



HIGH-LEVEL POLITICAL FORUM ON SUSTAINABLE DEVELOPMENT

HLPF 2020 session: Responding to the economic shock, relaunching growth and sharing economic benefits and addressing developing countries' financing challenges

Fernando Santiago, Industrial Development Officer, UNIDO - answers to guiding questions:

1. ***Policies, actions and trade-offs:*** What are some promising actions to support progress toward advancing sustainable, inclusive and just economies? What policy measures contribute to human-centred growth and to promote access to quality and productive employment for all? How could these actions be designed to generate synergies between SDG 8 and other Goals and Targets? What are some of the possible trade-offs from these actions and how can they be mitigated (see example below)? What are the most critical interventions that will be needed in economic systems over the next 2 years, 5 years, 10 years? For example, what key measures are necessary in both public and private sectors to promote decent work and social protection, eliminate wage gaps and the unequal burdens of unpaid carework between women and men, and support the transition to a sustainable production and consumption systems and 'green' jobs? What are some concrete policy examples that have illustrated success and could be shared for good practices?

Research conducted by UNIDO documents the pertinence of looking at manufacturing development from the perspective of demand, and its interaction with traditional supply perspectives.¹ This combined approach shows how, with the right set of conditions, the consumption of manufactures can set in motion a virtuous circle of sustainable and inclusive industrial development, and comprising innovation, income creation, enhanced productivity, demand diversification and massification of more affordable and sustainable consumption.

Demand for manufacturing incentivizes emergence and expansion of new industrial sectors, generating new jobs and profit opportunities. However, tensions may emerge as increased consumption of new products can add pressures on the environment, which require active environmental policies targeted to manufacturing industries. Those interventions should enhance the production of environmental goods, namely those that minimize the use of natural resources and toxic materials, and that result in lower emissions of waste and pollutants. While technologies for cleaner industrial production already exist, and "green industries" can be promoted to deliver environmental goods and services, the development

¹ UNIDO (2017) Industrial Development Report 2018. Demand for Manufacturing: Driving Inclusive and Sustainable Industrial Development. <https://www.unido.org/resources-publications-flagship-publications-industrial-development-report-series/industrial-development-report-2018>

of these industries requires major shifts in the consumption patterns towards the purchase of environmental goods.

By providing direct incentives to consumers, governments can reorient industrial activity towards cleaner processes or the adoption of more environmental-friendly products and services. Examples include subsidies for buying “new-energy vehicles” in China and the Republic of Korea. Likewise possible is to enhance perceived benefits through consumer education and awareness raising or affect demand for environmental goods directly through public procurement.

Incomes created along the circle may not flow to the poorest people in society, or declining prices may result from falling labor standards. Policy interventions should help in removing important barriers to widespread consumption, focusing on three factors: expansion of the middle class, real wage growth and diversification of domestic consumption. Leveraging on international certification bodies could inform strategies to meet consumer demand, while strengthening compliance with international quality, decent labor and safety standards.

Policies targeting demand for manufacturing should distinguish between demand as a framework condition, partially or completely outside the control of policy-makers, and demand as an actionable variable in industrial policy interventions (Table 1). In either case, governments can assume distinct roles and actively engage with the private sector and other stakeholders to drive industrialization along more inclusive and sustainable pathways.

Table 1

Government roles and industrial policy interventions for demand as a framework condition or an actionable variable

Nature of demand/ role of government	Description of intervention	Examples of interventions
<i>Framework condition</i>		
Facilitator of industrialization and upgrading	Remove market failures so that firms can build on comparative advantages to take advantage of external demand conditions or opportunities for industrialization.	<ul style="list-style-type: none"> • Fiscal, monetary, exchange rate and employment policies • Provision of credits or loan guarantees • Incentives for foreign direct investment (FDI) • Export promotion and competition policies
Technological capability-building partner	Promote adoption, use and (eventually) development of technologies that enhance knowledge bases and presence in domestic and international markets.	<ul style="list-style-type: none"> • Selective industry protection • Creation of public research centres • Promotion of corporate research and development (R&D) • Technology transfer mechanisms and joint venture agreements • Export promotion • Import substitution • Selective FDI • Skills training
Market antenna	Help domestic agents identify or anticipate changes in technologies with implications for the dynamics of manufacturing.	<ul style="list-style-type: none"> • Foresight services and market intelligence
<i>Actionable variable</i>		
Information provider and/or awareness raiser	Influence consumer knowledge, awareness, readiness and capabilities to consume certain manufacturing products.	<ul style="list-style-type: none"> • Communication, education and awareness-raising campaigns • National brands • Voluntary labelling
Regulator	Stimulate and regulate consumption of manufacturing products or influence consumer behaviour through changes in relative prices.	<ul style="list-style-type: none"> • Fiscal (taxes, tariffs, quotas, subsidies, tax credits or exemptions); monetary; and exchange rate policies
	Influence consumption of manufacturing products or guide consumer behaviour through laws, directives and regulations.	<ul style="list-style-type: none"> • Mandatory standards and labels
Enabler/co-generator of innovation	Promote, enhance or create demand for innovative products by targeting final users.	<ul style="list-style-type: none"> • Grants and subsidies for consumption of innovation
Consumer	Promote consumption of manufacturing products, guide strategic investments in innovation, address societal needs through provision of manufactured goods and ensure a market for strategic industries or economic activities.	<ul style="list-style-type: none"> • Public procurement

Source: UNIDO elaboration based on Santiago Rodriguez and Weiss (2017), Santiago Rodriguez et al. (2017) and Lin and Chang (2009).

Manufacturing development in context of COVID-19

It is difficult to imagine strategies to manage the economic shock from COVID-19, or to relaunch growth where SDG9 is not a relevant target. Industrialization is the driver of sustained prosperity and achieving many SDGs. Industrialization does not only contribute to economic growth and infrastructure upgrading, but can also directly and indirectly support the achievement of the SDGs' socio-economic and environmental objectives through the creation of jobs, improvements in working conditions, innovation, and the development of new and greener production technologies.

In this regard, manufacturing is one of the sectors most affected by the general closure of economic activity, the disruption in GVCs and the interruption in trade flows resulting from the pandemic. Global manufacturing output growth shrank by 6.0 per cent in the first quarter of 2020. Industrialized economies, where manufacturing was already in the doldrums before the COVID-19 outbreak, reported a moderate level of contraction, -2.5 per cent, relative to December 2019. China, as the manufacturing hub of the world, saw manufacturing output plunge by 14.1 per cent in the first quarter of 2020. In the case of

developing and emerging industrial economies (excl. China), manufacturing output decreased by 1.8 per cent. In the short-term, the challenge remains to ensure production of basic supplies. While in the medium to long-term, policies should help to re-establish economic activity while safeguarding the health of the population and laying the foundations for a productive transformation that is more inclusive and sustainable, and that fosters resilience in face of extreme events.

In this context, the combined supply-demand approach proposed to guide policies for recovery post-COVID-19 is consistent with proposals of using expansionary fiscal policies and demand-driven interventions to manage the ongoing COVID-19 outbreak. Containment measures have shaken the foundations of the three main pillars of the global economy: demand, supply, and finance. Because many businesses will be unable to weather the economic downturn on their own, policy actions will be crucial at both the macro and the microeconomic level, structured around four target areas²:

Keep businesses afloat

Maintain employment

Adapt or reorient businesses after COVID-19 containment efforts

Hence, from the viewpoint of mitigation and smooth recovery, the impact on enterprises should be discussed much more. Under normal circumstances, firms would not be distressed by the burden of debt, downsizing their operations or filing bankruptcy, but making profits and distributing value added to households and governments in the form of incomes and taxes, respectively. However, if they fail to survive the current turmoil, many healthy firms will be unable to resume business operations and jobs and incomes will be permanently lost. Attention to the generator and holder of jobs (i.e. enterprises) is much more needed. Support to workers from this angle (keeping employer-employee relations as much as possible) is important.

2. *Leaving no-one behind:* Which groups are especially likely to miss out on economic benefits and decent work? To what extent are women missing out compared to men? Which groups risk being left behind even further as a result of COVID 19? How can economic and employment opportunities be improved for both women and men and specific groups at the low end of the income distribution? What is the role of labour market institutions, such as collective bargaining and minimum wages, versus other policies to ensure a fair sharing of the fruits of progress? How can social protection systems play a stronger role in reducing inequalities in opportunities and outcomes? What long-term policy measures need to be put in place or strengthened to promote the economic resilience of the most marginalized groups, including persons with disabilities, indigenous peoples, migrants, rural populations, older persons and LGBTQ peoples?

² Hartwich, Fokeer, Isaksson and Santiago (2020) Managing COVID-19: How industrial policy can mitigate the impact of the pandemic. <https://iap.unido.org/articles/managing-covid-19-how-industrial-policy-can-mitigate-impact-pandemic>

No one should be left behind in benefiting from industrial development; the prosperity it creates should be shared among all people in all countries. For this to happen, countries need to commit to industrialization by building the required industrial capabilities to serve new and more sophisticated demands from consumers. Moreover, the incomes generated need to be distributed evenly across households in individual countries, which should be possible by expanding and strengthening the role of middle classes as a powerful driver of domestic demand for new products and industrial development.

In order to enhance inclusiveness of manufacturing development, policy-makers can facilitate access to goods, reduce their price and enhance their quality. Examples include health reform in Mexico and Brazil to develop cheaper and more affordable generic drugs, or regional efforts to reduce the cost of essential medicines in Latin America through pooled procurement. Countries can also seek to ensure equal access by manufacturers from societal sectors that are deprived of or face unfavorable access to markets because of their gender, geographical location or other characteristics. Examples include quotas in strategic public procurement for women-led enterprises in the Dominican Republic and preferential access and capacity building for small and medium-size enterprises in Sri Lanka's ICT sector.³

In the short-term however, the ongoing COVID-19 pandemic threatens to delay industrialization, or bring manufacturing development several years back in several developing countries. Manufacturing employment will suffer dearly. Take as example the wearing apparel industry, which accounts for large shares of manufacturing jobs in many developing Asian countries, especially for women.⁴ In Bangladesh, where the industry employs around four million people, buyer cancellations and failure of payment by buyers for those cancellations have resulted in closure of the majority of operations. About a million workers have been laid off or furloughed, up to 80% of them failed to receive severance payment. Other major apparel exporting countries in Asia are facing similar situations; factories have halted operations due to fabric shortages in Myanmar and Cambodia, affecting thousands of workers.

At the same time, the COVID-19 outbreak is showing differentiated effects across distinct societal groups. It is not about traditional distinction between developed and developing countries, but about cumulated investments that determine readiness and resilience. For many developing countries, sustainable long-term recovery will require a commitment to bridge capability gaps and improve the performance of local health care systems, including links to local manufacturing capacities.

Policies to handle the health crisis and reactivate the economy should address the specific needs and contributions of women as workers, business owners and entrepreneurs, from accessing financial rescue packages, credit and unemployment benefits to removing barriers for women to perform higher-skilled and better-paid jobs.⁵

³ For more detailed discussion of country cases see UNIDO (2017) Industrial Development Report 2018. Demand for Manufacturing: Driving Inclusive and Sustainable Industrial Development. <https://www.unido.org/resources-publications-flagship-publications-industrial-development-report-series/industrial-development-report-2018>

⁴ Haraguchi (2020) Managing COVID-19: How to minimize the negative impact on industry. <https://iap.unido.org/articles/managing-covid-19-how-minimize-negative-impact-industry>

3. *Knowledge gaps:* What science, knowledge and data gaps need to be addressed for better understanding the interlinkages between SDG8 and SDG 1, 5, 10 and others in economic systems? How can these be addressed? What are the information gaps that need to be addressed to respond in an efficient and equitable way to the COVID 19 Crisis? What steps are being taken to mainstream disaggregated data, including on gender, into research and data production to address multiple and intersecting inequalities, and to improve the quality and comparability of available data across countries and time?

The COVID-19 pandemic unfolds at the outset of the Fourth Industrial Revolution, which should transform global manufacturing through enhanced automatization, digitalization, artificial intelligence and other emerging technologies. Uncertainty remains however, about which industries and which types of jobs will most pronouncedly feel the impact associated with the development of these frontier technologies. Generally, it is understood that low-skilled and routine manufacturing jobs –were women tend to be over-represented- should withstand the worst of this technological upheaval. In the short run, data and further research should shed light on the extent of impacts of COVID-19 on employment and the drivers of such impact. In the medium to long term, further research should address the structural consequences of Industry 4.0, including on women and other societal groups.

Regarding the second point above, UNIDO's research suggest that a sectoral or industry focus makes it difficult to assess the impact of technology on employment in the overall economy.⁶ There is need to look beyond direct effects (workers displaced) to indirect (changes in production processes or demand for certain materials and components) and net effects, including interactions of markets at home and abroad, which may affect domestic and foreign employment. The data suggest that once all effects are considered, between 2000 and 2014, the increase in industrial robots in manufacturing led to net, though small, job creation globally. Moreover, the main positive effects emerged from international supplier linkages and domestic customer linkages. By contrast, domestic supplier linkages showed negative effects on employment. Most of the jobs were created in emerging economies due to the increase in the stock of robots in industrialized economies.

By looking into the type of occupation preformed, women are more likely to face a higher computerization risk than men in food, beverages and tobacco, textiles and leather and

⁵ Ugaz Estrada, Dolun, Schuber and Schmidt (2020). Industries post-COVID-19: A gender-responsive approach to global economic recovery. <https://iap.unido.org/articles/industries-post-covid-19-gender-responsive-approach-global-economic-recovery>

⁶ UNIDO (2019) Industrial Development Report 2020. Industrializing in the digital age. <https://www.unido.org/resources-publications-flagship-publications-industrial-development-report-series/idr2020>

chemicals. By contrast, no statistically significant gender differences in computerization risk are observed in the computers, electronics and vehicles sector.⁷

In addition to research, UNIDO contributes to the development of indicators and methodologies that help to better understanding the relationship between SDG8 and SDG5 and 10. In particular, through the project EQUIP (Enhancing the Quality of Industrial Policies) funded by the German cooperation (GIZ), UNIDO has produced twelve capacity building tools aimed at strengthening technical skills of government officials in developing countries in areas related to inclusive and sustainable industrial development. The tools cover economic and social topics such as production and exports upgrading, diversification and poverty alleviation <http://www.equip-project.org/toolbox/>. In 2019, three new modules were introduced as follows:

- Gender and manufacturing, with a set of indicators on female participation in manufacturing and structural change, and their key determinants. Policymakers should be able to identify how an industrialization trajectory can offer women and men equal opportunities to contribute to, lead and benefit from structural transformation. More information, [here](#).
- Climate change and manufacturing, which presents a set of indicators and related analyses regarding a country's vulnerability to climate change and greenhouse gas emissions focusing on the manufacturing sector. The analysis relies on best available data from international organizations such as the International Energy Agency, World Bank and UNIDO. It seeks to provide policy makers with a tool for understanding country needs for climate change adaptation and mitigation. More information, [here](#).

Industry 4.0 and productivity, which should help policy makers address concerns about the socio-economic consequences of the adoption of new and smart technologies, including the effect they will have on the displacement of workers and potential job losses and the impact on developing countries' economic development trajectory. More information, [here](#).

- 4. *Relevant means of implementation and the global partnership for development (SDG 17):* Achieving the 2030 Agenda relies on applying the means of implementation to harness synergies and/or reduce trade-offs. Are there examples of how the various means of implementation, including finance, partnerships, capacity building, and science and technology (also see below), are being brought together to achieve these objectives at scale? scale? How can existing UN system partnerships more effectively support these objectives? Can these be replicated or adjusted to fit other contexts? What are the most important partnerships that will be needed over the next 2 years, 5 years, 10 years? What kinds of safeguards can be put in place in partnerships, for example, gender, human rights and environmental impact assessments? What are steps that can be taken by existing and new partnerships to promote the sustained**

⁷ UNIDO (2019) Industrial Development Report 2020. Industrializing in the digital age. <https://www.unido.org/resources-publications-flagship-publications-industrial-development-report-series/idr2020>

participation of civil society organizations including women’s and girls’ organizations, youth-led organizations and national human rights institutions?

UNIDO partners with organization within and outside the UN-system to develop tools and methodologies that assist member states in the design and implementation of industrial policies. Recent examples include:

Partnership with GIZ to develop the tool: Enhancing the Quality of Industrial Policies (EQuIP). Two modules were added in 2019 on energy efficiency and material efficiency, respectively. More information, [here](#).

In the framework of the Partnership for Action on Green Economy, UNIDO contributed to development of the “[Green Industrial Policy and Trade: A Tool-Box](#)”, which provides a basic guide to national partners in considering different trade-related policy options to promote green industrial development.

Partnership with the OECD in supporting the inclusiveness agenda of the Secretariat of the ASEAN states through development of an integrated policy package, including tools and methodologies for guiding implementation of enterprise surveys, drafting of thematic policy reports and execution of capacity building trainings.

- 5. *Science, technology and innovation:* The ways we live and work are defined to various extents by science, technology and innovation, and achieving sustainability in these areas will require STI-based solutions.**
- a. What types of gender-responsive STI solutions are needed to make economies more equitable and sustainable?**
 - b. What role can STI play in this transformation to sustainable and equitable economic systems? What are the most promising technology solutions? What are potential trade-offs and synergies to keep in mind in this context?**
 - c. How can STI help reduce inequality, with related improvements in sustainability, in both developing and developed countries? What strategies and investments are needed to close the digital divide between countries and the gender digital divide? What steps need to be taken to counter and risks and challenges that can emerge from the use of technologies?**
 - d. How can we make sure that STI solutions reach those most at risk of being excluded from sustainable economic progress? How can the public and private sectors promote women’s and other underrepresented groups’ participation in science and research, as well as in the design and development of technology? How could education, training and skills policies help make a difference?**

The Climate Technology Centre & Network (CTCN) is the operational arm of the UNFCCC Technology Mechanism, hosted by the UN Environment Programme and the UN Industrial Development Organization (UNIDO). CTCN harnesses the expertise of a global network of technology companies and institutions to offer technology solutions, capacity building and advice on policy, legal and regulatory frameworks tailored to the needs of individual countries. CTCN includes a global network of over 500 technology institutions from among

academia, civil society, finance, the private sector and research institutions, as well as over 160 national focal points for climate technology from the Global North and South. The CTCN has delivered technology transfer in over 100 countries on a wide array of sectors, from agriculture, disaster-preparedness and energy to industry, pollution, transport, water and waste management. It is considered one of the premiere initiatives helping nations raise and realize their commitments under the Paris Agreement. It also offers the world's largest online source of climate technology information: www.ctc-n.org.