



INDUSTRIAL DEVELOPMENT FORUM 2003

The Role of Industrial Development in the Achievement of the Millennium Development Goals

Presentation by Carlos Magariños

Director-General

I. Assessing the challenge

With this intervention I intend to help setting the overall scene of the deliberations of this Forum. I shall leave the treatment of more specific dimensions of the topic to the participants of the Round Tables that will follow.

Achieving the Millennium Development Goals (MDGs) entails reversing or substantially improving the least developed countries' abysmal socio-economic and environmental performance of the recent past. This is actually the whole point of the United Nations Millennium Project. It is also the reason why it is imperative that the international community succeeds in achieving them. Before looking into some key conditions for this to happen, let me give you just three examples.

First, estimates just released by the Food and Agriculture Organization show that the average pace of reduction in the number of malnourished people worldwide observed in the 1990s (2.1 million per year) will have to be accelerated *over 12 times* (to 26 million per year) to meet the goal of halving the total number of people with hunger by 2015. In fact, after falling steadily during the first half of the 1990s, hunger has been *on the rise* again during the second half.

Second, according to UNIDO estimates, the rate of annual GDP per capita growth, which would be consistent with achieving the MDGs for 30 sub-Saharan African countries, varies between 2 and 6 per cent. The weighted and unweighted means are 3.2 and 4.2 per cent, respectively.

Now, compare these figures with the reality of economic stagnation, if not retrogression, that the sub-Saharan countries have suffered over the last three decades.

Contrary to other country groups, as Figure I illustrates, the GDP per capita of the LDCs has been stagnant for the last 30 years. This appalling performance has gone hand in hand with other indicators of deterioration in the relative position of the LDCs. Thus, for instance, the relevant evidence suggests that these countries have actually experienced a technological regression from 1970 to 1980 and an even sharper one between 1980 and 1992.

This has entailed, among other things, an increasing gap with respect to best productive practices. Figure II suggests that the distribution of output per worker

across 57 countries turned from *unimodal* in 1965 to *bimodal* in 1990; that is, while in 1965 there were many countries in the middle income group, in the 1990s the world had become divided, as a stylized fact, into the rich and the poor.

A key way to counteract these trends consists of creating the conditions for the speeding up of technology transfer and productivity growth. Recent empirical exercises by a number of distinguished scholars strongly suggest that the international cross-sectional variance in labor productivity cannot be plausibly explained by differences in factor intensities but implies very substantial TFP gaps.

Figure III conveys the results of one of these exercises. It shows that differences in TFP growth accounted for about 90 per cent of the variation in growth rates of output per worker across a sample of 96 countries over 1960-1995. I will return to the importance of this for developing countries later on.

Third, as stated in the latest Human Development Report, unless things improve, sub-Saharan Africa will be unable to attain universal primary education, halve extreme poverty and cut child mortality by two-thirds before the years 2129, 2147 and 2165, respectively.

It is essential to understand that, in order for these dramatic but absolutely necessary trend reversals to materialize, major policy departures are needed along with a massive effort at addressing health, nutrition, environmental and infrastructure constraints. Unless these things happen, the appalling trends of the past would continue indefinitely, with the grave human costs and perils they entail. Installing a new growth dynamics means changing past policies and living up to current commitments. To do this it will be necessary to work on two levels: a) the linkages of the political and the economic reform agendas and b) the economic and social agenda itself.

II. Towards a unified political, economic and social agenda

We are all well aware that political hurdles of different nature need to be overcome in order to make progress in this endeavor. Political constraints and economic reform programs relate to one another at very different levels. There are cases such as that of political instability in Africa, which translate directly in the rise of the number of people suffering hunger. On the other hand and at a different level, we witness cases of popular unrest in response to economic reforms programs eventually bringing about the overthrow of democratic governments in Latin America.

The Secretary General of the United Nations has said: "Without peace development is not possible; without development peace is not durable".

I proposed this morning that, in order to relate the political agenda to the economic reform agenda, we need to address head-on the design of policies aimed at articulating both. Let me elaborate a little bit on this.

Our current development agenda comprises policies that promote market-oriented reform packages and the corresponding institutional arrangements. However, over the last decade we have seen that these reform packages have often failed to elicit the necessary popular support after not too long – eventually leading, in some cases, to political unrest and problems of governance. Because of our exposure to this reality while working with our counterparts, we have studied this problem at UNIDO

and found that only when reform programs translate into sustainable productivity growth it is possible for them to keep momentum and succeed.

This is the reason why I believe that it is necessary to make decisive progress in the systematic assessment of national experiences of economic reform in the developing societies and their scope for success in terms of what ultimately underpins their outcome, that is, productivity growth. It is also necessary to enable these societies to do so on a permanent basis.

As I said during my speech at the inaugural session of this General Conference, I think that an important ingredient for doing so is to achieve further progress in the reform of the United Nations system. This reform should not be dealt with only by means of budget restrictions, staff cuts and the like. We need to go further, much further than that and consider some bold steps.

It is probably now the time to think, for example, of a developing country version of the OECD. That is, a way to articulate their own view of the development agenda and to build up the methodologies required so that these countries get a firm handle of productivity performance and become able to use it as a gauge to monitor the success of their economic reform programs and as a compass to better steer their policies.

While we address these interconnections between the political and the economic reform agendas, we have to find the ways and means to articulate the economic and social agenda itself.

Here, we need to consider two kinds of interventions: a) those aimed to provide emergency relief and b) those consisting of short- and medium-term interventions to consolidate economic performance and avoid the recurrence of critical situations. Both are required to deal with crucial problems facing the international community, such as political crises, hunger, disease and environmental degradation.

Direct emergency relief is being provided by the World Food Program, UNICEF, UNHCR, WHO and agencies working in crisis prevention and resolution. Alongside these, we also have actions aimed at more long-standing outcomes, such as those that address the development of the capacity to access the goods and services that people need. From this perspective, for example, the problem is not just how many people lack shelter today, but what is the rate at which the supply of shelter should grow in order to meet future demand.

The MDGs help us to define and focus better our contribution to linking these two avenues of action. We have already seen that, in order to reduce poverty by half by 2015, a rate of growth in per capita income of around 4 per cent is required on average. But, such a rate may not be feasible if, for example, we do not successfully counteract the advance of HIV or hunger. And the reverse is also true: if we succeed in combating HIV or hunger, but we fail to foster technology diffusion so as to attain substantively higher rates of economic growth, such success may eventually become ephemeral since the people whose lives are thus saved will be unable to obtain gainful employment and to continue affording the treatments and nourish they need.

UNIDO's contributions tackle both aspects. They matter when it comes to making progress in various emergency dimensions such as creating employment and income-generating activities in agro-industry, reducing post-harvest losses or

expanding food supply. At the same time, we work on more structural matters such as technology diffusion and economy-wide productivity enhancement, which are required to prevent the recurrence of new emergencies.

But there is one aspect where UNIDO's interventions are both, unique and essential. That is the development of the private sector in the least developed societies. This is an aspect often neglected by the policies and instruments designed to help the LDC's out of the poverty trap. And yet, it is essential for them if they are to afford the challenge of stabilizing their economies, create jobs, develop exports, increase productivity and ensure social progress.

The lack of attention to the problem of developing a dynamic private sector is evident, for example, in the formulation of many Poverty Reduction Strategy Papers (PRSP), which is an essential instrument for the Highly Indebted Poor Countries (HIPC) to benefit from debt reduction schemes and donor's support. I recommend the international community to urgently redress this serious oversight.

We, at UNIDO, feel proud for the work of our agency in the field of private sector development, an activity placed at the heart of our programs during the reforms implemented since my arrival; an activity in which we will try to continue to lead in the multilateral system. We believe that it is the private sector the one to lead the productivity improvements that are necessary for the LDC's to breach the poverty trap in the framework of the implementation of the MDGs

V. Closing Remarks

The MDGs consist of a number of time-bound, measurable goals that the international community has agreed need to be achieved in order to relieve vast portions of the world population from extreme suffering and deprivation.

I have referred to three lines of action. In the first place, ensuring more funding for development assistance. Secondly, renewing the development agenda and articulating better the political with the social and economic policy dimensions involved in achieving the MDGs. Finally, reforming the United Nations system.

Let me insist. Today we have the financial and technological resources required to tackle successfully the problems of marginalization and poverty and, as importantly, we are improving our learning on how to use them to help the poorest countries to solve these problems by themselves. It is not a matter of choosing between direct emergency relief *or* substantive capability building, or between the economic and the political dimensions of reform, but of joining both agendas together. Provided that the necessary institutional innovations and strategies are in place, the pursuit of the MDGs will effectively and vitally contribute to attain the conditions required for growth; it will do so by removing stubborn structural impediments. And reciprocally, growth, diversification, structural change and industrialization are the means to ensure that the goals are sustainable over time.



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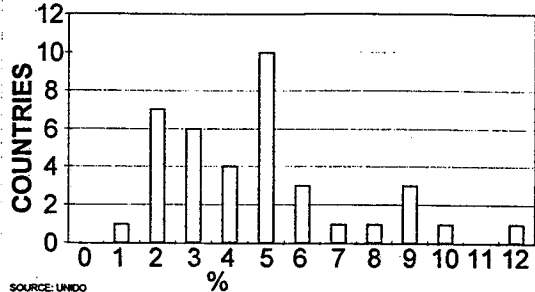
*The Role of Industrial Development
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GENERAL CONFERENCE - 10TH SESSION INDUSTRIAL DEVELOPMENT FORUM *The Role of Industrial Development in the Achievement of the MDGs*

I. Annual GDP Growth Required to reach MDG



SOURCE: UNIDO

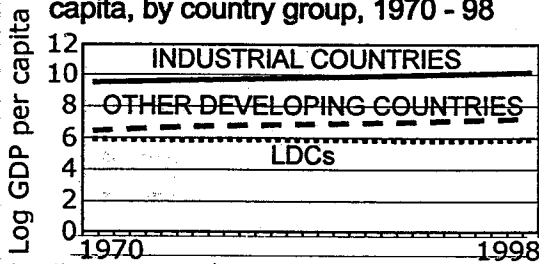
Carlos A. Magariños, Director-General

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GENERAL CONFERENCE - 10TH SESSION INDUSTRIAL DEVELOPMENT FORUM *The Role of Industrial Development in the Achievement of the MDGs*

II. Gross domestic product (GDP) per capita, by country group, 1970 - 98



Source: UNIDO

Note: The figure shows weighted group averages of real levels of per capita GDP with population as the weighting variable. Values are in 1990 US dollars per person and are plotted on a natural logarithmic scale. The data cover 41 LDCs.

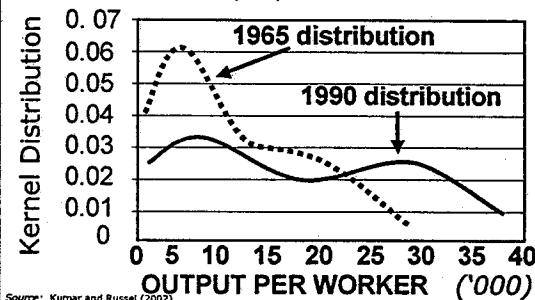
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III. Distribution of output per worker, 1965 & 1990



Source: Kumar and Russel (2002)

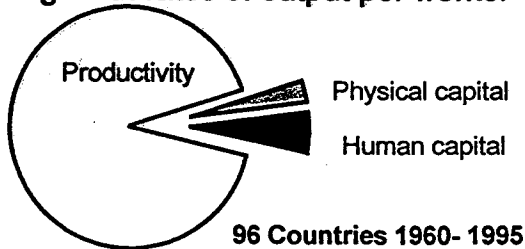
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IV. Explaining variations in the growth rates of output per worker



Source: P. Klenow and A. Rodriguez-Cire (1997)

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Need for development community to link political and economic agendas



and update and flesh out the development agenda

Corporate Strategy

**Productivity
Enhancement for
Social Advance**

Productivity Enhancement for Social Advance
through

Core competencies

**private sector
agro-industries
investment
trade capacity
technology
environment & energy**