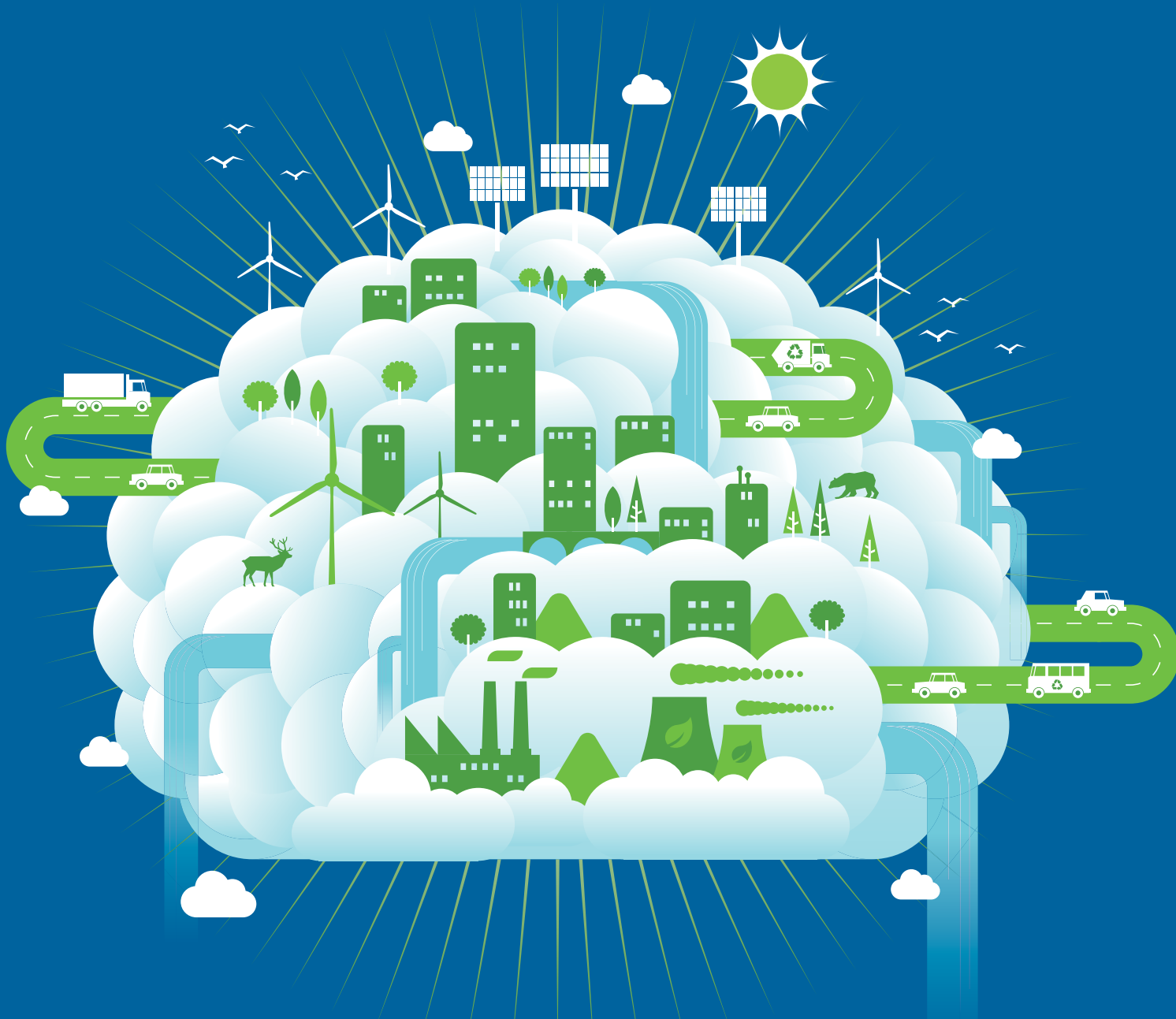


Inclusive and Sustainable Industrial Development

Creating shared prosperity | Safeguarding the environment



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

Foreword

LI Yong, Director General, UNIDO



The global community finds itself at a critical juncture today. While poverty is still the central challenge of our world, we now effectively have the means to eradicate poverty within the next generation.

Poverty is a complex phenomenon with many dimensions that go far beyond low income levels. Finding the right responses in each context thus requires concerted efforts across the spectrum of development cooperation, so as to achieve better livelihoods for the poor. This is what the new sustainable development agenda currently being formulated to succeed the UN Millennium Development Goals (MDGs) has to live up to. It has to present a clear roadmap for eradicating poverty in its full multidimensional context of economic deprivation, social inequality and environmental degradation.

So where do we stand today? Fortunately, there are many good examples to build on and success stories to share. Many countries have reached higher development levels in all dimensions – economic, social and environmental – for the benefit of their people.

Three decades ago, every second person in the developing world was poor. In 2010, the share of women and men living in absolute poverty had decreased to just over 20 per cent. Analyzing the drivers for this trend demonstrates that it was the countries with steady economic growth, driven by industrialization, international trade and related services that have managed to reduce poverty most effectively.

In fact, there is not a single country in the world that has reached a high stage of economic and social development without having developed an advanced industrial sector.

Yet, steady prosperity has not been achieved throughout the world and there remain remarkable differences between and within regions, countries and societies. Growth in the past occurred too often without providing the opportunity of participation and reward to significant segments of the population, and women and youth in particular.



Clearly, future strategies for poverty reduction need to be *economically empowered*. This is the only way to generate the income needed to enable individuals, households, and governments to pursue their own development priorities and to support their path to self-reliance. This must be the ultimate goal of our efforts to achieve sustainable development in all its dimensions.

In fact, efforts to address the prevailing social and environmental challenges in a sustainable and lasting manner have usually only succeeded when supported by economic growth.

As a response to these challenges, UNIDO is promoting **inclusive and sustainable industrial development (ISID)** to harness the full potential of industry's contribution to the achievement of sustainable development, and lasting prosperity for all.

This brochure introduces some of the key elements and issues related to this new vision, as enshrined in UNIDO's landmark *Lima Declaration* adopted by the Organization's Member States on 2 December 2013. It will shape the future operations, spirit and direction of UNIDO for many years to come.

Our challenge now, and our historic opportunity, is to recognize the potential of ISID, and to contribute our efforts for the common good in a new long-term development agenda beyond 2015.

LI Yong
Director General

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Inclusive and sustainable industrial development (ISID): Creating shared prosperity



Economic growth is driven by entrepreneurship, continuous economic diversification, growing trade relations, industrial upgrading and technological innovation.

Evidence proving that industrialization is an effective poverty reduction strategy is not hard to find: Whether we look at the early advances of the European countries, the United States or Japan, or those that caught up with the global trend in the latter half of the 20th century, including the Republic of Korea, China, and the many other Asian ‘tigers’ and ‘dragons’, it was always industrial development and trade in industrial goods that shaped their successes.

To many developing countries, these successful examples have become role models for effectively lifting large numbers of people out of poverty.

Already, the share of manufacturing value-added created in developing countries has almost doubled in the past 20 years, from 18 percent in 1992 to 35 percent in 2012. The structural transformation that occurs when economies move from a high reliance on agriculture and natural resource extraction to activities that foster local value-addition and related services has a dramatic development impact. It unleashes dynamic and competitive economic forces that generate employment and income, facilitate international trade, and use resources more efficiently.

This experience has repeated itself around the world since the original industrial revolution of the mid-18th century.



However, to really improve the living standards of all women and men, the benefits of growth have to be shared more equitably.

This can be achieved when decent employment opportunities are available for all segments of the labour force. Manufacturing industries and their related services sectors can absorb large numbers of workers, provide them with stable jobs and good benefits, and increase the prosperity of their families and communities. An efficient agro-industry, combined with increased investment in agriculture, enhances economic stability for rural households, increases food security and promotes innovation throughout industrial value chains.

Experiences from the past decade show that shared prosperity was in most cases based on progress made in absorbing the labour force more effectively into higher-income industrial jobs.

Based on this experience, it is essential to better integrate women and youth in the process of creating an industrial workforce. This not only yields positive multiplier effects for households and communities but also contributes to greater social cohesion.

Increased participation in international trade also helps to improve local working conditions through the need to comply with international standards and greater access to modern technologies and best practices.

Industry therefore is an important source of decent employment, accounting for almost 500 million jobs worldwide – or about a fifth of the world's workforce. Only those economies that have the ability to constantly generate new activities based on upgrading to higher levels of value-addition, higher productivity, or higher returns to scale – economies characterized by structural change – can sustain stable jobs and increase the prosperity for a growing share of the population.

Inclusive and sustainable industrial development (ISID): Safeguarding the environment



Any progress on poverty eradication will be short-lived if we do not succeed in achieving the necessary economic growth within an environmentally sustainable framework.

The importance for promoting cleaner and resource-efficient pathways to production, and the de-coupling of economic growth from environmental degradation, cannot be emphasized strongly enough.

We cannot deny that one side effect of industrialization is its considerable environmental footprint. There is no country that has yet fully resolved the issues of waste management, water purification and pollution. However, experience shows that environmentally-sound interventions in manufacturing industries can be highly effective and significantly reduce environmental degradation.

In this context, the drive for innovation and process optimization, the core of any industrial upgrading effort, is an important means to develop the necessary solutions to realize cleaner production, efficient resource management and reductions in waste and pollution.

We have the technological capabilities for cleaner industrial production today. “Green industry” can be promoted to deliver environmental goods and services. These industries by themselves are a sustainable source for further structural diversification, jobs, income and prosperity. Moreover, committing to sustainable production patterns makes business sense as it reduces wastage of costly resources, and contributes to increased competitiveness.

There is also an imperative to increase energy efficiency in industrial production. Since energy inputs represent an important cost of production for industries, clean energy and energy efficiency have progressively become core determinants of economic competitiveness and sustained growth.

Demanding to choose between industrial growth and sustainability is therefore the wrong approach. It is the transformation in production processes and business models – going hand-in-hand with the right choice of technologies – that will present the solutions to the daunting environmental challenges of our times.



Institutions capable of designing, implementing and monitoring industrial development policies that promote and encourage private sector development are key for effectively bringing about the structural changes that lie at the core of ISID.

How much impact industry has on poverty eradication, environmental sustainability and food security is ultimately defined by the pattern of industrialization a country chooses to follow. Hence, a long-term strategy is required that puts in place a framework of stable economic, legal, and political conditions, and creates policy incentives to invest in the necessary education, infrastructure, product quality, agri-business solutions, innovation, and entrepreneurial skills.

Concrete action will depend on the country-specific challenges, endowments and levels of integration in the global economic system. Considering what matters most to policymakers today – *how to sustain growth, to increase their country's participation in international trade and globalization, to create lasting jobs that generate income, and to advance the overall well-being of their people* – it comes as no surprise that sound industrial policymaking remains a top priority around the globe. At all levels of development, industry can be a primary driver in fighting poverty, ensuring food security, and preventing social polarization and fragmentation.

It is for these reasons that there is a strong call for the integration of the economic dimension, and the role of industry and manufacturing in particular, into the global post-2015 development priorities.

Similarly, policymakers and thought leaders from all sides of the political spectrum are promoting *inclusive and sustainable industrial development (ISID)* as a tool for creating higher-skilled jobs, for building more equitable societies, and for safeguarding the environment, while sustaining economic growth. ISID will help us in actively shaping the next era of inclusive and sustainable globalization.

All UNIDO Member States agreed in the Lima Declaration of 2013: **Inclusive and sustainable industrial development must become an important part of the long-term development agenda, beyond 2015.**

Inclusive and sustainable industrial development (ISID): A priority around the globe



The UN Secretary General's High-Level Panel of Eminent Persons on the Post-2015 Development Agenda calls for a transformation of economies towards jobs and inclusive growth that strives to add value and raise productivity and lists industrialization as one central strategy to achieve this transformation. (*A New Global Partnership: Eradicate Poverty and transform Economies through Sustainable Development*, UNHLP, 2013)

MIDDLE-INCOME COUNTRIES are committed to promote measures and cooperation that advance inclusive and equitable economic growth and prosperity, and industrial advancement in the framework of sustainable development. (*San José Declaration*, 2013)



INDUSTRIALIZED COUNTRIES are now calling for an “industrial renaissance” to overcome the consequences of the economic crisis, address the dangers of deindustrialization and be less prone for future downturns:

- o The EU's Communication “For a European Industrial Renaissance” of January 2014 is based on the recognition that Europe's economy cannot survive without a strong and reshaped industrial base. Hence, it introduces the goal to raise industry share in GDP to 20% by 2020. In addition, the new EU development policy “Agenda for change” also recognizes the critical role of private sector and industry for “inclusive and sustainable growth”.
- o In the United States, the Government announced its commitment to revitalize manufacturing and use it as a platform for spurring innovation and creating more and better paid jobs.
- o The centrepiece of the Japanese Prime Minister's growth strategy is industrial revival through industrial restructuring, labour market reform, innovation and SME support.



During the global “The World We Want”-consultations in 2013, participants requested to bring industrial development back to the development agenda in order to stimulate growth, increase employment and improve living standards. (*A million voices*, UNDG, 2013)

The Ministerial Conference of **LATIN AMERICAN AND CARIBBEAN** countries on Productive and Industrial Development identified the pressing need to foster and strengthen the national productive and industrial apparatus in Latin America and the Caribbean to increase productivity and overcome inequalities. (*Ministerial Conference on Productive and Industrial Development in Latin America and the Caribbean*, CELAC/CEPAL/SELA, 2013)





The Regional Economic Commission for the **ARAB COUNTRIES** identifies the promotion of inclusive growth and structural transformation through industrial and agricultural policy as a central development priority until 2030. (*A regional Perspective on the Post-2015 UN Development Agenda*, ECE/ESCAP/ECLAC/ECA/ESCWA, 2013)



THE G20 LEADERS recognized the urgent need for structural reforms to strengthen sustainable and balanced growth by, inter alia, boosting investment, enhancing productivity and competitiveness, and increasing labour force participation (*G20 Leaders' Declaration*, September 2013).



APEC leaders recognize the need to work together to promote sustainable and inclusive growth in the **ASIA-PACIFIC REGION** through trade, rural development and poverty alleviation. (*Bali Declaration – Resilient Asia-Pacific, Engine of Global Growth*, APEC, 2013)

The African Union and UN Economic Commission for **AFRICA** recommend industrialization as the central strategy for Africa to address poverty, inequality and unemployment. (*Economic Report on Africa 2013*, AU and UNECA, 2013)



LEAST DEVELOPED COUNTRIES have identified productive capacity-building as a high priority, including the importance of their industrialization and integration in global value chains; and have urged that their cause should be prioritised in the future post-2015 agenda. (*State of the Least Developed Countries 2013: Follow up of the Implementation of the Istanbul Programme of Action for the Least Developed Countries*, UN OHRLS, 2013)



This new *Lima Declaration* of UNIDO is an encouraging milestone. It points the world more firmly in the direction of *inclusive and sustainable industrial development*. It offers important guidance as the world sets its sights on the year 2015. Reaching our objectives will require significant change and restructuring of the global economy. Industry and the private sector will play a crucial role. Working together, with enlightened action, we can create jobs, improve public well-being and protect the environment. [...] With this Lima Declaration, you have reiterated the importance of building a life of security, prosperity and dignity for all. Together we can seize the tremendous potential of inclusive and sustainable industrial development. (*UN Secretary General at of the 15th General Conference of UNIDO*)



Inclusive and sustainable industrial development (ISID)

UNIDO's Vision

Through ISID, we want to eradicate poverty within the next generation.

UNIDO aims to achieve inclusive and sustainable industrial development (ISID) for its member states. ISID means that:

- Every country achieves a higher level of industrialization in their economies, and benefits from the globalization of markets for industrial goods and services.
- No one is left behind in benefiting from industrial growth, and prosperity is shared among women and men in all countries.
- Broader economic and social growth is supported within an environmentally sustainable framework.
- The unique knowledge and resources of all relevant development actors are combined to maximize the development impact of ISID.

ISID in the global development agenda:

- ISID is relevant to all UNIDO member states, as an integral part of any resilient economy, and as the primary source of income generation for both individuals and governments to enable them to pursue their own development priorities and plans.
- ISID allows for rapid and sustained increases in living standards for all people, in all industries and their related service sectors.
- ISID provides the technological solutions to environmentally sound industrialization.
- ISID requires suitable institutional capacities, an enabling infrastructure, a vibrant private sector, and a conducive business environment.
- ISID can only be achieved in partnership with all related stakeholders.



UNIDO is convinced that ISID will be a key driver for the successful integration of the economic, social and environmental dimensions, required to fully realize sustainable development for the benefit of our future generations. UNIDO therefore advances ISID by building and improving the necessary industrial capacities in its Member States.

To do this, the Organization serves as a global forum for industrial cooperation and standard-setting, and provides policy advisory and technical cooperation services.

- In its global forum role, UNIDO identifies state-of-the-art practices and encourages knowledge exchange in industrialization, related standards, and industrial policymaking, while engaging key stakeholders that have the potential to enhance the ability of low-, middle-, and high-income countries to pursue inclusive and sustainable industrial development.
- As a provider of technical cooperation and policy advisory services, UNIDO supports the creation of conducive policy environments for inclusive and sustainable industrial development, and builds capacities in public and private institutions to support the growth of industry and related services, with a particular focus on SME and entrepreneurship development.

Inclusive and sustainable industrial development (ISID): Partnering for Prosperity



Successfully implementing ISID in our current era of globalization requires new approaches that harness globally available knowledge, technology and innovation. Knowledge exchange and technology transfer will therefore significantly contribute to realizing ISID.

Empirical evidence reveals that most increases in per capita income stem from advances in technology. More than two-thirds of growth in developing countries arises from catching up on technology, and from acquiring knowledge from technologically more advanced countries.

Even within countries and economic sectors, there is significant scope for improving productivity, efficiency and overall socio-economic performance by closing the gap between prevailing activities and best practices.

This means that livelihoods can be sustainably improved through the transfer of technologies and the dissemination of knowledge.

The private sector is an important vehicle for technology development and innovation, representing a hub for technical progress. Investment and technology transfer have positive externalities that go far beyond the productivity gains achieved in the same sector, contributing significantly to productivity growth in other sectors and thus fueling overall economic growth.

Learning and knowledge-networking strategies must therefore build the foundation of any sustainable development approach. UNIDO has demonstrated that there are significant gains in advancing a country's connectedness at all levels. The structured creation of ISID-related knowledge, promotion of industrial innovation, and cooperation in fostering technology and knowledge exchange will thus remain a centrepiece of UNIDO's ISID approach.



Multi-stakeholder partnerships are crucial for effectively managing the transformation towards inclusive and sustainable industrial development.

Sustaining poverty reduction efforts and implementing ISID strategies require adequate financing. Since most developing countries experience difficulties in attracting investment and in accessing the relevant knowledge and solutions to persistent challenges, it is essential to reinforce international cooperation for ISID at all levels.

Diverse sources of expertise and resources facilitated by international partnerships will play a crucial role in supporting developing countries in eradicating poverty through ISID. This also requires a strong commitment of local and national governments for ISID strategies, including the building of adequate institutional capacities to this end.

In this context, the significant contribution of South-South and triangular cooperation and networking must be emphasized as an indispensable complement to the more traditional forms of North-South international cooperation. It promises to provide practical and experience-based solutions to complex policy choices and challenges.

Networks and partnerships should, however, not be limited to state actors alone. To achieve ISID – and to fight poverty – it will be essential to include all related stakeholders: The private sector, civil society, academia, governmental institutions, and the international development organizations.

Inclusive and sustainable industrial development (ISID): Towards a prosperous future for all



Effectively and sustainably eradicating poverty within the next generation will require a significant reorientation of our developmental approaches: We need to establish integrated strategies that seek to promote economic and industrial growth within a socially inclusive and environmentally sustainable framework.

The real question about industrialization is not whether it should be a development priority. The question is what kind of industrialization should be prioritized to maximize the synergies with the global development agenda towards the overarching objective of achieving sustainable development and prosperity for all.

UNIDO embraces this challenge through prioritizing ISID. We are keen to work with partners and stakeholders in realizing the benefits of this global vision for the next era of globalization.

We believe that ISID will provide a solid backbone for our global economy, sharing prosperity throughout societies and safeguarding the environment. This is the next industrial revolution. It will be characterized by partnership, where governments, the private sector and other stakeholders collaborate in bringing about this transformative change.

Realizing the potential of ISID, and combining our efforts for the common good, will be the ultimate priority for UNIDO in the years ahead. We invite you to join us.





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