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**ADDRESS BY THE DIRECTOR-GENERAL OF THE
UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
AT THE INAUGURAL SESSION**

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1. First of all, I would like to express my appreciation for the invitation to make this presentation at such a singular time for our region.
2. Many believe that much of the effort at market reform during the 1990s has not brought the expected results, particularly in terms of improving living standards for the population.
3. The policies put in place to promote macroeconomic stability, fiscal balance and openness to trade were clearly inspired, although problems with their design and implementation have meant that the results have not lived up to expectations in some cases. In any case, those policies have not been sufficient.
4. This is clearly not exclusively an economic problem. The countries of the region are facing a wide array of challenges in the social, environmental and educational spheres, in health and nutrition, science and technology, institutions and public management, and the IDB has made significant contributions in many of these fields.
5. We know that economic and social development requires consistent progress on all these fronts. Today, it is hard to believe that the process of 'catching up', called for by conventional wisdom, is automatic. We are facing real barriers to development, and those barriers are many and interrelated.
6. To ensure the success and sustainability of the efforts made on all these fronts, in the past we rightly concentrated on fighting inflation and supporting economic stability and fiscal balance. Today we are called upon not only to continue those efforts but also to focus more closely on issues of productivity and the creation of wealth.
7. Appropriate frameworks offer opportunities to create wealth but cannot create it themselves. Just as we have yardsticks for measuring macroeconomic performance, such as

sustained fiscal balance and low inflation, I would suggest that productivity indicators should play a similar role in the creation of wealth by productive agents. Although it is not difficult to obtain a consensus in this regard, it is a fact that our region and the developing countries in general lag seriously behind in their capacity to evaluate and underpin their productive performance. Nonetheless, that performance is crucial for consolidating the success of the macroeconomic and fiscal reforms and economic openness.

8. Has the region acquired the discipline to measure progress in reform programs from the standpoint of productivity, as the advanced countries do? Let us agree on this: that productivity is, in the end, the true yardstick for judging the success of those programs and their potential for translating into development with equity.

9. The efforts of the 1990s to reform our economies have not brought the expected improvement in living standards for most of the population. When wages are very low and close to subsistence levels, the workings of the political system and the behavior of the electorate are affected. It is therefore essential to pay closer attention to measuring, monitoring and improving standards of productive performance.

10. One of the subjects that the region still needs to address is how to achieve sustained increases in productivity. The continuity of the reform processes under way hinges on this. The reason is clear. In the absence of high productivity, it is impossible to raise the standard of living and, hence, to maintain a public consensus on the need for reform programs. Even worse, under such conditions, a consensus tends to form against reform out of frustration.

11. During the 1990s, the region saw an improvement in labor productivity compared to the 1980s. Our estimates suggest that annual average growth rose from -1.5 percent in the 1980s to 0.6 percent in the 1990s. However, differences among the countries were wide and growing wider.

12. The improvement was the result, first, of the performance of multifactor productivity (whose annual average rose from -1.3 percent to 0.6 percent between the two periods) and, second, a slight increase in the rate of capital growth per employed person (from 0.2 to 0.4).

13. However, with rare exceptions, over the two decades the region's productive performance remained well below the norm in the OECD countries, to say nothing of the Asian tigers. Here too, differences between countries with regard to labor productivity and multifactor productivity are much wider in Latin America than in the other two regions.

14. In this brief presentation, I will limit myself to underscoring the fundamental role placed by the relative pace of technological change in explaining the contrasts I have mentioned. That pace is in turn highly dependent on the system of incentives, the availability of public goods provided by social, educational and technological infrastructure, local adaptive innovation, foreign investment and export performance. In particular, productivity performance is closely correlated with export performance, especially in high technology products, where the gap between Latin America and the Caribbean (excluding Mexico) and the East Asian countries widened considerably between the 1980s and the 1990s. The performance of Latin America and the Caribbean in this field resembles that of sub-Saharan Africa and southern Asia.

15. In response to the panorama I have just described, in the past five years we have undertaken a major shift in the approach taken by the United Nations Organization for Industrial Development. Our intention was to increase the impact of UNIDO's contribution to reform programs in the developing countries, based on the real sector of the economy.

16. UNIDO has traditionally helped to create industrial development capacity through measures such as raising technical standards in manufacturing, assisting industry in making more rational use of natural resources, and promoting clusters of specialized small and medium-sized companies.

17. During my time at the helm of the organization, we have made a major effort to ensure the convergence of these and other related areas of activity toward achieving a concrete impact that translates into a sustained increase in factor productivity over time. We are convinced that this is a key requisite for achieving the objective of more equitable development that is also environmentally sustainable.

18. UNIDO's contribution is modest but significant. We help industries overcome technical barriers to trade; protect or, better still, restore the environment; counteract the asymmetries that affect small and medium-sized enterprises to boost their efficiency and contribution to job creation, technological innovation and exports; and raise production standards by accelerating the international dissemination of technologies in general and clean technologies in particular. In short, within the bounds of its mandate, UNIDO contributes to the continuity of reform programs by helping to lay the groundwork for productivity gains that are sustainable over time.