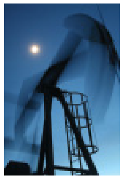
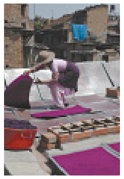


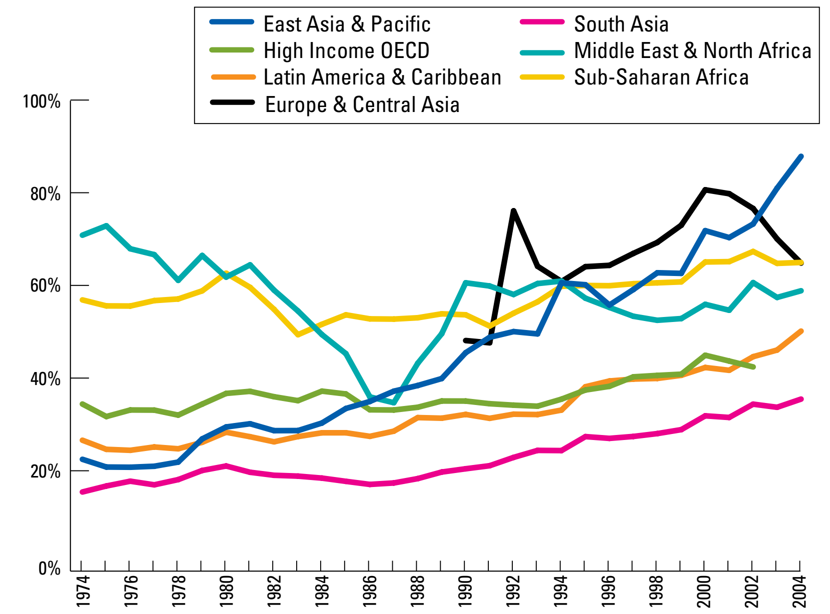



# **INDUSTRIAL** DEVELOPMENT

Sustained industrial development has been a major contributor to economic growth and poverty reduction over the past half century, notably in Asia. Industrializing countries have benefited from liberalization of markets for industrial goods, improvements in telecommunications, and reduced transportation costs. Not all countries have shared in those benefits, however: limited supplies of human capital, poor infrastructure, weak government institutions and unfavorable investment climates have been key constraints.[10]

The developed countries remain the world's largest industrial producers, but the centre of gravity has begun to shift towards the developing world.

**Trade as a Share of GDP**




Source: World Development Indicators Online Database.

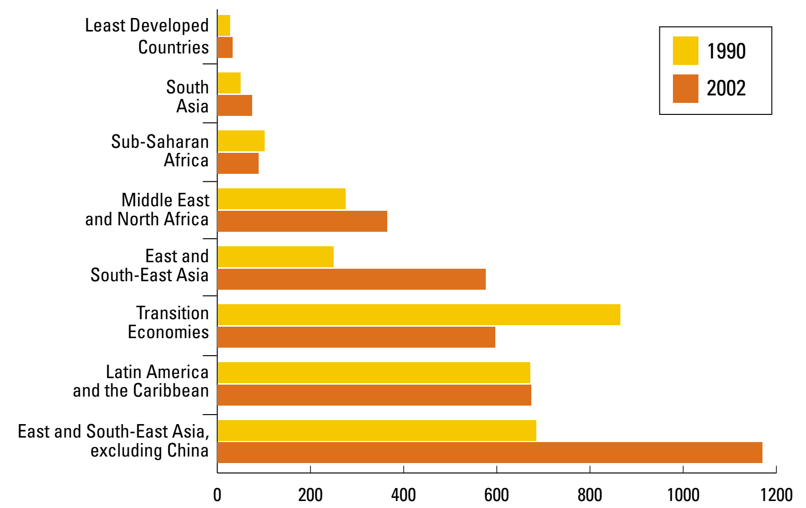
**Integration of the world economy through expanding trade, investment and technology flows continues, though unevenly**

International trade (exports plus imports) increased from about 35% of global GDP in 1974 to almost 50% in 2002, with increases in almost all regions. In East Asia, the increase was four-fold, surpassing the share in high-income OECD countries, as well as in export commodity dependent regions such as the Middle East and sub-Saharan Africa. At the same time, production has become more widespread geographically and more integrated through international production chains. Increasing trade has also been driven by increased foreign direct investment, particularly towards developing countries.[11]

**East and South-East Asia has experienced the fastest rate of industrialization**

With the collapse of state industries in countries with economies in transition, those countries have been overtaken by Latin America in terms of manufacturing value added (MVA) per capita since 1990. East and South-East Asia has more than doubled MVA per capita, and if China is excluded, the region's MVA per capita now exceeds by far Latin America's. South Asia has also achieved a marked increase, but from a much lower initial level. Meanwhile, sub-Saharan Africa has seen an industrial decline, as measured by MVA per capita.

**Regional Manufacturing Value Added per Capita**
**(1995 US$, Population-Weighted Averages)**



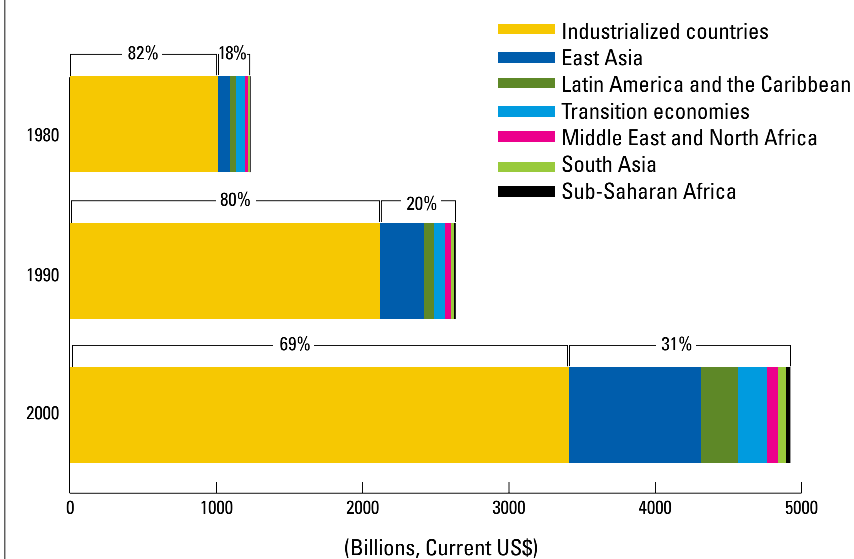

Source: UNIDO, 2005.

Increasing trade in manufactures has supported industrialization and economic growth in a number of developing countries.

**Developing countries — especially in Asia — account for a growing share of global manufactured exports**

Industrialized countries still account for over two-thirds of world manufactured exports, but developing countries' share has increased steadily. Since 1980, East Asia has shown the largest gains, followed by Latin America and the Caribbean — but only as a result of the sharp growth in Mexico's exports as NAFTA came into force. South Asia exhibits the second largest proportional increase, although from a very low base. [12]

**Regional Share of Manufactured Exports**




Source: UNIDO, 2004.

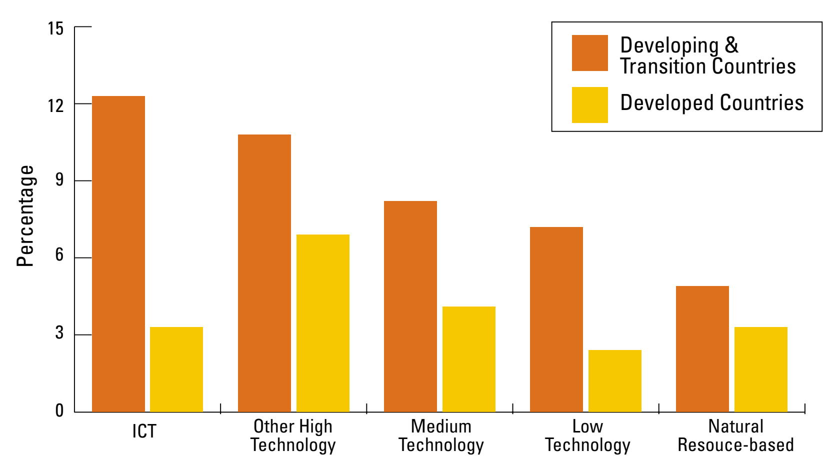
**The shares of high- and medium-technology production and export have risen rapidly in recent years, particularly in developing countries**

The composition of global exports is shifting towards higher technology content. Since the early 1990s, developing and transition economies have increased their export market shares most in information and communications technology (ICT) products, and developing countries competitive in those products have generally enjoyed the fastest manufacturing sector growth. High-technology exports are thought to offer the greatest learning opportunities, contributing to strong productivity growth.

The slower growth of low-technology and natural-resource-based exports partly reflects the continuing market protection of labour-intensive sectors like textiles and clothing in developed countries, and partly the high Most Favoured Nation tariffs and increasingly stringent non-tariff barriers in the agrifood sector. [13]

In absolute terms, however, exports of low-tech manufactures are still important for many developing and transition economies.

**Exports of Manufactures by Technology Content: Average Annual Growth Rates, 1995-2003** (Nominal Values)



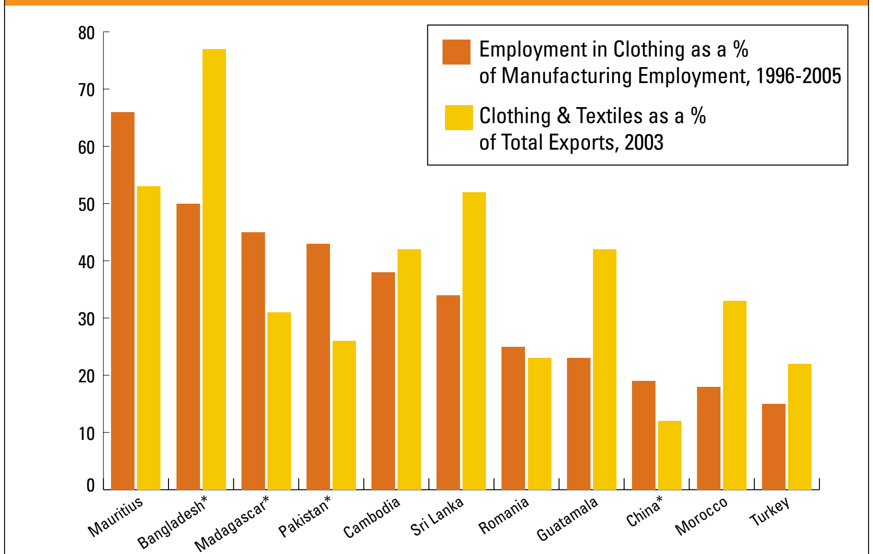

Note: The technology categories are as per UNIDO, 2005 Industrial Development Report.
Source: UNDESA-DSD, based on COMTRADE data.

**Small countries exporting clothing and textiles face major challenges**

The expansion of export-oriented labour-intensive textile and garment industries in countries like Bangladesh, Cambodia and Mauritius has made an important contribution to pro-poor industrial development. The clothing and textile sector employs workers with relatively low educational attainment, as well as a high proportion of women, which can contribute to greater gender equity.

However, smaller clothing exporting countries that developed their industries under the pre-2005 quota regime for textiles and clothing are facing the challenge of adjusting to competition from large, low-cost producers such as China and India. This will pose particular challenges for small countries relying heavily on clothing exports and distant from major markets, such as Lesotho, Madagascar, Mauritius and Tajikistan, to name a few. [14]

**Clothing & Textiles as a Share of Total Exports & Manufacturing Employment**

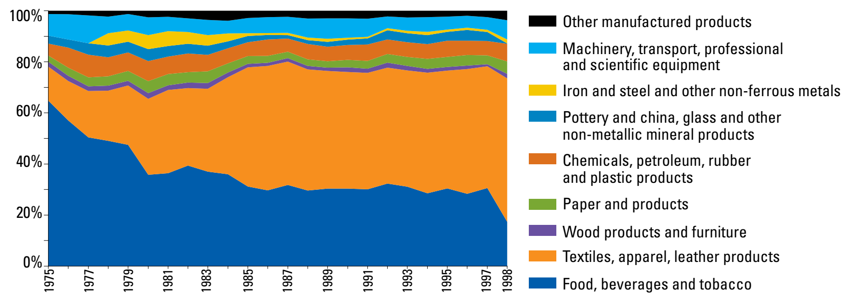



* Employment=textiles and clothing
Source: ILO, 2005.

## Industrial development can follow different patterns

**Mauritius** has succeeded in transforming itself from a poor sugar exporter into a stronger, more diversified economy through production and export of clothing and textiles, as well as tourism. Supportive policies included establishment of an export processing zone, which allowed duty-free import of inputs for export production.

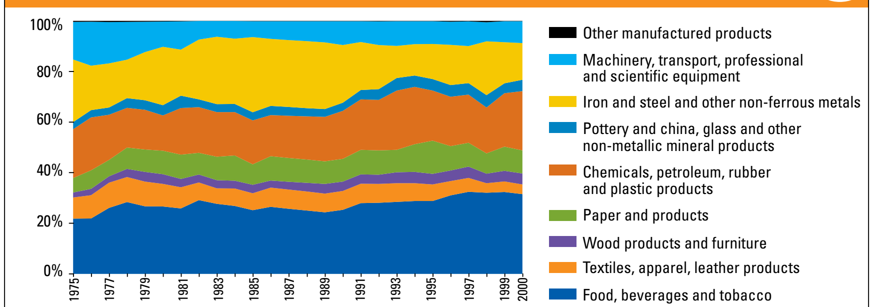
### Structure of Industrial Value-Added in Mauritius, 1975-1998




Source: UNIDO INDSTAT3, ISIC Rev.2.

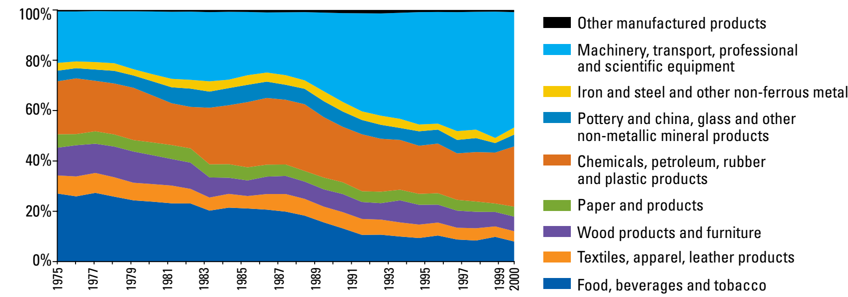
In **Chile**, the development of agro-industrial clusters, such as salmon farming, wine and fresh fruit, shows that natural-resource-based growth can also be sustainable if focused on high value products. The promotion of public-private partnerships was instrumental in providing research and technology extension services in new activities that later proved to be very profitable. [15]

### Structure of Industrial Value-Added in Chile, 1975-2000




Source: UNIDO INDSTAT3, ISIC Rev.2.

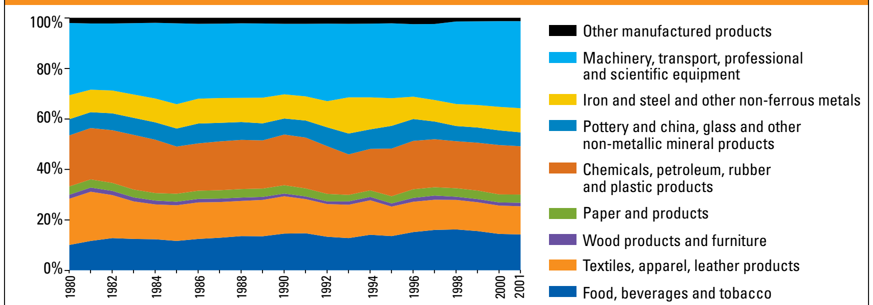
### Structure of Industrial Value-Added in Malaysia, 1975-2000




Source: UNIDO INDSTAT3, ISIC Rev.2.

**Malaysia**, once a commodity-based economy, has diversified to become a leading producer and exporter of manufactured goods, especially electrical and electronic equipment, even as it remains a major world supplier of agro-industrial products based on palm oil and rubber. [16]

### Structure of Industrial Value-Added in China, 1980-2001



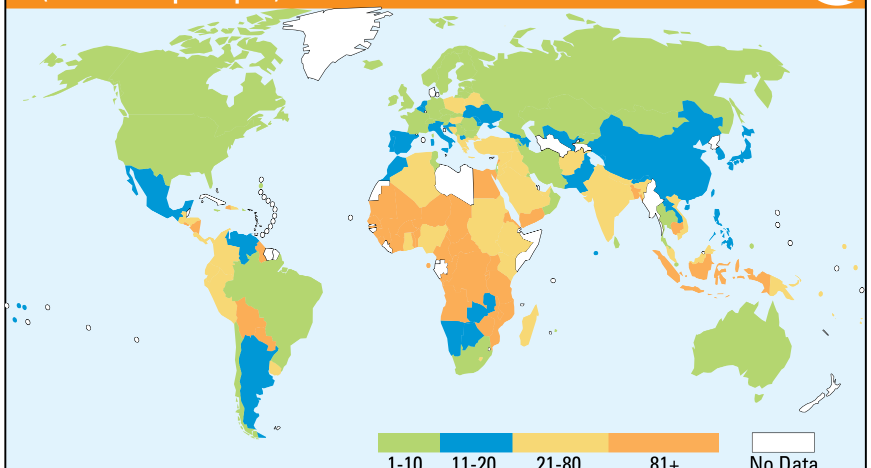

Source: UNIDO INDSTAT3, ISIC Rev.2.

In **China**, rapid economic growth has built on production and export of a range of manufactured products. Productivity increases based on learning from technologically advanced foreign firms have also been significant drivers. [17]

**A supportive environment for entrepreneurs can encourage industrial development**

Governments provide the regulatory framework within which entrepreneurs operate. While regulation is necessary to protect workers, consumers and the environment, small and medium enterprises (SMEs) are especially handicapped by excessive regulation as they have few human and other resources for compliance. Since SMEs tend to be more labour-intensive, onerous regulation can also impede job creation. Many low-income countries are among those in which it is costliest to start and run a business. [18]

**Administrative Costs to Start a Business**
**(as % of GNI per capita)**

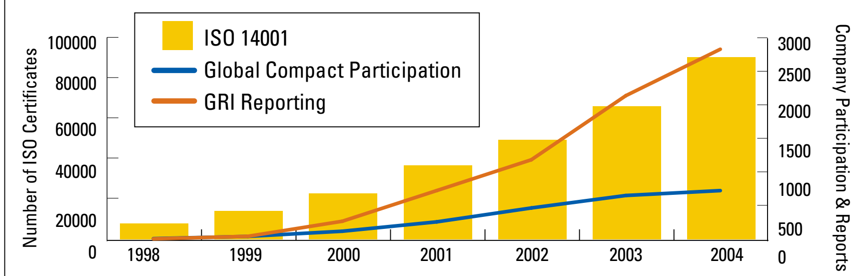



Source: World Bank, 2005.

**Corporate Social Responsibility is a growing movement in response to public pressure**

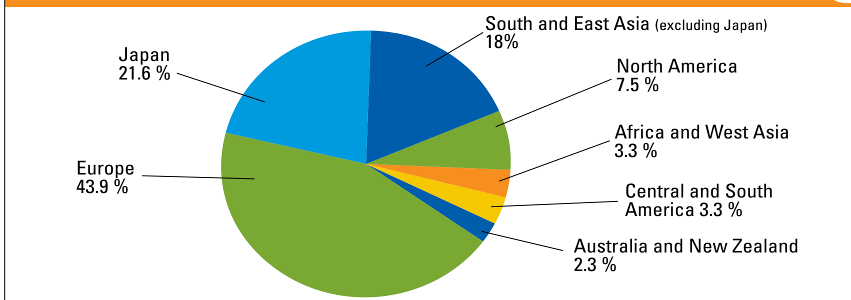
Corporate Social Responsibility (CSR) refers to business activities guided by codes of conduct that exceed legal and ethical standards relating to labour conditions and environmental impacts. The globalization of production networks means that corporations increasingly source their products and services from overseas, making it more difficult to regulate corporate activities through a single country's national legal and regulatory mechanisms. CSR has been demanded by various stakeholders as one response to this challenge.

**Participation in CSR Initiatives**



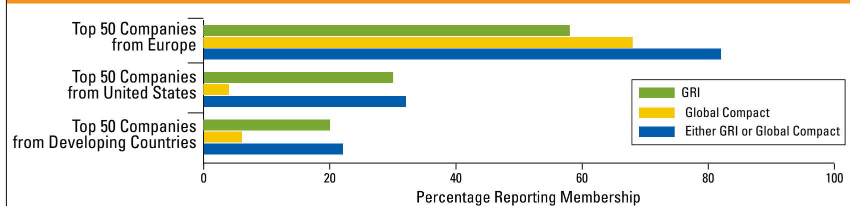

Source: UNDESA-DSD based on unpublished information from the UN Global Compact, and the Global Reporting Initiative; ISO Survey 2004.

**Regional Share of ISO 14001 Certifications, 2004**




Source: ISO Survey of Certifications 2004.

**Top 50 Companies Membership Status**




Source: UNDESA-DSD based on UNCTAD 2005, the Global Compact and the GRI.

Major international CSR initiatives include systems of general norms such as the UN Secretary-General's Global Compact and the OECD Guidelines for Multinational Enterprises, process standards such as the ISO 14001 standard for environmental management systems of the International Organization for Standardization (ISO), and reporting guidelines such as those of the Global Reporting Initiative (GRI). In 2008, ISO plans to release the ISO 26000 guidance standard on social responsibility, which is currently under negotiation.

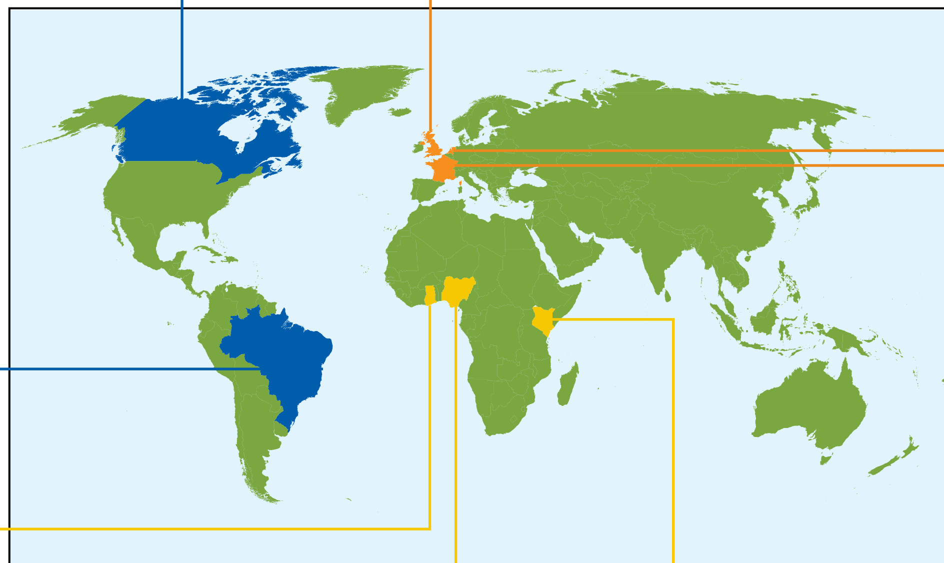
# Examples of Corporate Social Responsibility Legislation

Public demand for better working conditions and environmental responsibility in global production systems is influencing government policy.

**Canada:** Banks and financial institutions with over $1 billion in equity must produce public accountability statements regarding their contribution to the Canadian economy and society.

**United Kingdom:** The government requires pension funds to disclose how they take into account social, environmental and ethical factors in their investment decisions.

**Brazil:** Companies that voluntarily undertake corporate governance practices and disclosure beyond what is mandated receive a special listing on the São Paulo stock exchange.



**Netherlands:** The government has incorporated the OECD Multinational Enterprise Guidelines into official support programmes for export, overseas investment promotion and international cooperation.

**France:** The government has stipulated that publicly traded companies should include auditable information on social and environmental performance in their annual reports.

**Ghana:** Regulations have been introduced stipulating that companies tendering for timber cutting permits will be evaluated in terms of their respect for the social and environmental values of local residents. Logging companies are required to secure a "social responsibility agreement" with the customary owners of the land.

**Nigeria:** Oil and gas companies are required to contribute 3% of their annual revenue to the Niger Delta Development Commission.

**Kenya:** The government established a council to improve environmental and labour standards in the flower industry. Growers must be certified in bi-annual audits.