



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION



SUSTAINABLE DEVELOPMENT GOAL 9
INDUSTRY, INNOVATION AND INFRASTRUCTURE

Industrial Development Report 2018

Industrialization, Consumption and Sustainable Development



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Tokyo, 18 April 2018

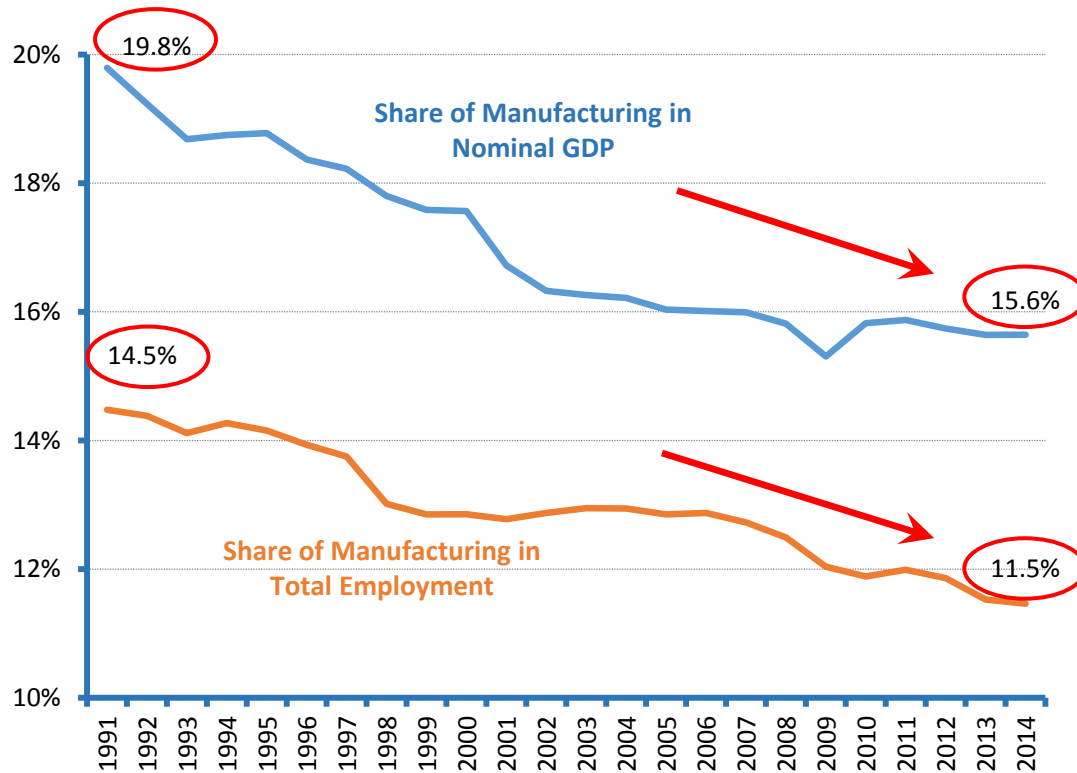




IDR 2018: A demand-perspective to industrial development

- A major novelty of this report is the shift in focus: from production to consumption
- What matters for consumers is the provision of new, better and more affordable goods (affordable variety)
- Placing the provision of affordable variety at the center changes our understanding of the relative importance of manufacturing and its impact on our daily lives:
 - i. Relative importance: from a demand-perspective manufacturing is not shrinking over time. On the contrary: it is growing in relative terms.
 - ii. Effects on living standards: the provision of affordable variety increases consumer welfare and contributes to the achievement of several SDGs.

The Importance of Manufacturing: *Traditional supply-side view*

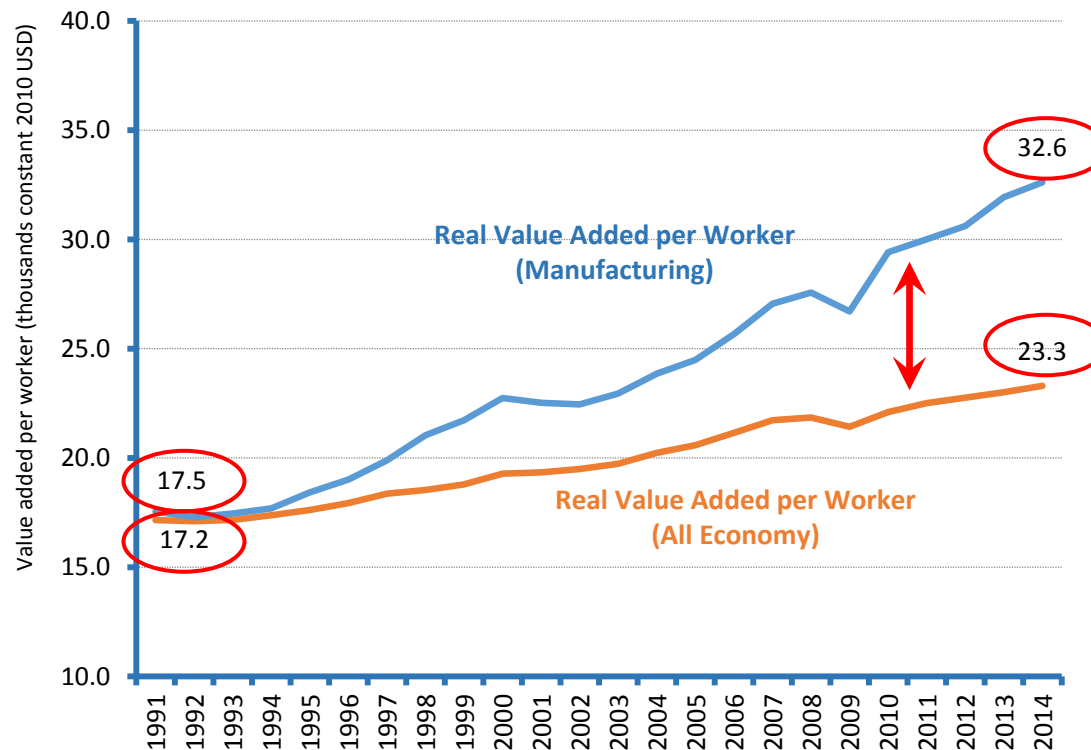


- Two most extended indicators
- Global decline in the share of manufacturing in Nominal GDP (4.1 p.p.)
- Global decline in the share of manufacturing in Total Employment (3 p.p.)
- Evidence of de-industrialization at the world level

→ decreasing importance of manufacturing over time?

Source: GDP shares: UNIDO based on Manufacturing Value Added Database (UNIDO, 2017)
Employment shares: UNIDO based on ILO KILM and Trends Econometric Models

The Importance of Manufacturing: *Driving productivity gains...*

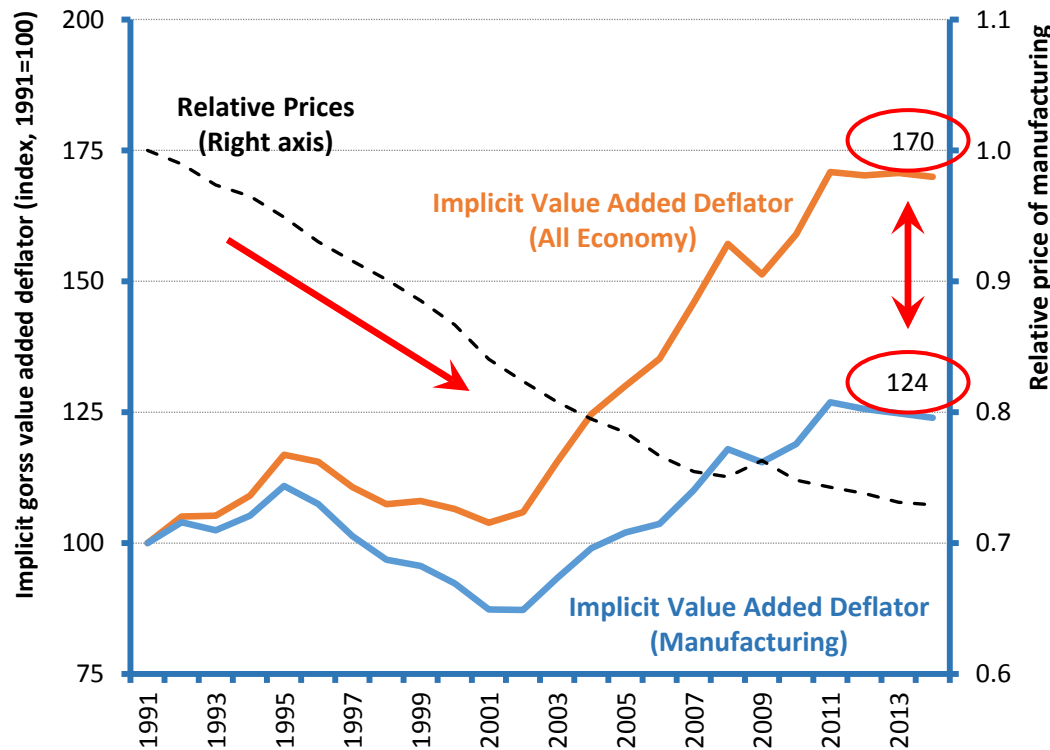


- *The previous picture, however, mask two key features of manufacturing*
- *First and foremost, manufacturing industries drive overall productivity*
- *Evidence from labour productivity dynamics*
- *Increasing gap between global productivity in manufacturing and the overall economy*

→ decreasing requirements of workers per unit of value added

Source: Value Added: UNIDO based on Manufacturing Value Added Database (UNIDO, 2017)
Employment: UNIDO based on ILO KILM and Trends Econometric Models

The Importance of Manufacturing: ... and lowering (relative) prices

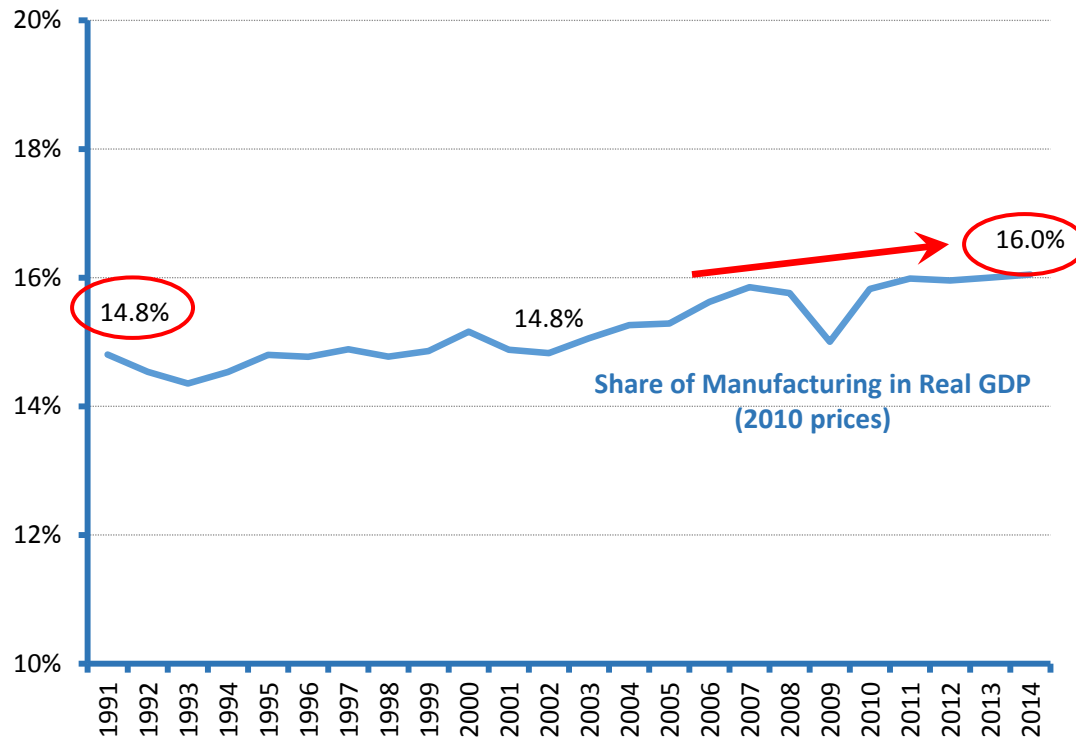


- The second feature relates to price dynamics
- Evidence from implicit VA deflators
- At an aggregate, world-level, prices of manufacturing increase at a much lower pace than the overall economy
- Hence, relative prices in manufacturing tend to decline

→ manufacturing goods become relatively cheaper through time

Source: UNIDO based on Manufacturing Value Added Database (UNIDO, 2017)

The Importance of Manufacturing: *bringing more goods at cheaper prices*

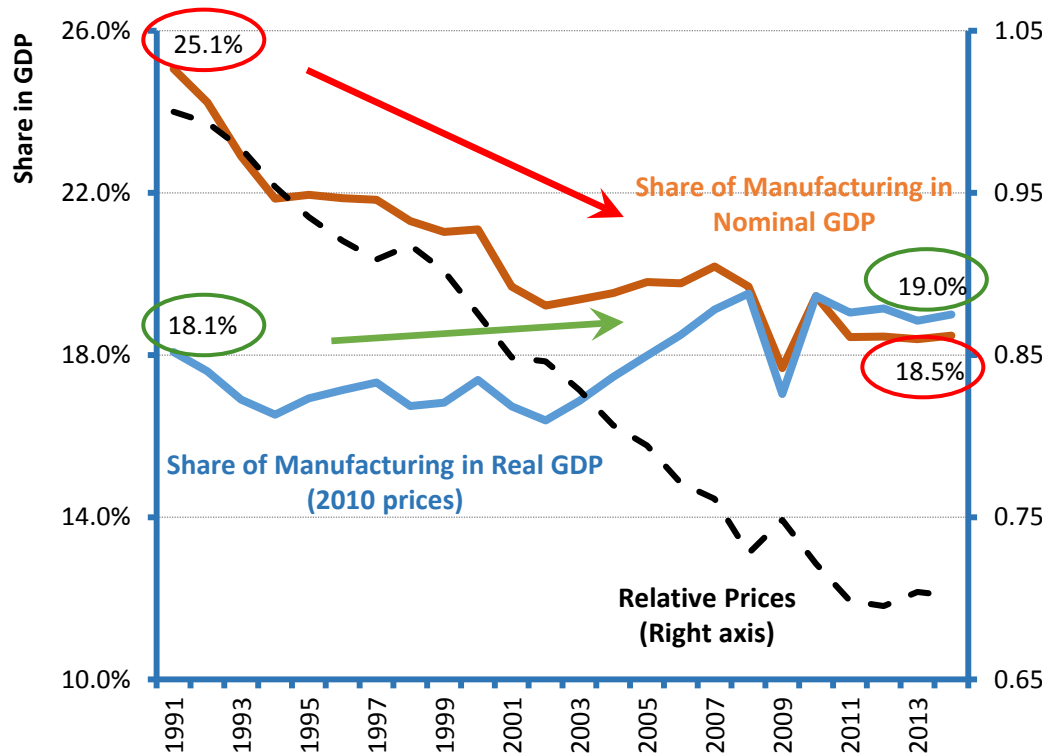


- *Instead of nominal GDP, we look at real GDP [that is, keeping constant prices of a base year]*
- *In real terms, the share is extremely stable and shows an increasing trend from the early 1990s.*
- *The level depends on the base year selected.*

→ instead of global de-industrialization, increasing affordable variety

Source: UNIDO based on Manufacturing Value Added Database (UNIDO, 2017)

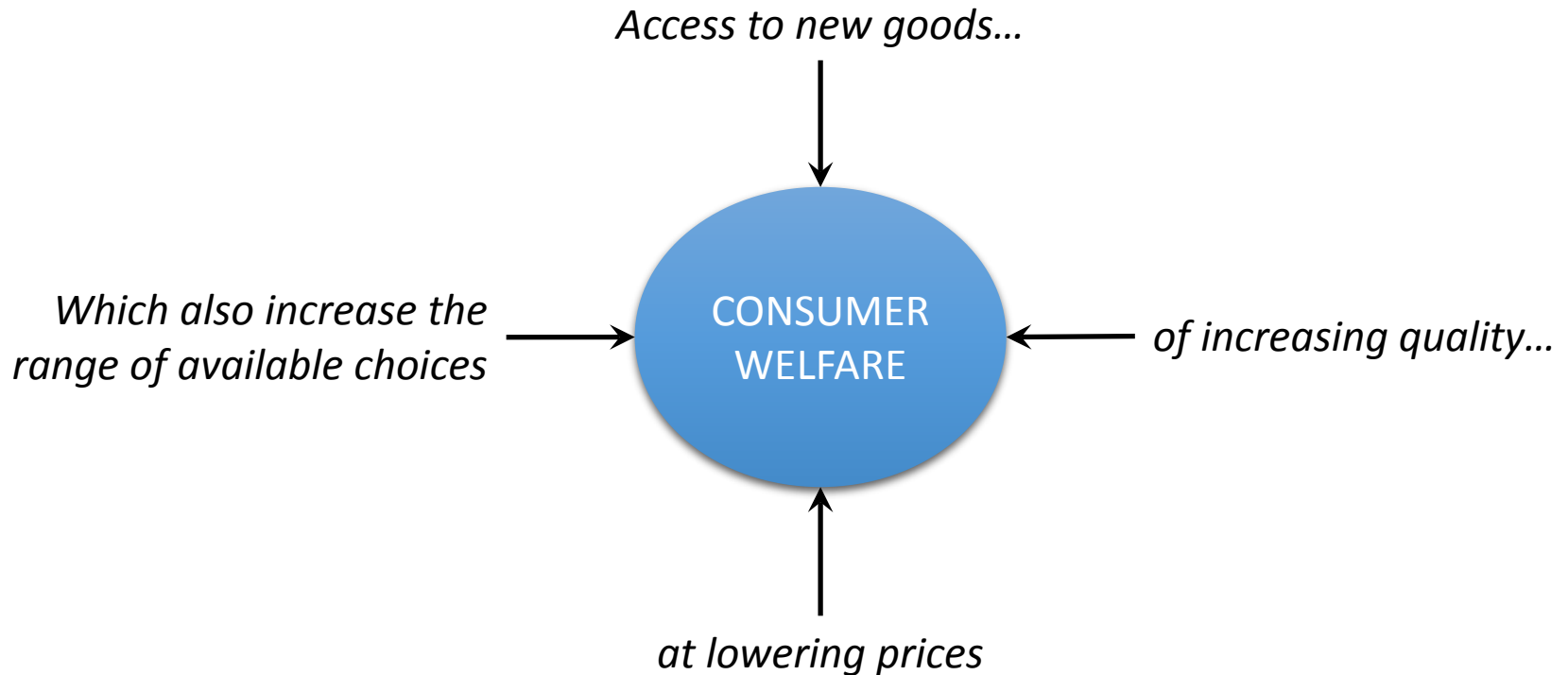
The Importance of Manufacturing: *similar story for Japan*



- *The evidence for Japan shows a similar pattern*
 - *Declining trend in the manufacturing nominal share....*
 - *.... but increasing share when prices are kept constant*
 - *Also, clear decline in relative prices*
- manufacturing increasing importance as a provider of affordable variety*

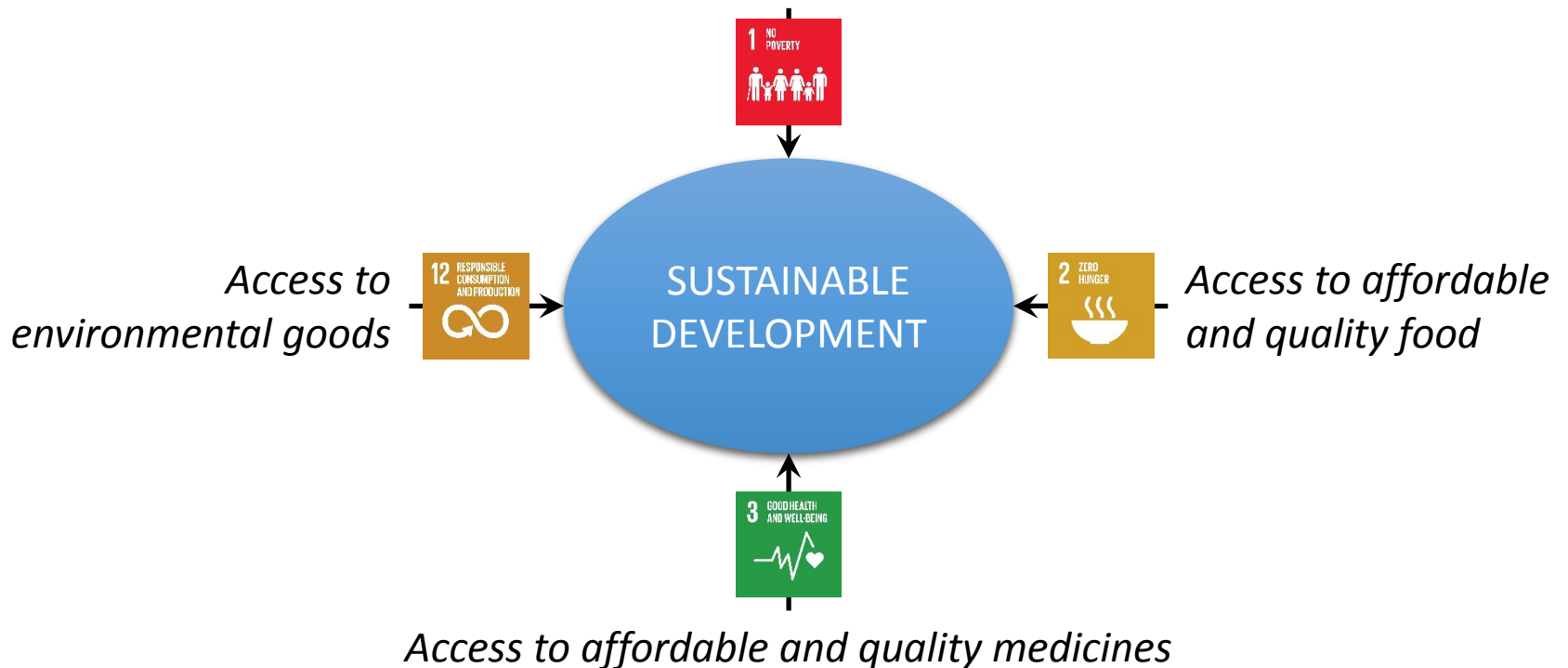
Source: UNIDO based on Manufacturing Value Added Database (UNIDO, 2017)

Welfare gains from affordable variety: *consumers' perspective*



Welfare gains from affordable variety: *development perspective*

Access to consumption in the bottom of the pyramid / frugal innovations





Three key lessons...

1. *The importance of manufacturing can hardly be restricted to the creation of direct jobs or to its share in nominal GDP. Manufacturing is also the prime provider of new varieties and qualities of goods.*
2. *Through time, manufacturing industries tend to bring prices down and make these new varieties and qualities of goods affordable for an increasing number of people.*
3. *The provision of affordable variety, in turn, has a positive impact in our living standards and improves wellbeing. Through this channel, industrial development also plays a key role for the achievement of several SDGs, beyond SDG9*





Thanks for your attention!

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