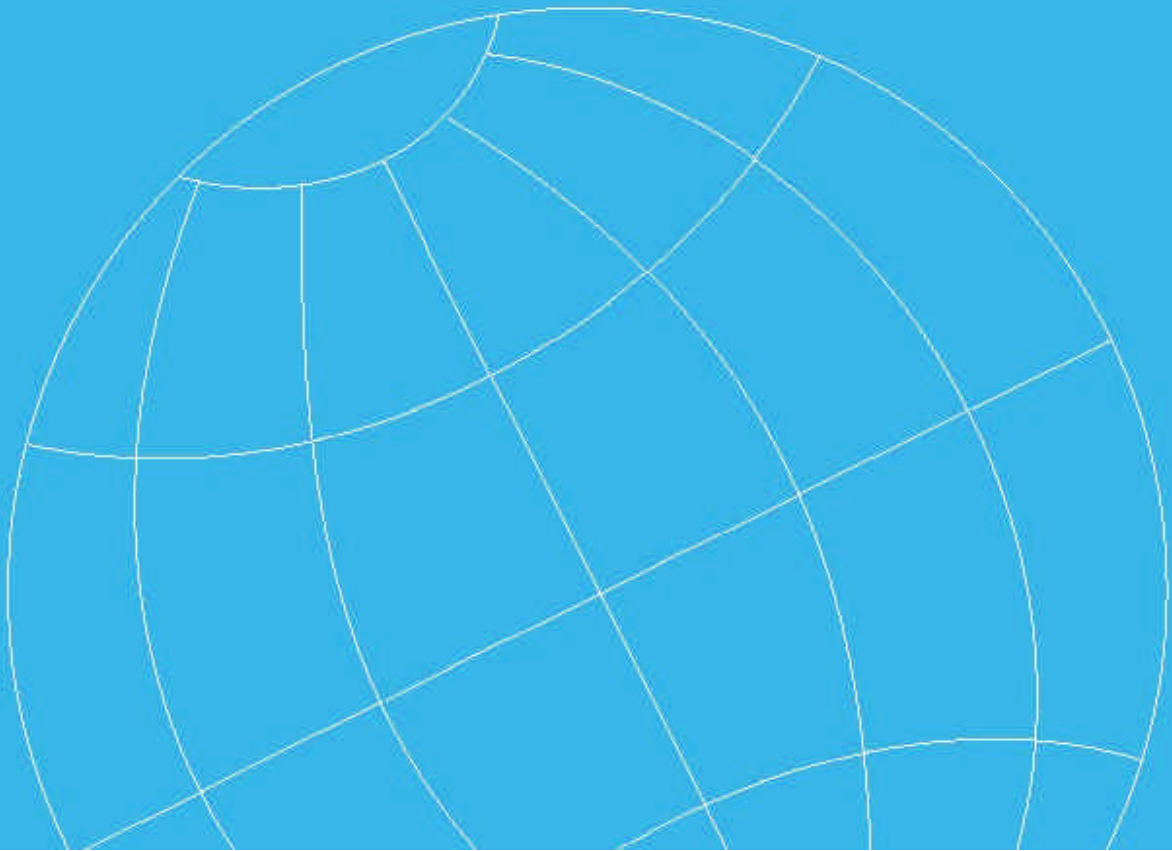


DEVELOPING INDUSTRY:

*productivity enhancement
for social advance*

UNIDO's corporate strategy



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
economy environment employment

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“. . . UNIDO's future direction is defined not by what it did in the past, but by the needs of developing countries and countries with economies in transition, which will matter in the future”

(Carlos Magariños et. al., *Reforming the UN System—UNIDO's Need Driven Model*, 2001, pp. 111-112)



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Vienna, 2003

Since 1998 the United Nations Industrial Development Organization (UNIDO) has been engaged in a process of continuous reforms and improvements. The goal has been to make UNIDO a more effective and relevant organization in the service of the international community, in particular the developing countries and the countries with economies in transition. Through an intensive process of discussion within the agency and proactive interaction with the representatives of our Member States we have been able to articulate in a focused manner UNIDO's corporate strategy and its activities tailored to this strategy. This document presents our position on this subject.

Developing Industry: Productivity Enhancement for Social Advance

Introduction

1. In their search for enhanced relevance, effectiveness, efficiency and impact, the Specialized Agencies of the UN system, including UNIDO, have to come to terms with the fact that the field of economic development has been in turmoil.
2. This is partly due to the complexities arising from the on-going process of globalization. In addition, there has been a wide range of unsettled issues, polarized opinions and nuances relating to the development agenda and the development experiences of developing countries and countries with economies in transition over the past fifty years. These are the reasons why not much can be taken for granted today in any discussion of the roles and corporate strategies of multilateral organizations, even where a clearly defined mandate exists.
3. In this document, therefore, an attempt has been made to review a number of relevant conceptual and practical issues of economic development in an evolutionary perspective. Against this backdrop, the paper seeks to define, in a focused manner, the strategy and approach that UNIDO should adopt to fulfill its mandate and mission.
4. This document is intended as a conceptual complement to the decisions taken by the Governing Bodies of UNIDO in recent years, including the Business Plan, the Medium-term Programme Framework for 2002-2005 and in particular the *Strategic Guidelines towards Improved UNIDO Programme Delivery* adopted in the 26th session of the Industrial Development Board, held in November 2002. The purpose is to assist in the further focusing of UNIDO's specialized competences and services in fulfillment of its mandate of promoting industrial development and growth in developing countries and countries with transition economies.
5. This document is organized in four parts. The first part discusses the overall context for industrial development and the baseline scenario as specified by five key trends, namely productivity and income distribution, volatility, demography, the environment and trade. The second part discusses the evolution of development thinking since the 1940s, as well as the current development agenda and recent development experience, and then tries to outline the contours of a pragmatic development approach. It emphasizes the critical role of productivity growth in bringing about sustainable economic progress. The third part brings the argument home and establishes the correspondence between the requirements of sustainable industrial development and poverty alleviation on the one hand, and the role of UNIDO as a provider of solutions on the other. In the process, an attempt has been made to sharpen or refine the organization's corporate strategy based on the guiding principle of productivity enhancement and then to outline the services that the organization could provide in accordance with its refined strategy. The final part offers concluding observations.

I. Development Experience in Perspective – Developing Countries in World Industry

A. Overview of structural developments

6. In contrast to the expectations generated by the conventional models of economic growth, only a few developing countries have been able to narrow down their economic distance from the advanced industrialized nations over the six decades following World War II. In addition, the growth experience of the developing countries has exhibited a tremendous variety, both geographically and temporally.

7. Real per capita income in the developing world grew at an average rate of 2.3 per cent per annum during the four decades between 1960 and 2000. This is a respectable growth rate. However, since the rich countries themselves grew at a rate of 2.7 per cent during this period, few developing countries managed to close the economic gap between them and the advanced nations. The countries of East and South East Asia, however, constitute the sole exception. Excluding China, this region experienced per capita GDP growth of 4.4 per cent over 1960-2000. Despite the Asian financial crisis of 1997-98, countries such as the Republic of Korea, Malaysia and Thailand ended the 20th century with productivity levels which were nearer to those enjoyed in the developed countries.

8. In other parts of the world, the pattern of economic performance has varied greatly across different time periods. China has shown a growth rate of 8.0 per cent per annum since the late 1970s. India has roughly doubled its growth rate – the annual real GDP growth rate went up from 3.7 per cent in 1950–1980 to 6.2 per cent in 1990-2000, the corresponding annual real per capita GDP growth rates being 1.5 per cent and 4.4 per cent respectively. Latin America and sub-Saharan Africa both experienced robust economic growth prior to the late 1970s, and early 1980s – 2.9 per cent and 2.3 per cent respectively – but they lost ground subsequently. Latin America's growth rate collapsed in the 1980s and has remained weak despite some recovery in the 1990s. Africa's economic decline, which began in the second half of the 1970s, continued throughout much of the 1990s, and has been aggravated by the incidence of HIV/AIDS and ethnic conflicts.

9. So far as industrial development is concerned, in 1960 the share of the developing countries in the world manufacturing value added (MVA) was 9 per cent (excluding China); by 1985 it had risen to 19.2 per cent, by 1998, to 21.7 per cent and by 2000 to 24 per cent (all these including China). However, the data show an increasing divergence of performance within the developing world. For example, during the period 1985-1998 the ratio of per capita MVA in the developing countries relative to that of the LDCs (least developed countries) moved from 5:1 to 9:1. From a regional perspective, the share of East Asia in the MVA of the developing world increased during the same period from 43 to 53 per cent at the expense of the rest of the developing countries, except North Africa and the Middle East. In particular, the

share of sub-Saharan Africa decreased from 3 per cent in 1985 to barely 1 per cent in 1998.

10. Export statistics convey a better picture in overall terms, although it is worse for LDCs. The value of per capita manufactured exports from the industrial countries declined from 22 times that of the developing countries in 1985 to 15 times in 1998. However, at the same time, the gap in per capita manufactured exports from the industrial countries vis-à-vis those from the LDCs widened from 192:1 to 212:1, and a similar trend is evident within the developing world itself, where the gap increased from 9:1 to 14:1. In fact, the share of sub-Saharan Africa in per capita manufactured exports dropped by half during the period. Similarly, the same acute regional imbalances within the developing world shown by the MVA data are also visible with respect to export data: in 1998, East Asian per capita manufactured exports, excluding China, were 84 times those of sub-Saharan Africa, excluding South Africa, 37 times those of South Asia and three times those of Latin America and the Caribbean.

B. Key trends

11. There have also been a number of key trends affecting the prospects of the world economy, which have a significant impact on, and implications for, economic development in the developing countries. These are summarized below.

1. Productivity and income distribution

12. The global economy suffers from a severe handicap when it comes to reconciling efficiency with equity. Twenty-three (23) of the 50 countries that in 1990 were at the bottom of the income per capita rankings registered a per capita income that was even lower in 1999. The other 27 countries of that group barely managed to offset population growth. At this rate, they could aspire to reach the current per capita income of Greece (currently one of the poorest of the 15 European Union countries) in around 80 years.

13. In addition, over the past 30 years, the LDCs, particularly those in Africa, have suffered a substantial fall not just in their share of world trade but also in their relative labour productivity, as measured by MVA per capita. Whereas the advanced industrial countries have continued their mutual convergence, the opposite is observed between them and the overwhelming majority of the developing countries.

2. Volatility

14. The quick succession of financial crises since early 1990s, from that of Mexico to those of East Asia, Russia, Brazil and the MERCOSUR countries, entailed a high degree of volatility, with sharp falls in real output every 20 months or so on average and with varying degrees of contagion. These swings with a modal length of two to four years entail irreparable loss of wealth and significant retreats in social progress in the affected countries.

15. Based on a sample of 31 developing countries, the International Monetary Fund (IMF) found that it typically took almost 3 years for output growth to return to previous trends after the outbreak of a financial crisis, and that the cumulative output

loss averaged 12 per cent. In addition, these events have long-lasting repercussions on the domestic economy since they entail, in addition to declines in economic activity, a disruption in the flow of savings to their most productive uses and of the incentive system as a whole, as well as severe constraints in the conduct of domestic monetary and financial policy.

16. The international financial system lacks an early warning system to help prevent these kinds of occurrences, which weigh heavily on the economic and industrial performance of the developing countries.

3. Demography

17. The rich industrialized countries have been aging whereas the developing countries are experiencing rapid increases in the relative number of children and youths. Without migration, the population of the rich countries would start declining and by 2050 it is estimated to be 126 millions less than what it is today (2003), with two older persons for every child. Meanwhile the labour supply in the developing countries will have grown by some 700 million by 2010 while their share of world youth will soon reach 90 per cent. There is just no alternative to job creation in the developing world. These demographic trends and the fight against poverty demand a proactive approach to support the development of micro, small and medium-sized enterprises, and of innovative entrepreneurs.

4. Environment

18. At the outset of the industrial revolution labour used to be relatively scarce and the stock of natural capital relatively abundant. After two centuries of dramatic rises in labour productivity, intensive use of natural resources at their extraction rather than replacement cost, and over-reliance on the ability of the natural environment to absorb the wastes generated by economic activity, natural capital has become relatively scarce, compared to labour availability.

19. Rich countries tend to see overexploitation of the ecosystem that ensures life on the planet (e.g. deforestation, soil erosion and climate change due to the exhaustion of the capacity of the natural system to recycle carbon dioxide) as a problem that needs to be addressed sooner rather than later. Over the last half century the world has lost a fourth of its topsoil and a third of its forest cover. Freshwater ecosystems are being lost at the rate of 6 per cent a year and marine ecosystems by 4 per cent a year.

20. Environmental degradation is as much a problem in the developing countries as it is in the industrialized nations. In fact, the problem may even be starker there, considering that poverty itself is a great environmental hazard. Industrialization, urbanization, rapid population growth and poverty along with de facto “grow now clean up later” environmental strategies in many developing countries are putting tremendous pressure on the physical environment, natural resources, forests and biodiversity, air and water quality and freshwater and marine ecosystems.

21. Increasingly, there is a realization, even in the developing countries, that the environment needs to be protected and environmental concerns must be systematically incorporated into the conventional paradigms of economic

development, if development is to be sustainable. The issue of productivity of the society's use of natural resources, that is, the rate of natural resource input per unit of output required by current technologies, also assumes importance. This involves full accounting for the value of ecosystem services, with a view to deciding on the economic rationale for substituting natural capital with man-made capital or specific forms of natural capital for one another. Issues of natural resource productivity and valuation of natural assets are as important to the developing countries as they are to the advanced industrial nations if they are to have consistent productivity-led development policies over time. This creates important challenges for the development of clean technologies and improved environmental management systems, as also for innovation and technology diffusion.

5. *Trade*

22. The expectations raised by the Doha Round of trade negotiations have quickly receded owing to renewed protectionism and regulatory crises in the industrial countries, the fragility of the current recovery of the world economy and various other risk factors.

23. Sensitive issues remain pending, particularly those relating to agricultural protection, non-tariff restrictions to developing country exports of labour-intensive manufactures and intellectual property rights, among others.

24. The industrial countries have taken positive steps, such as the US African Growth and Opportunity Act (AGOA) and the European 'Everything But Arms' (EBA) initiative. But welcome as these measures are, their operation is subject to a number of question marks, not least relating to the ability of the LDCs to take advantage of them, for which they require a flexible supply response capacity which cannot be taken for granted at all. In fact, important inflows of capital and know-how, as well as the establishment of a basic technological and quality infrastructure, are some of the unavoidable pre-requisites for these countries to extract effective advantage from emerging trade opportunities.

II. The Development Agenda

A. *Growth theories and the evolution of development thought*

25. Thinking on industrial and economic development has gone through fundamental changes over the past few years. While growth theories, often based on simplifying assumptions and log-linear growth models, seem to provide simple explanations of the process of development, the actual development practices have been much more complex responding to the forces of a highly multi-faceted and dynamic process that involves shifting interactions between economic, social and cultural conditions, as well as policies and institutions over time.

26. In the first wave of theorizing about economic development from the 1940s, to the early 1960s, all emphasis was placed on the accumulation of physical capital as the key to development (as reflected in the Harrod Domar, Lewis and two-gap models). The theories proposed by Robert Solow (1957) further helped to clarify the role of the accumulation of physical capital and emphasized the importance of (exogenously supplied) technological progress, as the ultimate driving force behind economic growth. The “new growth” theories developed by Paul Romer and others in the 1980s to 1990s, while supplementing Solow’s model noted that technological change is endogenous, and that education and ideas produce positive externalities and increasing returns. In the endogenous growth literature, knowledge is treated as a non-rival good and technological progress is seen to be determined by the accumulation of knowledge by forward-looking, profit-maximizing agents.

27. Development policy and practices, on the other hand, have followed their own path, influenced by theories, but also by the perceptions of the policy-makers in the developing countries, international organizations and bilateral donors, policy economists, ideologies and even fads and fashions.

28. The models and hypotheses of the 1950s and 1960s had implications that emphasized saving and investment, and thus rapid accumulation of capital. Industrialization was emphasized as the key to development and to catching up to the high living standards of the industrial nations. The development of the manufacturing sector, it was felt, would provide access to modern technology, with its concomitant high productivity. The spill-over effects would transform other sectors. Import-substitution industrialization (ISI) policies were often pursued as the most practical approach to promote economic development. It was also believed that a less developed country would not really benefit from free international trade and investment. It was further assumed that in the less developed economies there were pervasive market failures and government action was necessary to correct these market failures, and that therefore the state should function as the major agent of change.

29. In the 1960s the initial concentration on physical capital accumulation began to give way to the concept of investment in human capital and its implication for

development. It was increasingly recognized that development depended on productive human agents, who, through their acquisition of know-how and increase in skills, could raise total factor productivity.

30. By the late 1960s and early 1970s, the consequences of the deficiencies in industrial strategies and planning as well as adverse effects of government intervention had become acute in many developing countries. Particular criticisms were levied against the neglect of agriculture, the inefficiencies of the state-owned enterprises, the adverse effects of import-substitution industrialization and balance of payments deficits. The effects of government failure were increasingly evident in the adverse consequences of price distortions – distortions that were prevalent not only in the product markets but also in wages, interest and exchange rates. The policy prescription now became to “get prices right” and also to “get all policies right”. Markets, prices and incentives became the central concern of policy making. It was recommended that policies should move from inward-looking strategies towards liberalization of the foreign trade regime and export promotion. Specifically, the new policy recommendations called for developing countries to adopt macroeconomic stabilization programmes; to privatize state-owned enterprises and promote the private sector; and to allow the market price system to work. The “Washington Consensus” attempted to summarize these policy stances as conducive to economic development.

31. The ideas derived from the Washington Consensus had considerable influence on the economic reforms of many countries from about the mid-1980s onwards, until the end of the 20th century. However, the degree with which they were embraced varied from region to region, as did the manner in which these countries interpreted and chose to implement them. The region that made the most determined attempt to adopt and implement these policies was Latin America, where many emerging economies were engaged in accelerated structural changes, liberalization, deregulation and privatization. Eastern Europe (including Russia) and Africa also sought to improve the policy environment through the adoption of these ideas. The approach of some of the Asian countries including Republic of Korea, China and India was, however, more cautious. Although they adopted a more market-oriented and private sector-friendly approach stressing the importance of sound macroeconomic conditions, many of the microeconomic policies adopted in these countries differed substantially from the postulates of the Washington Consensus.

32. By the turn of the century the popular support for the reform programme was declining in many parts of the world as it was felt that the Washington Consensus, with its overwhelming emphasis on macroeconomic orthodoxy, was not delivering its promise to facilitate sustainable and equitable growth. In Latin America the growth rate remained significantly below its pre-1980 level and there was a growing realization that the market-oriented reforms had paid little attention to the mechanisms of social insurance and safety nets. Economic decline persisted in many parts of Africa despite an overall “improvement” in the policy environment. There was a dismal failure of price reform and privatization in Russia in the absence of a supportive legal and regulatory mechanism. Finally, the Asian financial crisis exposed the danger of allowing financial liberalization without adequate regulation.

33. The realization that the market-oriented policies might be inadequate without more serious institutional transformation led to the formulation of the so-called

“second generation” reforms that emphasized “good governance”, reinvigoration of the state’s capability, and social policies including social safety nets and targeted poverty reduction. It was felt that stronger, more effective institutions were needed to complement the macroeconomic policy changes, and that liberalization and privatization would be counterproductive without strong regulatory institutions.

34. The emphasis on strong regulatory institutions – “get the institutions right” – corrected somewhat the bias of the original Washington Consensus favouring minimalist government. It is now realized that the governance structure requires sound institutions, laws and regulations for the proper functioning of the market economy, and that there is a synergy between state and market which needs to be supported to accelerate development. It is accepted that the private sector is best suited for direct production of consumer and producer goods or for inducing innovation and change. But government still has extensive functions in dealing with new market failures (such as imperfect information and incomplete and imperfect markets), providing public goods, satisfying merit wants such as education and health, reducing poverty, providing physical and social infrastructure, and protecting the environment.

35. In recent years the development agenda has become broader and more complex. Thus the “comprehensive development framework” (1999) unveiled by the World Bank adopts a holistic approach (reminiscent of the ideas advanced in the 1940s and 1950s) to deal with the problems of underdevelopment. Similarly, the Millennium Development Goals (2000), which emerged out of the United Nations Millennium Summit of world leaders held in September 2000 set targets for combating poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women. Both, however, emphasize the two paramount goals of poverty alleviation and environmental sustainability, which have come to figure prominently in the current development agenda.

36. It is possible to draw some conclusions about development strategies from the experience of the past fifty years. Firstly, it is clear that growth strategies comprising economic policies and institutional arrangements show a great variety across countries and over time. The more successful ones tend to be context specific and are built around local capabilities, constraints and opportunities and are not unduly influenced by economic or development orthodoxy.

37. The development paradigm of the 1990s raised the hope that trade liberalization, macro-economic stability and market-oriented policies combined with democratization would lead to the prosperity that had long eluded the developing countries. The decade ended with the sober realization that sound macroeconomics is not a goal but a precondition for growth. The latter realization however, was an important contribution of the Washington Consensus as it marked a departure from the development policies of the earlier decades which encouraged deficit financing and loose monetary policies leading to inflation, an adversarial posture towards foreign investment, barriers on imports and exports, industrialization based on high tariff and non-tariff protection, expansion of state-owned enterprises and the like.

38. Another important contribution of the development paradigm of the 1990s was the primacy it gave to the private sector in economic activities, particularly in

production and distribution activities and in promoting innovation and change. This initially resulted in massive privatization programmes in many emerging economies. It also came to be accepted that the private sector, because of its innovativeness and speed of response to economic opportunities for improved productivity performance, has a key contribution to make in reducing the lead-time required for translating different kinds of reforms to economy-wide productivity gains.

39. Although many of the postulates of the development strategies of the 1960s and 1970s – the so-called import-substitution industrialization (ISI) approach – came to be modified through the economic reform programmes of the 1990s, and have rightly been abandoned in the current development agenda, there are some elements in that earlier strategy which are still relevant for some of the developing countries in specific contexts and circumstances. In fact, in spite of its somewhat unsavoury reputation, ISI worked well in a very broad range of countries until at least the mid-1970s as a strategy of development, intended to raise domestic investment, create production capability and enhance productivity. The Republic of Korea, which pursued an import substitution approach in the 1960s and switched to an outward orientation in the subsequent decade, continued an extensive set of industrial policies that took the form of direct credit, trade protection, export subsidization, and tax and other incentives. Both in China and India, although they transformed their attitudes towards markets and private enterprises from 1980 onwards, state intervention continued in various forms of support and protection for domestic capacity building. As has been mentioned earlier, it is these countries, which have shown worthwhile economic performance in recent years.

40. The lesson one can perhaps draw from this experience is that industrialization and capacity building of domestic enterprises should continue to be one of the key elements of the development strategy for a less developed country. This includes private sector development, the development of physical infrastructure for industry and policies to foster internationally competitive manufacturing and services sectors.

41. In this context, the state's complementary role with the market also assumes importance. In a low income environment, as in most LDCs, market imperfections inherent in the situation block investment and entrepreneurship in non-traditional activities. State intervention and proactive industrial policies have an important role in promoting ways to crowd in investment and entrepreneurship with some positive incentives.

B. Convergence and sources of growth: theoretical underpinnings and empirical evidence

42. This section discusses the issues of convergence and sources of growth, which have exercised the minds of development economists concerned with understanding the differential rates of growth between the industrialized and developing countries and also among the developing countries themselves. The conclusions arising out of this discussion are intended to assist in clarifying and refining UNIDO's corporate strategy.

43. While cross-country convergence in growth rates is accounted for by the conventional (neoclassical) theory in terms of capital accumulation, the endogenous growth theory emphasizes differences in technology across countries and over time. The neoclassical tradition incorporated the idea of declining marginal product of capital, so that sustained growth was possible only through exogenous technological change. If countries have access to the same technology, growth rates would be expected to converge across countries. However, the growth experiences of the developing countries have been diverse both in terms of growth rates and productivity. In fact, across large samples of countries, it does not appear that poor countries grow faster than, or are 'converging' towards, the rich countries, or that they are 'closing the gap' that exists in per capita incomes. On the contrary, an examination of the GDP per capita between LDCs on the one hand and the rest of the developing world and the advanced industrial countries on the other during the last three decades shows a clear pattern of divergence. The gap in income that separates the world's rich and poor nations is wide and glaring.

44. There can be many explanations for this situation. In practice, technological change in the developing countries has been uneven, with changing mixes of technology inflows and domestic technological efforts. Besides, even if all economies have access to the same technology, their growth rates and productivity can differ, if human capital and the incentives offered are different. The 'new' growth theories therefore note that technical change is endogenous and that education and knowledge produce positive externalities.

45. The importance of spreading knowledge, information skills, technology and technical change in promoting growth and productivity is further emphasized in the discussion relating to the 'sources of growth' or 'growth accounting'. 'Growth accounting' assumes that the total output of an economy is a function of its resource endowments (labour, physical capital, human capital) and the productivity with which these endowments are deployed to produce a flow of goods and services. Contributions of increased inputs to output growth are measured and any residual not explained by input increases is considered a measure of growth in the productivity of factor inputs. This residual, called growth in total factor productivity (TFP), is a measure of technological progress, upgrading of the quality of labour, and technical change defined very broadly to include, among others, improvements in techniques, economies of scale and management practices leading to real cost reductions.

46. Empirical evidence on the determinants of economic growth in the industrialized countries clearly establishes that the contribution of TFP to real income growth has been far more important than that of the factor inputs. The modern economic growth in these countries has been predominantly dependent on sustained improvements in technology rather than on capital accumulation.

47. Similar empirical studies on the growth experience of the developing countries are somewhat limited due to data constraints. However, over the past half a century, in most developing countries and especially in the initial stages of industrialization, a greater portion of increased output appears to be explained by increases in physical and human capital, with growth in productivity accounting for a relatively smaller portion of output growth. However, more recent research suggests a much greater role for productivity growth, by recognizing that in the countries with rapid capital

accumulation the profitability of capital investment owes much to domestic learning and innovation. Also, it is quite clear that, while factor accumulation may be quite important in some specific contexts, productivity growth rather than factor accumulation accounts for most of the income and growth differences across nations.

48. This is illustrated by the spectacular growth experience of the newly industrializing economies (NIEs) of East Asia (including the Republic of Korea; Taiwan, Province of China; Hong Kong Special Administrative Region; and Singapore), which during the decades 1960-1990 have transformed themselves from technologically backward and poor to relatively modern and affluent economies.

49. The NIEs focused on productivity-enhancing instruments in particular. In fact, commentators have suggested that their success was the outcome of several interrelated features, including openness, the ability to learn from exporting and adopted foreign technologies and the existence of a skilled and competent work force. Learning, entrepreneurship and innovation, and a move towards international best practices were at the heart of their productive utilization of labour and investment.

50. In contrast, a comparison of relevant data analyzed by UNIDO in respect of 32 LDCs and 22 industrial countries shows that there is a striking gap between both groups of countries in terms of the levels of technology and related practices. This is explained by the fact that the LDCs have experienced an overall decline in TFP during the relevant period, pointing to technological practices as a major reason. Indeed, such a decline is one expression of their increasing distance from the world technological frontier, which reveals their severe difficulties in accessing, assimilating and diffusing technology.

51. All these points conclusively establish the crucial role of productivity enhancement, driven by skills, knowledge enhancement and technological upgrading, in promoting faster growth.

52. The discussion so far has referred to the “proximate” determinants of growth, comprising factor accumulation and productivity change. There are also what some analysts describe as “deep” determinants, of which three appear most important, namely *geography*, *institutions* and *integration (globalization and trade)*.

53. First of all, *geography*. This does not concern just natural resource endowments, although they can have important direct and indirect influences on economic growth through their impact on institutions. Climate, for instance, has a heavy influence on the quality of land, crop yields and morbidity. Likewise, the distance and relative difficulty of access to the key international trade routes affects transport costs and can have a bearing on a country’s ability to become integrated into world markets, regardless of its economic potential and trade policies. Also, geographically or politically isolated countries do not benefit from technological diffusion.

54. The second fundamental or “deep” determinant is *institutions*, which includes the rule of law, property rights, the regulatory framework, appropriate economic and financial institutions, an independent judiciary, and bureaucratic capacity. The quality and effectiveness of the institutional structure cannot be taken for granted.

Increasingly it is being realized that the existence and development of such institutions are essential preconditions and determinants of growth.

55. The third “deep” determinant is the degree of *integration* into the world economy. This assumes particular importance in the context of increased globalization, including increasing international trade in goods and services, greater international competition and increasing international flows of investment and technology.

56. It is the aspect of technology transfer and diffusion that is of particular importance because of its direct links with productivity enhancement. Two types of countries have been successful in absorbing technologies from abroad: countries with successful export-promotion policies and those that have been able to attract large flows of foreign direct investment (FDI).

57. Also, in a world where diffusion of technology and technological change is the key underlying factor accounting for productivity enhancement and where severe structural barriers sharply slow down the process, an international agency (like UNIDO) responsible for fostering the international diffusion of technical knowledge and enabling the developing countries to take advantage of it gains great potential relevance and importance.

58. Finally, all these determinants of growth have mutually reinforcing effects. At the same time it must be noted that, while theoretical models can help in understanding the underlying structure of the issues, they do not necessarily capture the complex process of economic development, and neither can they take full account of the diversity of the growth experience. An international organization like UNIDO must take due notice of this situation while formulating its corporate strategy and related activities and policy prescriptions.

C. Elements of a pragmatic development approach

59. On the basis of the discussions and conclusions described in the previous sections, it is possible to outline the contours of a pragmatic approach to development, which could guide the process of refining UNIDO’s corporate strategy.

60. Macroeconomic stability is an essential precondition for growth as is ‘good governance’. Macro-stability requires fiscal discipline, and a prudent and coordinated mix of fiscal, monetary and exchange rate policies. The major elements of good governance are maintenance of law and order and the rule of law, low levels of violence and armed conflict, independence and transparency of the judiciary and enforcement of property rights. Another requirement is the quality of infrastructure, including power, water, telecommunications and transportation. All of these three elements are necessary to maintain a business climate for private sector investment, vibrant entrepreneurship, sustained productivity improvements and growth.

61. The private sector is the main engine of growth, as it is the major source of entrepreneurship and innovation. In a market-oriented economy it is the competitive private sector that is responsible for the production and distribution of goods and

services, and for introducing technology, innovation and change. Therefore, promotion of the private sector is a key element of the development strategy.

62. For its proper functioning, however, the market economy relies on a wide range of non-market institutions that perform regulatory, stabilizing and legitimizing functions, with complementary roles being played by the private and public spheres of the economy that make the system sustainable.

63. Within this framework, growth can be realized through investment and gains in productivity. Business investment may be defined broadly to include all the activities that entrepreneurs undertake such as the creation and expansion of productive capacity, employing new technology and adapting and improving existing technologies, designing and producing new products, maintaining and improving quality, marketing these products and the like. The promotion of business investment for industrialization and simultaneously encouraging accumulation of knowledge, technology upgrading and technical change should be the central tenet of the development policy.

64. There are many facets to this approach. Firstly, appropriate microeconomic policies are needed to tackle both government and market failures inherent in low-income environments. These involve the removal of government-imposed barriers to entrepreneurship and interventions designed to provide inducements to promote modern, non-traditional activities in low-income economies dominated by the production of primary commodities. These include policies to foster export-processing zones, industrial parks or any form of pioneer industries. They also include policy interventions to improve information on new technologies or methods of adapting existing technologies and improve cost structures in the economy for the entrepreneurs. The articulation of microeconomic policies and interventions related to the supply of public goods occupies an important place in the policy agendas of developing countries, as indeed it does in the advanced industrial world. The crucial test for these policies is how far they are able to boost productivity growth, and thereby accelerate long-term economic growth.

65. For private sector-led productivity growth to occur, public policy interventions are required that finely mesh the incentives regime with the supply of public goods. Market incentives are critical to economic development and the incentive structure of a society is a function of its policy regime and institutional structure. To ensure long-term, sustained growth it is essential that high-quality institutions be developed. It is the admixture of rules, norms and enforcement characteristics and the interaction that these produce among the economic agents, markets and institutions that ultimately determines economic performance. They constitute the primary determinants of the extent to which individuals are willing to make the long-term investment in capital, skills and technology that are associated with productivity growth and sustainable economic success.

66. As has been explained earlier, growth in productivity is primarily driven by technological progress, upgrading and diffusion. Benefits of technology upgrading and diffusion are mostly derived by those countries which have been able to attract substantial flows of foreign direct investment (FDI) and/or have participated in large export efforts, thereby responding to competitive pressures from the export market.

This necessitates policies to promote FDI and foster internationally competitive manufacturing and service sectors in the developing countries. The approach should be to combine the opportunities offered by the world markets to develop competitive industry that would motivate both domestic and foreign investors to invest in the economy. This would also be in conformity with the requirements of the multilateral trading system being developed since the conclusions of the Uruguay Round of trade negotiations in 1994.

67. Promotion of small and medium-sized enterprises (SMEs) is key to fostering business activities. This is particularly the case of the agriculture-based economies in Africa and LDCs, where most of the poor are living, and for which the development of an SME agro-industrial sector would contribute to poverty alleviation – an important international development goal. Small enterprises constitute the seed-bed for entrepreneurship which is crucial to the process of increasing productivity. SMEs support the building up of systemic productive capacities and contribute to the creation of resilient economic systems in which small and large firms are interlinked. Such linkages and resulting clusters of large and small enterprises are of increasing importance for the attraction of foreign investment. Small enterprises, as amply demonstrated in information and communication technologies, are also a significant source of innovation, often producing goods in niche markets in a highly flexible and customized manner. The experiences of East Asia, notably China, Japan and Taiwan, Province of China, as well as the Bangalore region in India and the successful transition economies in Hungary and Poland, have shown the great importance of urban and rural small and medium enterprises in economic development. SMEs account for the majority of firms and a large share of employment in most developing countries. It is in these enterprises, including micro-enterprises, that most of the rural and urban poor work. Promotion of a dynamic small enterprise sector in both rural and urban areas would strengthen income-generating opportunities for poor people, while reducing their vulnerability to economic risks.

68. Finally, it has now become clear that there is no longer a trade off between growth and measures for ensuring environmental sustainability. All developing countries now face problems of environmental degradation brought about by the urban-industrial model of growth. The concerns regarding ozone depletion, global warming and biodiversity have also brought about the realization that if development is to be sustainable, the environment needs to be protected and environmental concerns must be systematically incorporated into the conventional paradigms of economic development. This may be done by seeking to influence the behaviour of various economic actors through both market-based and command-and-control type measures as appropriate. In addition, there has to be a shift in the process of industrialization, from end-of-pipe pollution control to the use of new and advanced technologies, which are more efficient in the use of energy and materials and produce less pollution and waste. Finally, there is a need for the adoption of fundamental changes in both production design and technology represented by the “cradle-to-cradle” approach, and the reorganization of production and its redesigning upon biological principles in order to enhance resource productivity along the lines advocated by the concept of “natural capitalism”.

69. The next step is to examine how these elements of the pragmatic development approach influence the formulation of the corporate strategy and activities of UNIDO, an organization set up by the international community to assist the developing countries and the transition economies in their industrialization efforts.

III. Streamlining UNIDO's Corporate Strategy and Enhancing the Effectiveness of its Support Programmes

A. Key strategy elements

70. A corporate strategy is the creation of a unique and valuable position for an organization, involving the definition of its priorities and a set of activities tailored to these priorities. The strategic positioning of any organization involves performing *different activities* from its competitors *or* performing similar activities in *different ways*. A fit among the activities is essential not only for competitive advantage, but also for the sustainability of that advantage. Sustainability comes from the activity system as a whole, not from its isolated parts, and is the key to operational effectiveness.

71. UNIDO's mandate is to assist developing countries and countries with economies in transition in their industrialization efforts, to enable them to enhance their capacities for promoting sustainable industrial development for economic growth and poverty alleviation. Given the dynamics of the development process discussed earlier, UNIDO's corporate strategy must focus on an increase in productivity growth, and the agency's activities should be built around this central theme for achieving optimal effectiveness. Productivity enhancement would provide the needed strategic fit across all the activities and interventions.

72. As a specialized agency of the United Nations, UNIDO has a dual role. On the one hand, it provides technical cooperation services, which enhance skills, technology and related capacities. On the other, it also performs 'global forum' functions by generating and disseminating knowledge about industrial development processes and associated issues, and initiating/conducting debates and discussions on industrial development and related matters in order to influence the development agenda in this area. In both spheres of activities, UNIDO must focus on the key elements, which contribute to productivity enhancement in the development process, and eventually result in economic, social and environmental wealth.

73. In the context of a market-oriented, globalizing, international economic environment, the provision of global public goods provides justification and a rationale for the operations of multilateral organizations. In the case of UNIDO, these have to relate to the area of industrial development. More specifically, the creation, transformation and management of knowledge on industry can be considered a global public good, which is the legitimate concern of UNIDO. This would cover areas such as the transfer and upgrading of technology, learning, innovation, building of skills and capabilities, which have a direct bearing on productivity growth. The global forum function also involves benchmarking industrial performance and identifying international best practices for dissemination; organizing the exchange of sector-and-theme-specific information and views of experts and decision-makers from different countries and regions; and disseminating knowledge on current and emerging trends, challenges and opportunities to inform policy-making. In doing so, UNIDO's global

forum activities draw upon in-house and collaborative research as well as the rich pool of experiences generated by its technical cooperation programmes.

74. The global forum function and the technical cooperation function thus reinforce each other. The results of the global forum function help UNIDO to improve the whole range of its services, while the experiences and insights gained from the technical cooperation activities are factored into the global forum function. Consequently, both kinds of activities support each other in the quest for relevance, effectiveness and impact.

75. More specifically, the tasks to be undertaken for this purpose include:

- Identifying the range of UNIDO interventions that rely on well defined fields of specialization and are most appropriate to fulfill the Organization's mission;
- Maximizing the impact of UNIDO's operational activities by optimizing their synergies with global forum activities and enhancing specialized competencies;
- Furthering UNIDO's research agenda by enhancing in-house capacity and drawing on research cooperation and networking;
- Generating outputs of immediate utility for the international development community;
- Achieving an effective synthesis between the routine and innovative feature of UNIDO's programmes, while at the same time incorporating the state of the art knowledge and improvements in the understanding of the development process.

76. With regard to the technical cooperation or operational functions, UNIDO must design practical and useful deliverables keeping in view the realities of the global economic environment as they impinge on the developing countries and transition economies in general and the LDCs in particular. The paramount consideration should always be to help enhance productivity growth so as to ensure long-term economic success. A few stylized facts emerging from the relevant and current trends and their respective implications for technical cooperation can be highlighted in this connection.

B. Stylized facts and UNIDO's response

Fact 1: Productivity enhancing business investment in plant and equipment technology and skills enables sustainable economic growth.

77. *General implications:* Developing countries, including LDCs, can achieve long-term economic growth only if business investments in equipment and infrastructure are characterized by increased productivity growth. The latter is a function of technological progress, learning, technological change and improvements in the quality of labour.

78. *Implications for UNIDO's technical cooperation:* Developing countries need to create a business climate conducive to promoting both domestic and foreign investment. Investment in equipment and infrastructure involving the creation and expansion of productive capacity should be combined with the adoption and improvement of modern technologies, improvement in skills, adherence to the established quality standards and participation in the domestic and world markets in harmony with the established trading rules in order to develop competitive industry. In other words, in the process of industrial capacity creation, capital accumulation and technological change should be closely intertwined. That will ensure productivity enhancement and long-term economic growth. UNIDO, in these circumstances, should assist the developing countries and the transition economies:

- To develop a positive investment climate by advising them on international best practices and experiences in industrial development, investment promotion and effective industrial policies and strategies;
- To create and develop capacities for identifying technology gaps and for the acquisition, adaptation and improvement of technologies by providing information on successful experiences and world-wide best practices in the area; and
- To develop national quality and standards systems in support of industrial competitiveness, market access and the protection of consumer health, safety and environment.

Fact 2: There are widening productivity differentials between and within countries.

79. *General implications:* The quest for development and the fight against poverty will not succeed unless inter- (and intra-) country productivity differentials are narrowed through the mobilization of skills, knowledge, technology and information in the developing countries, resulting in equitable and sustainable development.

80. *Implications for UNIDO's technical cooperation:* The developing countries need to build the capacity to implement effective interventions to foster productivity growth and to monitor it at different levels of aggregation. UNIDO should assist these countries:

- To develop national monitoring systems for industrial productivity at different levels of aggregation (firm, sectoral, regional and national) at the country level, in order to measure, monitor and set targets for short-term and long-term trends in productivity; and
- To create capacities for implementing policies and programmes geared to the absorption, adaptation and diffusion of quality and productivity-enhancing technologies that are also environmentally sound.

Fact 3: Increasing marginalization of LDCs is a consequence of their inability to master technologies and take advantage of market-opening measures in the advanced industrial countries.

81. *General implications:* (a) The increasing relative concentration of poverty in the developing countries in general, and the LDCs in particular, is associated with their inability to narrow productivity differentials with the more advanced economies and thus to generate sustained and equitable development; (b) Marginalization from world trade and investment flows stems from the LDCs' inability to meet the minimum conditions for having conducive incentive systems and an appropriate supply of tradable goods. This problem is aggravated further by lingering iniquities in the world trade regime, which are being addressed only slowly.

82. *Implications for UNIDO's technical cooperation:* Developing countries, particularly LDCs, need to foster domestic entrepreneurship in order to increase their trade-related supply response capacity. UNIDO can support these countries in this area through:

- Assistance in the establishment and strengthening of quality and standard setting institutions;
- Advice on best practices relating to improvement in quality, both in terms of processes and products;
- Assistance in investment and technology promotion aimed at speeding up the transfer of quality and productivity enhancing technologies, which are also environmentally sound; and
- Advice for accessing external markets and on various export-promotion measures.

Fact 4: The small and medium enterprise sector in developing countries is often seen as a means of generating low-skilled jobs and fighting poverty. This implies a neglect of the SME sector's important contribution to fostering growth, specialization, technological innovation and exports.

83. *General implications:* Important opportunities for dynamic industrial growth are foregone when the potential contribution of SMEs to innovation and exports is not recognized and promoted.

84. *Implications for UNIDO's technical cooperation:* The SMEs cannot be treated like a homogenous sector. Support programmes must be targeted towards different types of enterprises (medium, small and micro) and respond to their varying needs and capacities. Policy and institutional support actions need to be designed with specific objectives in mind. These can range from directly poverty-reducing programmes to support programmes geared towards technological catching up and enhanced internationalization. UNIDO's technical cooperation in this area thus consists of:

- Supporting the integration of more advanced small to medium enterprises into global value chains and procurement networks;

- Promoting horizontal, vertical and regional SME networks and improving the collective efficiency of existing SME clusters;
- Strengthening of specialized public and private service providers seeking to address market failures working against SMEs (in areas such as business information, technology management and access to finance);
- Enhancing the entrepreneurial and managerial skills of micro enterprises, with emphasis on disadvantaged rural areas, and on harnessing the potential of women entrepreneurs, with a view to reducing regional development disparities.

Fact 5: Weak cooperation links between economic agents, markets and institutions in developing countries prevent them from drawing effectively on international trade and investment flows.

85. *General implications:* Segmented domestic product, skill and technology markets, dysfunctional institutions, and the lack of the necessary infrastructure and incentives that domestic firms need to compete, learn and innovate, prevent developing countries from participating meaningfully in world trade and investment flows.

86. *Implications for UNIDO's technical cooperation:* The establishment of market incentives for the rapid diffusion of knowledge, information, skills and technology across economic agents and institutions is key to the development of private sector-led, productivity-driven, industrial development. Through its support to the design and implementation of effective industrial policies, strategies and other upstream cooperation activities, UNIDO complements its technical cooperation programmes with a view to fostering technology diffusion and competitive upgrading for equitable and sustainable industrial development.

Fact 6: Agro-based industries have a predominant role in the development prospects of developing countries, especially LDCs.

87. *General implications:* The overwhelming majority of developing countries and almost all LDCs are endowed with considerable agricultural resources, a significant (potential) labour force and/or at least some indigenous (natural/mineral) resources offering a viable basis for establishing or strengthening agro-based industries, providing employment for the local population and generating value-added for the local community, in particular in rural areas which are facing pervasive problems of food insecurity, poverty, malnutrition and limited competitiveness.

88. *Implications for UNIDO's technical cooperation:* Production of commodities based on agricultural outputs and local (natural) resources are in permanent demand throughout all world markets – especially if they imply a natural origin. Agro-based industries convert agricultural products into much needed consumer goods such as foodstuff, textile apparel, leather products, wooden articles and composite materials – in fact into commodities of prime needs (food, clothing, shelter and tools), as well as other articles such as beverages, canned and frozen food, fashion-oriented garments and leather goods, furniture etc. At the same time, international/global competitiveness admits only safe, certified, reliable products with consistent supply,

which assumes well organized, knowledge-based, environmentally sound product development, production/process technology and quality assurance systems, whereas most of these industrial sectors are fairly labour-intensive. Based on their intrinsic natural resources, developing countries, especially LDCs, have all the material and environmental conditions to participate in the global value chain, but they lack appropriate knowledge, skills, machinery and contacts due to missing investments, market intelligence, production skills and R & D institutions.

89. UNIDO offers highly focused, specific and fine-tuned technical assistance services in all these areas of industrial activities and functions, possesses a wide international network and accumulated (institutional) experience enabling it to disseminate best manufacturing practices, to transfer the best fitting (most appropriate, yet productive) technology – both hardware and software – to establish and/or strengthen support (training, development, testing, service) institutions, to set benchmarking criteria and to implement related systems. Development programmes for strengthening productive capacities, in particular through skills enhancement and technology-based interventions are targeting small and medium enterprises and specific agro-based sectors (in particular agro-machinery, food-processing, leather and leather products, textile and wood) with a view to enhancing the competitiveness of their products in domestic, regional and world markets.

Fact 7: Industry makes sub-optimal use of natural resources and can be a significant source of pollution and waste.

90. *General implications:* The costs of unsustainable exploitation of natural resources on the one hand, and of excessive pressure on the absorptive capacity of the natural environment on the other, are passed on to future generations without taking recourse to preventive and remedial steps, and thereby curtailing future industrial development. The typical urban-industrial model of development imposes heavy environmental and economic costs and needs to be transformed into an opportunity for sustainable development by integrating the environment as a strategic element in the processes of production, new investment and technical change.

91. *Implications for UNIDO's technical cooperation:* Through its activities in the areas of environmentally sound technology and clean energy, UNIDO speeds up the international and domestic diffusion of environmentally sound technologies that are quality and productivity enhancing, with particular attention to specific industrial sectors and the needs of the poor. Specifically, UNIDO's activities in this field include:

- Technical assistance to increase national capacities in environmental planning and policy formulation through a strengthening of the appropriate infrastructure and human resources;
- Provision of information and demonstration facilities on the use of clean production and processing technologies and environmental management techniques through an international network of National Cleaner Production Centres;

- Support with the transfer of environmentally friendly production and processing technologies and the application of pollution control and waste-management systems; and
- Assistance to enable developing countries and transition economies to meet their commitments under international environmental protocols and conventions.

Fact 8: There is considerable scope to improve the efficiency with which industry uses energy.

92. *General implications:* Improving energy efficiency is broadly consistent with the major objectives of most national energy policies and with the intergovernmental climate negotiation process. The Climate Convention and Kyoto Protocol together create both challenges and opportunities for energy efficiency measures and technologies. On the one hand, an increase in the pace of energy efficiency improvement is needed to control greenhouse gas emissions and protect the climate. On the other hand, the Kyoto Protocol, through the Clean Development Mechanism and Joint Implementation (JI) will establish new markets for energy efficient technologies and services in developing and transition economy countries.

93. *Implications for UNIDO's technical cooperation:* The new priority for UNIDO's protocol-related global forum and technical assistance will be to facilitate the involvement of business and industry in CDM and JI. Interventions will initially focus on controlling greenhouse gas emissions through industrial energy efficiency. This is considered to be an essential component of emissions mitigation. It is one of UNIDO's core activities, central to the organization's mandate and an issue on which UNIDO can play a lead role in defining the development agenda. Measures to improve industrial energy efficiency also yield improvements in productivity and reliability.

C. Implications for UNIDO activities

94. From the above, the following overriding implications for UNIDO can be derived:

- UNIDO needs to devise and implement specific interventions through its technical cooperation activities aimed at speeding up the transfer and mastery of technical knowledge and facilitating market access and development by fostering the building of capacities required to that effect. Productivity gains, in their various manifestations, are the ultimate gauge of the impact of these interventions.
- The transfer of technical knowledge is key to UNIDO's mandate. But so is making sure that such knowledge is effectively put to productive use. For this reason, institutional capability building, skill formation and entrepreneurship development are also key to the success and impact of UNIDO's technical cooperation programmes.
- From this perspective, a new approach to UNIDO's technical cooperation activities is hereby proposed, which should result in a sharper focus and enhanced

effectiveness in the deployment of the experience and expertise of the professionals assigned throughout UNIDO's eight service modules. This approach, which has been validated in the Venice I and II Global Forum exercises, seeks to facilitate a better conceptual and operational design of the organization's activities, as well as enhanced impact.

95. UNIDO interventions can analytically be clustered around two key areas of comparative advantage:

- (i) Technology diffusion; and
- (ii) Capacity building for market access and development.

96. The area of technology diffusion comprises all the activities that deal with technological learning, absorption and mastery as the key outcome sought. This includes, above all, programmes relating to technology and investment promotion, technology foresight, technology management, biotechnology, entrepreneurship development, upgrading and rehabilitation of manufacturing and technical services, South/South Cooperation, and the transfer, absorption and mastery of environmentally sound technologies. The last element includes the programmes relating to the implementation of the various environmentally related international protocols and the Cleaner Production Centres and energy programmes.

97. The area of capacity building for market access and development comprises all activities aimed at promoting the readiness of SMEs to face external competition, both internationally and domestically, including those performed in the areas of quality, standards and metrology, sanitary and phytosanitary measures, labelling, value chain integration as well as all those others that bear directly on Member States' export performance, such as small business export consortia and export-oriented clusters and networking and support to enable SMEs to respond to changing market conditions in increasingly opened economies. Clearly, there are important synergies to be reaped between the activities and respective outcomes in this area and those of the area of technology diffusion.

98. In the two areas, focus on the LDCs and the poor will continue to be stressed and sharpened, seeking tangible contributions to the fight for poverty reduction and for social progress, including emphasis in the fields of rural energy, women entrepreneurship and micro-enterprises. Environmental sustainability of industrial development will also be an essential ingredient through the emphasis on clean technologies and cleaner production practices.

99. Thus, in reinforcing the multiple links between entrepreneurship, technology, productivity enhancement and growth through sustainable industrial development, UNIDO would be effectively responding to the challenges of reducing extreme poverty and ensuring environmental sustainability envisaged in the Millennium Development Goals.

IV. Conclusions

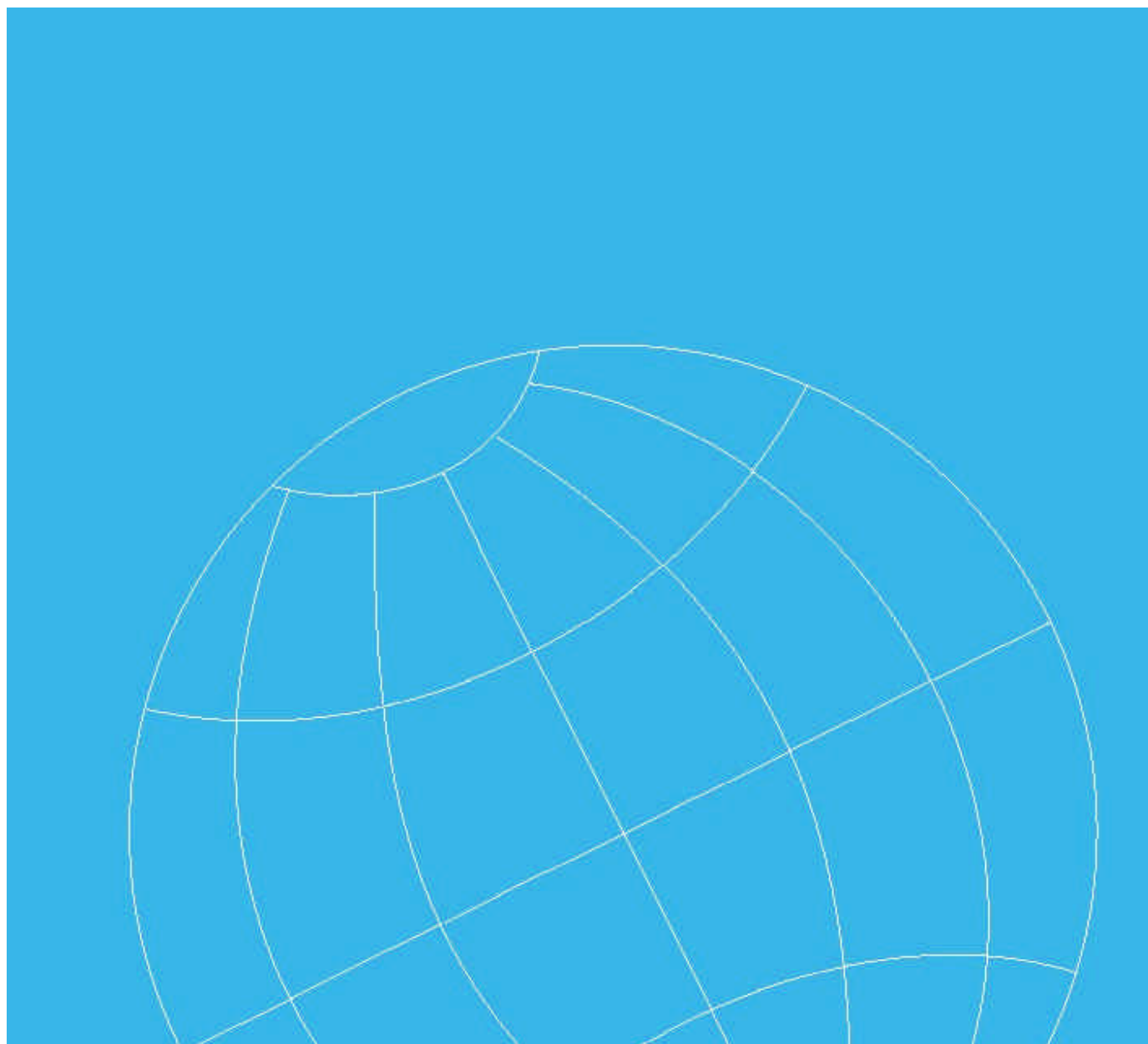
100. The development experience of the past 50 years has helped us in identifying the contours of a pragmatic approach to development. This approach transcends economic or political orthodoxy.

101. In the past we witnessed a sharp confrontation between the ideals of the planned economy and those of the market economy. This time the dilemma is quite different. The challenge now lies not in the search for a completely new set of *alternative* policies, but in ensuring that current broad policy prescriptions effectively address the key development bottlenecks and thus actually deliver what is expected from them, that is, a narrowing of international and national disparities in economic and social development.

102. Let us illustrate the above with a reference to the policy implications of free trade. Recent experience offers no examples of dynamic, long-term growth in closed economies. But many of those countries that did open their economies also failed to attain such dynamic, long-term growth. It would certainly make no sense to advise these countries to return to the closed economies of the past. But it is quite clear that telling them just to open up their economies is not nearly enough. This approach needs to be considerably enriched with a more detailed treatment of what it entails to open an economy in a world driven by innovation and technical change. For instance, it calls for paying due attention to the micro-fundamentals of competitive development, the supply of public goods, the incentive system and institutional development.

103. This raises important policy challenges, such as those relating to the development of the domestic scientific and technological skills and capabilities needed to meet the increasingly stringent conformity requirements of advanced country markets or to the ever higher quality and technology standards that need to be met in order to become a viable manufacturing exporter, all within a context of ensuring equitable wealth distribution and protection of social and natural assets. Neglecting these and related policy issues normally leads to dead ends in the search for integrating developing countries into world trade and investment flows.

104. It is key for an agency like UNIDO to attain an effective integration between the conceptualization of the current policy challenges facing the developing countries and its approaches to technical cooperation delivery on the ground.



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, A-1400 Vienna, Austria
Telephone: (+43 1) 26026-0, Fax: (+43 1) 26926-69
E-mail: unido@unido.org, Internet: <http://www.unido.org>