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United Nations Industrial Development Organization

GENERAL CONFERENCE

Eighth session

SUMMARY RECORD OF THE 5th MEETING

Held at the Austria Center Vienna,
on Wednesday, 1 December 1999, at 9.30 a.m.

President: Mr. UMER (Pakistan)

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V.00-50544 (E)

The meeting was called to order at 9.40 a.m.

CREDENTIALS OF REPRESENTATIVES TO THE CONFERENCE *(continued)*

Appointment of the Credentials Committee (*continued*)

1. **The PRESIDENT** said that since Trinidad and Tobago, a member of the Credentials Committee, was not participating in the eighth session of the Conference, the Latin American and Caribbean Group had proposed that Brazil should replace it. If he heard no objection, he would take it that that proposal was adopted.

2. *It was so decided*.

3. **The PRESIDENT** said that since Togo, another member of the Credentials Committee, was not so far represented at the Conference, he was requesting the African Group to find a replacement as soon as possible.

ORGANIZATION OF THE WORK OF THE CONFERENCE

4. **The PRESIDENT** said that, in the absence of a candidate from the States in list D of Annex I to the Constitution for the office of Chairman of the Main Committee, the Western European and Others Group (list B) had agreed to nominate a candidate for that function. It was proposed that Ms. H. Hernes (Norway) should be appointed Chairman of the Main Committee.

5. *It was so decided.*

FORUM ON INDUSTRIAL DEVELOPMENT (*continued*) (GC.8/22; GC.8/FORUM/WP.1, WP.5)

Panel 4. **The UNIDO Partnership Programme—a new approach to promoting small and medium enterprises** (GC.8/FORUM/WP.5)

6. **The PRESIDENT** said that Panel 4 would consider the experience gained and impact achieved in the UNIDO Partnership Programme as applied for the first time in the automotive component industry in India. It would offer an opportunity to discuss the growing cooperation and partnership between UNIDO, transnational corporations and civil society organizations.

7. **Mr. LUETKENHORST** (Director, Private Sector Development Branch, UNIDO), acting as Moderator of the Panel, said that, after the more general discussion of the previous Panels, the Forum would now consider the UNIDO Partnership Programme, which translated some of the concepts previously discussed into practice. The Partnership Programme sought to move away from the traditional donor/recipient bipolarity and develop a broader multidimensional approach to supporting capacity-building for small and medium-sized enterprises (SMEs), involving major players in the business world with an interest in strengthening their supply chains. It brought together partners from different domains which all too often in the past had been neatly separated: government, international and domestic industry, civil society, research and development. Since the strong emergence of non-governmental actors was one of the most debated trends in the theory of international organization and development, the Panel was addressing a highly topical issue. That trend reflected a growing perception of a mutuality of interests. In a way, the private sector had recently been discovered as a partner by the United Nations system, just as many private companies had recognized the value of working with the United Nations. Their roles were clearly different. Stated simply, the United Nations was more geared towards providing the “soft infrastructure” of international development (analyses, policy advice, norms and standards, technical cooperation programmes) while the private sector contributed primarily wealth-generating technologies, resources, markets, capital and productive employment. Joint United Nations/business declarations and activities had become a growth market in themselves, though not always with tangible results. It was only natural that UNIDO, with its industrial development mandate, should take the lead with concrete activities on the ground with carefully identified partners.

8. The case under review was both country-specific and sector-specific. The automotive component industry in India was part of a producer-driven global supply chain. The Panel would consider the challenges facing the sector, the Programme’s response and the tangible impact achieved, bearing in mind that the Partnership Programme had been born only one year earlier. From the very beginning, every effort had been made to ensure that the impact of the Programme on participating companies was monitored and measured as a source of lessons for the future.

9. Effective partnership had three defining characteristics: joint objectives; a collaborative relationship towards achieving those objectives, with clearly delineated roles for each partner; and shared responsibility and accountability. In addition, there appeared to be three preconditions: to consider the partnership as an instrument, not an end in itself; to ensure that the benefits outweighed the cost; and to ensure that the resulting value added was equitably shared among all the partners. It was his firm belief that the UNIDO Partnership Programme would meet all those criteria.

10. Turning to the promotion of small and medium enterprises, he noted that an intense debate was going on in the development community about best practices and lessons learned. Not all the experience of the past had been positive and a new sobriety was gaining ground in

assessing the widespread failures. Some of the best practices, identified for instance by the Donor Committee for Small Enterprise Development, were: working with groups of SMEs to ensure joint learning and experience sharing for industry as a whole, and cost-effectiveness for development agencies; insisting on at least partial cost recovery for services provided; directly involving the private sector as a provider of services; and designing a framework and identifying indicators for sound performance and impact measurement. The Partnership Programme had embraced all those principles. At the same time, it was realized that working with multidisciplinary partners with wide-ranging agendas was a challenging undertaking. Nevertheless, the rewards were immense.

11. The important thing was to share the same objectives. UNIDO believed that the creation of small and medium-sized businesses was the most effective way to spread genuine wealth. With its partners, it was responding to the needs of SMEs in a quickly globalizing market with a programme that was technically sound, economically viable, institutionally sustainable and replicable in different countries and sectors. It was a model that would help developing countries to add value to their resources, and to diversify and deepen their industrial structure. He added that UNIDO had just reached a framework agreement with Monsanto, a leading life science company, to implement a similar programme with the Russian Federation in the food processing industry.

12. While industry mattered for industrial growth, the structure of industry was significant in determining the potential for high growth. He agreed with Mr. Schmitz (Panel 2) that it was one of UNIDO's main tasks to test new role models for technical cooperation—indeed, it was a key task of international development agencies and multilateral organizations to launch catalytic projects which could induce broader social learning.

13. **The PRESIDENT** said that he would now give the floor to the first keynote speaker, Mr. Ajit Kumar, Secretary of the Department of Industrial Policy and Promotion of the Ministry of Industry of India.

14. **Mr. KUMAR** (Ministry of Industry, India) said that the most remarkable change resulting from rapid globalization was the integration of world markets which, it was agreed, could lead to a more humane and efficient economic order. At the same time, however, there was a growing realization that the process could lead to crises such as some emerging economies had experienced. In order to meet those challenges, cooperation between the developed and developing countries had to be durable and based on complementarity and commonality. The socio-economic concerns surrounding the process of globalization and economic reforms should be addressed urgently and effectively, and each country should chart its own course based on its own real concerns and priorities. In the cross-border movement of technology and capital inherent in globalization, the gains of the developing world must be commensurate with their—mainly natural and human—resources. The shift of manufacturing bases for environmental and pollution reasons was worrying. Equity demanded that the transfer of capital and technology to the emerging economies should be driven not only by the need for cheap and abundant labour, but by a desire to create viable and sustainable production and fair access to international markets.

15. A sizeable proportion of capital movements took place among the developed countries themselves. Global arrangements should encourage industrial production in predominantly agricultural areas so that the share of industry and services in the gross domestic product (GDP) gradually increased in the developing countries.

16. In India, a radical and sustained change in economic policy had taken place in 1991 with a concerted move towards decontrol, liberalization and globalization. Despite global turmoil, India's economic performance had remained steady over the previous eight years thanks to strong macroeconomic fundamentals, monetary discipline, deregulation and de-licensing in industry and trade, a liberal policy on foreign direct investment (FDI) and portfolio investment, a pragmatic approach to capital convertibility and firm control of short-term external borrowing. FDI inflows had not been commensurate with the size of the Indian economy. An analysis of the reasons might be a relevant input to the formulation of innovative strategies by UNIDO in establishing its role as a catalyst and promoter.

17. Reverting to Panel 4 and the specific UNIDO project in the Indian automotive component sector, he said that the Indian motor vehicle industry was the country's twelfth largest industry, contributing 4.4 per cent to GDP and employing half a million people directly and about ten million indirectly. It had significant forward linkages and a large multiplier effect. The combined turnover of the industry was estimated at US$10 billion. There were hardly any major international players that were not already present in India in the motor vehicle sector and many of them were also entering the automotive component industry. The latter, with its wide base and large number of players, required better technology, quality, productivity and marketing, which was where the UNIDO Partnership Programme was playing a crucial role.

18. Launched in November 1998, the innovative partnership programme set out to identify the problem areas in the automotive component supply sector generally, with a view to helping Indian SMEs with a firm linkage to the subcontracting networks of multinational corporations (MNCs) to participate in the global economy. The first phase of the programme had covered the Pune-Mumbai belt of western India. Twenty enterprises were

currently covered by the programme and some had already found exposure to international opportunities at the recent Equip Auto in Paris. Total outlay on the project was US$ 300,000, with the Government of India providing US$ 100,000 from its special-purpose contribution to the Industrial Development Fund. UNIDO, Fiat and others were also contributing.

19. The overall impact assessment of the programme by the participating companies had been very positive. They had reported substantial improvements in productivity. He was confident that, once successfully implemented, the programme could be replicated in other sectors in India and elsewhere.

20. The UNIDO initiative thus addressed the concerns of globalization, namely need-based technology transfer and skills transfer, while providing access to global markets through the participation of multinational companies and effectively building up supply chains. UNIDO's initiative addressed one of the foremost requirements of the developing world in the process of globalization—namely, that they should become equal partners within a system based on mutual benefit and complementarity.

21. However, there were some clouds on the horizon. The unfolding World Trade Organization (WTO) regime would have far-reaching implications for industry as a whole and the automotive sector in particular: increased competition from imports; elimination of localization policies; conformity with bound tariff rates; uniform treatment of imported and domestic products; and the policy of reserving production of certain items for small-scale industries.

22. The policy response of the developing countries should therefore be to enhance the competitiveness of companies, especially SMEs, by providing an appropriate policy environment and facilitating access to international markets. Initiatives would be needed at national level, as well as under the aegis of multilateral organizations, mainly within the United Nations system, such as UNIDO. It was therefore opportune that the partnership programme had been initiated in collaboration with the Government of India, Fiat, the Automotive Component Manufacturers' Association (ACMA), the Automotive Research Association of India (ARAI), the European Institute for Management (INSEAD) and the Prince of Wales Business Leaders Forum.

23. UNIDO's role in developing the new partnership programme was crucial in bringing together the various players able to help domestic SMEs improve their capabilities and integrate into the international supply chain on the basis of their commercial strength rather than the current policy requirement in India of domestic content. UNIDO's initiative had created for it a position of unbiased intermediary and ensured that concerns about the commercial objectives of international firms in the partnership did not cloud the development issues. That role might prove particularly important in similar initiatives in the future. In the Indian context, multinational companies might have been persuaded to participate, *inter alia*, by the Government's policy requirement for increased domestic content. However, once the success of the experiment had been established, it should be possible to replicate it without the policy compulsion, which would in any case soon be rendered WTO-incompatible.

24. Lastly, he emphasized the need to appraise the project's sustainability not only during implementation, but also six months to one year after its completion. The task of appraisal could be assigned to an independent agency, thus lending greater credibility to UNIDO's efforts, both in the public eye and among donors.

25. The Government of India expected commercial orders to be placed with the participating companies by Fiat as a clear indication of the success of the project. In the absence of such orders or any commercial gain, those companies might not be interested in similar projects in the future.

26. **The PRESIDENT** said that he would now give the floor to the second keynote speaker, Mr. Mauro Pasquero.

27. **Mr. PASQUERO** (Senior Vice-President, International Affairs, Fiat) said that Fiat was a diversified automotive group engaged in manufacturing activities and services. In 1998, the net sales of the automotive operations had reached 42.5 billion euros and global group turnover 42.8 billion euros. Growth in the mature European markets was expected to be weak from 1999 to 2003. The average yearly growth rate for cars and tractors was expected to decline and for trucks to remain stable. The situation in North America was similar, where market growth for cars, trucks and tractors was expected to be negative in the same period. Consequently, the company had been obliged to expand into emerging markets.

28. The globalization process was carried out at two different speeds according to whether a country had priority or not. In priority countries, where "core businesses" were present, globalization was carried out rapidly. In other countries some sectors seized specific opportunities to develop their own businesses. In priority countries Fiat had a direct industrial presence, high local content, development integrated with components and advanced technology. In others it had a direct or indirect industrial presence, a commercial presence, local content consistent with industrial strategy, development as a function of business opportunities and process/product as a consequence of the industrial presence and the local market.

29. Three criteria had been drawn up for selecting priority countries. Firstly, consideration was given to

countries in which "core businesses" could operate in an environment with a high development potential including an economic growth potential, a present or potential motorization level, an acceptable political and economic country risk and a competitive environment. The second consideration was whether or not countries were members of a free trade zone, and the third factor was a favourable industrial policy. The following countries were priority countries for Fiat: Argentina, Brazil, India, China, Poland, Turkey and Russia. Their development potential for the period 1999-2003 was expected to be high, ranging from 2.3 per cent to 7.3 per cent.

30. The world map of Fiat group globalization showed that it covered a very large part of the world.

31. Magneti Marelli, a member of the Fiat group, made component parts including dashboard instruments, electronic fuel injection systems, alternators and starters, air conditioning systems, fuel supply systems, headlights and foglights, rear-view mirrors and exhaust systems, and was one of the leading producers in Europe. It hoped that its future total sales would be one third each for Italy, the rest of Europe and the rest of the world. Its industrial operations outside Western Europe were in the United States, Mexico, Argentina, Brazil, Turkey, India, China, Poland and South Africa, where it hoped to develop its presence.

32. The Fiat group had signed the UNIDO agreement to help improve the Indian capacity to produce components and was very pleased with the results. It hoped for the sustainable development of the entire Indian automotive sector through technological upgrading, the introduction of international standards and enforcement of macroeconomic policies which should provide the basis for building up a sector capable of achieving industrial competitiveness.

33. **The PRESIDENT** said that the various panellists would now be given the floor.

34. **Mr. DAVIES** (Chief Executive of the Prince of Wales Business Leaders Forum) said that, with globalization advancing so rapidly, it was critical to show that business could operate in an economically sustainable way for shareholders and meet the needs of the countries concerned, and to convince a sceptical public that business could serve social development and human development and react sensitively to development needs. His organization was in fact trying to build an awareness of the fact that the social dimension of business must go hand in hand with its economic aspects. It worked in the field in many different countries to build up the capacity for partnership, and had been working with international organizations for some time. There was a growing recognition of the importance of standards, including standards in relation to environmental practices and human rights. It was also critical to build an awareness of the fact that private/public partnerships could begin to make a real difference to the world.

35. The first phase of the programme under discussion had been an undoubted success and it was to be hoped that it could be further developed. It could be seen that distinct improvements had been made in companies.

36. Experience with partnerships showed that a number of success factors had to be addressed. Awareness must be developed of what could be achieved through partnership, and of how mainstream business practices had great potential for human resource and economic development. Companies could increase their investment in training, which would undoubtedly have spin-off effects and build capacity skills for the future. The impact on development at the country level would also be considerable. Such business practices were not a subsidiary factor to promote development but were at the heart of development, and the private sector could become the motor for development if linked to international programmes. Since partnership was an unfamiliar approach, its benefits needed to be made clear. It was critical that partnership skills were built into assistance. Intermediaries or brokers, individuals or institutions needed to be found to broker such partnerships in the field. In that connection, he hoped that UNIDO would consider building the concept of partnership into staff policy as a core competence. A new mindset would be required to tackle economic development and poverty in the next century. In a world in which traditional authority was being challenged, it was critical that business, international agencies, civil society institutions and others developed leadership skills and values that demonstrated the value of partnership and showed that development objectives and the alleviation of poverty could be addressed through responsible enterprise development.

37. **Mr. MUNOT** (Past-President of the Automotive Component Manufacturers Association of India) said that ACMA was a non-profit-making organization representing some 385 companies which accounted for more than 85 per cent of total automotive component production in India and provided direct employment for more than 250,000 people. It was actively involved in the development of industry and represented on a number of Government committees in which it helped to formulate national automotive policies.

38. The automotive component industry in India had a turnover of US$ 3 billion, investments of US$ 2 billion and exports of US$ 350 million. Exports were mainly to the United States of America and Europe, which accounted for over 50 per cent of India's exports of automotive components. The Indian component industry had always operated in a protected environment which had led to some stagnation in the automotive industry. The only major advance had been made in the 1980s when Japanese vehicle manufacturers had set up joint ventures

in India whose development had led to India achieving 90 per cent localization levels for the Japanese vehicles. There had been no further infusion of technology until the 1990s. The current phase of liberalization and development had brought an unprecedented set of challenges for the industry. Technology levels were still significantly below those of the developed countries, and Indian industry needed to develop extremely rapidly to become a globally competitive and sustainable industry of international standards, especially since the creation of WTO had accelerated the process of trade liberalization. Indian industry should also be restructured into a tiered system very rapidly to avoid damage to industry and to employment levels in SMEs.

39. It was against that background that the partnership programme had been set up in January 1999. Its objective was to strengthen the manufacturing processes of firms and to improve their productivity through shop-floor intervention by international experts to enable them to become suppliers to global manufacturers or large companies. ACMA considered that to be the most practical approach, its belief being based on the success of a similar project undertaken in the United Kingdom. Up to the present, four internationally acclaimed technical experts had each put in ten workdays for each participating company. The results measured by UNIDO and the feedback from the companies involved showed that most of the companies had made very visible and significant improvements in their shop-floor productivity and in quality, some achieving an increase of up to 60 per cent in productivity by reorganizing and streamlining the manufacturing process. Many had also improved their financial management. Some small industries had demonstrated that they could completely transform the workplace and support services, but the greatest achievement noted had been the motivation which the programme had provided to the entire workforce. Indeed, the drift of employees from such small companies to larger companies had almost come to a halt and every employee in the small companies was proud of its achievements. The successful implementation of the demonstration phase of the project in the west of India had also shown that the approach was sustainable and could be effectively replicated anywhere in the world.

40. ACMA hoped that new groups of companies would be selected for a nationwide project in the future. It wished to involve some of the larger industries in India in it so that they could emerge as true global suppliers with the support of an innovative project like the partnership programme. It was confident that the programme could go a long way towards developing the automotive industry and welcomed the opportunity provided to India.

41. **Mr. OGALE** (Assistant Director, Automotive Research Association of India) said that ARAI was a cooperative industrial research body founded in 1996 by automotive and component manufacturers and the Ministry of Industry. It provided a wide range of services to vehicle and automotive component manufacturers. ARAI helped a large number of leading multinational corporations to meet their indigenization plans with respect to components. It also assisted SMEs and multinational corporations in the field of export homologation, for which it had a series of memoranda of understanding with internationally acclaimed certification bodies, and standards harmonization.

42. In the component sector, it was particularly active in providing qualification tests to manufacturers of body panels, plastic components, brake system elements, suspension aggregates, engine components, material property evaluations and seats and restraint system components.

43. ARAI would continue to work as a nodal agency for research and development, product improvement, testing and homologation of automotive component systems and subsystems in India, but wished to enter new fields of research to cater better to the needs of domestic and foreign companies operating in the industry. When UNIDO had approached it a year earlier, it had immediately agreed to play an active role in the partnership programme. It had first indicated to UNIDO that its requirements were for the modernization and expansion of its facilities and equipment, and training for technical staff on advanced engineering, testing, calibration and certification services so as to be able in the near future to help enterprises to obtain quality certification on a range of automotive components. India was soon to introduce a mandatory quality certification scheme for safety-related automotive components which would be monitored by ARAI. Manufacturers would then have to approach ARAI at the product development stage for quality assurance and type approval of their components.

44. However, the focus of the first phase of the programme was on enhancing the performance of Indian SMEs by transforming them into global competitive suppliers. The support provided by ARAI to the programme and the twenty selected enterprises consisted of the association of ARAI executives with UNIDO experts during their shop-floor work with a view to providing technical inputs in the areas of testing, calibration, homologation and validation, information on relevant regulations, quality tests on samples manufactured by participating companies and access to technical and administrative facilities.

45. The programme had given ARAI the opportunity to make its services directly known to the managerial and technical staff of the participating companies and to allow its own staff to interact directly with the enterprise managers and workers during the shop-floor work. ARAI believed its involvement in the programme had been a most rewarding experience and a unique opportunity to

learn about day-to-day production and the quality challenges encountered by enterprises. With UNIDO's cooperation, it wished to explore further opportunities to forge partnerships with specialized European control and research laboratories with a view to addressing the product-specific institutional capacity building requirements of ARAI.

46. **Mr. BROUQUIL** (International Business Development Director, Magneti Marelli) said that his company was one of the world's leading suppliers of car parts, with an annual turnover of US$ 4.2 billion and a staff of 29,500 persons in 52 factories around the world. When it opened factories at new locations, Magneti Marelli must count on local resources. That could pose problems in threshold countries with a closed industrial structure and protective customs barriers. Magneti Marelli had experimented with various solutions in establishing factories in Poland, Turkey, South America, China and, most recently, India. Its partnership with UNIDO was a new approach in its search for new ways of investing in countries with emerging economies.

47. After less than one year of experience with the programme, a number of benefits had emerged. The programme had helped Magneti Marelli understand India's institutions and existing industrial framework, identify local suppliers and market needs and have an idea of local cost structures. The goal was to achieve a sustainable culture of excellence which would provide Magneti Marelli with the suppliers needed to produce modern and competitive vehicles. Heightening the awareness of the authorities of administrative and fiscal problems would play a major role in that regard.

48. The programme presented a number of advantages for his company, which would be able to deal with industrial structures more rapidly, have quicker access to local industry, obtain the support of partners and involve other multinational corporations.

49. The programme had made it possible for his company to familiarize itself more easily with the industrial environment, identify available resources and ensure the necessary networking.

50. A number of elements guaranteed programme sustainability. First of all, there was the social aspect, i.e. the staff motivation: it was worth noting that, in certain cases, absenteeism had fallen by as much as 25 to 30 per cent. Concerning the utilization of international standards, the aim had been to achieve consistency between local and export customers. The point of compliance with existing regulations, including in the area of environment protection and industrial property rights, was that it improved overall quality. The objective of creating or expanding ties with local and international institutions had been to overcome isolation. Lastly, the purpose of reviewing the tax system had been to provide for coherence between the company's competitiveness and structure.

51. In conclusion, efforts should not be confined to production, but must be broadened to include the entire value chain. That would be the overall goal during the coming stages.

52. **Mr. BHATTACHARYA** (European Institute for Management (INSEAD)) said that INSEAD had initially been created as a European institution for management on the model of the business schools in the United States of America. Since its creation in 1959, the Institute had grown to become a leading international business school.

53. INSEAD had joined the partnership programme for several reasons. A number of its traditional research projects dealt with issues involving the private sector. The programme gave INSEAD the opportunity to work with UNIDO and other participating organizations on a project to be implemented across an industrial sector, which thus would have greater impact. INSEAD was always interested in developing new teaching material, and the project promised to provide a new and instructive environment for implementing research results on supply chain management.

54. In the course of the programme, INSEAD had had the opportunity to produce teaching material for participating firms and visit them together with industry experts. It was currently preparing three case studies to summarize its experiences, identify areas needing improvement at company, sector and industry level and pinpoint the best practices for suppliers in developing countries who planned to work with multinational firms, which, as the studies had shown, had much to learn from working with local suppliers and investing in their technical upgrading.

55. The partnership programme had yielded a number of immediate positive effects. Its long-term results would still need to be analysed. One of the challenges for the programme was to highlight the need for continuous improvement in successful long-term operations. Long-term changes would bring enduring advantages in a highly competitive environment.

56. It was to be hoped that the project would make it possible to develop a blueprint for similar projects in the future.

57. **Mr. LUETKENHORST** (Director, Private Sector Development Branch, UNIDO) said that he would like to formulate a few issues for possible debate. Was UNIDO's programme on the right track, and should it be pursued in other countries and sectors? What mechanism could be used so that UNIDO could establish a dialogue with new partners, especially in the business community? With

regard to sustainability, how could technical and institutional capacity be built up to ensure that when UNIDO and other external partners withdrew, the programme could carry on and be taken over by domestic institutions?

58. **The PRESIDENT** said that he would now open the floor for discussion.

59. **Mr. ČENGIĆ** (Bosnia and Herzegovina) said that, in spite of the fact that his country had been part of the so-called socialist State economy of the former Yugoslavia, its economy and industry had been progressing significantly prior to the war. Most of its exports had been industrial products, services and technology. During the war, its infrastructure and industrial capacity had been destroyed. The country now had to rebuild its infrastructure, introduce economic reforms, privatize banks and enterprises, restructure institutions and rebuild its governing capacity, a complex process which could not take place without international assistance.

60. Cooperation between Bosnia and Herzegovina and UNIDO on the development of regional business centres had yielded excellent results; it was to be hoped that UNIDO would continue to help devise new industrial development programmes. In that connection, his country had begun preparing, in conjunction with UNIDO, an international industrial partnership programme to speed up the reconstruction process and assist the ongoing transition to a modern market economy.

61. The programme's main objectives were to support the industrial development of Bosnia and Herzegovina, provide advisory services, strengthen the country's economy and link it with the global market through investment promotion and technology transfer, support the SME sector, assist entrepreneurs in starting up or expanding their businesses in technology transfer, marketing and promotion of cooperation with foreign partners, and foster, in cooperation with the country's Investment Promotion Agency, an international industrial partnership to facilitate investment and technology transfer.

62. **Ms. KALLINA** (Russian Federation) said that the issue of small and medium enterprises was very topical for her country. According to available statistics, on 1 July 1999 there had been more than 890,000 SMEs, employing more than 8 million people and producing goods and services worth more than 184 billion roubles. For the most part, small enterprises in Russia were engaged in trade, retail activities and light industry. Much had already been done to support those activities. A federal programme had been elaborated to promote small businesses by raising the quality and the effectiveness of public support. A number of priority measures had been taken, but problems remained: the absence of a stable legislative framework for competitive business, continuing administrative barriers, difficulties in ensuring financing and resources, and the weak infrastructure for supporting investment. It was to be hoped that, through cooperation with international organizations like UNIDO, Russia would be able to achieve results and develop new approaches to assisting SMEs. Russia was prepared to share its experience in that area.

63. **Mr. WRIGHT** (United Kingdom) said that UNIDO and its partners were to be congratulated on the Programme. A number of speakers had referred to what might be called the impact chain. The programme in India was perhaps only touching the first level of SMEs, whereas there were many levels of smaller and smaller companies. He urged UNIDO to explore how to enhance the impact chain and maximize programme spin-off for such enterprises.

64. **Mr. KONISHI** (Team Leader, UNIDO Partnership Programme), referring to the question of spin-off, said that, in the selection process for the demonstration phase, UNIDO had intentionally picked companies of varying size. For those chosen, one of the selection criteria had been that, after taking part in the programme, they would be ready to play a showcase role within their industry, so that the local community could see that such programmes could have an impact with very little capital investment.

65. Increases in sales were of course an indication of success. Some of the companies assisted under the programme had been able to increase their sales significantly.

66. As far as the foreign market was concerned, UNIDO had chosen the seven best performers out of the 20 that had participated in a recent activity in Paris with the support of the Investment Promotion and Technology Office there. The Organization had been able to meet with a wide range of foreign companies and, as a result, each of the seven companies had had at least four supply and sourcing negotiations which were being supported by the Paris office. Three joint venture discussions had been initiated for those companies. A major international furniture manufacturer had also expressed interest in sourcing from a company that made plastic components.

67. **Mr. KUMAR** (Ministry of Industry, India) expressed his satisfaction that companies included in the programme had received orders and increased their turnover. He hoped that the programme would be replicated in India among other component manufacturers so as to foster real growth in the sector.

68. **Mr. DAVIES** (Chief Executive of the Prince of Wales Business Leaders Forum), replying to the point raised by the representative of the United Kingdom, said that thought should be given to incorporating into the process ways for big, medium and small enterprises to assist the development of enterprises at the micro level. In

India, for example, the subcontracting of activities such as gardening, child care and the cleaning of overalls had encouraged micro-businesses. Small and medium enterprises could also make available their information technology skills, telecommunications facilities and training programmes, etc., to help micro-businesses to start up. That sort of thing, however, would not happen naturally: ideas along those lines would need to be fed into the next model.

69. **Mr. MARUNO** (Managing Director, Investment Promotion and Institutional Capacity-Building Division, UNIDO), speaking on behalf of the Director-General, said that the Partnership Programme provided an important example of UNIDO's new approach. He stressed, firstly, the importance of a public-private partnership: the public sector was by nature impatient and the private sector always wanted "red carpet" treatment, not "red tape" treatment. UNIDO, with its new-found efficiency, could do much to encourage that partnership. Secondly, the problems of the automotive industry in India related to many issues, including investment, transfer of technology, quality control, management, etc., which made it highly suitable for UNIDO's integrated approach.

VIDEO MESSAGE BY MR. ATEF EBEID, PRIME MINISTER OF EGYPT

70. In a video message, **Mr. EBEID**, Prime Minister of Egypt, said that globalization was becoming a reality and emphasized the need for all countries to join forces to build a better, more competitive and more efficient world. The world of tomorrow should enjoy higher rates of growth, sustainable development and a fairer distribution of income. To achieve such a goal, all countries would have to strive harder and cooperate. Countries in the developing world realized that the future would require different values and different forms of behaviours. They would have to put more resources into human resource development and research. Secondly, they would have to cooperate with the developed world, which was eager for growth and prosperity. Thirdly, they must strengthen their relations with international organizations, especially UNIDO. The development of their industrial sector depended on modernization, which in turn depended on know-how. Close ties with UNIDO would contribute to the modernization of developing societies. However, the Organization needed to be strengthened and for that purpose countries should support its initiatives and increase its resources to enable all to benefit from its diversified services. He concluded by offering his best wishes for a successful session.

FORUM ON INDUSTRIAL DEVELOPMENT (*continued*)

Panel 5. Integration, agglomeration and interaction in world industry—drawing some lessons

71. **The PRESIDENT** said that the purpose of Panel 5 was to highlight major points of the preceding discussions, identify additional links between the various issues and draw some lessons for future work on sustainable industrial development.

72. **Mr. MAGARIÑOS** (Director-General) said that the Forum had been an ambitious exercise but had proved worthwhile. There had been many changes over the last twenty-five years as production systems adapted themselves to the process of international economic integration. The Forum represented an attempt to reintroduce substantive issues relating to industry and industrial development into the discussions of the General Conference.

73. Panel 1 had considered the participation of the private sector and new approaches to industrial development, and had helped to answer a number of questions in the minds of academics and business people, many of whom saw industry as losing its traditional role as the engine of growth. By using two different approaches, the new economic geography and the "new growth theory", and drawing lessons from neoclassical theory, it had sought to clarify the role and potential of industry within the framework of the new international economic system.

74. It was clear that new forces such as spatial agglomeration were influencing industrial development between and within countries, and it was also clear that the agglomeration process was posing problems that could be solved by the mobilization of information, knowledge, technology and skills in order to reconnect the peoples of the world with the globalization process. One of the main ideas that had emerged from Panel 1 was that all countries were being confronted with the process of agglomeration. All over the world industrial development was bringing into play new partners from developing countries, whose share of manufacturing value added was increasing, but the process was advancing in waves rather than smoothly. Some countries were entering the process of industrial production and creating opportunities for neighbouring countries, but success depended on the mobilization of information to bring countries closer to potential supplier networks. If countries in South America, Asia or Africa

wished to participate in supplier networks in Europe or the United States of America, they could not change their geography but they could change the way they were connected to those networks through the flow of information in the process of production.

75. Panel 1 had established that it was no longer possible to think in terms of industrial policies confined within national boundaries: policy makers must have the political courage to acknowledge that, in an interconnected world, new mechanisms were needed to promote industry. The mobilization of information, skills, technology and knowledge required more modern tools. Traditional interventionist approaches would no longer work. One example of a new tool was the "foresight" mechanism that was shortly to be launched, with the Latin American region serving as a test case.

76. Panel 1 had also provided an encouraging and policy-relevant answer to the question of the impact of foreign direct investment on the transfer of technology. Technology did indeed spill over to domestic firms through foreign direct investment, particularly as a result of domestic skill formation and upgrading. Formation of skills in the industrial labour force had a direct impact on productivity, and that was the way to improve people's living conditions. More generally, Panel 1 had shown that, at the international level, technological change and the rising demand for skilled labour went hand in hand. They were complementary. That was due to the overwhelming dominance of developed countries, whose production of new technology lowered the demand for unskilled labour in industrial production throughout the world. There were two main policy consequences: firstly, since developed countries were the main source of new technology, which was skill-biased, developing countries needed to upgrade skills in order to absorb technology; secondly, the problems faced by unskilled workers in the developed countries were mainly "home-made", a consequence of technological change rather than of import competition from developing countries.

77. Panel 1 had hinted at some major results of evidence-based economic analysis: industry was the best source of increasing returns to scale, and necessary for growth. But the attraction and promotion of industry needed special measures, including measures to help countries overcome the forces of adverse comparative advantage and of industrial agglomeration in core countries, together with the promotion and establishment of what could be called "soft" infrastructure, to help developing countries cope with the information flows necessary to join international supplier networks, and measures to support the build-up of agglomerative forces in the developing countries themselves. Other important areas were technology and its transfer, foreign capital flows and the build-up of a domestic skill base. Nor should the interaction among those factors be forgotten.

78. Since agglomeration derived in part from the immobility of information, whatever eased the flow of information not only counteracted agglomeration and also favoured the spread of industry. Logically, therefore, UNIDO must promote the dissemination of information and the establishment of "soft" infrastructure.

79. Panel 2 had focused on how globalization affected the process of upgrading and innovation that developing and transition economies needed to master in order to achieve sustainable growth. Globalization offered opportunities in the form of expanded markets, greater access to information, capital and knowledge, and more scope for networking, but it also brought dangers arising from market volatility and possible marginalization owing to the agglomerative nature of industry discussed in Panel 1. The issue for developing and transition economies was whether to take the low growth path of increased industrial activity without accompanying income growth or the high sustainable growth path involving an upgrading of their activities. Clearly, the latter option was preferable.

80. Panel 2 had found that entrepreneurship development was the key to technological and skill upgrading, especially in countries at the earliest stages of development. As entrepreneurial skills improved, FDI promotion policies would become more effective, creating export platforms and supply-chain integration, especially in medium-sized, medium-income countries. In that context, good governance might not be sufficient but lack of good governance—including transparency, the rule of law and adequate framework conditions—would frustrate efforts to attract FDI.

81. From a policy perspective, the conceptual framework considered by Panel 2 linked the "reach" of developing country industrialization to the size of the economy. Only large economies could have a "global" reach. Medium-sized economies could establish regional production platforms and integrate local suppliers into global production systems, while poor and small economies should aim at an industrial base catering to domestic needs. All would have to develop policies to endogenize certain key exogenous drivers, appropriate to their objectives and framework conditions.

82. He stressed the importance of the analysis carried out by Panel 2. The key issue was to see how international organizations and national institutions could help build up a stronger private sector able to develop new enterprises that would enable developing economies to cope with the challenges of globalization.

83. The deliberations of Panel 2 had suggested a number of points relevant for UNIDO's agenda. They included: the advantages to be gained from a clustering of small and medium enterprises (SMEs) at the local level; opportunities, risks and trade-offs involved in establishing

links with global producer-driven or buyer-driven value chains; policy options entailed in pursuing the “high road” as opposed to a “low road” to integration with global networks; strategies to couple integration into global markets with local and regional development; and possible synergies between private-sector-driven responses to global competition and government-led action.

84. As UNIDO was trying to develop a practical programme to find ways of dealing with the challenges posed by the factors analysed by Panels 1 and 2, he would now move directly to Panel 4. Panel 4 had presented a concrete new approach to technical cooperation. The UNIDO Partnership Programme was a pioneering effort, testing the validity of a new approach to technical cooperation. It was based on a multidimensional partnership including actors from government and civil society, from international and domestic industry, and from research institutions. It was very gratifying to work with private sector institutions and civil society organizations in such an attempt to break new ground. It was difficult to imagine how technical cooperation could continue in the long run without being linked with the actions of the private sector, non-profit organizations and multinational companies all over the world. Links needed to be established with private sector investment to ensure that the knowledge being transferred to developing countries and the information mobilized would be able to stay there. For instance, if the SMEs in India could not supply parts to a company like Fiat, not all the information it was mobilizing there would remain.

85. Panel 3 had proved very useful. In the plans for the Forum, the environmental issue had originally not been included, but in the end it had been decided to include the environment to bring out its importance in relation to industrial development. Was the environment a burden or an opportunity? The answer was that it was both. Panel 3 had suggested a “regulatory ladder” approach to minimize the burden rather than adding still more regulations. The Panel had also suggested that the world was moving towards “governing without governments” and a “hollowing out of the State”. Those points would require further exploration in the attempt to ensure effective environmental protection. For example, the various protocols to reduce pollution or control emissions were negotiated by Governments but would have to be implemented by private enterprises and would need changes in consumer behaviour. One was facing a completely new challenge—a complex problem with many dimensions and involving many actors.

86. The potential role for UNIDO as the connecting mechanism between industry and environmental protection could include the identification of business opportunities in that field. UNIDO had brokered international cooperation between the United States of America and China and the transfer of environmentally sound technology. The Government of Ghana was creating economic conditions that would encourage industry to collect and recycle consumer-generated plastic wastes. In UNIDO’s view, a whole environmental industry needed to be developed in many parts of the world.

87. There were questions requiring further work. What new types of international cooperation were needed because environmental deterioration did not respect frontiers? What types of incentives and enabling legislation would promote a kind of international cooperation in which foreign investment would address both environmental and industrial growth issues? What was the relationship between the value of environmental public goods in developing countries and the private costs of pollution control and reduction? Such issues should be included in UNIDO’s research programme.

88. In general, the Forum had shown that the forces of industrial agglomeration were tending to increase inequalities in economic development, both between and within countries. It had also shown that competition was increasingly driven by factors such as product quality, delivery speed, design, etc. The integration of developing countries, especially SMEs, into global production networks and value chains required continuous skill upgrading and the build-up of national innovation systems. Improving the performance and competitiveness of SMEs might be the best long-term means of reducing poverty. The integration of the developing countries into the world economy was no longer a matter of debate, but the actual terms under which that integration took place could be influenced.

89. Such ideas should be well received by the international community, in that they stressed the need for developing countries to pursue economic reforms. In his statement at the first meeting of the session, he had stressed the need for “first-generation” reforms related to macroeconomic systems and “second-generation” reforms with the emphasis on institutions. The time had come, after 50 years of discussion on ways of achieving economic growth, to consider how to connect the populations of developing and other countries to the process of globalization. The very recent events during the World Trade Organization meeting in Seattle had brought out the importance of responding to that need, which represented a new challenge for coming years. The problems of the future could not be resolved with the tools of the past. One of the lessons of the Forum had been the need to develop new tools. That was precisely what UNIDO had been trying to do over the previous two years of transformation, a process aimed at enabling the Organization to produce public goods able to help reconnect the populations of developing countries with the globalization process. That process was potentially beneficial but the problems it raised for countries needed to be assessed.

90. It was important to try to increase interaction between Member States and the Secretariat, and among Member States themselves. Perhaps exercises similar to the present Forum could be organized on an annual basis, and also on a regional basis. Forums of the same nature had been organized in Asia, South Africa and the Arab world during 1999.

91. He concluded by thanking the staff at UNIDO who had worked very hard on top of their normal activities to prepare the Forum. In spite of the difficulties, he hoped that it had achieved practical results.

92. **The PRESIDENT** said that the discussion had provided an excellent point of entry into the next millennium for UNIDO and had given all participants a deeper insight into the varied facets of sustainable industrial development.

The meeting rose at 12.45 p.m.