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### Forum on industrial development issues

## Forum on industrial development issues

### Issues paper by the Secretariat

The present document provides information on the events planned as part of the forum on industrial development issues, to be held at the fifteenth session of the General Conference. Providing detailed analyses of the topics and issues to be addressed during the interactive panel discussions, this document provides participants to the General Conference with the background information necessary for an engaged and stimulating discussion.

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## I. Introduction

1. The forum on industrial development issues was introduced into the proceedings of the General Conference with the intention of providing a high-level platform for informed dialogue on the role of inclusive and sustainable industrial development in the achievement of broader social and economic development goals.
2. This year's General Conference will take place under the overarching theme "UNIDO: Towards partnerships for a new industrial revolution for inclusive and sustainable growth". A total of eight forum events are planned to take place, from Monday, 2 to Wednesday, 4 December.
3. Capitalizing on past experience, the fifteenth session of the General Conference will incorporate both the classical panel discussions and UNIDO's interregional debates into one streamlined programme. All events related to the forum on industrial development issues will be integrated within the General Conference's plenary, thus focusing the participation and spotlight on a limited number of key events.
4. The proceedings of the events of the forum on industrial development issues will provide a unique and exciting platform for an inclusive discussion and exchange of ideas and information between high-level development policy experts and leading development practitioners.
5. In light of the calibre of both the panel participants and the audience members, it is envisaged that these discussions will provide a critical catalyst for reinvigorating UNIDO's mandate and place inclusive and sustainable industrial development at the centre of the post-2015 development agenda. Furthermore, it is to be expected that these events will, through their debates and conclusions, highlight UNIDO as a key driver for sustainable and inclusive growth for all.
6. Exploring topics linked to the overall theme of the General Conference and the Lima Declaration, such as partnerships, industry as a Sustainable Development Goal, green industry, job strategies, associative models, economic diversification and women entrepreneurship, the discussions will highlight what adjustments and/or new sustainable development policies are to be considered in times of rapid change. Furthermore, they will explore what industrial level determinants are required where learning, knowledge and connectivity are the basis of value creation, in the context of scarce resources, high consumption patterns and rising populations.
7. The present document provides a detailed outline of each of the planned events, including a short analysis of the topics and issues to be explored in each.

## II. Panel 1: Partnerships for industrial development

8. The overarching theme of Panel 1 — "Partnership for industrial development" is oriented economically to transfer exchange and transactional relationships on the one hand and innovation and transformational relationships on the other hand. There are three aspects to be considered: (a) the weight of economic evidence with reference to, and the role of industrialization and industrial activity in, wealth creation — lessons from the industrialized and, in part, industrializing countries; (b) investment capacity and capability in terms of foreign direct investment (FDI)

for learning — in 2012, In-FDI stock of 82,000 multinational enterprises (MNEs) (with 810,000 subsidiaries) account for 29.2 per cent global gross domestic product (GDP); MNEs' subsidiaries' assets account for 117.3 per cent global GDP; MNEs' subsidiaries' assets sales account for 39.8 per cent global GDP, approximately 75 per cent global trade within and between MNEs; coupled with domestic investment for human capital, infrastructure and connectedness in order to attract In-FDI; and (c) innovation in industrial development for total factor productivity gains — the role of technological innovation in driving productivity changes. Economic history evidence points unambiguously to the centrality of industrial manufacturing activity and industrialization in growth and wealth creation. This is especially so in terms of the returns from increased total factor productivity and externalities from the expanded availability of welfare enhancing knowledge, products, and services in all sectors of an economy ranging from health, job creation to personal and societal consumption of goods, “bads” and services that emanate from industry. Maddison<sup>1</sup> indicates that global development is marked by increases in per capita income and GDP. From the year 1000 to 1820, per capita income increase was slow. Since 1820, world development has been more dynamic with per capita income increasing more than eightfold. However, growth has been uneven in space and time. The rise in income has been most dynamic in Western Europe, North America, Australasia and Japan. By 1820, these countries had an income level twice that in the rest of the world. By 1998, the level was 7:1. To illustrate the growing gap, between the United States of America and Africa the level is now 20:1. Divergence is predominant but not inevitable as in the last 50 years, Asian economies have demonstrated that dynamic advances are feasible. These socio-economic dynamics are founded on fundamentals which are demonstrably consistent over the very long term.

9. Since circa 1750 (first industrial revolution), the asymmetric global growth dynamic has been characterized by unprecedented accelerations in intensive economic growth driven by advances in innovation — particularly in innovations that become general purpose technologies.<sup>2</sup>

10. Three interrelated fundamentals govern these socio-economic dynamics. First, no country has become rich, in terms of intensive GDP per capita, without significant advances in industrialization and productivity. Secondly, without investment — In-FDI coupled with its domestic form of public capital — learning from others and enabling the economic environment through the connectedness provided by information and communications infrastructure as well as distribution, logistics and transportation is not possible. Thirdly, the management of scientific and technological advancement leading to innovation enables productivity increases in all human activity related to the production of goods and services. The productivity gains encompass those in labour productivity and also in capital, resources, energy productivity, and perhaps more importantly those in human capital and foreign direct investment.<sup>3</sup> The development trajectory of industrialized and

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<sup>1</sup> Angus Maddison, *The World Economy. A Millennial Perspective*, vol. 1 (Paris, OECD, 2006).

<sup>2</sup> James Manyika and others, *Disruptive Technologies: Advances that will transform life, business, and the global economy* (McKinsey Global Institute, 2013), p. 24.

<sup>3</sup> J. E. Rauch, “Productivity Gains from Geographic Concentration of Human Capital: Evidence from the Cities”, *The National Bureau of Economic Research Working Paper No. 3905* (Cambridge, Massachusetts, NBER, November 1991); C. Fons-Rosen and others, 2013,

developing countries is thus increasingly reliant on these three dynamic influences of finance, investment and trade, and innovation. The evidence is that technology dependent growth accounts for 80 per cent of the income divergence between the rich and poor countries since 1820.<sup>4</sup> A judicious combination of policies that assist to attain sustainable industrial development is therefore requisite in developing countries.

### III. Panel 2: Industrial development as a Sustainable Development Goal

#### Background

11. Since their adoption in 2000, the Millennium Development Goals (MDGs) have formed the global benchmarks for development progress. As the current goals have an overall target date of 2015, the international development community is currently considering how to advance the development agenda beyond 2015. These preparations included a series of thematic and national consultations undertaken by the United Nations system and development partners, the Rio+20-mandated Open Working Group on Sustainable Development Goals (SDGs), as well as the United Nations Secretary-General's High-Level Panel of Eminent Persons on the post-2015 Development Agenda. The outcomes of these processes have been introduced in the discussions at the United Nations General Assembly where Member States are now the main actors in negotiating and designing concrete goals, targets and indicators for the establishment of a new transformative development agenda beyond 2015.

12. While the economic, social, and environmental dimensions of development are interlinked, it has become widely acknowledged that in the absence of economic growth, progress on social inclusion and equality as well as ensuring environmental sustainability cannot be achieved. In this context, the absence of a goal on inclusive economic growth and productivity or even of any mechanism by which economic growth could be used as an enabler for achieving the MDGs has often been criticized when analysing the successes and challenges of the MDGs. Unambiguously, economic development, and in particular development of the productive sectors, is a critical driver of enduring poverty reduction. This is most prominently supported by the recent experience of countries in East and South Asia which greatly increased employment through industrialization, thereby reducing poverty at a spectacular pace. Through its emphasis on productive capacities and value-addition to primary resources, manufacturing has a transformative impact on economic structures and plays a pivotal role in encouraging technological development, productivity, innovation and trade. But beyond this, it also achieves a socio-economic impact that is reflected in the generation of employment and income, the strengthening of food security and the promotion of skills and entrepreneurship.

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“Quantifying Productivity Gains from Foreign Investment”, *The National Bureau of Economic Research Working Paper No. 18920* (Cambridge, Massachusetts, NBER, March 2013).

<sup>4</sup> D. A. Comin, Ferrer M. M., “If Technology has arrived everywhere, Why has income diverge?”, *The National Bureau of Economic Research Working Paper No. 19010* (Cambridge, Massachusetts, NBER, May 2013).

### **Aim of the panel**

13. Recent contributions to the post-2015 agenda debate<sup>5</sup> highlight the industrial imperative and its crucial link to jobs, income creation and equitable growth — all key requirements for eradicating extreme poverty by 2030. It has also been acknowledged that efforts towards increased food security, quality education, access to water and energy as well as the better management of natural resources have to be more strongly connected with productive activities so as to ensure their sustainability and contribution to improved living standards overall.

14. Taking place shortly after the theme of sustained and inclusive economic growth and industrialization has been addressed in the Open Working Group on the SDGs, this panel discussion will:

(a) Examine how industrial development, including building productive capacity, promoting value addition, boosting entrepreneurship, and fostering sustainable and efficient production, can be included as a Sustainable Development Goal;

(b) Address the types of targets and indicators that could be applied to such a goal on a global, regional or national basis;

(c) Discuss how UNIDO's expertise and services can be applied to these challenges;

(d) Elaborate on the implementation of such a Goal, including financing and partnership models.

## **IV. Interregional debate 1: Green Industry and sustainable development**

### **Background**

15. The realization of sustainable industrial development is central to resolving today's most pressing environmental challenges brought about by national and regional economic growth, underpinned by rapid industrialization, in many parts of the world. Since industrialization continues to be the main driver for income and job creation, adopting environmentally sustainable modes of industrial production is becoming ever more important. The need to counteract the adverse environmental consequences of manufacturing is given additional urgency through rapid population growth and a corresponding increase in the global demand for resources and products.

16. Thus, there is growing recognition that a new and sustainable model of economic growth is urgently required. At the centre of this new growth model is the need to decouple economic growth from increased raw material usage and negative environmental impacts — a need for “Green Industry”.

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<sup>5</sup> *Report of the High-level Panel of Eminent Persons on the Post-2015 Development Agenda* (May 2013), *Annual Report of the United Nations Economic Commission for Africa 2013* (E/ECA/COE/32/5).

## **Green Industry and sustainable development**

17. Green Industry is simply defined as industrial production that does not come at the expense of the health of natural systems or lead to adverse human health outcomes. It is aimed at mainstreaming environmental, climate and social considerations into the operations of enterprises and provides a platform for addressing global, interrelated challenges through a set of immediately actionable cross-cutting approaches and strategies that take advantage of emerging industry and market forces.

18. Green Industry is operationalized by scaling-up and mainstreaming proven methods and practices for reducing pollution and resource consumption in all sectors (“greening of existing industries”) and expanding the supply of innovative, affordable, and reliable environmental goods and services (“creating new green industries”).

### **Topics for discussion**

19. This event will focus on the concrete role of industry in the realization of more sustainable models of industrial production. By discussing current best practice as well as advanced technologies, the event will showcase the ways in which industry can take a leadership role in the adoption and promotion of green industrial policies and practices. Furthermore, by presenting country- and company-level initiatives, the event will outline what form successful public-private partnerships in the area of sustainable industrial production can take.

20. The moderated panel discussion will feature a selection of speakers drawn from government, industry and civil society to discuss the necessary changes, assess the challenges and propose concrete solutions to achieve more sustainable industrial production on a global scale.

## **V. Interregional debate 2: Job strategies for inclusive and sustainable growth (launch of the *Industrial Development Report 2013*)**

### **Background**

21. Ever since the industrial revolution, manufacturing has been the “engine of growth” in terms of output and employment. Increasing mechanization of previously manually-based economic activities, such as the production of textiles or iron making, major technological change in power generation, and growing regional and international trade facilitated by improvements in transport systems led to unprecedented, sustained long-term growth, rising incomes and improvements in the quality of available jobs.

22. Recent world developments have challenged manufacturing’s role as engine of growth. There are claims that the employment-creating impact of industry may be eroding as capital and technology increasingly substitutes for labour. Others contend that services will take over manufacturing in its role as engine of growth. In

addition, humanity is facing major global challenges in terms of environmental degradation, resource depletion, pollution, waste and climate change that suggest that jobs in manufacturing can no longer be created without taking into account their environmental costs and impact.

23. The *Industrial Development Report 2013* (IDR 2013) will examine manufacturing's role in global employment generation over recent decades and discuss whether structural change within manufacturing will continue to generate the employment opportunities it did in the past in the light of the increasing technological intensity of production processes and growing environmental constraints.

### **Topics for discussion**

24. This forum event foresees the plenary launching of the IDR 2013 and will address the following questions:

(a) What is manufacturing industry's capacity for generating employment? Is it the same in developed and developing countries? What will be the role of manufacturing-related services in employment generation?

(b) What is the role of technology, labour and other costs, education and training and the trade regime in promoting manufacturing employment and green jobs? Are greater investments in human capital a prerequisite for employability or can skills be built through jobs?

(c) What industrial policies and good practices are necessary to promote manufacturing employment without compromising the environment?

(d) Is there a role for international collective action to assist national governments in promoting industrial employment? What is UNIDO's experience in employment generation and in particular with most affected groups such as women or the youth?

25. The format of the forum event will involve a presentation of the main findings of the IDR 2013, followed by a moderated discussion.

## **VI. Interregional debate 3: From policy to action: How to make industrialization inclusive and sustainable**

26. The forum event will provide examples of national stakeholders articulation and instruments for successful implementation of policy and strategic actions.

### **Topics for discussion**

27. Developing countries are now aware of the importance on industrial policies to transform their economies. They portray their vision in strategic industrial reports that position the country in the international industrial scene and give recommendations on how to reach goals. These reports do however fall short in addressing the policy process and the institutional architecture and sequence needed



to move from policy to action. This all results in the inability of governments to move into the implementation phase of industrial policy. Absence of leadership, weak institutional capacity, lack of private sector involvement, and inexistent coordination and facilitation mechanisms lay at the heart of failing states. This forum event aims at addressing key factors to move from policy to action. It will rely on good international practices to show how successful governments have managed the industrial policy making process from design all the way to implementation. This forum event will host speakers on the following relevant themes:

(a) **Leadership and consensus building:** The importance of leadership in the policymaking process cannot be underestimated: “The success of industrial policy often depends on the presence of high-level political support”.<sup>6</sup> Indeed industrial policy needs a political champion at the very high level. The lessons emerging from the experience of the Republic of Korea will be presented at the interregional debate;

(b) **Institutional architecture, coordination and articulation for industrial policy:** Institutions play a fundamental role throughout the industrial policymaking process. They constitute the operational arms when it comes to the implementation of an action plan. But they also play an essential role in policy design, monitoring and evaluation. All in all, the institutional architecture for industrial policy remains the central pillar in the policymaking process. China represents an example of articulating national industrial actors through the National Development and Reform Commission under the Chinese State Council (NDRC);

(c) **Role of the private sector and public-private partnerships:** The private sector is clearly the main beneficiary of an industrial policy. Yet industrial policymakers often forget to involve the private sector in the policy process right at the design stage. In many occasions, however, the private sector is unresponsive or simply lacks the capacity and organizational structure to play its crucial role. Along these lines, public and private partnerships are key to better implement industrial policies commonly set out by coalition building processes. This interregional debate will present lessons from Brazil, Ireland and Turkey.

## VII. Interregional debate 4: Strengthening associative models for industrial development

### Background

28. Small and medium enterprises (SMEs) constitute the majority of the private sector in developing countries, where they generate the bulk of employment and income opportunities. Moreover, the experience of industrialized economies shows that SMEs can become important players of an innovative and dynamic economy.

29. However, due to their small size, SMEs face considerable barriers to growth. Individually, they cannot achieve economies of scale in production, have limited

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<sup>6</sup> Dani Rodrik, “Industrial policy for the twenty-first century”, Paper prepared for UNIDO, Harvard University, September 2004.

bargaining power in inputs purchase and do not command the resources required to buy specialized support services. They are unable to take advantage of market opportunities that require the delivery of large stocks of standardized products or compliance with international standards, such as with social and environmental regulations. In a changing and globalized environment SMEs find it difficult to take strategic decisions. Overall, SMEs have a limited access to productive, financial and knowledge resources compared to larger competitors and little influence in the definition of support policies and services.

30. Such constraints are reflected in the inability of SMEs to enter the formal sector or upgrade into large business units. As a result, their growth potential remains largely untapped. Through collaboration with partner firms and support institutions, SMEs can achieve scale economies in purchase, production and retail while they are jointly able to influence policymaking processes. At the same time, linkages with global partners offer SMEs access to strategic information and learning opportunities that increase their productivity and facilitate compliance with standards.

31. In this framework, the promotion of “Associative models of industrial development” through SME clustering/networking and value chain development is key to build a competitive private sector, drive innovation, contribute to poverty alleviation and facilitate market access.

### **Topics for discussion**

32. Main issues for discussion are:

(a) How to unleash the development potential of SME clusters by helping enterprises and institutions overcome isolation and take advantage of collective efficiency gains through horizontal and vertical networks;

(b) How to support SMEs entering national and global value chains, strengthening the linkages among the value chain actors thus increasing the overall chain performance and ensuring an inclusive and sustainable development process aiming at reducing poverty, facilitating market access, while preserving cultural heritage and biodiversity.

## **VIII. Interregional debate 5: Economic diversification and industrialization in countries rich in natural resources**

### **Background**

33. Despite structural transformations and progress, resource-rich economies in general and in Central Asia in particular, are still not diversifying and will find it increasingly difficult to maintain growth based on unemployed reserves of capital and labour. This region as a whole is gradually being integrated into the global economy and becoming more internationally competitive, through an increasing share of the intermediate goods trade and by using foreign intermediate goods for local production. However, these economies remain orientated towards low value-added agriculture and extractive industries such as oil, gas and metals, which makes

them vulnerable to global price shocks and variable demand. They also need to move up the value chain in order to avoid the so-called middle-income trap whereby middle-income countries become locked into a slow growth mode, failing to reach advanced country levels. As these countries move from factor endowments-based growth, they will need to rely on different levers of growth, such as innovation, research and development, and highly skilled workforces.

34. The debate on diversification and industrialization encompasses a range of issues, from the question of why countries need to diversify in the first place and how resource wealth relates to long-term growth, to how countries can manage the transition to sustainable, low carbon growth. Diversification is necessary because countries reliant on a limited range of products do less well over time. Several countries have shown that it is possible to move from resource-based to diversified economies that export a range of goods, but this is often a long term process and is dependent on several factors, including the resource base, the capacities of the population and the quality of economic management.

35. Rather than adopting and adapting methods and equipment from industrialized economies, countries can “leapfrog” to the most up-to-date technologies, resource efficient production methods and lead on innovation. Many foresee the coming of a third industrial revolution leading to the emergence of “smart” cities and “smart” manufacturing that take advantage of information and communication technology (ICT) and digital innovations. Digital manufacturing will allow things to be made in smaller numbers, more flexibly and with less labour input, thanks to new materials and completely new and flexible manufacturing processes (for instance 3D printing). When linked to energy, ICT, particularly in the development of distributive smart grids, could similarly revolutionize energy production and use, enabling countries without conventional grids to fast track development. Such grids promise to increase the supply of energy and provide an opportunity to invest in ageing infrastructure. Investment can also be used to boost innovation, jobs and green growth, increasing the reliability, security and diversification of energy sources. These effects will be felt by large manufacturers, SMEs and entrepreneurs alike.

### **Topics for discussion**

36. The event will contribute to a better understanding of which industries, technologies and policy initiatives can help drive the transition to a new industrial model in resource-rich countries. The will be structured around the following areas:

- (a) What is the situation in resource-rich countries in terms of industrial diversification, and linkages to regional and global value chains?
- (b) What are these countries doing to successfully avoid the middle-income trap?
- (c) What are the potentials in these countries to move towards a new industrial growth model and lead the way to the third industrial revolution?
- (d) How have some countries been able to implement and sustain good policies?

(e) What are the barriers to diversification and uptake of new innovative industries and technologies in these countries?

(f) What governance and policy framework is required for promoting investments in new innovative industries and technologies in these countries?

## **IX. Interregional debate 6: Empowering women: Fostering entrepreneurship**

### **Background**

37. One of the key contributions of the United Nations has been to place gender equality and women's empowerment as a priority on the global agenda. Studies have consistently reaffirmed that women, particularly women entrepreneurs, are fundamental to economic growth and sustainable development. Companies with the most women board directors and women in management positions have better financial performance than those with the least women executives. When men and women are more equal, economies tend to grow faster and the growth periods last longer. Fewer people remain in poverty and overall well-being is increased as increases in women's income tend to correlate with greater expenditure on family welfare and children.

38. Nevertheless, the reality is that the economic contributions of women are continually overlooked and undervalued resulting in a persisting gender gap where women remain an untapped source for economic growth and development. Over the last three decades, UNIDO has therefore used a variety of tools and mechanisms to support women's economic participation and empowerment. One of the key areas of attention is the development of agro-based value chains. The promotion of economic opportunities for women along competitive value chains can have considerable socio-economic impact and contribution towards gender equality. Creative industries have been emerging, providing new opportunities for women entrepreneurship. Understanding and addressing gender issues in sectors with a high potential for wealth creation, food security, or export promotion will create or expand entrepreneurial and employment opportunities for women. The development of relevant skills and networks will foster women's integration and inclusive growth.

### **Topics for discussion**

39. The event in the plenary will provide a forum to gain a better understanding of the role of women in economic development, the current challenges that need to be addressed, and potential ways forward. The event will bring together a dynamic panel of women's empowerment advocates and women entrepreneurial leaders showcasing their experiences and pathways to economic empowerment. The moderated panel discussion will be structured around the following key themes and issues:

- (a) What are the conditions for a woman entrepreneur to succeed?
- (b) What are the existing barriers to women's empowerment?

- (c) What policies are required to promote women's economic empowerment?
  - (d) What lessons can we learn to take forward goal of women empowerment in the post-2015 development agenda?
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