

**Arab Regional Forum**  
**Enhancing the Competitiveness of the Industrial**  
**Sector to meet the Challenges of Globalization**  
**Cairo, Egypt, 6-7 November 1999**

**Opening Statement**  
**Of the**  
**UNIDO Director-General**  
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**Vision for Industrial Development**  
**(Ver.1.2)**

Your Excellencies, Secretary-General,  
Honourable Minister of Industry and Technology.  
Members of the Diplomatic Corps, Ladies and Gentlemen,

It is a great honour, and I am particularly happy to join  
Secretary-General Dr. Esmat Abdel Meguid of the League of  
Arab States and Egypt's Minister of Industry and Technology,  
Dr. Mustafa El-Refaie in welcoming you to our Arab Regional  
Forum.

We are here today for the second in a series of UNIDO  
forums on The Vision and Challenges for Sustainable Industrial  
Development. They are the preparation to a global forum on  
Industrial Development, which we will be holding in Vienna as  
part of UNIDO's General Conference at the end of this month.  
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,
- Repositioning and redesigning sustainable industrial  
development and its main components in developing  
economies, and
- Repositioning UNIDO as the international communities'  
instrument for promoting industrial development.

These are crucial questions. The right answers will directly help industry in developing countries, particularly the private sector, to survive and prosper. The answers will also help governments and non-governmental organizations to design and support the business and legal environment the private industrial sector needs. And they will help the international community to 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 spectrum of industrial development services that developing economies will need.

We are meeting here in Cairo today because of the unwavering support received from the Government of Egypt and the League of Arab States. I wish to extend UNIDO's heartfelt thanks for the personal interest in the Arab Regional Forum and for the generous hospitality of the people and Government of Egypt for this event.

Now, I would like to welcome our many guests:

- from other multilateral organizations, particularly Dr. El-Beblawi, Executive Secretary of ESCWA, and Mr. Edmund Cain, United Nations Resident Coordinator in Egypt,

- from government ministries,
- from industrial associations in the region,
- and from industry itself

In our view, private sector participation in this forum is very important because the private sector has a crucial role to play in the Arab region's further development. Dr. Abdulla Al-Moajil's paper, which will be discussed this morning, on linking the Arab regional market with the industrialized world, makes this abundantly clear. Public companies are often managed very professionally and efficiently, he notes, but it is the private industrial firms that are innovative, initiating, decision-friendly and dynamic by nature. Private industry is therefore the main agent, the targets or the beneficiaries of almost everything on our agendas.

But is not my intention now, you may be pleased to hear, to review the interesting panel topics that will lead the next two days' discussions. I would like, however, to share with you, in the few short minutes at my disposal, some of the context in which your deliberations will take place.

One major factor, of course, is the extensive globalization of industry that has taken place, especially since the late 1980s.

This will continue to integrate industry's underlying ideas, its production, its organization and management, and its markets. Globalization of industry is a dimension of the globalization of the economy, which by common consent is now irreversible. One of our current tasks in UNIDO is to develop, partly through forums like this one, a new strategic vision and the associated industrial policies for the new millennium, that respond to these economic processes.

The new vision for industrial development has to be a shared one, a vision that allows for sharing of the benefits of industrialization in developing countries. 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.

When I look at this forum's agenda in these terms, I see a number of roads that should lead us towards a new vision:

- The vital role of technology in industrial development and the importance of regional integration as a source of competitive strength. These are the subjects of our first panel's discussions this morning.
- The fundamental importance of raising labor productivity

and the quality of industrial output — taken up by Panel II this afternoon.

- The pivotal role of SMEs and microenterprises in terms of job-creation strategies, which our third panel will discuss tomorrow.

One common policy issue that concerns UNIDO is the congenitally weak demand of SMEs for better technology and their consequent failure to innovate. If they do not continuously learn how to improve their products and processes they are at serious risk, and they will not be able to survive the competition in their home markets. This is a serious matter because SMEs are often seen to be at the core of economic growth and development, the source of entrepreneurship, creators of new jobs, the means of income opportunities for low income population groups, and developers of new products for market niches.

Policies should, of course, be rooted in the reality of the national conditions. It seems obvious that there will be little gain in importing policies that appear to work in completely different economies without adapting them. It is obvious; yet in the case of SMEs it is frequently done by developing countries.

In this connection, we must also take note of the

considerable evidence that the vast majority of SMEs in developing countries actually contribute little to economic growth, very little to export and almost nothing to technological development. They are seen to be “employers of the last resort, operating at the margins of a modern division of labor”. We are still seeking answers.

It is clear that when SMEs fail to innovate or do it poorly, it is because they lack knowledge, suffer from poor access to information and are missing the technical skills required for continuous innovation. Most do not understand the difference between incremental innovation -- which some of them are able to do -- and strategic innovation, which would be their real defense, and their opportunity, in a globalizing market driven by technological change. One unfortunate reality in most developing countries is that most SMEs are not able to innovate even in an incremental way.

What this suggests is that the policy remedies for the problems related to SMEs and technological development have to tackle comprehensively many sub-problems at the same time — “the dynamic interaction between a large number of variables and factors”. These are the words of Prof. Samir Blili who will report on Tunisia’s Upgrading Programme this afternoon.

For governments, the wider lesson is that they have to keep

on with their reform process, especially reforms focussed on microeconomic performance.

Two lessons of industrial development, as practiced over the past 30 years, are that:

- The new government role is that of a enabler rather than investor and controller, and that
- It is not enough just to create industrial capability and capacity. Manufacturing has to be economically, environmentally and socially sustainable.

Concerning our main subjects today, SMEs and technology, the two lessons are related.

A key part of governments' enabling role is to ensure macroeconomic stability — a *sine qua non* for industrial development. But we know now that such neo-liberal thinking does not go far enough — that 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. The first generation of macroeconomic reforms was an incomplete recipe. They created the basis of long-term growth, but by themselves they did not stimulate it.

One direct result was the loss of popular support for reform



initiatives. It is crucial that this be restored. We do have to keep that first generation of reforms in place. Governments now need to move forward with further reforms that address broader aspects of human security — not only economic but also health, nutrition, environment, social and political security.

Maintaining the reform momentum means renewing support for a second generation reforms. These are the changes at the micro- and institution-levels that are crucial for making the private sector the motor of development and generator of more widespread benefits essential for human security.

These are also the reforms that pay close attention to productivity inputs and potential “wealth effects” that improve popular public support for the whole reform process. They engender respect for human rights, increase participation in democratic processes and improve the quality of the physical environment.

Such second generation reforms are clearly essential. But they are still not enough to link macro-economic stability with micro-economic performance. Nor will they (by themselves) re-engineer free enterprise in a way that makes it possible for more people to participate in growth and development..

We are therefore looking for a third generation of reforms

— reforms that will provide the *soft infrastructure* needed to link macro-economic reforms with the life of the majority of the people and improve their welfare. This third generation of reforms, would promote the public goods vital for a globalized world, such as *industrial knowledge, information, advanced skills and technology*.

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 core of our General Conference Forum, three weeks from now. And it is why I propose that they guide your discussions this week in Cairo.

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 need to understand the changing nature of manufacturing itself, in order to understand their own role and opportunities.

Governments need to understand this too. They need to understand where industry will go in the next century. Despite the growth of the service sectors, in all but a handful of developing countries, manufacturing will remain the main engine for growth, for exports and the agent of economic transformation.

Should UNIDO do more to provide policy makers with

information and analysis? 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 background papers contain many proposals along these lines. I look forward to the panel's new suggestions and your evaluations. And I thank you for coming — many from great distances — to help UNIDO in these discussions with your experience and your ideas

Once again, thanks and appreciation for the support we had from the Egyptian Government, the League of Arab States and our partners in the Ministry of Industry and Technology

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

Thank you.