



# Why diversification matters?

Workshop on Promoting Economic Diversification in the CAREC Region

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# Introduction to UNIDO

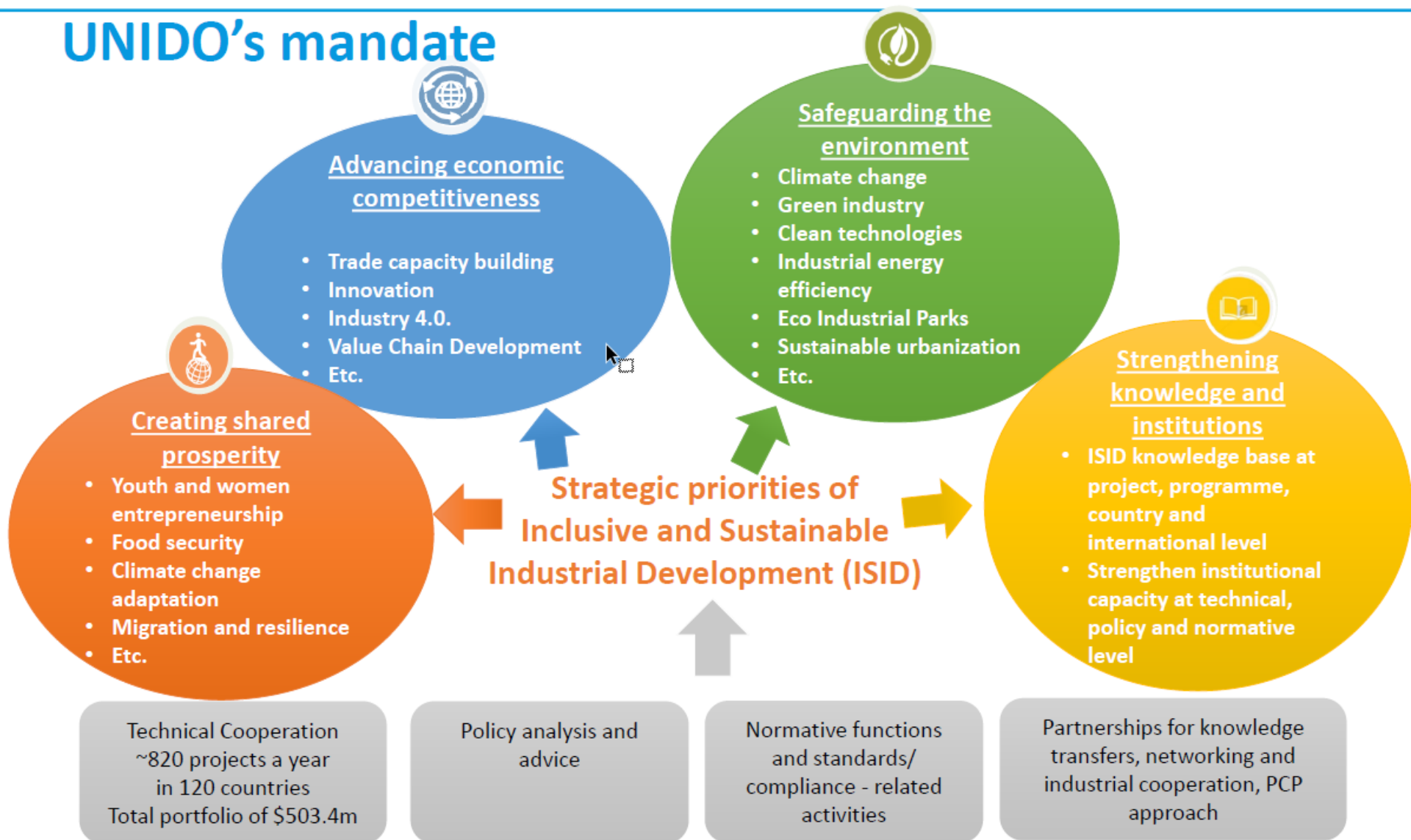


UNIDO is the specialized agency of the United Nations that promotes **inclusive and sustainable industrial development (ISID)** in developing countries and countries with economies in transition.



**SUSTAINABLE DEVELOPMENT GOAL 9**  
Build resilient infrastructure, **promote inclusive and sustainable industrialization** and foster innovation

# UNIDO's mandate





UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION



**SUSTAINABLE DEVELOPMENT GOAL 9**  
INDUSTRY, INNOVATION AND INFRASTRUCTURE

# The UNIDO Department of Policy, Research and Statistics





# Mission and Structure

## Mission

- Provide strategic policy advice based on sectoral analyses of industrial development and processes of structural change;
- Develop UNIDO's research programme, advocates sustainable industrialization;
- Strengthen the capacity of Member States in related areas.

## Structure

- Division of Statistics
- Division of Research and Policy Advice (incl. capacity development)

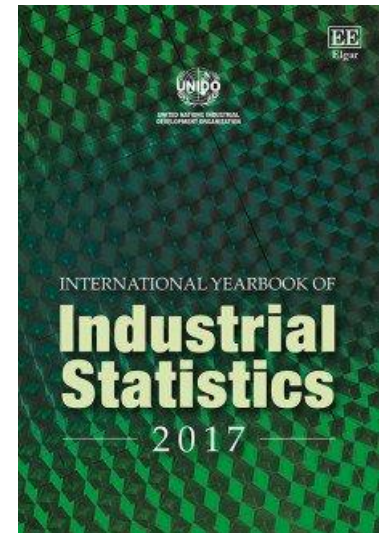
## UNIDO Statistics – the core of research

- Collecting and maintaining international industrial statistics based on international standard of economic activities (ISIC)
- Monitoring SDG on industrialization progress (SDG 9)
- Basis for analysis of patterns of structural transformation
  - understanding how the structure of the economy (sectoral composition, employment, value added ...) changes as income grows
  - allows to anticipate such transformations for different categories of countries and prepare to them in the best possible way



# Support provided for statistical capacities

- Capacity building of data production and data analysis
  - ✓ Latest international guideline and standard update
  - ✓ Introduction of the best practice of industrial statistics
  - ✓ Business register maintenance and updates
  - ✓ Census and Survey techniques
  - ✓ Database maintenance
  - ✓ Data analysis skills
- Country benchmarking
  - ✓ Competitive Industrial Performance Index (and ranking)



# Research

- **Industrial Development Report**
  - Flagship publication (biannual) to address most pressing issues of ISID
  - Combining UNIDO's own research and inputs from leading experts
- **Programme for Country Partnerships (PCP) diagnostics**
  - Analytical base for the development of UNIDO's PCPs
  - Assessing constraints and opportunities for ISID
- **Research projects and partnership**
  - Joint research with universities and research institutes to expand the scope and scale of UNIDO's research and advocacy
- **Staff research papers**
  - Knowledge contributions to the areas of structural change, sustainability, global value chains, and FDI



# Assessment of industrial development performance

- The assessment of the performance of the national/sub-national manufacturing sector based
  - ✓ Quantitative evidence on the competitiveness of the manufacturing sector
  - ✓ Of key drivers of industrial performance (technology, finance, skills, investment, infrastructure and regulation)
  - ✓ Of the diversification of the manufacturing sector and its risk exposure in terms of markets and output concentration
- Review and assessment of complementary strategies and policies
  - ✓ Appreciation of available policy space
  - ✓ Integration into broader development strategies



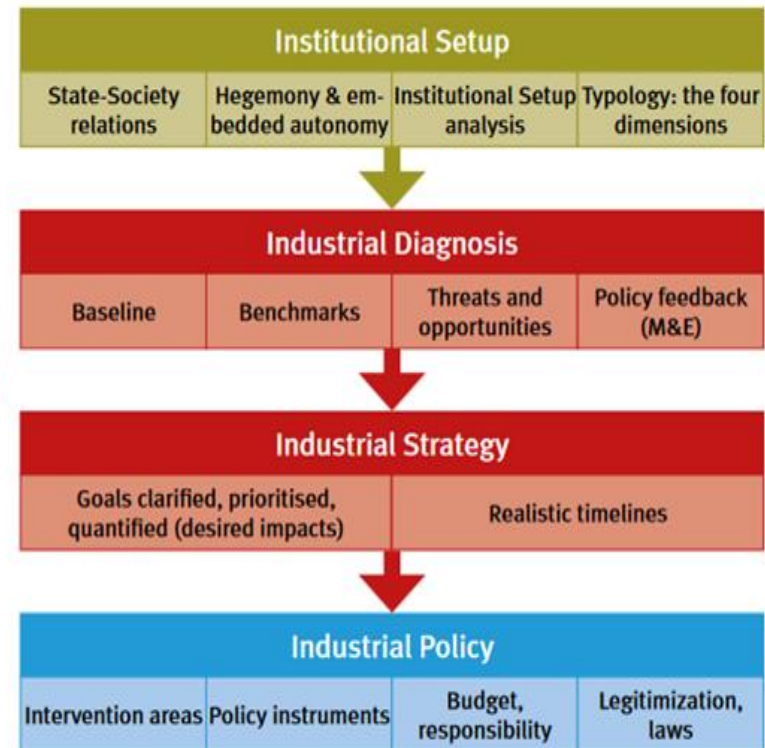
# Global Manufacturing and Industrial Summit (GMIS)

- UNIDO and UAE
- Global forum on the 4th Industrial Revolution (4IR)
- How to make 4IR work for the 2030 Agenda; For example
  - *Opportunities and challenges*
  - *Winners and losers*
- Different actors of society
- Annual Summit (2017, 2019, 2020, ...)
- Roadshow building up to the Summit

# Support to design of industrialization policies

- Linking policy to strategic objectives and targets
- Assessment of industrial policies/laws/regulations/programmes on the basis of the following categorization:
  - Policies aimed at correcting market failures in product, labor, capital, land and technology markets (horizontal)
  - Policies aimed at promoting certain industrial activities (vertical)
  - Policies aimed at addressing governance and coordination issues
- Tasks
  - Identification of individual policies and policy packages
  - Assessment of their effectiveness and costs
  - Identification of policy gaps and accordingly modify existing policies and/or introduce new ones
- Policy learning

# The Industrial Policy Cycle



## Capacity-development activities

Deliver training courses on the following topics:

- Industrial statistics analysis and diagnostics
- Industrial policy strategy formulation
- Industrial policy instruments
- Green Industry
- Climate change
- Sustainable Energy Solutions
- Science, Technology and innovation (STI)
- Industry 4.0
- Standards and National Quality Infrastructure
- Industrial Parks
- Global and national value chains
- Foreign Direct Investment (FDI) and Trade
- Economic diversification
- ...

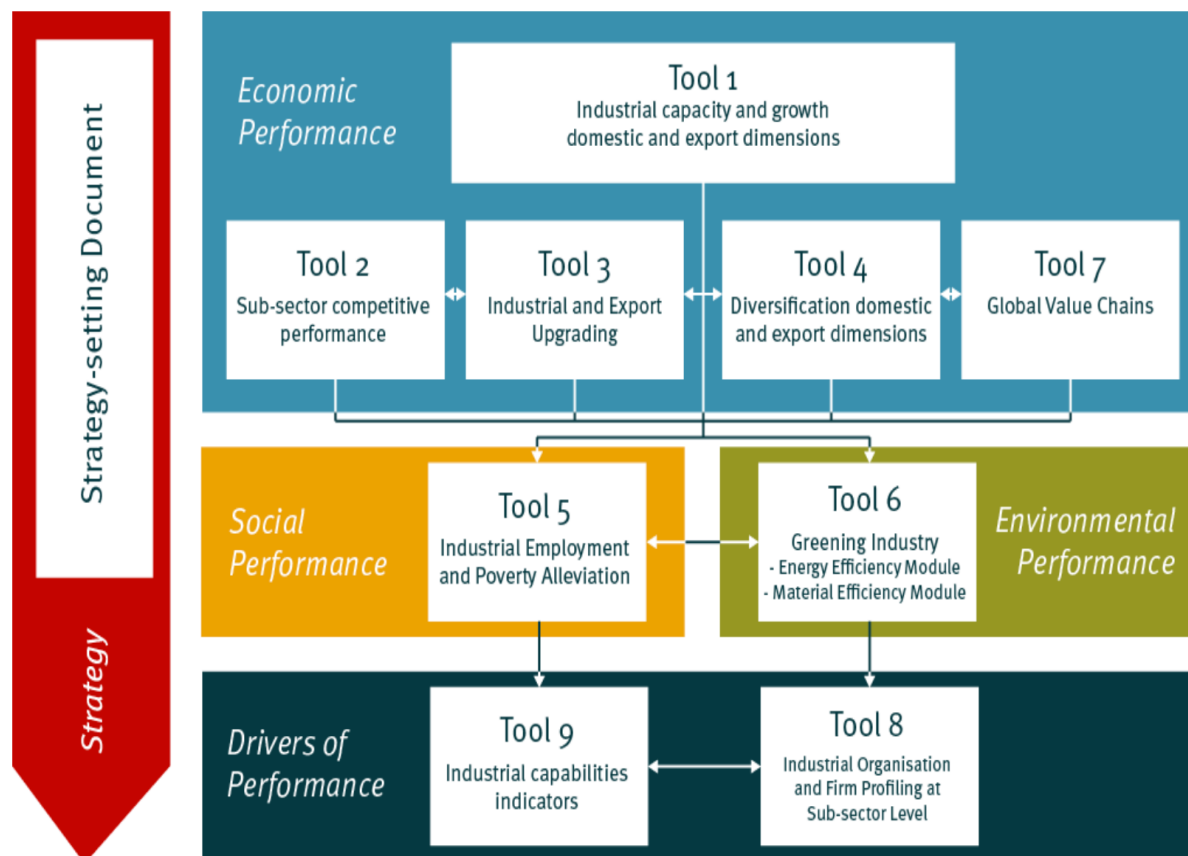
Targeting different audiences:

- **Global Executive Programme**  
(high-level policymakers)
- **Professional Programme**  
(mid-level policymakers & professionals)
- **Future Leaders Programme**  
(younger stakeholders from the public and private sector, civil society and academia)



# EQuIP

## Enhancing the Quality of Industrial Policies



# Different audiences / different formats

- Global Executive Programme (high-level policymakers)
- Professional Programme (mid-level policymakers & professionals)
- Future Leaders Programme (younger stakeholders from the public and private sector, civil society and academia)
- E-learning







# Why diversification matters?



# Diversification matters, but not equally for all

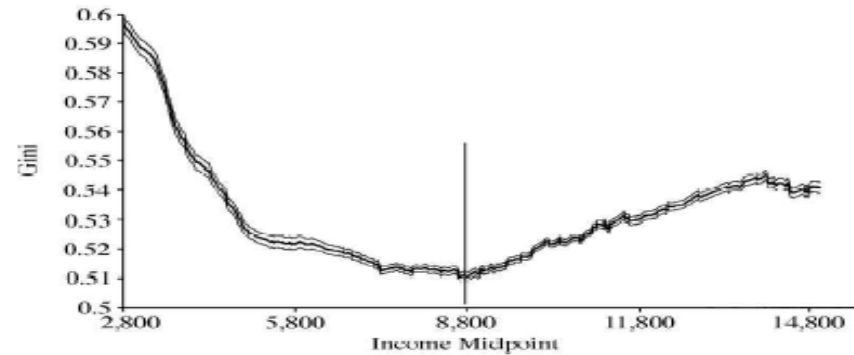


FIGURE 2. ESTIMATED CURVE (NONPARAMETRIC)—GINI INDEX—UNIDO 3-DIGIT EMPLOYMENT DATA

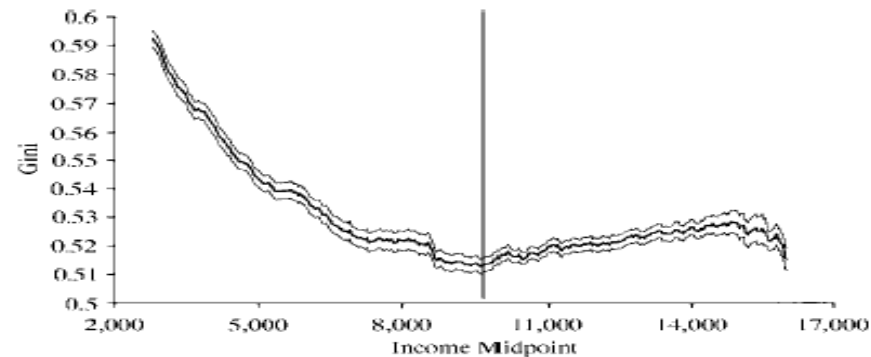
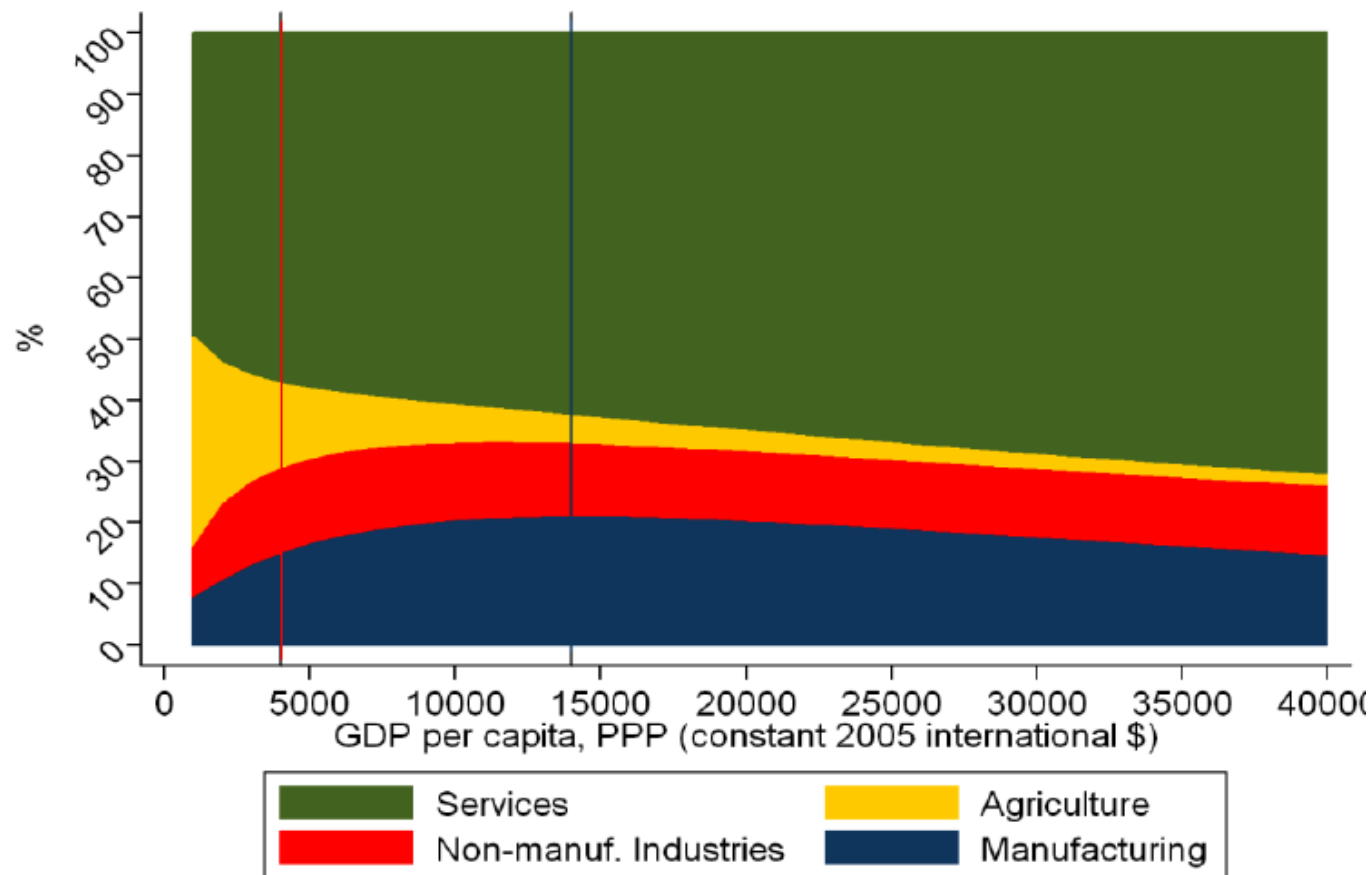


FIGURE 3. ESTIMATED CURVE (NONPARAMETRIC)—GINI INDEX—UNIDO 3-DIGIT VALUE-ADDED DATA

# The structural change process



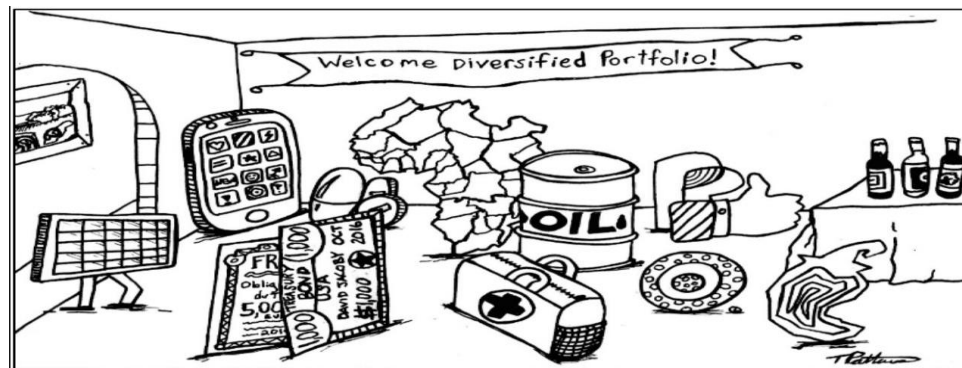
Follow the  
pattern of  
other  
countries to  
anticipate  
changes and  
be prepared  
to structural  
transformation  
?

# Economic diversification versus specialization

- Economy of low-income countries typically specialized in a narrow range of products
- As GDP per capita rises, the structure of the production of goods diversifies - new products and diversification within existing products
- At higher levels of GDP per capita, this diversification trend slows down and eventually veers towards re-specialization.
- Different strategies at different stages of the economic growth process.
  - Low-income countries: growth through acquisition of skills and knowledge necessary to diversify rather than by focusing on “what they do best”,
  - High-income countries seem to better benefit from specialization.
- Avoid being specialized in the wrong sector.
- Engage where returns to scale are increasing (e.g. in manufacturing)

# Diversification, what does it mean?

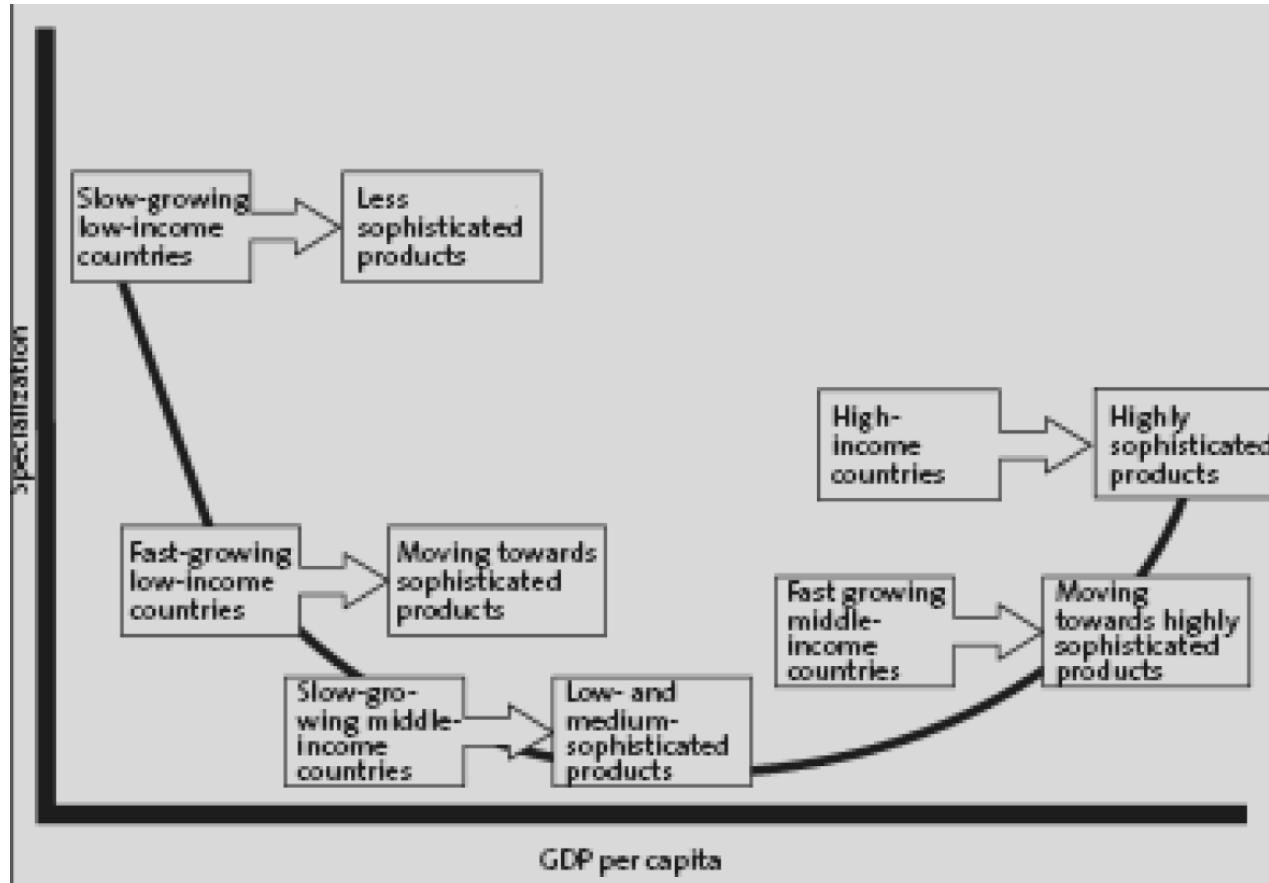
- Starting point: economic activities are concentrated in a few sectors.
- Making a country's domestic productive (industrial) structure more diverse and broad-based and less dependent on only a few activities
- Diversification within existing sectors or by introducing new sectors
  - (Domestic) product diversification versus (export) market diversification:
  - Diversification into more products or more sophisticated (higher value) products



# Advantages of diversification

- Spreads risks across a larger variety of activities and assets.
- Helps to reduce vulnerability to shocks, including natural disasters and external shocks (e.g. volatility in world market prices).
- Reduces dependency on certain income-generating activities
  - E.g., heavy dependence on exports of primary commodities is problematic
- Stabilizes export earnings / overall economic output is less volatile
- Diversified economy offers more potential for skills learning and innovation
- Better alignment to domestic consumption patterns that typically change as income grows

# Specialization and sophistication



UNIDO, 2009



# Economic policies of diversification

- Diversification is not a universally applicable strategy desirable for all countries at all times.
- Focus on comparative advantages and competitiveness is not enough
- Diversify an economy through industrial policy till a level of GDP per capita where market forces increases and inefficient sectors shrink?
- Significant technological upgrading and deepening are required to continue growth after a certain level of diversification.
- Measures reach from sectoral protection to incentives for knowledge acquisition and investment
- Justification of public engagement:
  - Market failure
  - Coordination failure
  - Investment failure

# How to measure diversification

- Three (four) sector theory = sector shares
- Gini coefficient: Describes deviations from uniform distributions
  - 1 = one sector or product line accounts for the total value of production or exports, whereas all other sectors (or product lines) have zero values
- Deviation from the global average distribution = relative diversification measures
  - Market diversification index (MDI)
    - = extent to which a country depends on particular markets for its manufactured exports relative to how important those markets are in world manufactured imports
  - Manufactured product diversification index (MPDI)
    - = shows extent to which a country depends on a particular basket of products relative to world exports (i.e. it compares a country's export structure with the world's export structure)
  - Share of top-3 sub-sectors in total Manufacturing Value Added (MVA)
  - Hirschman-Herfindahl Index (HHI)
- Data : Exports (COMTRADE) and MVA (UNIDO INDSTAT)

Diversification Profile of Guyana		
Sectors	Share of Economy (%)	Diversification Indicator
Agriculture	20	0.04
Mining	10.9	0.01
Manufacturing	7	-
Services	63	0.42
<b>Index</b>		<b>0.47</b>

Source: Prepared by writer from Bank of Guyana Report

you can easily download some diversification indices data  
<https://wits.worldbank.org/>



# Thank you !

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