative ways of coping with the problems facing the developing countries. In the last part of the present paper some general remarks will be made and some conclusions and suggestions formulated.
International trade and restructuring

It can hardly be denied that the world economy is passing through one of its most difficult periods in the last fifty years. Generally, there are three aspects of controversy regarding the new conditions of industrialization in developing countries. Two of them are external, world-dependent factors, one is more connected with the character of economic development in the developing countries.

Diminishing resource flows represent one of the external bottlenecks. In fact, there are several fields where supply conditions have been changed in the last years. The most discussed among them is the oil price explosion, the most recent and probably the most dangerous the indebtedness and the financing of the developing countries. But experts point out that some other fields must be considered too: raw materials in general, technology transfer, and to an increasing extent machines and spare parts, which have become integral parts of the structure of export of some two dozen developing countries.

The new international conditions for growth made their appearance at a time when many developing countries had built up at least some export sectors in manufacturing and started to export to the world market. The appearance of new suppliers would have intensified the international competition in itself, but the fact that sharper competition has been developing on shrinking markets has essentially aggravated the problem. The decreasing or stagnating import capacity of the world market is due to several factors. Growth rates in developed countries have been very modest in the last years. Demand has been reduced also by the lack of financial means in a number of developed, socialist, and developing countries. Some markets seem to be saturated - sometimes in quantitative terms, sometimes in a qualitative form.

The latter has to do with continuous change in the structure of demand (i.e., "structural"saturation and not "physical"). Slower growth rates and decreasing demand - not only on the national, but on
the international level, too, at least in some important export sectors of developing countries - led to production overcapacities which tended to aggravate the structural problems of the developed economies. Partly the protection of established but non-competitive industries, partly the protection of the national (or regional) market resulted in protectionism and discrimination against one or another group of countries all over the world.

In the 'seventies, those developing countries which seemed to be successful on the international market for manufactured products possessed several advantages: a low-cost and disciplined labour force, a diligent and intelligent enterprising strata, and a stable political and economic system attracting foreign investment and credit.

How can the prospects of the above-mentioned three main development issues be judged? In the international economic literature on the subject, there are different views. In fact, arguments may be found on both sides, competing with each other. In the following, the author tries to illustrate the main points incorporating his own feelings about the development framework of the coming years.

Are resource flows really diminishing? Is it an unchangeable, necessary path of development? Certainly, all raw materials - first of all oil and other energy carriers - are physically finite. For several national economies this limit does not exist simply on the physical side, but - much more severely on the financial. The future of the availability of raw materials and oil must therefore be considered under this distinction. As regards the physical availability, no real constraints may be encountered in the following decade.

The main question is whether real prices will rise or fall in the 'eighties. It would be erroneous to start from the present oil situation and forecast constantly falling oil prices in the coming years. There are important factors supporting price cuts on the oil market - and they are not only coming from the exporting economies, but from countries where huge energy-saving and energy-converting
Programs have been launched in recent years. On the other hand, a conjunctural upswing in the developed economies - which cannot be excluded in 1983 and 1984 - may increase the demand for oil, with prices rising again. The author finds that no abrupt price rises are to be expected in the 'eighties, from the economic point of view. Raw material prices can be expected to stabilize in the coming years - the historical moment of abruptly changing price relations in favour of raw materials seems to be over.

In the technological field a new "revolutional phase" is emerging. The extensive introduction of the electronics and computer industry in several branches in the 'eighties and the impact of the results of biogenetics in the coming decade may substantially alter comparative advantage and the international division of labour in industrial products. It will be ever more difficult to keep pace with the general technological development. The main reason is probably not that technology cannot be obtained, but the fact that fewer and fewer national economies will be able to finance technological development and to create an industrial background capable of adapting the new technology.

International financing seems to be the main challenge for the 'eighties - and not only in the light of recent developments in some Latin American countries. Bankers have drawn the conclusion from the financial development of the second half of the 'seventies, that credit conditions must be tightened. Actually, interest rates are falling which can increase the chance of a new upswing. Nevertheless, this upswing will first of all require the largest part of the disposable international liquidity - without solving the liquidity problem of the indebted developing countries. An upswing-based redistribution of international liquidity is, on the one hand, probably necessary to increase demand for industrial products of developing countries in the developed economies. On the other hand, it is hardly adequate to meet the real problems of indebtedness, in the short-run. Therefore, in this field new initiatives are overdue - and not only in order to take the necessary emergency steps but to improve the structure of international financing.
Positive trends in the growth rate of developed economics will enhance the import capacity of this group of countries, especially if import prices will, at most, experience slow increases. However, the new demand will emerge in a changed structure, and there will be other dynamic products than in the 'seventies. For the developing countries it means that there will be real possibilities of exporting, but not the same commodity structure as before.

Protectionism is not a means to solve structural problems in the developed economies. In spite of this, there is little hope that protectionist tendencies will fade away in the 'eighties. The opposite is more likely: without entering a phase of general protectionism and closing-down, protectionist measures will be maintained. We expect that areas and means of protectionism may change during the coming years. In areas where the developing countries are increasing their exports rapidly and the developed economies fail to undertake the necessary steps for restructuring, new protectionist measures may emerge. It is not excluded that in some other fields, which for a certain time belonged to the most protected ones, trade barriers will be lowered.

In this respect, special attention is to be paid to the differentiated development in Western Europe, the United States and Japan. Western Europe is handicapped in several ways: the growth centre of the world economy has been shifted to the Pacific for the first time since modern capitalism emerged in the world, whereas the economic ties of this region have been developed first of all with Mediterranean and African countries which are less dynamic and in several respects less industrialized than the main partners of the United States or Japan (Latin American and Far Eastern countries, respectively).

A third bottleneck can be detected in the Western European integration process itself. A large regional market has for a long time permitted that uncompetitive (or below-average competitive) sectors survive. Intraregional trade makes up the major part of total imports in labour-intensive and raw material-intensive products, in which developing countries have a clear advantage on the US and the Japanese markets. The import structure of Japan and the United States is more developed than that of Western Europe, considering the imports from developing countries. While in 1980 40.4 per cent of the developing
countries' industrial exports to the OECD countries went to the United States and 37.9 per cent in the European Communities, the respective shares in machinery products (SITC 7) were 55.7 and 28.9 per cent, respectively. The highest relative EC shares were in the labour-intensive sectors (textiles 49.3 per cent and clothing 43.3 per cent) and in raw-material intensive chemical products (48 per cent).

The concept of generally shrinking markets is thus not convincing. First of all, in the United States and in Japan the market tends to be growing, and within Western Europe there are different national attitudes, too. Less impetus can be expected in the demand of socialist countries: financing constraints, structural problems of manufacturing and urgent export needs do not promise large possibilities here.

One has, however, to reckon with the fact that the development in the socialist world will probably be less balanced then before, and some countries may offer interesting import markets. Practically the same problem emerges with respect to the developing countries: financing bottlenecks and export requirements make everybody interested in exporting and not in importing. This is one of the practical obstacles to convert this group of countries into a large importer of manufactured goods produced in developing countries.

In order to assess the possibilities for the manufacturing exports of developing countries it is necessary - and it has to be stressed in actual conditions in which most experts are dealing mostly or exclusively with the unfavourable external conditions - to refer to the earlier advantages of developing countries as exporters of manufactured goods. Has their attractivity changed? Are the clearcut advantages of the 'seventies lost?

Manpower is still available in abundance and with a changing structure. In the 'seventies, low-cost and disciplined manpower was required. Today, without having lost this type of manpower but certainly with a clear geographical shift in it, comparative advantage appear in semi-skilled and skilled labour sectors, too. The supply side is larger and more differentiated. This implies on the one hand, sharper competition, on the other, new fields of international industrial co-operation.
The entrepreneurial sector has gained a lot of experience in the 'seventies, especially in Far Eastern and Latin American countries; without losing dynamism - as the latest data on international competitiveness demonstrate. (Some countries could considerably enhance their exports even in the recession-hit years). The developing countries' situation became more critical in the financial aspect, and indebtedness may lead to more cautious behaviour of foreign capital. Moreover, the strained financial situation may produce changes in the general economic policy which in the seventies has increasingly concentrated on export orientation.

A more inward-looking policy - either as a general, comprehensive concept or as a tactical step to reduce indebtedness - may reveal very soon the high degree of vulnerability of the economy - strengthening the psychological aspect of closing-down. In some rapidly industrializing countries territory is limited and the infrastructural projects of the 'seventies may be insufficient to ensure the attractiveness of the given economy on the international scale. New financial needs for infrastructure could emerge - without real financial resources to meet the needs. Industrialization also influences not only the economic growth, the export performance, productivity, etc. but has many non-economic "side-effects" which may enter into the economic sphere if social problems cannot be solved adequately.

How far do changes in the international economic framework and in the attractiveness of industrializing or semi-industrialized developing countries give ground for "export pessimism"? It is convenient to refer to the historical parallel: in the early- and mid-sixties, there was a general feeling that developing countries cannot enter the international market for manufactured goods, or if they can, only in very unsophisticated products and by the transmission of multinationals. Although for other and more fundamental reasons, export pessimism has been rather popular in recent years.

Unfortunately, data are not available for the most recent recession-hit years. But in the second half of the 'seventies, when protectionist tendencies were rapidly growing, export competition
severely sharpened, and growth problems in some principal markets accentuated, the newly industrializing countries could maintain or even strengthen their market share. But - and this is especially noticeable - a new group of exporters of manufactured goods has appeared: the so-called new exporting countries (NECs) developed at a quicker pace than world import demand and even then the NICs themselves did.

This illustrates that in spite of sharpening competition, export possibilities existed. These countries exported first of all labour-intensive products to highly protected markets. They could do so because they were marginal exporters and the general tariff preferences and the quota system helped their exports increase.

However, there are clear differences between this newly emerging group of countries and the NICs: a growing share of manufacturing exports did not lead to higher growth rates; offshore activities prevail; the level of development is relatively low; special incentives for foreign capital have been given; and the industrial development is less "organic" than in the Far Eastern or most Latin American countries.

Export pessimism is certainly not a convincing argument, but prospects for export-led growth have changed and will be changed in the 'eighties. Some of the main conflicting points are:
- the structure of world demand is changing, which offers possibilities for countries which can change rapidly their industrial structure. At the same time a deeper differentiation is developing;
- protectionism has not expanded to all fields: market possibilities for developing countries are given in not-protected areas. Certainly, with higher export performance, the new area may be protected again. But the flexible economies - forced to respond to the challenges in short periods - will be able to find new outlets for their products;
- competition between more industrialized and in-the-last-years-industrializing developing countries will be sharper,
the latters have comparative advantages where the formers had them some ten years ago. If the NICs fail to adjust themselves, they may be forced out of the international market. The export performance of the newly industrializing and exporting countries may be felt in the earlier industrializing developing countries - protectionist measures are here again not to be excluded;

- a major problem of economic - and first of all industrial - policy consists in the fact that the world economic environment and general overcapacities require rapidly adjusting industrial systems and not new capacities which could theoretically contribute more to economic growth and employment generation;

- export growth is to a lesser extent connected with economic growth and employment in the newly exporting countries, if it is so, and exports are highly necessary to pay back credits and pay for essential imports, the growth and employment generating role must be overtaken by other sectors. But are they able and ready to do so?

- the Far Eastern and Latin American countries - or a large part of them - have more or less established industrial structure and a higher export performance characterized by relative stability. But what about the new group of exporters, which are exposed to primary world market changes;

- the role of transnational companies seems to be growing in the 'eighties, both as a direct investor and as the supplier of the technology. Contacts with these agents will remain highly necessary in the coming decade. How to pursue this objective simultaneously with other general policy aims as appropriate technology, collective self-reliance or basic needs strategy is a major question facing the developing countries; and
- and last but not least: it may be that the maintenance of the export-led growth model will bring to the surface serious economic and socio-political tensions. But is there any other strategy which offers better prospects and less disequilibrium? More concretely: exporting remains a high priority because debts have to be repaid, external equilibrium consolidated. Is there any possibility to separate the national economy into two different fields and achieve at the same time better servicing of debt and siezing the enormous internal problems? Possibilities, limits and tensions of a more inward-looking economic strategy are described in the next section.

Specialization, Co-operation, and Integration

In this section alternative options of the developing countries of avoiding the negative influences of the world market and the recession, as well as structural problems, financing difficulties of the developed economies will be examined. Only the vital questions will be formulated here. The possible areas for strategy options are: intra-regional integrations, broader South-South co-operation, collective self-reliance and East-South industrial division of labour.

The experiences of a common industrial policy based on a regional market are in most cases not successful. Industrial policy on the regional level has practically replaced national import-substituting policies; i.e., the same concept prevailed on a somewhat larger regional market. Beyond well-known infrastructural, technical and administrative problems there are some general issues which hindered regional integrations as a vehicle for promoting in a more successful way common industrialization strategies. First, even the wider markets are very limited for most industrial products. Secondly, at the beginning there were two possible ways of implementing regional
industrialization policy: by enhancing the competitiveness of earlier established national industries and by setting up new common projects widening the structure of industry in a region.

The second option was preferred, and it has had two main consequences. On the one hand, the production in established national industries could not become more effective in a regional competition. On the contrary, the wider regional market remained practically closed for these products. On the other hand, financial, distribution and allocation issues were forming severe obstacles in the integration process from the very beginning: the centre of controversy could not be abolished, only shifted from trade policy and adjustment issues towards allocation policy and structural issues.

Thirdly, regional market became more and more a "protection ground" and not a "training ground" as put forward in theory. International competitiveness and better export performance was largely due to world market effects and close contacts with extra-regional markets, and not to regional training grounds. Of course, some countries started exporting to several member countries of an integration grouping, but in most cases this move happened after successful world market performance. Thus, the widest international division of labour made possible higher regional market shares and not vice versa.

It is worth noting that all economies which could substantially increase their industrial exports in the 'seventies, did first of all rely on the global market. It is true in the opposite sense, too: economies basing their industrial exports on the regional market cannot be found in the group of the NICs nor in the "second-tier" exporting countries. And what is more: industrial exports of countries which relied on the regional market and which considerably increased their industrial exports until the early 'seventies (Central American countries, Colombia, Egypt) suffered decreasing growth rates, indicating the limited speect for expanding industrial exports within a given region.
The changing pattern of the world economy is certainly not favouring the process of regional integration. Challenges have to be faced not only by national economies but by regional groupings. These regional groupings have to survive at a time when not only external influences are increasingly disadvantageous, but earlier integrational impulses seem to be exhausted.

The question then arises: what a role can intraregional industrial co-operation play in the future? Theoretically, there are a number of possibilities:

- world-market-oriented industrial development in some well-defined sectors;
- common direction, management and control of global redeployment processes;
- orientation on the regional market in order to satisfy growing regional needs;
- common protection against disruptive tendencies of the external world (i.e., maintaining structural challenges in "tolerable" limits); and
- common infrastructural development as a necessary step to increase overall co-operation and improve the market access of regional industrial goods.

At the same time, there are a number of areas where the pursuit of a strategy of regional integration will present difficulties and challenges for the developing countries:

- large-scale projects which offer world-wide competitiveness need substantial financial means and technology transfer. Thus, international financing channels must be found and contacts with main sources of technology have to be established and maintained;
- the effectiveness of regional industrial production must be increased by rationalizing parallel national industrial priorities. The difficulties are well known in national framework and in many countries, and it is at least doubtful
that tensions would be less strong in the regional framework;
- international competitiveness can only be achieved if the location of the given project is economically well grounded. How to maintain, in these circumstances, the principle of equal distribution of regional gains and losses and how to follow the path of harmonious development on the regional level is a crucial question; and
- since industrial development is a highly-ranked political issue in all developing countries, regional co-operation has clear political impacts. Different interests, the difficulties of harmonizing various concepts represent a heavy burden on political decision-making, and tend to reduce the political basis of co-operation among developing countries.

The prospects for global South-South co-operation are, however, better. There are some positive signs in recent years, especially in the OPEC countries where some developing economies have become strong competitors with developed country and socialist country exporters. For a dozen developing countries, the promising industrial markets in rapidly growing developing economies and in oil-rich countries will represent an incentive for expanding industrial exports.

Industrial strategy may be based on a better all-round co-operation among developing countries. Among international experts the following points have been stressed: co-operation in the industrial sector and in the infrastructural projects or in common services should be increased; trade preferences should be given only step by step and perhaps connected with higher security of supply; preferential treatment of goods produced in inter-firm co-operation should be given; and joint ventures of enterprises of developing countries should be strengthened.

No doubt that all these steps may improve South-South-industrial co-operation. Nevertheless some general concerns remain:
- experience up to now shows even in recession-hit years, the import market for industrial goods from developing countries
is less unstable in industrially developed economies than in developing countries;

- if the oil price does not increase in real terms in the coming years, the main OPEC import markets will tend to decline, while in other more industrialized developing countries the external financing may break the expansion of the import capacity of the economy;

- the commodity pattern of developing countries' industrial exports is similar to the production pattern in most of the developing economies. Thus, the competitive edge is likely to increase, even if signs of redeployment within the developing world are present;

- technology, modern machinery, some spare parts and basic materials forming an integral part of the technology process remain to be obtained from outside the developing countries; and

- external financing and the need to finance the external debt may divert exports towards developed countries, with their wider markets and higher liquidity.

Collective self-reliance can be accepted as a political principle but can hardly be implemented in economic practice. Several simulation models constructed in the last years indicate that an attempt to economically disengage from the developed countries would generate only a very marginal decline in the relative trade volume between developing and developed countries. At the same time, the structural development would be undesirable in two senses: first, it would re-establish the traditional trade pattern of changing primary goods for industrial products. Secondly, it would generate traditional trade pattern within the developing world, too, between exporters of industrial products and exporters of primary goods.

The other major conclusion emerging from the simulations is that the benefits realized by the developing countries were not distributed equally among the members. In this point, the collective self-reliance strategy seems to be especially vulnerable.
The third conclusion is that policies which generate benefits for the developing countries may imply costs for other participants in the world economy. It is at least problematic whether other countries would accept them or give responses which may hurt international economic and political relations and reduce the possible benefits for developing countries.

Socialist countries as alternative import markets for industrial products of developing countries may play a certain role in the coming decade if:

- the financing problems can be eased;
- a higher growth rate could be achieved;
- the structure of industrial production is rapidly changed; and
- energy- and raw material-saving can be enforced.

However, even if the mentioned conditions can be met, the import market remains relatively narrow, playing a complementary but not a substituting role for industrial exports of developing countries.

It is foreseeable that - without denying the real possibility of industrial co-operation and some very positive results - the main tendency will remain the sharp competition on world markets between socialist and developing country exporters of manufactured goods. The competition will first of all centre on the OECD market, but it will be felt in OPEC countries and - not to be excluded - even in some socialist countries (e.g., the Soviet Union).

Conclusions and suggestions

The international economic environment for industrial development has become more difficult and complicated in the early eighties than it was in the 'seventies. Conditions of export-led industrialization have changes - but without creating better conditions for other comprehensive development strategies.
Export of manufactured goods from developing countries will increase in the 'eighties at a slower pace than before, but a growing share for the developing countries will also characterize the present decade. Within this general picture, the circle of manufactured goods exporting countries will increase and the structure of exports will become more diversified. Beside labour-intensive and low-skill products, capital-intensive goods and skill-intensive articles will appear in the exports of the more industrialized developing countries. Special attention has to be given to the selection of partners: the import market of the United States and of Japan seems to be structurally more advanced than that of Western Europe. With the protectionist tendencies in Western Europe which are likely to remain in the 'eighties, the already observable "structural lag" will be even greater.

One of the main contradictions of industrial strategy in the present decade consists in the fact that, on the one hand, exporting remains necessary, on the other, export-led industrial strategy is likely to enter into conflicts with other economic policy issues. The separation of exporting from the generation of growth process and of employment will be characteristic of the "second-tier" exporters. Industrial policy cannot meet all the challenges: some previous fields of industrial strategy have to be overtaken by other sectors.

Differentiation processes within the developing world cannot be slowed down or halted. On the contrary, differences can be expected to increase in the course of the 'eighties. The industrialization of the relatively more developed Far Eastern and Latin American countries will probably continue and respond successfully to the international economic challenges. Here the main issues seem to be of domestic adjustment (internal restructuring), discovering new advantages and the creation of more effective bargaining power in international economic issues.

The second group of industrial exporters will probably face the most delicate problems. Here industrial exports are indispensable for foreign financing but not involved in the national reproduction processes.
In the group of developing countries which up to now did not export manufactured goods except a negligible amount, industrial policies directed to increase the export capacity of the given economy may emerge. Some of them may enter the group of the "second-tier" exporters, but the majority will continue to face serious bottlenecks in their attempts at comprehensive industrialization.

Differences in the starting position and in the economic strength and prospects involve evident differences in the means to be applied. The role of education and professional training will become manifest in the relatively more developed developing countries, offering them new production lines and export possibilities. Industrial exports will be accompanied by servicing and in some cases by technology transfer. The problem of small-scale industry remains very actual, not only concerning employment-creation and regional policy, but - and to a growing extent - as a flexible unit which can rapidly adjust to external challenges and structural requirements.

No universal path and no universal remedy can be suggested. However, regional autarchy and disintegration from the world economy seem to involve serious damages and backwardness even if the external conditions remain unfavourable. Retaining global economic relations is a primary necessity which has to form the framework for regional industrial co-operation. In this respect, the following activities can be forecast:

- common efforts to prevent or reduce negative effects of protectionism;
- increasing regional bargaining power in international economic issues in all the fields possible;
- restructure regional integrations from import-substituting aims to common export policy goals; and
- better use of the resources of developing countries for industrial development.
Industrial strategy in the coming years has to reckon with the fact that, beside elements of co-operation, the prevailing feature seems to remain competition on the world market. Competition will be extended to the special national offers to be made in order to attract foreign capital, get larger international credits, and guarantee access to technology sources.

Global industrial strategy with longer-term validity can be elaborated only if the following conditions are met:

- the international monetary and financial system has to be consolidated, and first of all issues of crucial indebtedness must be settled;

- a complex policy of international restructuring of the manufacturing sector is overdue;

- actions must be taken in accord with the relation that protection is no solution to the real problems; and

- in order to avoid current problems of market disruptions, labour redundancies and depressed manufacturing profitability and to increase the probability of smoother and longer-term redeployment processes, exchange of information between industrial policy makers in developed and developing countries has to be institutionalized on various levels.