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**Conference on “Innovation as a Vehicle for
Industrial Restructuring”**

Geneva, Switzerland, 24 April 2003

REPORT ON THE CONFERENCE

The following document represents the outcome of the Conference on “Innovation as a Vehicle for Industrial Restructuring” held in Palais des Nations, Geneva, Switzerland, on 24 April 2002.

Introduction

1. The Conference assembled representatives of governments, private companies, labour unions and academia from 11 UNECE member countries. Representatives of the United Nations Industrial Development Organization, United Nations Conference on Trade and Development, and European Bank for Reconstruction and Development also attended.

2. In her opening remarks, Ms. Larissa Kapitsa, Director, Coordinating Unit for Operational Activities of UNECE, highlighted the role of innovation as a means for sustainable restructuring of industry and the economy as a whole in both developed market and transition economies. She drew the attention of those present to the fact that quite a number of countries in the east of Europe had a largely under-utilized potential for research and innovation. This potential is embodied in scientists, developers and engineers who combine deep theoretical knowledge with vast practical experience. Often potentially commercially successful inventions and innovations cannot be brought to the market because of the lack of start up financial resources and insufficient experience of commercialization. The exchange of experience of enterprises and research institutions on this

subject would help enterprises-innovators to regain competitiveness and thus contribute to the employment creation in transition economies.

Summary of discussion

3. The Conference discussed several groups of issues, relating to the role of new emerging sectors and industries in restructuring ailing enterprises, the use of new technologies as a means of enhancing competitiveness of companies and the scope for new business models developing as a result of globalization of production and distribution. In particular, it addressed the opportunities offered to enterprises by new economic sectors, in particular high-technology manufacturing, producer and consumer services, and emerging knowledge-based economy. Conditions for the commercialization of the available technological stock, enabling environment for innovation and high-tech SMEs, as well as the potential for restructuring created by globalization and international industrial cooperation were also discussed.

4. The Conference examined the statistical data provided by the secretariat and noted that over the last 10 – 12 years there was no universal trend toward slower growth of industry (as compared with GDP) in transition economies. At the same time, this trend was characteristic of a number of more advanced transition economies. In this context, the participants exchanged views on the issue of structural changes and their impact on growth and employment in this group of countries. It was noted that in most economies of eastern Europe and CIS neither high-technology sub-sectors nor services had not yet become new “engines of growth” replacing in this capacity energy-consuming and polluting heavy industries inherited from central planning.

5. The participants discussed the situation in the manufacturing sector of transition economies belonging to the CIS and agreed that the high value-added industries had suffered considerably from the transitional slump and enhanced foreign competition, so that a number of indigenous machine-building branches had ceased to exist (for example electronics in Ukraine). At present, the Research and Development and the commercialization of new technologies in those sectors is inhibited by overall economic instability and unclear market prospects, distorted technological links (within the CIS), the lack of own funds, unclear legal status and insufficient protection of intellectual property rights, and the lack of appropriate managerial skills.

6. The Conference agreed that one of the major challenge was to integrate the emerging “isles” of modern technologies, for example in the area of telecommunication and information technologies, into the existing production tissue mostly inherited from the past. The efficient business models favouring such integration are yet to be designed.

7. The participants expressed varying views regarding the ways and means of restoring the technological capacity of transition economies. On the one hand, speakers emphasized the need to revive the innovative potential of large enterprises and the efficiency of their research affiliates, which used to be the major source of innovative solutions in the past and which had dwindled as a result of privatization. On the other hand, it was argued that the future of innovation in transition economies was largely determined by small dynamic high-tech enterprises. To foster their development, Government in those countries could emulate effective elements of SME policies in developed market economies. In particular, fiscal and financial instruments to encourage high-tech companies could be used. At the same time, it was emphasized that the risk of creating market distortions was inherent in

the direct Government assistance to small enterprises. To avoid those, benefits to recipients of Government support should be linked to performance and cost accounting, while programmes should operate in an open and transparent way.

8. Various speakers mentioned barriers to efficient international technology transfer which included the lack of information on modern technologies available abroad, inadequate institutional infrastructure and human skills, regulatory constraints, academic research disconnected from the needs of industry and low efficiency of Government support. It was stressed at the same time, that successful implementation of foreign technology strongly depended on companies themselves. In particular, the choice of technology and equipment to be imported should be done by experienced experts, so that the enterprise could afford maintaining the imported equipment during its pay off period. When the marketing perspectives are well investigated, the use of advanced technologies from abroad by companies in transition countries does not necessarily involve the loss of jobs. Consequently, the efforts of international organizations active in industrial restructuring area are focused on assisting countries in the assessment of their technological needs, capacity building in commercialization of technology and development of sustainable mechanisms of technological change.

9. The participants of the Conference agreed that the discussion of the issues addressed by the Conference should be continued. They also recommended that the UNECE secretariat consider making the materials of the Conference available to the ECE governments and public at large.

10. The outcome of this Conference will be reported to the UN/ECE Committee for Trade, Industry and Enterprise Development at its seventh session in May 2003.