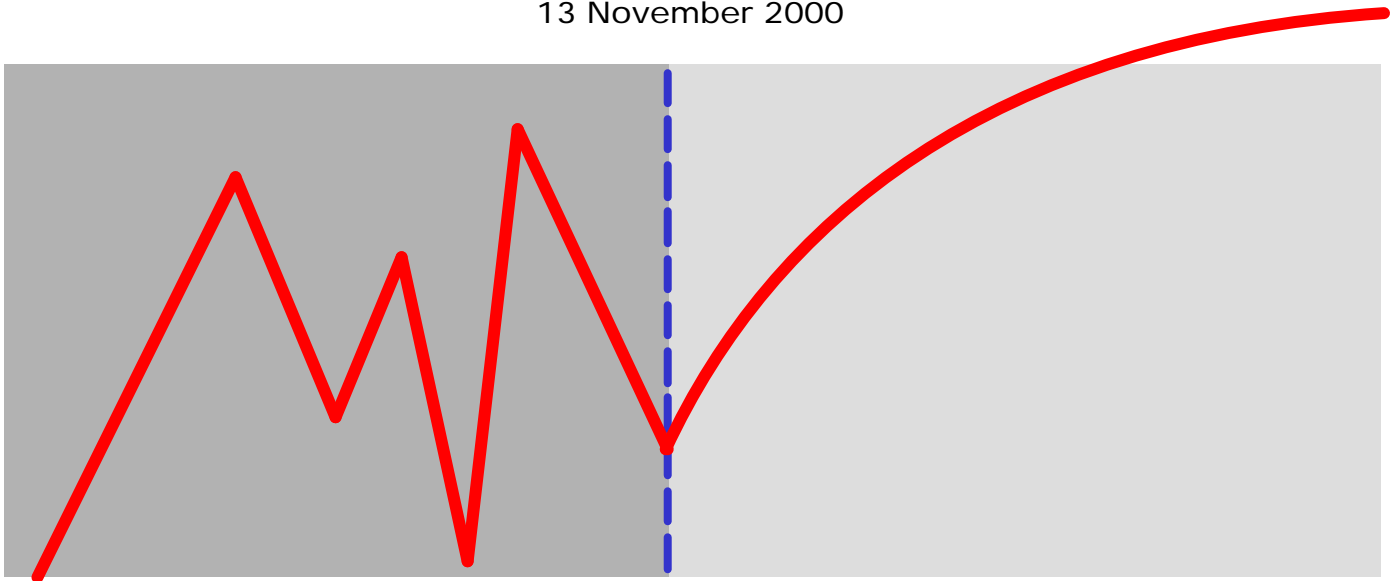




UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

UNIDO ROUND TABLE - MARGINALIZATION VERSUS PROSPERITY

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**Panel 3:
Fighting Marginalization through Sustainable Industrial Development**

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I. Introduction

The current international development dialogue is increasingly concerned with the marginalization of countries as they struggle to keep pace with competitive pressures for efficiency gains. With the advent of globalization the sources of rapid economic growth and transformation mainly lie outside national boundaries. The social dimension of this phenomenon relates to the creation of so much wealth but so little reaching the vast majority of the world's population. Indeed, a growing concern is emerging among policy-makers about increasing inequality among and within countries, a further marginalization of Africa and the least developed countries (LDCs) in the global economy and increasing marginalization of vulnerable segments of populations struggling to share the fruits of globalization.

The link between globalization and marginalization raises a number of issues. Are the international rules of the game fair for the LDCs? Did these disadvantaged countries get a fair deal in the Uruguay Round Agreements? Even if the rules are fair, are the poor LDCs competing on a level playing field with the advanced industrialized countries and newly industrializing countries (NICs)? As a Minister from an LDC said, "I appreciate that the rules of the game are fair and apply to all of us. Nevertheless, I do not think that I would enter the ring with Mike Tyson". Undoubtedly there are winners and losers in the globalization process, and the losers are likely to be the weak and the poor. This is caused by limited opportunity, lack of empowerment and fragile social security of people combined with widespread market failures, preventing the spread of benefits of globalization to LDCs.

Marginalization refers to countries and people being bypassed by the mainstream globalization process in terms of income, employment and opportunity. LDCs, especially in sub-Saharan Africa, have been marginalized, according to globalization indicators, such as, manufacturing value added (MVA), foreign direct investment (FDI), exports, imports and technology. Further, the ratio of the income of the richest and poorest fifth of the world's population increased from 30 to 1 in 1960 to 60 to 1 in 1990 and 74 to 1 in 1997. The gap in per capita income between the poorest and the richest sections of the world's population is also widening. Thus, the Millennium Declaration set a goal of halving the 22 per cent of people who live on less than \$1 a day and ensuring primary education for all by 2015. The needs of Africa, the poorest continent, receive special attention.

This note addresses one of the most serious and, at the same time, most controversial issues on the current international development agenda: marginalization stemming from the process of globalization. It is argued that a strengthening of the role of industry as a dynamic force of economic growth, development and transformation can make an important contribution to reversing marginalization of LDCs.

II. Uneven Industrial Development

Industry has generally played an important role in overall socio-economic development. Very few industrialized countries have developed – economically and socially – without a strong and dynamic industrial sector. The same holds true for developing countries where industry has an important role to play in fighting marginalization, especially those countries that, so far, have been bypassed by the globalization process and need to develop industry hand in hand with agriculture and social sectors such as education and health. The share of

developing countries as a group in world manufacturing value added (MVA) increased from 14.4 per cent in 1980 to 23.6 per cent in 2000. Those countries that have achieved significant overall socio-economic growth have industrialized faster than others. The fastest growing countries have been those that have managed to industrialize by developing their comparative advantages to such a degree that manufactured exports have become the engine of growth. However, this trend conceals the fact that industrialization has been confined to a few successful industrializers, mainly in East Asia, bypassing the majority. The share of sub-Saharan Africa in world MVA fell from 2.6 per cent in 1980 to 1.6 per cent in 2000. MVA per capita also declined from \$43 to \$39 during the same period, and some countries faced de-industrialization. For these countries, even a high rate of MVA growth – while contributing to reversing marginalization – will bring socio-economic benefits only in the long term.

III. Key Issues and New Industrial Realities

In order to overcome marginalization of LDCs, policy makers need to address a number of important issues:

- failure of macroeconomic stabilization to ensure sustainable industrial development
- improving the socio-economic development impact of growth
- burden of servicing high debt
- challenge of both increased global integration and domestic competition
- “missing middle” between large and small enterprises
- accelerating privatization and private sector development
- scope for enhancing regional industrial integration and cooperation
- enhancing human and technological capability
- reducing high transaction costs by relieving infrastructural bottlenecks
- meeting higher environmental standards

In overcoming these constraints, LDCs are facing new industrial realities with which they have to cope: The process of globalization – the internationalization of production, finance and trade – has led to: the emergence of the global value chain as an important entry point for access to markets and technology; the rapidly increasing role of technological upgrading as a source of dynamic industrial growth and competitiveness requiring enhanced skills, knowledge, innovation and information; new forms of competition in export markets as well as in previously protected domestic markets requiring new organizational and management structures; and liberalization with changing role of governments, new international rules and need for improved governance and private sector development. While LDCs to some extent can leapfrog certain stages of development, such as information technology, it is difficult to emulate the industrial experience of East Asian NICs due to changing industrial realities.

IV. Options for LDCs to Reverse Marginalization

The key challenge for industrial policy-makers at the beginning of the twenty-first century is to address the new industrial realities and to establish the preconditions and enabling environment for sustainable industrial development to serve as a driving force of overall economic growth, technology diffusion and modernization of societies. In the new global

industrial environment the key options for LDCs to fight marginalization and join the mainstream globalization process comprise:

- improved industrial governance
- increased participation and interactions of LDCs in gaining access to international financing and markets
- enhanced skills, knowledge and information access for technological upgrading
- improved physical infrastructure
- promotion of social prosperity
- environmental sustainability:

Improved Industrial Governance: The role of governments has shifted towards the provision of an enabling policy environment to support sustainable industrial development through strategies, policies and institutions. Improving government capabilities is an important prerequisite for better industrial governance. Strategy must emphasize enhanced productivity and competitiveness. The support to clusters of firms with greatest competitiveness and productivity potential is essential. Industrial policy needs to enhance the capability of LDCs to compete in international markets by transforming their potential comparative advantages into enterprise-level competitiveness with support from enhanced intermediate institutional support services. Supportive national and local industrial strategies, policies and institutions are required as well as a collective response from local enterprises to global challenges in order to realize the full productive potential of industry. In this process, there is a need for closer dialogue between the public and private sectors. Closer links need to be forged between industrial, trade and investment policies. The aim is to exploit synergies between industry and trade in order to stimulate investment in activities that enhance dynamic comparative advantages.

Foreign Direct Investment: LDCs must create more favourable conditions as well as an enabling environment for attracting greater FDI flows – which are increasingly dominated by transnational corporations (TNCs). They need to increase savings and investment rates as well as reverse capital flight while building domestic capacity in upgrading technologies and skills. The importance of low labour costs as a determinant of competitiveness is declining. The challenges are formidable, keeping in mind the burden placed on developing countries from the new World Trade Organization (WTO) rules governing trade-related intellectual property rights (TRIPs) and trade-related investment measures (TRIMs).

Export Market Access: LDCs face intrinsic constraints in gaining market access as demand for products in which they have enjoyed comparative advantages – such as labour-intensive and resource-based industries – grows slowly in the world market. Moreover, LDCs face new formidable competitive threats from large developing countries such as China and India. Further, growth prospects for manufactured exports generally increase with technology-intensity, where most LDCs have yet to build skills and technological competence and pursue a high growth manufactured export strategy. More genuine duty and quota free access for exports from LDCs to developed countries is important. The main challenge for LDCs is to enhance the industrial supply capacity to benefit from redeployment of industry from developed countries and by participation in the ever-increasing global value chain of industrial production. This calls for improved

industrial efficiency and new organizational forms of collective efficiency in the small-scale sector.

Enhanced Skills, Knowledge and Information Access for Technological Upgrading:

Industrial competitiveness is increasingly being driven by knowledge, skills, innovation, information access and absorptive capacity of imported technologies. This requires a strategy for productivity growth and increased competitiveness with a view to catching up with more advanced developing countries. Due to declining public investment, however, progress in this area has remained modest. Sustainable industrial development requires changing the skill creation system through more widespread secondary and technical training as well as a broad range of financial, engineering and other skills.

Improved Physical Infrastructure: In many countries marginalized by the globalization process, especially in Africa, public investment in communication, transport and power has declined as a result of the changing role of government and associated budgetary constraints. This is critical, first, because public investment tends to crowd in private investment and, secondly, because high transaction costs inflict high costs on industry and constitute one of the main constraints on African industry to become internationally competitive. Thus, increasing public investment for essential physical infrastructure for industry is an important policy priority for most LDCs in the fight against marginalization.

Industry's Contribution to Poverty Alleviation: Accelerated industrial growth will generally contribute to alleviating poverty and spreading the benefits of globalization within countries. The impact of growth on social development is greatest in societies with equitable income distribution. However industrial growth alone is not sufficient. Selective promotion of certain patterns of industrial development with high impact on employment and prosperity of marginalized areas and communities requires policy to focus on strengthening micro and small- and medium-scale enterprises; enhancing agro industrial linkages, with emphasis on food security and employment; and promotion - where viable - of industry in rural areas and location of industry in less developed regions. Such socially-oriented industrial development strategy emphasizing opportunity, empowerment and security will contribute to connecting more people with the mainstream globalization process, constituting an important strategy for overcoming marginalization within countries.

Environmental Sustainability: Activities such as industrialization, urbanization, agriculture, fishing, forestry and mineral extraction have serious adverse impacts on the natural environment. At the beginning of the new century, it has become increasingly clear that short-term, piecemeal solutions to deal with environmental problems no longer suffice. To achieve environmental sustainability, natural resources need to be better managed, while waste and pollution need to be reduced. New approaches are, therefore, needed for continuous innovation, improvement and use of clean technologies to reduce pollution and consumption of resources. An enabling environment should be created for the three main drivers of clean technology: government policy that encourages and facilitates changes in manufacturing processes to meet environmental and social needs; economic competitiveness to consider the advantages of clean products and processes or cost advantage; and scientific and technological feasibility. To achieve this balance,

greater attention should be given to sustainable use of renewable resources and wider application of biotechnology.

V. The UNIDO Response to Marginalization

Aimed primarily at eliminating supply-side constraints, UNIDO's approach consists of a package of services targeting the improvement of firm-level competitiveness, combined with the requisite institution- and capacity-building initiatives. The approach recognizes that LDC participation in the global market demands that strategic improvements are made in product quality. UNIDO's national integrated programmes tackle the issue of economic, social and environmental sustainability at three levels: policy, institutional and enterprise (mainly for demonstration purposes). The following main areas are covered:

(1) Promoting Competitive Industrial Policy-Making: There is an urgent need to identify new competitiveness strategies for surviving globalization. The aim is to identify competitive niches through the formulation of competitiveness policies and capability building measures to ensure that national authorities can pursue the requisite strategies on an ongoing basis.

(2) Entrepreneurship Development and SME Support Systems: National industrial development programmes focus on strengthening the capabilities of national support institutions, such as for training, research and technology, to facilitate the progression of micro and small-scale enterprises into medium enterprises, thus creating the foundations of a stronger private sector, especially in agro-industries and – where viable - in rural areas.

(3) FDI Flows and Technology Upgrading: The combined effect of capital flight, decreasing rates of external aid, low FDI rates and domestic savings is limiting resources for domestic investment. National integrated programmes concentrate on improving the enabling environment, updating the legal framework corporate governance principles, facilitating technology transfer and upgrading technology skills, knowledge, information and innovation for enhanced competitiveness.

(4) Standardization, Quality Management: Because LDCs industrial development strategies have long been managed by the public sector, a quality culture does not exist among their private sector, with the general awareness of quality and quality management concepts in both private and public sectors unsatisfactorily low. Poor standardization systems have an impact on export development, where international quality standards must be met to penetrate industrial country markets. National integrated industrial development programmes are designed to tackle capacity building and institutional problems.

(5) Regional Integration: In order to expand markets for micro, medium and small enterprises, there is an urgent need to develop an intra-regional market as a first step to satisfying the product-related conditions for global competition. In this respect, in close collaboration with l'Union Economique et Monétaire Ouest Africaine (UEMOA) countries, their heads of state adopted a common industrial policy, in December 1999. In addition and, as a consequence of the inter-dependence between countries, efforts are

being made to harmonize quality standards and norms in Southern African Development Cooperation (SADC) and East and West African countries.

(6) Cleaner Production Techniques, Energy Efficiency and Pollution Reduction:

National integrated programmes aim primarily at promoting cleaner production, waste minimization and pollution control techniques at enterprise level. Support to improve the regulatory capacities of public institutions is also provided to improve skill levels and regulatory mechanisms, selecting private-sector friendly strategies. Concern about high levels of transactions costs, including telecommunications, transport and general utilities, coupled with rising levels of greenhouse gas emissions and ozone-depleting substances, require the introduction of energy efficiency as an integral part of national integrated programmes. Studies are being conducted on the possibilities of utilizing renewable sources of energy in African LDCs, including solar and wind energy as well as plant-based fuels.

VI. Points for discussion

The marginalization of countries and communities is a pressing issue, which should be tackled sooner rather than later. There are no easy solutions. But if the international community does not deal with this issue and make a serious effort to reverse the marginalization resulting from globalization, it would undermine the popular support for the globalization process not only in developing countries but also in the rest of the world.

- While it is evident that industry has a strong role to play in development as such, it is also apparent that industrial development has a great potential to produce equitable and sustainable development within and between countries. But how can UNIDO demonstrate that industrialization is at the heart of solutions to fighting marginalization?
- The LDCs have been increasingly bypassed in the globalization process and have faced several constraints in gaining market access, which is a precondition to get integrated in the global economy. Are the international rules of the game fair to the LDCs? Were the preconditions at the Uruguay Round too unequal? How could this be changed?
- How can we build national and local industrial strategies, policies and institutions that involve closer dialogue across sectors? How can UNIDO encourage stronger links between industrial, trade and investment policies to create popular ownership and support?
- What can UNIDO do to empower the LDCs, the losers of globalization, to integrate into the global economy and reap the benefits of globalization? What can the LDCs do themselves?
- How can UNIDO help securing that vulnerable groups within countries benefit from productivity gains and globalization? How can UNIDO create opportunities for the marginalized to enter global markets? (technology upgrading; training/skills enhancement; capacity building; resource management)

- Will productivity gains *per se* actually benefit ordinary people and the poor? Or will these gains have to be followed up by extensive measures because only specific strategies with particular focus on equitable income distribution will make gains reach the greater part of the population?

Structure and performance of world industry, selected indicators 1980-2000												
Economic grouping	Distribution of world MVA ^{a/} (Per cent)		Distribution of MVA among developing countries (Per cent)		Share of MVA in GDP (Per cent)		MVA per capita (Dollars)		Average annual growth (Per cent)			
	1980	2000 ^{b/}	1980	2000 ^{b/}	1980	2000 ^{b/}	1980	1999 ^{b/}	MVA		GDP	
	1980	2000 ^{b/}	1980	2000 ^{b/}	1980	2000 ^{b/}	1980	1999 ^{b/}	1980-1990	1990-1999	1980-1990	1990-1999
World	100.0	100.0	-	-	22.7	22.2			3.2	2.6	3.0	2.5
Developed market economies	77.9	72.7	-	-	22.8	21.4	3,704	4,912	2.8	2.2	2.9	2.3
Transition economies	7.7	3.5	-	-	29.7	27.6	797	877	2.5	-5.9	2.1	-4.8
Developing countries	14.4	23.8	100.0	100.0	19.8	24.6	-	-	5.1	6.5	3.8	4.8
- Sub-Saharan Africa	-	-	2.6	1.5	9.8	9.5	43	39	3.7	1.1	2.5	2.6
- North Africa	-	-	3.5	2.6	12.1	14.6	171	213	4.7	2.8	2.5	2.7
- Latin America & Caribbean	-	-	46.6	22.9	24.4	21.1	695	636	1.3	3.0	1.7	3.3
- South & East Asia	-	-	19.0	29.5	16.2	23.7	80	216	8.7	6.8	5.5	5.5
- China ^{c/}	-	-	16.3	36.2	31.7	37.6	88	387	9.5	11.3	9.3	8.9
- West Asia & Europe	-	-	12.0	7.3	13.5	16.9	557	553	4.0	2.5	1.8	2.0

^{a/} At constant 1990 prices.

^{b/} Projected figures

^{c/} Including Hong Kong SAR and Taiwan Province of China, but excluding Macau due to lack of data

Source: UNIDO estimates based on data provided by various national and international sources