



Industrial Development Report 2018

Demand for Manufacturing: Driving Inclusive and Sustainable Industrial Development



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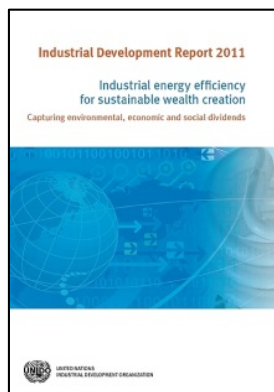
Tokyo, 18 April 2018



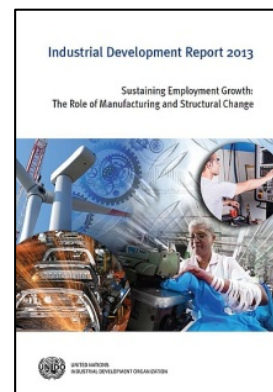
The Industrial Development Report (IDR)

- Biannual publication that addresses the most pressing issues of inclusive and sustainable industrial development facing the world
- The report combines UNIDO's own research with inputs from leading experts on the field
- Each edition has a particular focus. In the past, the focus was mostly on supply-side issues:

IDR 2011:
Energy efficiency



IDR 2013:
Employment creation



IDR 2016:
Technology & innovation





IDR 2018: Bringing demand into scene

- Focus on supply-side relegated important issues
 - Role of manufacturing in welfare of millions of people by providing new, better and cheaper goods.
 - The consumption of manufactured goods (manufacturing demand) - key for the emergence and expansion of a domestic industrial sector.
- IDR 2018 examines global industrialization from a demand perspective (consumption of manufactured goods)
 - Impact of industrial development on our daily life.
 - Policy relevance - focus on demand can foster inclusive and sustainable industrial development (ISID).



The importance of industrial development for consumers

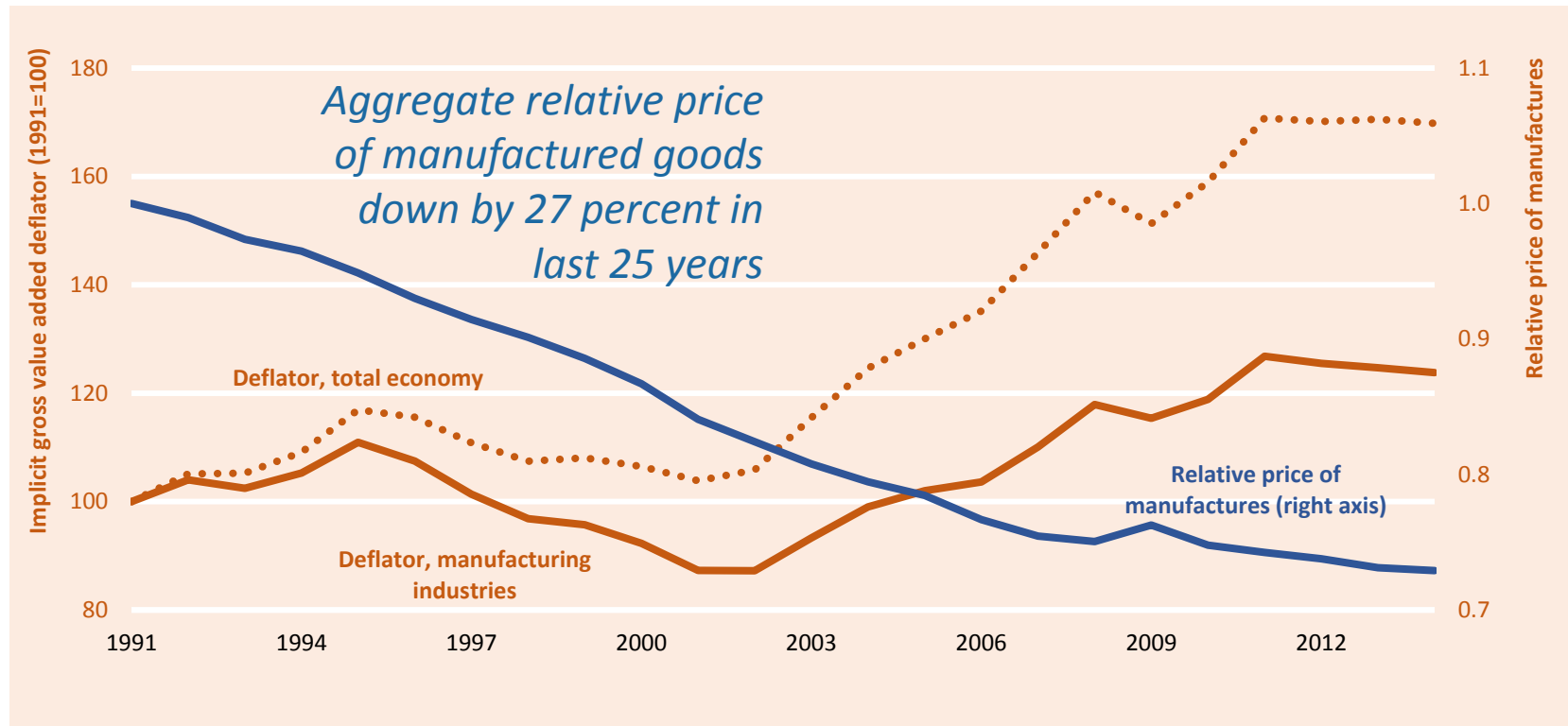




Manufacturing produces new, better and more affordable goods

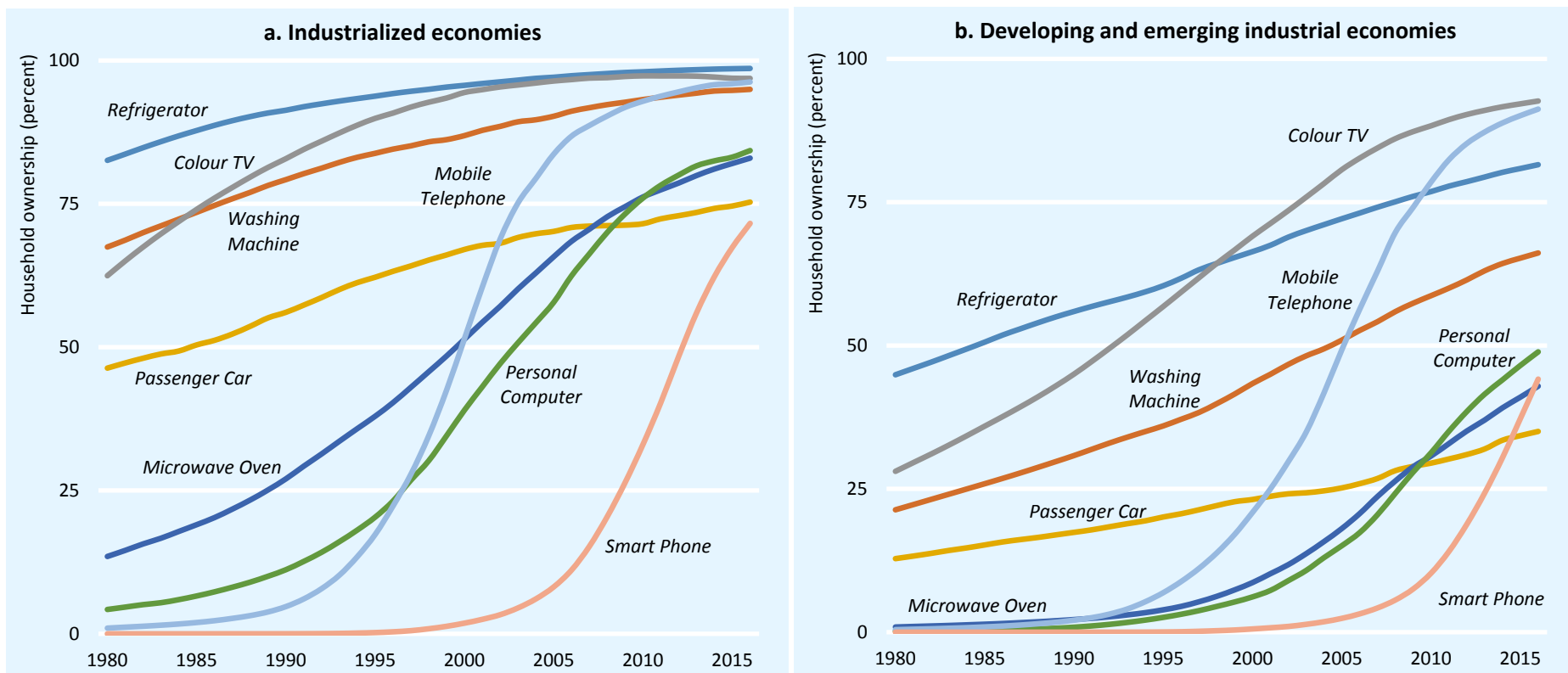
- Industrial development - continuous creation of new goods and improvement in the quality of existing ones:
 - Throughout industrial revolutions manufacturing has been a provider of new goods
 - Manufactured goods revolutionized human behavior in terms of working, traveling, communicating, entertaining etc.
- New goods typically emerge as luxuries only accessible to rich consumers
- At the next stage industrial products become affordable to an increasingly larger number of households.

Manufacturing prices are falling - compared to overall prices...



Source: UNIDO elaboration based on the Manufacturing Value Added 2017 database.

... and consumer goods are diffusing massively around the world



Source: UNIDO elaboration based on Euro-monitor International (Economies and Consumers; Possession of Household Durables, 2016).



Summarizing...

Key Message 1: *Industrialization improves our living standards. It brings new and better goods that, through time, become affordable for an increasing number of people.*





The importance of consumers for industrial development

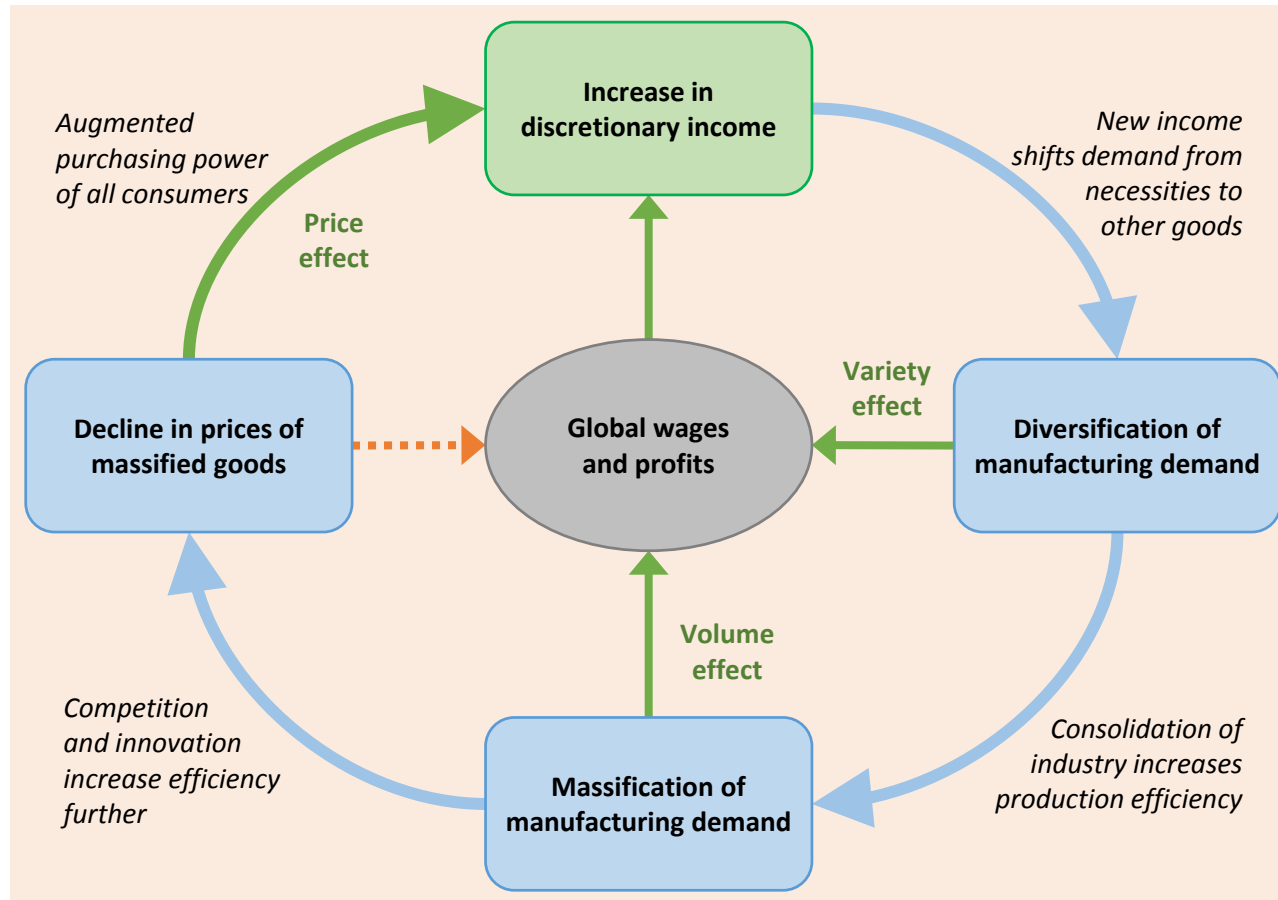




Industrial development needs demand for domestic manufactures

- New industries can emerge when sufficient demand for their products is in place. Achieving SDG 9 requires demand for domestic manufacturers.
- Under the right set of conditions, consumption can set in motion a virtuous circle of demand, diversification and industrial development
 - As incomes grow, demand diversifies away from necessities towards new varieties and qualities of goods - [**variety effect**]
 - New industries gain scale and increase production efficiency. It leads to the decline of price and massification of consumption - [**volume effect**]
 - Further price declines due to competition and innovation increase the purchasing power of consumers and allow them to diversify their expenditures - [**price effect**]

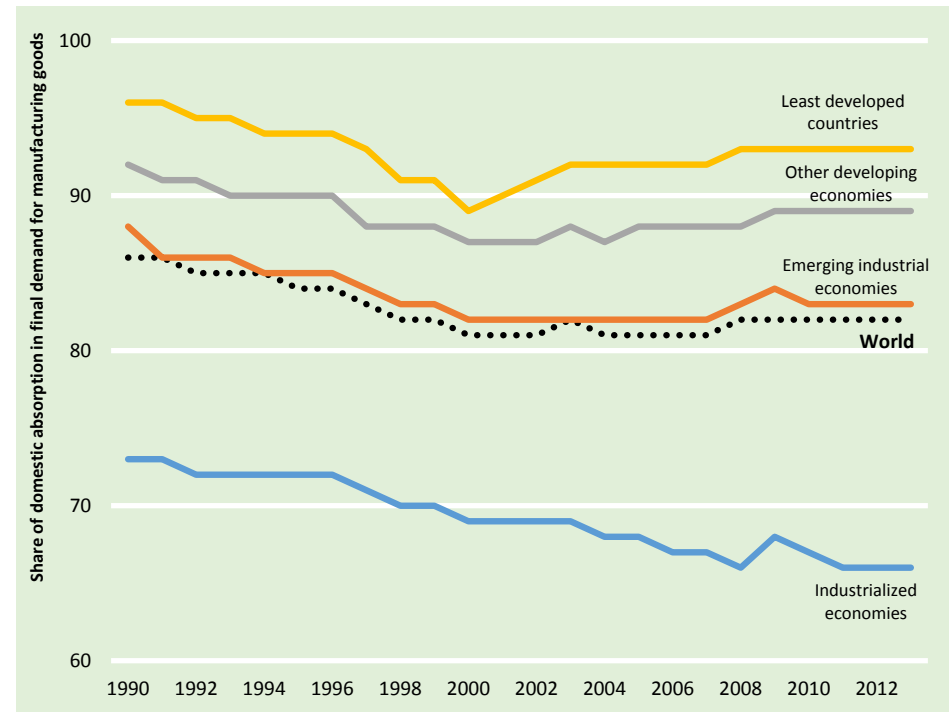
A virtuous circle of manufacturing consumption and industrial development



Importance of domestic demand for industrial development

- Demand can originate from internal sources (domestic absorption) or external sources (exports)
- Domestic absorption is a key driver of income generation along the virtuous circle:
 - Domestic absorption accounts for the largest share of final demand across the world.
 - As countries industrialize, the importance of domestic absorption declines
- To benefit from domestic demand, countries need to:
 - Improve their income distribution;
 - Strengthen real wages; and
 - Build industrial capabilities

Changing trends in the relative importance of domestic absorption of manufacturing goods



Source: de Macedo and Lavopa (2017) based on the Eora Multi-Region Input-Output database.



Importance of external demand for industrial development

- Serving external demand creates incomes for local producers and fuels the virtuous circle
- It also provides foreign exchange to import goods and avoid balance of payment tensions
- The extent to which these opportunities materialize depend on the purchasing power of exports.
- To benefit from external demand, countries need to:
 - Upgrade the technology content and quality of exports;
 - Diversify export destinations and enter into markets with higher incomes.



Summarizing...

Key Message 2: *Consumption is a key driver of industrial development. Under the right set of conditions it set in motion a virtuous circle of demand diversification, income creation and inclusive industrialization (SDG 9).*





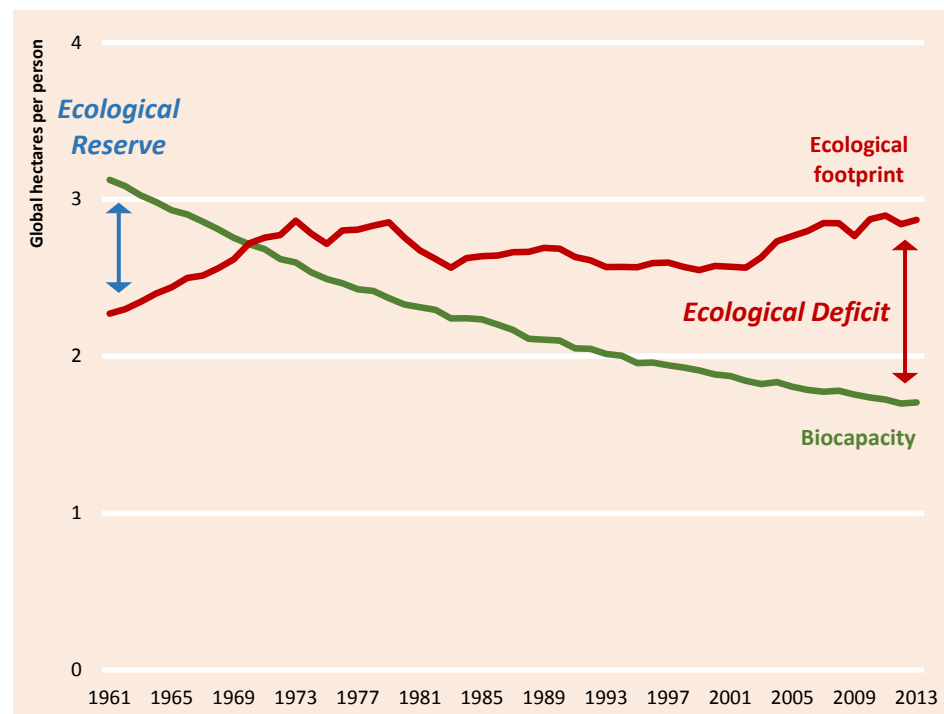
Moving towards sustainable manufacturing consumption



Income creation vs. pressures on environment

- Consumption leads towards a virtuous circle, but this circle is not necessarily environmentally sustainable.
- Higher demand requires the use of more natural resources and carbon energy; causes increase in CO2 emission and residuals.
- If all countries replicate the consumption pattern observed today in the world, environmental sustainability would be at risk

Global biocapacity went into the red nearly half a century ago

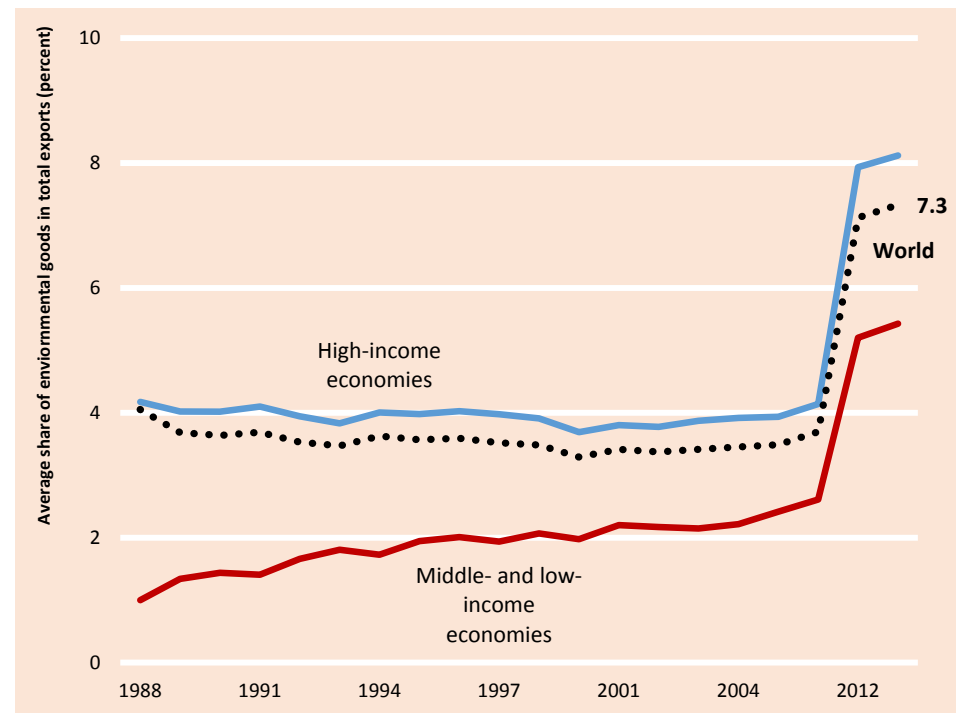


Source: Global Footprint Network National Footprint Accounts, 2017 Edition.

Sustainability requires a shift in consumption patterns towards “environmental goods”

- Environmental goods:
 - i. have a lower environmental impact in the production process
 - ii. do not pose a threat in terms of waste disposal
 - iii. require lower use of materials
- Development of markets for these goods can help creating a sustainable virtuous circle of manufacturing consumption
- However, the market for environmental goods is still niche:
 - It has been growing in all countries...
 - but represents less than 8% of world exports

Export share of environmental goods on the rise



Source: UNIDO elaboration based on the United Nations Comtrade database



Summarizing...

Key Message 3: *The impact on environment from massification of consumption can be reduced through the technological innovation and development of environmental goods. Shifting consumption patterns towards environmental goods is key to render the virtuous circle sustainable.*





Demand-driven industrial policies to foster ISID





Scope of government action

- Changes in demand offer opportunities for industrialization and the generation of new incomes and welfare
- Demand can be either a framework condition partially or completely outside the control of policy makers, or a variable that is actionable through public policy
- IDR 2018 proposes different policy interventions for both cases





Policies to capture income from demand, when demand is given

- Government as a facilitator
 - Facilitate removal of market failures and build on current comparative advantages to tackle emerging demand opportunities for industrialization.
- Government as technological capacity building partner
 - Promote the building of technological and productive capabilities to enter sectors that it would otherwise be impossible to develop given traditional comparative advantages.
- Government as a market antenna
 - Develop capacities and adopt measures to help domestic agents identify or anticipate changes in demand for manufacturing products.



Policies to shift demand towards specific goals

- Environment-friendly policy
 - National industrial policies could steer the demand of environment-friendly goods (e.g. carbon prices policies and regulation).
- Regulation towards consumption
 - Stimulate and regulate consumption of manufacturing products or influence consumer behavior through changes in relative prices.
- Partnership with the private sector
 - Promote/enhance/create demand for innovative products by targeting final users; disseminate knowledge and information on market opportunities.



Summarizing...

Key Message 4: *Demand considerations broaden the scope of government action to address broad economic and inclusive and sustainable industrial development outcomes.*





Thank you

*Kindly send your comment to
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