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Fighting marginalization through sustainable industrial development: Challenges and opportunities in a globalizing world

Theme paper submitted by the Secretariat

Abstract

Although greater integration through cross-border flows of goods, services and factors may yield higher global efficiency, many countries are at risk of missing its potential benefits entirely. For a variety of reasons, the business sector is the most exposed to the challenges of globalization; it is also the cornerstone of any successful integration strategy. Yet what are the specific challenges faced by firms in developing countries when attempting to enter the global marketplace? And how can these challenges be turned into opportunities for effective integration? These are some of the issues this paper sets out to address. It highlights the complexity and urgency of the challenges faced by developing countries and the need for proactive responses, which will become even more urgent in the coming years as the economic aftershocks of recent events reverberate through the world.

Introduction

1. As part of a continuous effort to stimulate a substantive discussion on the evolving role of UNIDO and its contribution towards the achievement of international development objectives, the Industrial Development Forum will be held under the theme *Fighting marginalization through sustainable industrial development: Challenges and opportunities in a globalizing world*.

2. Previous global forum events organized by UNIDO have highlighted the need to address the missing links in the current international development agenda and have emphasized, in broad terms, the complementary measures that need to be taken. While the continued importance of industry for furthering socio-economic development, particularly in this era of increasing economic integration and liberalization, has

been argued in past events, the present development reality requires us to move on and examine more carefully how industry can serve as a dynamic force in bringing about a process of sustainable development. Thus, the Forum is intended to explore ways through which UNIDO can assist countries in gradually integrating into the world economy and thus maximize its contribution to reversing the process of marginalization.

3. While there is broad agreement that the economic reform programmes initiated by developing countries and economies in transition have done much to connect countries to international trade and investment flows, it is at the same time acknowledged that these programmes have been insufficient to translate this progress into sustainable productivity growth. As a result, widespread public support for economic reform

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has been waning, particularly in those countries that have failed to link up effectively with the international economic system and reap the benefits of liberalization. UNIDO has for some time now pointed to the need to update the international development agenda and make globalization a win-win proposition for all countries. The Organization has argued that, along with the urgent need to address present imbalances in the trade and financial rules of the multilateral system, the inadequate flows of information, skills and knowledge to and within developing countries also need to be dealt with. Thus, new measures are required to provide dynamic private enterprises in developing countries with access to the information, technology, skills and knowledge that they require to connect them with the global economy.

4. The task of updating the development agenda in such a way that it enables the international community to address the key dimensions of development (economic growth, productivity, social equity, poverty reduction and environmental protection) is a major undertaking. As such, it can only be conceived as a joint effort of all multilateral institutions, including UNIDO, which has a very significant role to play in this effort. Along with other international organizations, UNIDO needs to continue exploring the best ways of assisting Governments and the private sector to cooperate in fostering the mobilization of national as well as external resources for economic and social development.

5. Industry can make a particularly important contribution to growth and to the rise of incomes and the reduction of poverty in the developing world because:

- It is the main engine for improving the economic structure of developing countries from sectors with low growth and low productivity to those with high productivity and a growth potential;
- It is the most effective user and carrier of technology to the economy;
- It creates skills, knowledge, entrepreneurship and innovation;
- It promotes social mobility, is an important source of employment and generator of incomes, and acts as a powerful magnet for attracting external resources for development.

6. In most developing countries industry has historically had to depend to a large extent on local factors and capabilities. A rapidly globalizing world, however, relies in ever-larger measure on internationally mobile—and, at times, volatile—resources. Particularly in the case of the least developed countries, development strategies have to cope with new

challenges stemming from the difficulties to attract and retain these resources and to combine them with upgraded domestic resources.

7. The international community has adopted a set of norms and conventions that are meant to speed up globalization and, at the same time, address some of its risks. This has often resulted in the setting of higher standards, which, if not addressed properly, might aggravate trends towards the marginalization of the stragglers in the globalization process. However, firms in developing countries are often able to adopt proactive strategies that allow them to transform challenges in such areas as environment and quality into opportunities.

**Panel I. Economic and social development:
How best can industry contribute to
fighting poverty?**

8. A substantial reduction of poverty throughout the world, which is now regarded as the overarching goal of international cooperation for development, is attainable only with sufficiently high rates of economic growth in the developing countries. Given what we know about the growth process, manufacturing industry has an important role to play in bringing about such growth. What remains to be examined in detail, however, are the ways in which industrial growth in the developing world is to be fostered, given the aforementioned central goal and present circumstances. Regarding the goal, the quality—and not just the rate—of growth also matters. The pattern of growth needs to be well suited for a significant reduction of poverty and inequality. The required growth and development need to be realized under conditions of a rapid and multifaceted integration of the global economy. This will be further complicated in the coming years by the economic aftermath of the recent international events.

9. Globalization is characterized primarily by steadily intensifying flows of goods, services, resources, knowledge and information. While these flows potentially span the globe, participation in them is in no way guaranteed in the same measure to all economies around the world. On the contrary, significant forces of agglomeration forces seem to be at work, which appear to be largely beyond the scope of policy and are concentrating the benefits of globalization in some parts of the globe whilst leaving others marginalized. The development objective is largely aimed at counteracting such adverse trends.

10. Opportunities to connect with and benefit from the various forms of international flows depend in large measure on local conditions, including resource endowments and policy orientation. Local conditions—including those related to trends in social development and capacity-building—are being transformed rapidly

due to the impact of globalization and the international flows associated with it. In sum, the objective of a substantial reduction of poverty worldwide calls for deliberate efforts to connect economies to international flows and to ensure positive outcomes of the interaction between such flows and local factors.

11. The topics chosen for discussion in Panel I are best seen in the context of what is currently known about the nature and the sources of economic growth. A central piece of this knowledge is the link between poverty reduction and growth as mediated by productivity—since it is productivity gains that allow better living standards. But how is growth associated with productivity gains in developing countries? And which is the main force behind growth: factor—in particular, physical capital—accumulation, sector- and plant-specific efficiency gains, or shifts to higher-productivity activities? Of course, growth draws on advances along all three of these avenues. But their respective contributions may vary according to time and place and, in particular, according to the local circumstances of industrial development.

Technology

12. Current methods of measuring productivity change usually draw a dividing line between the influence of quantity and quality of factors of production and sizeable “unexplained” elements. With regard to the latter, productivity increases are perceived as technological progress as a key source, which in turn is strongly influenced by institutions and the incentive framework.

13. In the context of developing country growth, the basic distinction needs to be made between access to new technology through various channels on the one hand and its adoption, adaptation and efficient use on the other. The processes of adapting the relevant best practices, technology diffusion and improving technical efficiency, as well as the associated learning processes, figure prominently.

14. While in comparisons of growth performance across countries the dimensions of innovation and efficiency are pertinent, for developing countries the discussion usually centres on diffusion and efficiency and on efforts that are essential to them. Policy decisions need to be informed by knowledge about which of these efforts are most cost-effective under given local conditions. As a general feature, such decisions will involve combining measures that facilitate access to international flows of technology with those that support the complex processes behind its adoption, adaptation and efficient utilization.

15. While the diffusion and efficient utilization of technology thus represent a critical determinant of

growth and development, the empirical record shows that the rate at which this has occurred has varied sharply from country to country. Even in the current era of globalization, which has undoubtedly facilitated and accelerated the spread and adoption of technology throughout the world, many less developed countries have been bypassed by this process. Proactive efforts to promote the spread of modern technology to the relatively disadvantaged countries, and its effective absorption by them, are therefore called for. These efforts include the establishment of specialized programmes to encourage technology diffusion, as well as technology foresight initiatives for the continuous assessment and monitoring of technology development and application in developing countries. In addition, these countries should also be given increased access to such advanced technologies as information and communications technology and biotechnology, which will play an important role in supporting economic development in years to come.

Investment and trade

16. Technological development in the developing world crucially depends on international flows of technical knowledge—as it does on costly domestic technological effort. With respect to growth and economic development at large, an argument of similar strength and plausibility applies to the role of international flows of goods and capital. These flows are assuming added and increasing importance also as channels for the transfer of new technology. All three types of international flows—knowledge, capital and goods—are expected to make important contributions to increased productivity and hence to growth.

17. Among investment flows, foreign direct investment deserves special attention as it represents one of the most effective ways for countries to access foreign resources, particularly technology, managerial expertise and skills. Viewed in a development perspective, the main problem with these flows lies in their high concentration among countries, both by source and destination. Low-income countries, in particular, seem to be increasingly marginalized also with respect to international investment activity. Areas for corrective policies include labour skills, technological capabilities, infrastructure and various kinds of transaction costs.

18. Trade in goods is one of the various channels through which technology can be transferred between countries. From this derives an argument for why openness and the resultant rise in the volume of trade are likely to make a significant contribution to growth. Another plausible argument for a positive trade-growth link has to do with the learning- and growth-enhancing effects of a drive towards exports. Exposure to increased competition in international markets usually

leads to improvements in the performance of exporting firms or industries.

19. Addressing the role and quality of openness in fostering competitiveness helps to sharpen the focus on these two key aspects of trade without creating frictions between them. Rather, only by combining appropriate international market access and domestic efforts to enable firms to succeed in these markets can the desired growth-enhancing effects be realized. This is particularly true for manufacturing, where increasing competitiveness has to be conceived as a broad and complex goal, which, also for this reason, attracts much attention on the part of analysts and policy makers.

**Panel II. Global norms and local manufacturing:
Challenges and opportunities**

20. The stabilization and adjustment programmes of the early 1980s were predicated on the expectation that greater exposure to international flows of goods, services and factors would trigger faster domestic growth. At the same time, however, there was an increased awareness of the potentially adverse consequences of economic liberalization: faced with stronger competitive pressures, a firm would be faced with the dilemma of either undertaking risky investments to upgrade its product lines and process technologies or shifting towards more commodity-like, lower value-added, products—if it was to stay in business at all. Concurrently, the increasing application of international norms and conventions on quality and environment would leave it with an ever-narrowing scope to compete on low quality, low wages and environmental depredation. While these norms and standards were almost invariably introduced with the intention of promoting positive outcomes, such as public safety and health, environmental protection and economic stability, they also restrained the capacity of developing countries to take the low value-added path to global integration.

21. These trends are facets of the same phenomenon. They underline the uphill struggle faced by policy makers in developing countries in their endeavours to stimulate the mobilization of domestic resources, along with the integration of their economies into international investment, technology and trade flows. This Panel will therefore concentrate on the role of international norms, and assess their impact on the growth of manufacturing industry in developing countries: did they, in effect, further marginalize developing countries, or did they, on the contrary, help them join the mainstream of global integration? Much of the answer depends on how firms in developing countries have managed their integration process into regional and global markets, and how they have coped with associated international norms. Empirical evidence reveals a continuum of responses from a strictly passive compliance to international

norms, which are then perceived as a constraint, to the proactive adoption of a strategic stance to take advantage these new rules of the game.

Environment

22. Global cooperation for the preservation of the environment has been encouraged and supported by various means and forums. These range from international conventions—such as those on climate change to support sustainable energy options; biodiversity to ensure the conservation of species; and the Montreal Protocol to phase out ozone depleting substances (ODS)—to the demonstration effect of cleaner production centres where upgraded production processes and energy efficiency measures are shown to satisfy environmental and economic concerns. In this respect, the current ratification of the Stockholm Convention on Persistent Organic Pollutants (POPs) opens both challenges and opportunities for firms in developing countries to support the international sustainable development agenda, which clearly calls for a close relationship between productivity, competitiveness and environmental compliance.

23. Indeed, implementation of the international environmental conventions could radically alter the payoff structure of firms in developing countries: those that do not take timely steps to comply with the binding regulations will see their markets shrink considerably; manufacturing processes and technologies will need to be upgraded; competition and best practice patterns will evolve in ways that are a priori difficult to fathom, let alone foresee. On the other hand, as for any such international protocol based on the recognition that the planet is a common heritage, significant resources and technology will need to be made available by industrialized countries to ease the adjustment in the developing world. Building partnerships and strengthening cooperation will be key to the successful implementation of various international protocols to preserve the global environment.

Quality

24. Quality is regarded by manufacturing firms as a strategic variable, along with price and customer service, and made into a specific marketing argument. It becomes a particular attribute of a manufactured good that, together with other features, determines the price of the product on a given market. This suggests the existence of a trade-off between price and quality: higher quality would command a higher price, or appeal to a different market. There is, in other words, no compelling requirement for developing countries to produce manufactures of the highest possible quality, although minimum standards are required, particularly in the food and pharmaceutical industries, where low standards easily translate into health hazards. But there

are certainly solid economic reasons for them to move up the quality ladder in manufacturing output, as it expands market horizons and allows them to improve their terms of trade.

25. As in the case of environmental standards, the responses of firms in developing countries to the technical regulations and standards imposed in external markets can be erratic or systematic. The erratic reaction merely aims to ensure that particular products and underlying manufacturing processes satisfy international norms. It often causes firms in developing countries to suffer a temporary squeeze of their profit margins because their investment in the advanced equipment and higher skills needed to meet the new standards does not yield a return in the short term, but only generates dividends once the firm has successfully penetrated new markets. By contrast, a systematic approach involving the introduction of advanced quality management techniques enhances the ability of firms in developing countries to conform to ever-more stringent standards, and to achieve more rapid and environmentally sustainable productivity increases. In addition, it yields immediate social benefits, for instance in areas where low quality can turn into a health hazard.

26. The adoption of such a systematic stance towards international quality standards and market requirements by firms in developing countries is predicated upon their having access to appropriate facilities in the areas of

standards, metrology, testing, conformity assessment, quality and productivity. This requires the developing countries concerned to establish and maintain significant institutional capacities in these fields, which in turn require considerable investments in both physical and human capital. These investments, which in many cases will only be possible with external support, could thus play a critical role in enabling developing countries to benefit from the opportunities of integration into global value chains offered by the process of globalization, rather than being marginalized by it.

Conclusion

27. This paper has attempted to show that it is possible, and indeed essential, to ensure that the globalization process and the concomitant development of international standards become an effective instrument for poverty reduction and for uplifting the economic and social standing of the most deprived sectors of society. It has also sought to show that industrial development can make an important contribution in this connection. In particular, this objective can be achieved through two distinct approaches: Firstly, through efforts to broaden the range of the international resource flows that enhance the value of domestic resources; and, secondly, through a systematic response to the increasing number of international norms in order to turn the challenges they pose into opportunities.

