

**UNIDO Asia-Pacific Regional Forum
Bangkok, 23-24 September 1999**

**Opening Statement
of the
UNIDO Director-General
Carlos Magariños**

Vision for Industrial Development (Ver.1.1)

Your Excellency, Prime Minister, Mr. Chuan Leekpai
Minister of Industry, Mr. Suwat Liptapanlop,
Deputy Minister, Mr. Wuttichai Sanguanwongchai
Members of the Diplomatic Corps

Ladies and Gentlemen

I am particularly happy to join the Kingdom of Thailand's Prime Minister and the Minister of Industry in welcoming you on behalf of UNIDO to the start of UNIDO's Asia-Pacific Regional Forum on Industry.

This is the first of a series of forums on *The Vision and Challenges for Sustainable Industrial Development* that UNIDO plans in the run up to its main forum on Industrial Development, which we will be holding in Vienna as part of our General Conference this November. As their title implies, they are forums with a specific purpose – understanding the nature of manufacturing as it will evolve in the first decade of the new century, and (accordingly) repositioning and redesigning sustainable industrial development and its main components in developing economies.

These are crucial questions. The right answers will directly help the private industrial sector to survive and prosper. They will help governments and non-government organizations design and support the business and legal environment the private sector needs. And they will

help the international community prioritize the assistance that UN organizations and the development banks can give to governments. More specifically, they will help UNIDO work with governments, NGOs, sister UN organizations, the Bretton Woods institutions and the private sector to deliver the changing pallet of services that developing economies will need.

The immediate contexts for our Asia-Pacific conference are of course mainly two: the dramatic globalization of industry since the late-1980s, and what has come to be known as the "Asian crisis" of the late 1990s. By common consent, the first is unstoppable, and the second should be made unrepeatable.

Their meaning for industry and industrial development are also the broad themes of our first two sessions today. This morning we will examine the implications of the Asian crisis for Asia-Pacific's industry and industrial policy. After lunch we will look at the microeconomic reforms required to enhance industrial competitiveness, in particular at strategies to ensure that small and medium-size industrial firms (industrial SMEs) can continue to be created and survive in a globalized economy. The underlying questions is whether and how they will continue as a prime source of employment and job creation in developing countries.

The conclusions you draw from those discussions will feed naturally into tomorrow morning's session on strategic vision and industrial policies required for the new millennium. For let us be clear about it from the beginning the world does need a new vision for industrial development. It has to be shared vision that allows for sharing of the benefits of developing countries' industrialization. It has to recognize and remedy the defects in the old vision while grasping the opportunities of a broader vision of how the world is today, and how it will probably evolve in the first part of the next century.

Let me begin therefore by sharing some thoughts on why the old vision, despite its achievements, is no longer valid.

Vision overtaken

The old vision was deceptively simple. For developing countries, industrialization was synonymous with prosperity. In the post-war, post-colonial years, the 1950s and 1960s, they still had relatively little of the manufacturing industry (in contrast to their extractive industries) by which the successful countries came to dominate the 19th and 20th centuries.

The international community agreed: industrialization was a

necessary vehicle through which less advanced countries could accede to higher states of development. Through expansion and diversification of productive activities and with benefit of new technologies it would be possible to:

- lower unemployment and reduce poverty.
- improve per capita incomes
- raise skill levels of labour

At best, increased prosperity promised convergence. The gap separating the less developed from the richest countries would be narrowed. This was the underlying hope, the *raison d'etre* for supporting industrialization.

At the same time, it was already evident that industrial production in developing countries did not increase automatically. Arrangements confined to creating industrial production capacity would not suffice. It was not enough, for example, simply to provide the capital required for manufacturing investment. What was needed was comprehensive industrial development, ranging from strategy and policy support to R&D, training, and all manner of technical assistance to start up and operate industrial plants and factories. It therefore made sense to create a fully independent international organization that would help provide the "public goods" necessary to support the

process. It was therefore through the United Nations that the international community pursued its objective of industrialization for all countries.

The cornerstone of the work of the new agency, by then established as the United Nations Industrial Development Organization, was the ambitious and wide-ranging Lima Declaration, signed by Member States in Lima (Peru) in 1975.

Two of its concerns are worth recalling today:

- Increasing developing countries' participation in world industrial output – raising their share from around 11 per cent (not counting data for China) in 1975 to 25 per cent in 2000; and
- Taking special care that multinational firms conform to the economic and social aims of developing countries, and – avoid discriminatory and aggressive acts.

Today, 25 years later, we have some answers.

Next year, our forecasts show, developing countries (including both emerging and newly industrializing economies) will account for over 26 per cent of global manufacturing value added. Thus, the quantitative target has been reached. This is despite the ideological

reservations of the mid-1970s, and thanks to a large degree to the possibilities opened by activities of multinational firms and finance capital in expanding trade, internationalizing capital markets and undertaking foreign investment. Those very firms' self-interest incorporates the developing world in the world factory.

The underlying element that made it possible, of course, was technological change. The combined impact of the information revolution on the technologies of production and design, and the reduction in the costs of transportation and communication revolutionized the implementation and organization of productive processes. They also gave rise to vigorous service sectors. The developing world, or at least part of it, has already been a major beneficiary.

Technological change also rendered obsolete the political and ideological prejudices expressed by both sides at the time (by developing countries as well as MNCs). Politics and ideology are, of course, present in all of life's activities. But one message of the past 25 years is that progress in the search for concrete solutions in issues related to development has to be sought in careful analysis of technical aspects rather than in political and ideological debate.

Shortfalls and challenges

Despite this quantitative success, it is pertinent to ask to what extent developing countries' increased participation in global manufacturing output has been matched by the other economic goals. For example, whether it lowered unemployment and increased prosperity, and whether increased prosperity has indeed narrowed the gap between rich and poor countries? We must also ask whether there are new goals and concepts for industrial development to take on board.

In the first place, let us acknowledge the achievement in creating jobs. The increase in developing countries' share of world manufacturing value added (MVA) generated more employment and prosperity in those regions that took part in the process of "internationalization" of industrial production than in those that did not.

But we also have to recognize that the main benefits of industrialization have gone to only a relatively few countries, most of them the *newly industrializing countries (NICs)* of East Asia. Meaningful industrialization, like the more recent phenomenon we call [globalization], bypassed many Asian developing countries, not to mention virtually the whole of Sub-Saharan Africa and many countries from my own region, Latin America. The entire continent of Africa saw its share in world MVA decline (dropping from 2 per cent to 1 per

cent in the last 25 years), while for developing countries as a whole it increased.

The phenomenon of "internationalization" of industry shows distinct tendencies to "agglomerate" in certain regions. It also agglomerates in certain regions within the boundaries of developing countries. To put it another way, the industrialization of recent years has not contributed to raising living standards in a balanced way □ neither among nor within developing countries. As a consequence, improvement in the living standards of the population in developing countries has been very unequal.

Secondly, it was not enough just to create industrial capability and capacity. Manufacturing had to be economically sustainable. For example, the import-substitution capacity installed by governments during the 1960s and 1970s (and protected with high tariffs against external competition) proved, ultimately, to be not sustainable in the 1980s and 1990s. Withdrawal of governments from the productive sector, and allowing the private sector the driving role □ taking the risks in return for profit-taking on a level business playing field □ were a direct result. Today, there is broad agreement that the new government role is that of □enabler□ rather than investor and controller. But there is no consensus yet on what this means in practice.

Thirdly (and this is not so widely appreciated, even today): macroeconomic stability is a *sine qua non* for industrial development. In my own country, as in many others in Latin America, industrial development came to a standstill in the 1980s because of macroeconomic instability. Structural adjustment and other macroeconomic measures are indeed an essential basis for development. Neo-liberal thinkers are perfectly correct in this: Governments' first task is to control money supply, inflation, public spending and current account deficits. These are the prerequisites for all other development. But there is growing consensus that neo-liberal thinking does not go far enough — that the new fundamentals for economic policy and strategy must be based on an understanding of the requirements of a range of reforms spanning the economy from macro to microeconomics. Macroeconomic reforms are an incomplete recipe. They are the basis of long-term growth, but by themselves they will not stimulate it. It is also becoming clear that structural adjustment can actually widen existing inequalities and that the urban poor in particular are adversely affected.

This is important from a policy perspective because, as the World Bank's next *World Development Report* will show, it is the level of income inequality that determines the effectiveness of economic

growth as an instrument for reducing poverty. If inequality is too great, growth will worsen, not alleviate, poverty. This not only means that macroeconomic measures must be accompanied by appropriate microeconomic policies — policies that promote industry have to be prominent among them — but that in certain countries, industrial policies must focus particularly on reducing the level of income inequality. If we want to foster change and social progress within democratic, participatory and pluralist environments, balanced development thus remains an inescapable goal.

A fourth conclusion concerning developing countries — overall success in increasing their share of manufacturing output is that future increases will have to come from industrial development that is environmentally sustainable. Environmental soundness is the new factor that conditions the activities of industrial promotion. It has emerged as a critical aspect of economic development and has to be taken fully into account in the formulation of policies, strategies and actions.

A final conclusion, based on the above, is that it is important to foster activities and attitudes that allow countries to make gains in overall social and economic productivity. Rather than indiscriminate support for a specific sector, such as agriculture or industry, it would

be better to focus on the productivity gains that constitute the most sustainable path to balanced improvement in living standards. Such gains, it seems self-evident, are also the best mechanism for identifying the effective contribution of a specific sector to economic development. And I have no doubt that most of them will be found in the industrial sector.

Towards a new vision

Unless our vision of industrial development for the early 21st century resolves at least these issues, I am sure it will not succeed. That is why they will form the meat of our General Conference Forum in November. And it is why I propose that they form the background to your discussions this week in Bangkok.

Conference goals

The ultimate aim of our series of conferences, as I implied at the outset, is to help re-orient the key players in industrial development. Developing country manufacturing industries needs to understand the changing nature of manufacturing itself, and thus their own role and opportunities in it.

Governments need to understand this too. But from a development standpoint, they need to understand the ongoing role of

industry in the next century □ the growing importance of services, but above all the fact that in all but a handful of developing countries, manufacturing will remain the main engine for growth, for exports and the agent for transforming their economies.

Governments also have to understand their own role in the new setting for the development of industry □ the need for policies that will do this, and the constraints on designing those policies. Our discussions will cover not only governments □ vulnerabilities, but also their policy abilities □ to provide or ensure:

- the right kind of economic and legal regime and the proper speed in setting it up,
- ways to attract foreign investment and generate domestic investment in industry,
- a modern industrial infrastructure
- a skilled workforce that can operate and manage the technologies and systems required for global competitiveness

and

- mechanisms to promote technological upgrading in industry.

Finally UNIDO (its Secretariat and its Member States) needs to

understand its own role in the new context. If we agree that governments everywhere need to create capabilities and institutions in order to profit from (rather than be exploited by) market forces, the very varied capabilities among governments becomes a major issue.

If supporting policy makers in the weaker (i.e. most developing) countries broadly defines the new task of international organizations regarding industrial development, what specifically does this entail?

Should our global forum function try to fill in policy makers' informational and analytical gaps? Should our technical assistance help governments and industry with benchmarking, with formulation of sectoral competitiveness strategies, improving technology infrastructures, policies and systems to support industrial SMEs, and with enterprise training schemes?

The Conference papers contain many proposals along these lines. I look forward to your new suggestions and your evaluations, And I thank you for coming — many from great distances — to help UNIDO with this work.

I will personally follow the sessions with great interest, and look forward to the results of your deliberations. Thank you.