

UNIDO Director General: LI Yong

**Presentation of 2013 Industrial Development Report
on 20 January 2014**

Honourable Governor, Ewald Nowotny, of the Austrian National Bank, Honourable President, Thomas Nowotny, of Vienna Chapter, Society for International Development, Honourable Secretary General, Michael Pfeifer, distinguished guests, ladies and gentlemen,

I would like to take this opportunity to thank all of you for attending today's event. I want to express my deep appreciation to the Foreign Policy and United Nations Association of Austria and the Austrian National Bank for giving us the opportunity to present our latest Industrial Development Report.

As some of you may be aware, the Industrial Development Report is UNIDO's flagship publication and is produced biannually. It addresses the most pressing issues of sustainable industrial development the world currently faces. The recent global financial crisis has heightened our awareness of the importance of job creation and job quality as key factors of social and economic order and development. The rising number of unemployed persons in industrialized economies, the unrest in the streets of Northern Africa, the increasingly vocal demands from voters in emerging economies and, finally, the discussions on a new international agenda for development all point in the same direction – the central role of productive activities and jobs in the lives of individuals and countries alike. Against this backdrop, UNIDO's Industrial Development Report 2013 examines manufacturing's role in global employment generation over the past 40 years and discusses how countries can transform their industrial structure to achieve inclusive and sustainable industrial development.

I can say with confidence that the Industrial Development Report 2013 contributes a solid foundation to the debate on jobs in today's world. The report indicates that manufacturing continues to remain an important employer. This is evident when we look at the figures: the direct absorption of workers by manufacturing reached 388 million jobs worldwide in 2009, up from an estimated 211 million in 1970. Nearly half of these jobs are informal jobs, largely reflecting the rise of many emerging economies as new hubs of manufacturing.

Failure to capture informal jobs in manufacturing is not the only way by which manufacturing jobs are typically underestimated. Let us not discount the unbundling of certain production processes that statistically used to be categorized in manufacturing but are now found in services. Manufacturing-related jobs in services grew much faster between 1995 and 2009 than jobs in direct formal manufacturing, reaching 95 million by 2009. Manufacturing – broadly defined to include formal, informal and manufacturing-related services – provided 470 million jobs, employing around 16 percent of the world's workforce of 2.9 billion in 2009.

Ladies and gentlemen, these findings indicate that any assessment of the scale of employment creation related to manufacturing based purely on data from industry surveys severely undercounts its true size. Employment data of this source type represent, at best, half the total number of jobs directly and indirectly created by manufacturing.

What do these findings imply? They tell us that building a solid manufacturing base is crucial for the creation of productive jobs and for poverty reduction. We know that agriculture accounts for a high share of GDP at very low incomes, typically larger than that of manufacturing and non-manufacturing industries together. This situation is, however, reversed as income grows: manufacturing starts gaining ground and reaches a peak of around 20 percent of GDP at roughly US\$ 14,000. In other words, economic development is associated with a near tripling of the share of manufacturing, largely at the expense of agriculture, whose share shrinks considerably. Clearly, manufacturing acts as an engine of growth in economic development.

Our findings also indicate that once industrialization takes off, countries are usually poised to move from lower to higher-tech industries, from lower to higher value added and from lower to higher productivity sectors. As resources shift from agriculture to industry, low-tech industries begin to account for a large share of manufacturing value added. That is, economic development becomes associated with the growth of higher technology industries. Yet how can countries move from lower to middle income levels? They need to invest in technology and increase productivity to achieve growth in medium-tech industries such as the metal industry. At higher income levels, the requirements change again: human capital plays an increasingly important role for the development of high-tech, knowledge-based industries, such as electrical and automobile industries, and specifically for design and research and development.

The point I would like to make, ladies and gentlemen, is that manufacturing industries open up both employment and economic growth opportunities for countries at different stages of development and support inclusive development. However, in a resource constrained world, structural change across and within industries alone does not ensure sustainable development. Wasteful production and consumption patterns – along with continuing soil degradation, deforestation and overfishing – are already exacerbating water shortages and raising prices for food, energy and other commodities. Let us be reminded that the efficient use of inputs has clear economic advantages and environmental benefits, boosting competitiveness and generating resources for investment in further growth and structural transformation. We can only achieve inclusive and sustainable industrial development through manufacturing development and through greater efficiency in energy and material consumption.

To achieve inclusive and sustainable industrial development for all, five key factors need to be taken account of:

First, the promotion of structural change for the production of higher value added products and cleaner production processes.

Structural change drives sustainable economic development. However, it is not only structural change per se that drives sustainable economic development; but rather *specific* structural changes that lead to inclusive and sustainable development. In this respect, industrialization, specifically an increase in the share of manufacturing in economic activity based on intensified use of cleaner production processes, is key for economic, social and environmental advancement in developing countries. It cannot be denied that industrialization brings benefits to relatively large groups of people in developing countries in terms of employment generation and productivity increases, thus resulting in poverty reduction and a more equal society. What is

more, these benefits can be achieved without further environmental degradation by intensifying the use of cleaner production processes.

Second, targeting key drivers of structural change

We are well aware that manufacturing industries do not develop in isolation of a country's demographic and geographic conditions, its stage of development and its policies. We also know that some industries can thrive in relatively low wage and labour abundant economies. On the other hand, investments and the efficient operation of capital drive other industries' development. Still other industries depend on technological development and knowledge generation for their sustained growth. Thus, rather than targeting specific industries, countries need to target drivers that help develop multiple industries with common development characteristics. Our Industrial Development Report 2013 illustrates different manufacturing characteristics and elucidates the key drivers behind their developments.

Third, getting industrial policy to work

Governments have many policy tools at hand to promote structural change as a regulator, financier, producer and consumer. For these policy tools to be successful, both distinctive contents as well as a suitable process are necessary. Policy contents in different policy areas, such as trade, competition, industries and the environment need to be consistent and aligned to achieve structural change objectives. The instruments used in different policy areas need to be complementary rather than incompatible. In other words, the applied policy process is crucial for the successful formulation and implementation of policies and their sustainability. Political leadership and policy coordination capabilities among different ministries and between governments and the private sector are key ingredients of this process.

Fourth, experimenting, learning and evaluating

As we all know, there is no universal recipe for successful industrial policy. Learning from past successes and from countries in similar conditions can provide valuable lessons, but let us not underestimate the role country-specific and time-specific conditions that are unique to each given country, play. A continuous cycle of implementing, monitoring, evaluating, learning and improving is essential for achieving sustainable economic growth.

Finally, the role of international cooperation

Coordination and consistency are also essential for international cooperation to be effective and to promote structural change and employment generation in developing countries. To foster such an international environment, the post-MDGs framework has to be anchored in the three dimensions of sustainable development, namely economic, social and environmental. The goals, indicators and bi-lateral and multi-lateral cooperation have to be mutually supportive and consistent.

Distinguished guests, ladies and gentlemen, I have delineated and summarized some of the key messages of the Industrial Development Report here. A lot more material is available in the report on the effective implementation of inclusive and sustainable industrial development. We have provided you with a copy of the report and hope the findings and policy implications will be useful for your own country's development and the implementation of effective development assistance in developing countries.