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Annual report of the Director General for 2013**UNIDO Forum on Strategies and Instruments for
Inclusive and Sustainable Industrial Development,
23 and 24 June 2014****Summary submitted by the Secretariat**

1. Ministers of Economy, Energy, Industry, Investment, Foreign Affairs, Environment and Trade, as well as high-level government representatives from around 70 countries across the world, convened in Vienna at the invitation of the Director General of UNIDO for the first of two global forums on inclusive and sustainable industrial development. The first global forum engaged in a strategic dialogue drawing on international expertise and regional knowledge with UNIDO Member States, development agencies, and other developed and developing countries on (i) how to formulate inclusive and sustainable industrial development strategies and policies and (ii) how to operationalize these strategies through business infrastructure and the particular instrument of industrial parks according to international best practices and country-specific conditions. Attendees were assisted in their deliberations by panels of experts from the private sector, international organisations, academia, international financial institutions and civil society.
2. The participants engaged in rich discussions focusing on how to advance inclusive and sustainable industrial development (ISID), UNIDO's new mandate endorsed by Member States through the adoption of the Lima Declaration, in the era of intensified globalization and interdependences.
3. The global financial and economic crisis has forced researchers and policy makers to confront the reality that market forces alone generally do not necessarily lead to a proper allocation of resources and may create various negative externalities and under provision of public goods. For example, financial stability, food security, social and economic inclusion, and safeguarding the environment through the

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diffusion and absorption of new environmental technologies are often not provided adequately through market forces and need policies to correct these failures.

4. The panellists noted that the countries with ambitious development strategies, goals and policies tend to be more successful in addressing these various market failures. Industrial policy, which is intertwined with virtually every aspect of economic policy, including the sectoral allocation of resources and the choices of technology within any given sector, can be used to overcome various market failures and to stimulate development and upgrading of industries.

5. Several interventions from Member States emphasized the role of traditional industrial policy including trade and industrial development based on natural resource endowments such as low skill labour and material resources, as well as non-traditional policies such as macroeconomic policy, exchange rate policies, competition, entrepreneurship, financial markets, land outsourcing, and governance, material and energy efficiency; income distribution, small and medium enterprises (SMEs) and job creation. SME policies are especially important as SMEs are flexible, innovative, create jobs and contribute considerably to the gross domestic product (GDP) of many countries, including developed countries. Furthermore, participants noted that the implementation of strategies and policies is often weak due to limited resources and capacity of governments.

6. The panels referred to the issues of targeting industries of particular importance through various policy instruments and the question of the government's role in the allocation of resources. A common criticism against industrial policy targeting is that governments can never be as effective as the market forces for resource allocation. Most targeted industrial policies of the past also failed because they were too ambitious, without taking into consideration national comparative advantages, and were not backed up by sufficient government budget. Policy support for improving the overall business environment is in general preferred. From the recent experience of some countries in Central Asia we can also learn that medium-term plans focusing on the horizontal support did not produce much effect in terms of industrial diversification and upgrading, and that prioritizing and supporting certain key sectors to promote economic growth is also called for. Following factors must be taken into consideration when developing an industrial policy and prioritizing sectors to support.

7. While extraction industries may generate high income, their dominance in industrial structure may make countries vulnerable to the volatility of commodity prices. History also shows that excessive reliance on raw natural resources (inherited wealth) is never a prudent development strategy. The agricultural sector may contribute more to low skill labour but is in general characterized by decreasing returns due to the factors of production limits, while industry is characterized with increasing returns. For successful sustainable industrialization, governments must provide education and training to enhance rural out-migrants' ability to adapt to the new working environment and requirements of the modern industrial sector that is pursuing inclusiveness and sustainability.

8. The participants also learned that highly effective industrial development agencies are operating around the world, even in countries where the general level of government administration is weak. These well-functioning agencies share common characteristics: (1) the government elite is committed to industrial

upgrading and technological advancement; (2) the head of the industrial development agency has weak kinship ties to the elite and is appointed according to competences; (3) the agency is autonomous, and; (4) the autonomy of the agency is ensured through strong support from the president or prime minister, allowing for the appointment of staff committed to the agency's mission.

9. The Republic of Korea's experience shows that strong political leadership combined with collective actions and policies and regulatory on land reform paved the way for rapid industrialization. Malaysia used both horizontal and vertical policies and engaged business, the government and civil society to ensure collective policy buy-in. Malaysia also developed performance indicators to monitor the results of policies in order to see if targets were being achieved. The policy measures and the speed of their implementation have also been tailored to the national context and regional disparities. In the current economic setting of regional integration and globalization of industry and trade, creating a good business environment for industrial development requires a level playing field that encourages growth, risk-taking, and innovation and that provides opportunities for new entry is crucial.

10. The panellists underlined the need for coherence among different national development policies and plans, as well as for inclusive and participatory processes when formulating industrial policies. Such processes should not be solely market and policy driven but should engage a wide group of stakeholders including civil society, academia, business and others. Performance indicators are an integral part of any successful industrial policy and indispensable to assess and monitor progress. UNIDO was called upon to create tools to assess national industrial policies and identify weakness and possible drawbacks.

11. The panellists emphasized that industry-specific interventions must also confront various trade-offs, especially in the context of developing countries. Identification of new industries and prioritization of government's limited resources, and more broadly, society's limited resources, to facilitate the development of those industries is crucial for successful growth strategies. Industrial and technology policies to promote restructuring, particularly in the poorest countries, must be backed up a pool of restructuring funds that governments can draw on that are not short-term and do not have a commercial rate of return.

12. The panellists recommended that modern collective actions through public private partnerships can create institutional innovations to deal with various types of externalities and public goods provision, such as hard and soft infrastructure, knowledge and information sharing, and resource coordination issues. Individual firms cannot perform this role. Institutional innovations of collective actions are also necessary to control particular stakeholders' interests in designing policy, hidden and open subsidies, free riding, and rules and regulations that favour special interests usually at the expense of others.

13. The panellists noted that strong industry based on promoting green industries, technologies, innovation and entrepreneurship, is needed for inclusive and sustainable economic and industrial growth, and as a response to current development challenges. Industrial development and economic growth cannot be at the expense of the environment and should be avoided. It is very expensive to

industrialize without consideration for environment and climate change and then to clean up later.

14. The panellists elaborated on the forum's focus on industrial parks, as instruments of inclusive and sustainable industrial policy-making that cut across different development strategies, such as on science and technology, innovation, job creation, education, and regional development. In particular, parks can serve as bridges between academia and industry, boosting scientific and technological advancement and enabling researchers and scientists to meet international standards. In addition, parks can be used as a testing ground for new reforms, policies and approaches to improve the business environment, as demonstrated in many East Asian countries. When these countries had limited resources, industrial parks helped solve business infrastructure problems in a particular geographical area and were used to overcome barriers to firm entry, attract foreign direct investment (FDI), and encourage local industrial clusters of SMEs to grow.

15. The forum heard successful examples of industrial parks in different countries at various levels of development. A key factor contributing to the success of parks is their ability to bring large numbers of SMEs together and facilitate connections between the research and business worlds. Industrial parks offer proximity, which is important to create linkages between researchers and business. Industrial parks offer three principal advantages of proximity, infrastructure and access to finance. The panellists agreed that industrial parks should not be an end in themselves but a point of departure with spill-over effects in other areas and potentially the whole economy.

16. The panellists noted common challenges that countries face regarding industrial parks, including the problem of linking to global value chains, the lack of financing, technological gaps, weak or inappropriate infrastructure and management issues, of being too ambitious with establishing industrial parks without consideration for environmental concerns and industrial diversification issues.

17. The forum was informed that UNIDO is receiving increasing demand from Member States for its technical cooperation services related to industrial parks. UNIDO provides services in diverse areas related to business infrastructure and technical upgrading, and future forums will showcase the organisation's range of services. The first forum's discussions will directly feed into the deliberations of the second forum, planned from 20 to 21 October 2014, focusing on strategic partnerships for pursuing inclusive and sustainable industrial development (ISID).

18. The panellist noted that although significant economic progress has been achieved since the Second World War, transition of low-income countries (LICs) and middle-income countries (MICs) to high-income country status has been relatively slow. The vast majority of developing countries are trapped in LIC or MIC status and the lion's share of United Nations and UNIDO Member States are MICs. UNIDO was called to address the issues of how to foster ISID in MICs and identify the relevant policy instruments and programmes at the regional level, especially in Europe and Central Asia where most countries are MICs. Furthermore, participants recommended that, in addition to the global approach, UNIDO should also provide a focus on pursuing ISID from a regional perspective and organize similar conferences at the regional level.

19. Participants agreed that the high number of ministers and large amount of high officials attending the forum confirmed the importance of this event. The participants commended the relevance and timeliness of the forum and UNIDO's unique convening role and encouraged UNIDO to continue with this kind of activities. They expressed strong interest and willingness to participate in UNIDO's second global forum in October.
