

Ver. 2.1  
JAN or JUNE '91

**Presentation by Carlos Magariños  
Director-General  
United Nations Industrial Development Organization**

**to the Lomonosov Moscow State University**

**on the occasion of  
the bestowal of his honorary degree  
*Professor Honoris Causa***

***New Strategies for International Development:  
a Global Public Good Waits in the Wings***

Dear Academician Sadovnichii  
 Distinguished Members of the Scientific Council of Moscow University  
 Dear Colleagues  
 Ladies and Gentlemen

I feel very proud, greatly honoured and somewhat humbled to be standing here today.

To be invited once to address the oldest University of Russia, whose past and present is inseparable from the history of your great country and its outstanding advances in science, is indeed a great honour. To be re-invited within a few months by this distinguished body makes me doubly proud. To receive at the same time the same academic recognition as a long list of doers and thinkers, on whom the Moscow State University has earlier bestowed the title *Professor Honoris Causa* during its 250 years of history, is almost overwhelming.

I feel deeply moved, knowing the company I am being invited to join both such giants of human thought as Goethe and Schiller, Faraday and Helmholtz, Merime and Lord Kelvin, and also remarkable politicians such as United Nations Secretary Generals U Thant, Waldheim, Peres de Cuellar, and (in 1986), the President of my own country, Raul Alfonsin. Conscious that these are some of the great names of history, I believe that the University is recognizing not only my, still modest, contributions to the development of new strategies for international development cooperation, but also my future commitment to putting those strategies into practical effect.

The need for such commitment seems inherent in the two questions addressed to me by the Rector of the Moscow State University, Academician Sadvovichii. They concerned my: readiness to preserve the ideals of peace and friendship between the nations and countries; and readiness to assist the progress of education and science.

As the head of the United Nations specialized agency responsible for an education- and science-based development activity (namely industrial development), I was able to give a straightforward answer: these are the essence of my Organization's everyday work. My own priority has always been to connect theory to practicality, to add doing to thinking.

Ladies and Gentlemen,

I have chosen the subject *New Strategies for International Development* because that is one of the main concerns of the United Nations. The industrial dimension of international development is the main business of the United Nations Industrial Development Organization which I have the honour to head.

At the outset, however, I should admit that a fairer representation of what I have to say would be the title 'Towards New Strategies for International Development'. The reason is known to all of us in the development field today: international development may in theory be a *global public good* expands economic activity across national borders, but it is far from being one in practice. Yet, as I hope to show, it does need to become one.

So I will begin by being provocative, with the following assertion: the world needs a totally new international development strategy. Why? Because the old ones — the purely capitalist model, the purely planned economy model and the first multilateral cooperation model that came after — no longer work. At best, the present model is a system of damage control. It ranges from food shipments for drought-stricken areas to peace-keeping and post-emergency recovery programmes. At worst it is a trade promotion gimmick on the part of donors and a cynical grab for funds by developing country elites. Systematic, well-funded and comprehensive multi-agency development strategies are still *future music*.

Certainly, those earlier strategies led to some successes. But they also suffered failures whose consequences are all too visible today. More to the point, the tangible global public goods that came with them are under scrutiny. The Bretton Woods organizations are unable to foresee, and help countries out of, financial crises — to prevent their real economies (and therefore real people's quality of life) from collapsing. And they have so proved unable to balance the legitimate goals of free trade with other concerns, such as environmental soundness and poverty alleviation.

Last week's announcement by the G8 (Group of Seven Industrialized Countries and Russia) was perhaps the first step re-architecting the financial institutions. The United Nations system, for its part, is in a permanent state of reforms, which — in the hope of making it more focussed and dynamic — sap its vitality and distort its work.

But more important, if we look back over fifty years we have to admit that these first international development strategies allowed only a minority of developing countries to reach the stage of being 'newly industrialized', or of being counted as 'emerging economies' and thus of serious interest to the world's financial markets.

I am sure the gross numbers are familiar. Taking per capita income as the measure (with all the limitations that such a method implies), only some 800 million people enjoy an income in excess of \$12,000 per year. But approximately 4 billion earn less than \$3,000 a year. Around 400 million fall somewhere between the two. This means that less than one-sixth of the world's population lives at the level of development familiar to our own societies. Over four fifths of the global population shares less than one fifth of global income; over half is restricted to only one twentieth of that income.

Certainly there has been some convergence between rich and poor populations. But over the past 15 years per capita income has declined in more than 100 countries around the world. As a result, personal consumption in 60 developing countries has been declining annually by 1 per cent, and 1.3 billion people now survive on less than \$1 per day. The changes in Eastern Europe also came at a price — the number of people living here below a line of \$4 per day rose between 1989 and the mid-1990s by 133 million.

Such numbers and prospects would be unacceptable in the national economy of an industrialized country. Action would be demanded. Nobody would deny the need for intervention. The same is just beginning to happen with respect to the

global economy — witness the success of the Jubilee 2000 campaign to eliminate the debts of the poorest high-indebted countries, and the positive response by the G8 last week.

Clearly, to govern the global economy that we have today we need a set of global institutions. The problems are: what kind of institutions, and how would they differ from the multilateral institutions we have at present? And what kind of intervention should they be responsible for — what measures would improve the distribution of economic benefits from international development? The answers must, I believe, focus on bringing about sustainable employment, both throughout the developing world and in the transition economies where properly remunerated employment is emerging as chronic issue.

In developing economies, economic policies have concentrated for the past fifty years on whether to finance or to adjust an economy in order to let it grow. The debate therefore focussed on inflation and its compatibility with growth. And in the end, as you know, it was agreed that control of inflation has to be tight, and that structural adjustment programmes and free market regimes are pre-requisites for development. I hope that for the next fifty years, we put the same effort into analysing employment and benefit distribution.

The second reason for thinking about a new development strategy is that the structure of the global economy has again changed, radically. And *globalization* will see to it that it changes a good deal more. Despite this, our ideas and institutions to manage the global economy remain rooted in the thinking of half a century ago. Since then, not only has the centre of power shifted, but its composition and structure have altered beyond recognition. Bipolar rivalry has disappeared. But the winners of that struggle have not been guaranteed the right or the ability to impose policies on less powerful countries. International cooperation is therefore called for as never before. But to implement it, the world also needs a new development strategy — a strategy that brings in new operators.

What I have begun to do, and where I particularly invite the academic community to contribute, is to draw pertinent lessons from the various approaches, past and the present, to development assistance and their supporting mechanisms. The result is a number of key building blocks that would, I believe, form the basis of a new workable strategy for international development.

### **Development ownership**

The first building block is "*ownership*" — participation in responsibility and commitment to development promotion programmes in both recipient and in donor countries.

A deep sense of conviction is required on both sides. And in both, it should come not only from the government but also from the private sector and from civil society as a whole. Such conviction is essential for the strong political will required to pursue economic and social transformation over time. Without it, meaningful transformation is unlikely. Ownership of international cooperation was, in retrospect, one of the main lessons of the development successes in Southeast Asia. Because national governments owned the strategies underlying development assistance, aid

and foreign direct investment were channelled according to the priorities of those governments. This, together with the appropriateness of their policies, is what sustained Southeast Asia's economic transformation and guaranteed policy continuity for long enough to achieve lasting results.

The importance of full commitment by all major groups in donor countries was shown clearly by the post World War II Marshall Plan. In retrospect, we see that the undisputed success of that assistance was very much related to the political commitment — the 'ownership' of the project by the private sector, the trade unions and all political parties in the contributing country, the United States. Support for the Plan within the United States was unanimous and bipartisan: it was a national project. Subsidiary interests remained subsidiary, i.e. side advantages for the donor — for example obtaining supplies of raw materials, selling equipment, hiring consultants etc. — were not allowed to endanger the objectives. The broad-based American ownership, moreover, did not exclude recipient country ownership. The programme was fully multilateral, i.e. it was not negotiated bilaterally by the United States and individual countries. It created a sense of dignity, broad involvement and ownership among all European participants, including the smallest countries. These are the lessons we should also remember today — in the context of calls for a similar programme for the economic recovery of the Balkans and Southeast Europe in general.

### **Development consensus**

Such a sense of ownership paves the way for the second concept — *consensus among all the actors involved*. Consensus, in turn, is a pre-condition for the genuine partnership necessary for a successful development programme. But consensus will not be reached when negotiations take place only between governments. It occurs when all the actors — the suppliers and the appliers of funds, goods, services and expertise — are involved from the beginning.

So, who are the actors? National governments continue to lead the debate, but it is clear that achieving development is no longer in the hands of governments alone. Agendas are increasingly shaped by actors outside the public sector. For example, the private sector has reached new heights of power and leadership. Media owners, too, exert more influence than ever over the choice of political leaders and policies. The list would also include NGOs, institutions of learning, policy research and others.

Given the importance of new players on the global scene, and the need to include more traditional ones, the discussion and formulation of strategies and programmes has to be open to the whole of civil society. This level of involvement applies in both countries that supply assistance and in those that implement it. To be effective and sustained, development assistance must evolve through entities having one common objective: that of improving the world's living standards.

### **Beyond the neo-liberal consensus**

Our third concept is that not only do development programmes themselves need solid economic foundations, they should also provide sufficient scope for developing

countries to evolve their own development approaches. Macroeconomic stability should, at this point, be beyond dispute. Controlling money supply, inflation, public spending and current account deficits are no longer just "fundamentals", they are rather the "prerequisites" for development programmes. We can move on from debating the neo-liberal consensus to a discussion of new fundamentals for economic policy and strategy. But first we must understand the requirements of reforms going from macro to micro.

One of the reasons we cannot be sure that the present combination of democratic political systems and liberal economies will prevail is that developing countries are beginning to see the temporal and technical limits of their recent reforms. Macroeconomic stability was presented to them as means to access international capital and aid flows. Unfortunately the recipe was correct but incomplete. And it exposed their underlying problems rather than solving them. Latin America, for example, was revealed to have poorly designed and inequitable tax systems, and the economic recovery also turned the region into the area of greatest disparity in income distribution. Elimination of artificial employment and underemployment through privatization of public enterprises brought sharp rises in unemployment. This was worsened by the absence of appropriate social security systems. Privatization, coupled with liberalization of the economy, also broke up useful networks of subcontractors, with consequent losses of technological resources.

This is not to argue that pursuing macroeconomic stability was a mistake. The mistake was to assume that macroeconomic reforms would automatically induce change in the micro-economy. On the contrary, they made necessary a further series of reforms — reforms that would elicit an adequate supply response to the incentives of the macroeconomic interventions and that, in particular, would spur employment and boost the economy at the enterprise level. Macroeconomic stability thus proved to be a necessary, but not a sufficient condition for real development. Much pain would have spared if at the outset it had been clear how long the journey would be, and that the macroeconomic programmes had to be implemented with measures to strengthen the microeconomy.

Measures that are essential to remove microeconomic constraints to achieve a competitive economy (and, in turn, sustainable development) include regulatory frameworks to: manage privatization, banking systems and stock markets, to develop adequate taxation systems, and to promote the transfer of technology and institutional capacity building to overcome skill deficits.

### **Multilateral system reform**

Our fourth element proposes changes to the multilateral development system. Multilateral cooperation, it will be recalled, began to develop intensely as failures of earlier strategies became apparent. These were the attempts to transplant one or other model of social and economic organization (democracy plus free-markets or socialism and central planning) to countries with very different conditions, traditions,

beliefs and social attitudes. In contrast, the 'multilateral way' offered assistance with more freedom, with fewer and strings attached (i.e. stronger local ownership). Countries could choose their own social and economic model and establish their own priorities. Depending on the model, they found different countries willing to support them with aid flows.

Despite being relatively more successful than its predecessors, the multilateral approach also reached limits. For example, monopolization of power by one group or elite, corruption and failure to introduce other policies led to partial or circumscribed results. Even more important, this first multilateralism set its sights too low. It sought primarily to minimize the global public bads (until they got out of hand) rather than to create regional and global public goods that would prevent the bads taking hold.

This means first of all that the multilateral system institutions must clarify their own capabilities and strategies, increasing the specialisation of the services they offer, and clearly identifying their areas of competence. It will mean better co-ordination, particularly in the field, which is crucial. Producing real results in the field has to be the focus — not safeguarding the work of bureaucracies in headquarters.

In particular, since the work of development promotion is multi-dimensional, we must create integrated programmes of services rather than isolated projects having limited impact. It calls for inter-agency (bilateral- as well as multilateral) dialogue and flexibility in their programme formulation and implementation. Programmes themselves will have to be measured and judged by their impact on development. And, for reasons of ownership, the programme design dialogue has to include academic institutions such this University, the private sector and civil society of all the countries participating in the programme.

### **Bridging development gaps**

The fifth building block for a new development strategy re-addresses the fundamental issue I pointed to at the beginning — the inter- and intra-country development gaps that continue side-by-side in our world despite all previous efforts. Social and economic development, as some know it today — with all its benefits in terms of increased wealth, access to education and healthcare, and greatly improved living conditions in general — is a standard enjoyed only by a very small portion of mankind. The differences moreover not only divide developed and developing countries. Both groups, especially in large countries like the Russian Federation, include different levels of development within their borders.

Clearly there are no easy solutions. But two mechanisms could help close the gap in the technological level at which these economies operate, and bring their levels of development closer together: economic cooperation among developing countries, and promotion of regional trade blocs. *South-South cooperation* has a long history in the United Nations organizations, and is consistently supported by their developing country members. For example, Africa is a key beneficiary of economic and technical assistance from Brazil, China, India and the Republic of Korea.

*Promotion and strengthening of regional and sub-regional groups* to increase their capability for providing regional public goods is more and more critical. The need for them is seen clearly in their opposites — the regional public bads such as environmental pollution, eco-zone destruction, disease management, financial instability, inadequate transport and telecommunications, weather and climate-related agricultural disasters and criminal activities. All the evidence goes to show that such regional needs are at best under-provided and at worst completely neglected. Regional cooperation is a public good in itself, often capitalizing on the positive spill-over effect of neighbouring countries. Better regional communications, for example, enhance the reciprocal influence of neighbouring countries. Knowing the neighbour's development plans encourages the questions: "If they can do it, why can't we? If it works there, why not try it here?"

### **Designing new mechanisms**

Building on these five concepts, we need to modernize strategy to promote development by supporting it with new instruments. Their fundamental criteria could be the supply of public goods that seriously improve the development prospects of developing countries — and that the private sector is not interested in providing. A selection of mechanisms the multilateral and bilateral aid systems might consider are: financing infrastructural, industrial, or agricultural projects with private capital flows; strategies to mitigate the prolonged suffering that occurs in a post-financial crisis; managing assistance flows through sub-regional organizations; focussing assistance on better public goods; and using global problems to bridge development gaps.

Mobilizing the private sector to *finance* development is the most important and potentially the most controversial. When the World Bank and the regional development banks were established fifty years ago, capital to finance development was scarce. The multilateral development banks therefore controlled a significant share of the financial assets made available to the developing world. The picture has changed dramatically. Private investment banks now hold the lion's share — 85 per cent of developing countries' total external financing in 1997. The point is that this evident abundance of capital in the private sector is also an opportunity to refocus the multilateral financial institutions. It means that we can shift their attention away from providing direct funding to developing countries and towards providing guarantees and collateral that would stimulate the private sector to do it instead. That way, private capital flows would take over a large share of the multilateral organisations' present infrastructure, industrial and agricultural projects.

The second new mechanism would target the after-effects of financial crisis with a more comprehensive solution to the bad debts and the financial problems left behind. In Southeast Asia, where the crisis began, there are now signs of financial recovery. But the real economy is only beginning the lengthy recovery process. It will be many years before industrial plants and production facilities, not to mention average income and poverty reduction, return to pre-crisis levels. Much more can be done to reduce the prolonged suffering meanwhile. Two options exist, for example, regarding national governments' own debts: (1) implement an economic reform



programme to restore liquidity and re-schedule the debt; (2) negotiate so that the insolvency is acknowledged and the debt reduced or forgiven.

Latin America's programmes of the 1980s are an example of the former. They developed a set of policies with a very specific objective — that of re-establishing macroeconomic stability as the basis of revived economic growth. They worked because financial institutions had a vested interest in the success of the stabilization experiment. As a result, the region's economic performance was turned around within only a few years.

But when the alternative strategy of debt forgiveness is the only option, what is not advised are schemes such as the Initiative for the Highly Indebted Poor Countries — because, as we have seen, they indefinitely prolong the problems without providing a solution within a reasonable time frame. It is more sensible, as the G8 countries now recognize, to agree that these countries cannot both repay their debts and still deploy resources for their own development. Better to write-off the losses now, and organize more effective schemes for future cooperation. A third mechanism would involve sub-regional organizations in managing technical assistance flows at field level. The reason is that, whatever the size of the flow, donor governments' demands for better value for aid allocations, and for funding all kinds of technical cooperation, is here to stay. We should explore ways in which sub-regional groups such as ASEAN, MERCOSUR, the Monetary Union of Western Africa, SADC in southern Africa could add value to the use of aid — for example by coordinating national initiatives, creating greater transparency in the administration of resources and possibly greater use of the region's own resources.

The fourth mechanism, better national, regional and international public goods, concerns the public and private institutions that create and mobilize national, regional and global public goods. The set of 'goods' that the market cannot provide, and yet which the market relies on, ranges from conditions such as peace, equity and justice, through human-made commons such as norms, principles and knowledge to the natural commons such as the local climate and the global ozone layer. Increasingly recognized as both the driving force and the benchmark of development, public goods have to be studied much more closely in order to lift the limits on their benefits and their supply. We must also investigate the costs and impact of their corresponding public bads (war and conflict, social tensions, exclusion, inequality and the risks of climate change and ultra-violet radiation). Such studies must be both at the three levels mentioned — national, regional and global — and also by economic sector (agriculture, industry and services).

The fifth suggestion (for this non-exclusive list of new mechanisms to support a new approach to international development) follows the maxim that "one man's problem is another man's opportunity." I refer here to the global problems and corresponding international protocols and other emerging multilateral arrangements for solving them. The opportunity is to kill two birds with one stone — tackling global issues at the same time as narrowing gaps in economic development. The Framework Convention on Climate Change, the so-called Kyoto Protocol is a current example. The global issue is uncontrolled carbon dioxide emissions into the atmosphere. The beauty of reducing CO<sub>2</sub> by coupling its

reduction with economic development in developing and transition countries is that, in principle, everybody wins. That is why the Kyoto Protocol contains mechanisms for joint implementation that encourage firms from industrialized countries to invest in cleaner technologies in developing transition countries — where the marginal cost for emission reduction is much lower. It is therefore a "win-win" scenario. When developing countries receive modern technology. When developed countries gain credit for reducing emissions, and emissions go down all over the world.

Ladies and Gentlemen,

I have tried to draw your attention today to two things: the need for new strategies for international development and some of the issues — some suggested concepts and mechanisms — that might be considered in drawing up such strategies. The issues cut across all aspects of development. To tackle them at the sector level where my Organization works, I proposed last week at a meeting of our Member States that these same considerations be taken up in a re-activated global forum.

Developing a new industrial development strategy requires examination of all its aspects. It will focus on generating sustainable employment, especially industrial employment, and on finding alternative development paths that seek redistribution of benefits by reducing both internal and external dis-equilibria, in order to improve the quality of life of the most vulnerable population groups. It will question, for example, the assumptions underlying present development strategies, comparing for instance the relative merits of classical economics and new thinking — thinking that focusses on the 'dis-equilibrium' which is the norm of most developing country economies. It will examine the concepts, institutions and mechanisms involved in international development from the perspective of their functions and performance as national, regional and international public goods. It will question their performance and especially their under-provision as a consequence of: gaps in their authority and areas covered, gaps in which groups are participating in their decisions and the way they operate, and as a consequence of gaps in the incentives for countries to adjust their international spillovers and cooperate for the global good. And it will examine practical new approaches to promoting industrial development, for example by developing the links between innovation, technology, industry and sustainable employment in other economic sectors, including the service sector.

But our global forum will also lead to actions and outcomes that go beyond the design of a new strategy for international development. From the perspective of industrialization, UNIDO's task will be to put that strategy into practice. The Forum will therefore be underpinned by research that takes advantage of both external expertise and the research undertaken in academic institutions, private sector institutions and centres of excellence around the world.

I hope very much, and I have the honour on this occasion to issue the invitation, that the Lomonosov Moscow State University will share in this work. Russia not only plays a decisive role in the United Nations in general. It has unique

experience and perspectives on many aspects of industrial development that will be of immense value in shaping our thinking concerning future industrial development strategies, and indeed, the future role of UNIDO. That is also why an extensive integrated programme of technical cooperation between the Russian Federation and UNIDO has just now been agreed.

In this context, the modality of such a 'special relationship' between the University and UNIDO was also put in place today. This morning I signed a Memorandum of Understanding with the Rector, Academician Sadovnichii, that will pave the way for a UNIDO Research Chair at the University. It will enable, on a rotational basis, a continuous presence of distinguished representatives of the Lomonosov Moscow State University at UNIDO headquarters in Vienna. Their work will include: innovation management in industry; studies of the economic, social and scientific consequences of industry for the environment; the legal basis of market reforms, and the problems of regional development. I look forward to working with those representatives to develop a relationship along the lines I have indicated here today. This is how I will endeavour to give continuing practical effect to that part of the citation that honours me today: "for fruitful activity in strengthening cooperation between the Russian Federation and UNIDO".

In conclusion, let me return to the link between thinking with doing. This is how, as the newly-elected Director-General of a United Nations development organization, I understood the challenge of transforming it during the past 18 months. We succeeded: UNIDO has changed from a UN organization whose survival was in question to one that can look forward with the full confidence in its own business plan and strategy and with the full backing its Member States.

Thinking and doing is also one reason that this is my fourth visit to Russia since I took office. Russia, despite the present economic difficulties, has a major role to play in all aspects of global development. It was the distinguished historian and professor at this university, Wassilii Kluchevskii, who wrote:

"One of the characteristic features of a great people is its ability to rise to its feet after a fall."

For me, Russia is a great country — great by virtue of its history, its culture, its art, its science and the heroism of its people. The country of Lomonosov and Pushkin, Lobachevskii and Mendeleev, Tolstoy and Tchaikovski, Glinka and Dostoevskii, Sholochov and Shostokhovich, Gargain and Korolev, presents an unending source of new knowledge and experience. The world would ignore this to its immense disadvantage.

Certainly UNIDO will not be ignoring Russia's science, innovation and industrial experience. For the first time in modern history, we have the chance to introduce sustainable changes that benefit mankind as a whole — rather than privileged sections of it. We have, for the first time, the necessary knowledge. We enjoy sufficient perspective of the past to be able to avoid its mistakes — in

particular the mistake made by every civilization so far, that of outstripping the ability of the environment to sustain the consumption levels of the people it supports.

That is why I have invited the Lomonosov Moscow State University to join UNIDO in helping re-think the modalities of international industrial development. I look forward to further discussions on this.

Ladies and Gentlemen,  
I thank you for your attention  
and the honour in  
inviting me to be one of your number.