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Expert meeting on participation of developing countries in new
and dynamic sectors of world trade: the South–South dimension
Geneva, 16–17 October 2007

**Report of the expert meeting on participation of
developing countries in new and dynamic sectors
of world trade: the South–South dimension**

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I. Chair's summary

A. Introduction

1. The São Paulo Consensus gave UNCTAD a mandate to conduct sectoral reviews of dynamic sectors of world trade (São Paulo Consensus, para. 95). The Commission on Trade in Goods and Services, and Commodities at its eleventh session (March 2007) decided to convene an expert meeting on participation of developing countries in new and dynamic sectors of world trade: the South–South dimension. It entrusted the meeting with focusing on existing and emerging patterns and structures of production of, and trade in, new and dynamic products among developing countries, including major interregional, intraregional and bilateral trends in that trade, as well as on further opportunities and challenges, in terms of both micro- and macroeconomic factors such as export determinants, trade-supportive infrastructures and information networks, thus setting an agenda for further UNCTAD work in that area. Dynamic and new sectors were defined as those that fell into three broad categories: (a) those that had displayed consistently high growth and an increased share in world trade; (b) sectors that were already in existence but were new on the list of export activities of developing countries; and (c) altogether new areas of trade in which developing countries had a potential comparative advantage.

2. In 2005–2006 three expert meetings were held for seven new and dynamic sectors of world trade, namely (a) textiles and clothing, (b) renewable energy products, (c) IT-enabled services, (d) electronics, (e) fisheries, (f) steel and steel products, and (g) energy. By carrying out in-depth analyses and providing policy recommendations, those meetings helped developing countries and their trading partners better understand both the opportunities and the challenges faced by developing countries in terms of supply capacity, competitiveness and other prerequisites for successful participation in new and dynamic sectors of world trade.

3. The sectoral reviews conducted at those meetings demonstrated that a global approach to analysing new and dynamic sectors of trade had its limitations. What was also required was an analysis that adapts to a country-specific situation, given that developing countries have different degrees of supply capacity and are at different stages of export diversification. In particular, it was suggested that special attention be given to small and vulnerable economies, including those of the least developed countries (LDCs), and the challenges that they face in improving and diversifying their supply capacities for entering new and dynamic sectors of their own.

B. Objectives of the meeting

4. Against the above background, the fourth of the expert meetings, held in Geneva on 16 and 17 October 2007, reviewed the South–South trade in new and dynamic sectors.

5. The meeting had the following main objectives:

- (a) To analyse the rapidly evolving realities in the new trade geography by examining new and dynamic sectors of trade among developing countries, with particular attention given to LDCs and African countries, and the impacts on their policymaking in the areas of industrialization and beneficial participation in world trade;

- (b) To share experiences and views on the existing and future directions of policymaking and research in that area, and to establish reliable research network(s);
- (c) To provide substantive contributions to the preparation of UNCTAD XII under the sub-theme “Key trade and development issues and the new realities in the geography of the world economy” and in the context of the interactive thematic round table on “Emergence of a new South and South–South trade as a vehicle for regional and interregional integration for development”, to be held during the Conference on 23 April 2008.

C. Structure of the meeting

6. The meeting elected H.E. Ambassador Clodoaldo Huguency of Brazil as Chair, and Mr. Fredrik Arthur, Counsellor at the Permanent Mission of Norway in Geneva, as Vice-Chair-cum-Rapporteur.

7. Government officials from developed and developing countries, and countries with economies in transition, representatives of the private sector, academics, and representatives of intergovernmental organizations and non-governmental organizations participated in the meeting.

8. The meeting was divided into two informal sessions: (1) agenda for policymakers; and (2) agenda for researchers.

9. At session (1), special presentations were given by Faisal Ismail, Minister, Head of the Delegation to the WTO, Permanent Mission of South Africa; T.S. Vishwanath, Head, International Trade Policy, Confederation of Indian Industry; Hussein Salum Kamote, Director, Directorate of Policy Analysis and Research, Confederation of Tanzania Industries, United Republic of Tanzania; Angélica Bayo, Director, Empretec, Uruguay; and Miho Shirotori, Economic Affairs Officer, Trade Analysis Branch, Division on International Trade in Goods and Services, and Commodities (DITC), UNCTAD. They were complemented by Mohammad Razzaque, Economic Adviser, International Trade and Regional Cooperation Section, Commonwealth Secretariat.

10. At session (2), special presentations were given by Jaime de Melo, Professor, Département d'économie politique, University of Geneva; Bailey Klinger, Center for International Development, Kennedy School of Government, Harvard University; Olivier Cadot, Professor, Hautes Etudes Commerciales, University of Lausanne; Mathias Thoenig, Professor, Département d'économie politique, University of Geneva; and Sudip Ranjan Basu, Economic Affairs Officer, Trade Analysis Branch, DITC, UNCTAD. They were complemented by Robert C. Shelburne, Chief Economist, Senior Economic Affairs Officer, Office of the Executive Secretary, United Nations Economic Commission for Europe; and Mustapha Sadni-Jallab, Economic Affairs Officer, Trade, Finance and Economic Development Division, United Nations Economic Commission for Africa.

11. The experts nominated by member States gave presentations on their national perspectives and experiences regarding the opportunities and challenges faced by their countries in exporting new and dynamic goods and services to the South.

12. At the end of the meeting 89 per cent of the participants evaluated it as “excellent” or “very good”.

D. Outcome of the meeting

1. Summary of the discussions at session (1), agenda for policymakers

13. This session focused on a number of issues, including the following: (a) the actual extent to which developing countries are taking advantage of dynamically growing market opportunities presented by the emerging South; (b) possible factors that enhance export diversification by developing countries into new and dynamic sectors of their own; (c) the implications of those trading opportunities, as well as challenges for domestic and/or external strategies for development; and (d) potential linkages between trade improvement and a country's implementation of the Millennium Development Goals.

14. National experts and other participants agreed that the prospects for the dynamic and sustainable growth of demand for versatile goods and services in South–South trade provide fertile ground for sustaining income flow from commodity exports, building up supply capacity in manufacturing sectors and sharpening the competitive edge with regard to certain exports before entry into the global market. Heterogeneity among countries regarding stages of diversification suggests that trade complementarity among developing countries is further increasing at both inter-industry and intra-industry levels.

15. Some developing countries have already kick-started the process of capitalizing on the new opportunities. Regional trade arrangements (RTAs) among developing countries, especially those that have attempted economic cooperation with a wider and deeper focus (e.g. the countries of the Association of Southeast Asian Nations), have contributed to improving both the quantity and the quality of trade and investment flows among those countries. Furthermore, the number of bilateral trade agreements between developing countries is increasing, a fact that reflects the eagerness of developing countries to establish close economic ties among themselves. Closer regional or bilateral economic linkages have in turn created a basis for setting up or participating in global or regional production-sharing schemes, thereby further enhancing South–South trade. However, several participants asked whether an RTA between two heterogeneous developing countries – one more economically advanced than the other – would not lead to a welfare loss for the less advanced one.

16. The role played by the private sector was considered crucial in creating new South–South trade relationships. A noteworthy example in this connection was that of India, whose exports had made a massive directional change from North to South in the last decade. The private sector in that country had started to invest in other developing countries, including those in Latin America and Africa, with a view to exploiting the potential for trade in goods, as well as in services such as information and communication technology-enabled services.

17. However, in the case of many developing countries, new market opportunities remained virtually untapped owing to various physical as well as policy constraints. With regard to small countries, for instance, production, investment and business linkages with their traditional markets, namely those of the United States and the European Union, restricted almost all their economic activities in such a way that entering new markets in the South appeared too costly or risky. Market access and entry conditions were also cited as a major impediment, since over 70 per cent of tariffs faced by developing countries were imposed by other developing countries. Other constraints included developing countries' lack of trade logistics, such as transport infrastructure, business know-how and market information; inefficient trade facilitation measures; and

cumbersome Customs-related administrative procedures. With respect to identifying and diversifying into new and dynamic sectors, it was noted that many countries lacked constructive policy coordination between the Government and the private sector in establishing effective regulatory frameworks with a view to creating the requisite economic environment for viable export diversification.

2. Summary of the discussions at session (2), agenda for researchers

18. This session focused on the following issues: (a) recent major research findings on new and dynamic sectors of trade, and the dynamics of South–South trade, and their implications for developing countries’ policymaking; (b) the future research agenda; and (c) the possible structure of a workable framework for an interactive linkage between researchers and policymakers. There was interaction among eminent economists, who presented their recent research, and government policymakers, who suggested how new research findings could become relevant to their country-specific situations.

19. Among the main issues presented and discussed were barriers in South–South trade and their possible impacts on new and dynamic sectors; the stages of export diversification among developing countries; the “product space” concept and its implications for future diversification strategies; the potential role of exports of cultural goods in enhancing a new trade relationship between countries; and the role of emerging developing economies in increasing the supply capacity of other countries in the South. The meeting also heard policymakers’ perspectives on other “political” variables that could influence decisions concerning export diversification into new and dynamic sectors. All the research presentations are available on the UNCTAD website.¹

20. With respect to potential barriers in South–South trade, it was noted that while preferential trade agreements could be a vehicle for dynamism in South–South trade relations, the experience of North–South preferential trade agreements suggested that non-tariff barriers, including special requirements such as rules of origin, were likely to play a major role in defining effective access to markets even where tariff levels were very low. It would therefore be essential that existing and future South–South trade agreements minimize access conditions based on non-tariff elements.

21. A study of the stages of diversification – that is, patterns of export diversification, depending on the level of national income (gross domestic product per capita at purchasing power parity) – suggested that countries below purchasing power parity of \$14,000 tend to diversify into “new” export sectors, thus launching many small-scale “export gambles”. Middle-income countries, on the other hand, diversify on the basis of inertia in exports: there is a shift in comparative advantage at the same time as an increase in exports in traditional (often natural-resource-based) sectors. Policymakers believed that those findings could suggest the priority areas for a country’s policies for enhancing export diversification, and, for example, the importance for low-income countries of considering a policy that minimizes the cost (risks) of entering new sectors.

22. The “product space” concept illustrates a country’s structural transformation by mapping its export sectors according to the “proximity” among them. Its possible implications are related to the following considerations: the choice of sectors for diversification made in the past could determine the diversification path in the future; diversification does not necessarily follow within a production chain of a given sector (e.g. from petrol

¹ The presentations are available at <http://www-dev.unctad.org/Templates/Page.asp?intItemID=4375&lang=1>.

to plastics); and the overall connectedness of a country's export basket could determine the speed of export upgrading (into higher value-added). Participants deemed those findings quite non-conventional, and were interested in the development of this study in the South–South framework.

23. Totally new research on the role of trade in cultural goods (e.g. books, recorded media and audiovisual products) suggested a possible interplay between international trade and cross-country cultural distance. It looked at the “Trojan horse” effect of exports of cultural goods: cultural trade has a positive spillover for all types of trade between two countries by reducing the cultural distances between them, thus bringing closer together consumer preferences in respect of goods (and services). The research suggested that a 10 per cent increase in trade in cultural goods would translate into a 3.2 per cent increase in trade in other goods. Some participants suggested that although the current providers of cultural goods are concentrated in a small number of countries at the present time (e.g. the United States and a number of other developed countries, plus China and India), the potential role of cultural goods as a stimulus to trade could be further exploited in a South–South context.

24. Finally, other research had showed a potentially large pull effect that could be created by the “emerging seven” countries – Brazil, China, India, Mexico, the Republic of Korea, the Russian Federation and South Africa. In particular, the research suggested, the dynamically growing demand for a wide range of goods and services could increase the speed of productive capacity-building of other developing countries that are engaged in trade with those countries.

25. Participants also raised the general issue of the political economy of diversification in developing countries. Political considerations rather than purely economic ones are often the most important factor in identifying new sectors for diversification in those countries. Sectoral identification can often be a political decision, depending on factors such as how many new jobs could be created by the new sector concerned or how influential an industrial lobby may be. The decision could be based on quite an inward-looking approach, one that focuses largely on what is available as a country's natural comparative advantage and local skills, and very little on the dynamic changes in regional or global demand.

3. Recommendations

26. With a view to making South–South trade a major opportunity for all developing countries to diversify into new and dynamic sectors, participants made the recommendations set out below.

- (a) **Enhance regional integration, and make it viable for poorer developing countries.** Regional integration could undoubtedly contribute to increasing the expansion of South–South trade and encourage export diversification by the countries of the South through the elimination of tariff and non-tariff barriers and improvement of the investment environment. There was concern, however, that the economic gains derived from a South–South RTA would still favour the more developed countries, leaving the poorer countries with welfare losses. A South–South RTA should therefore provide ways of enhancing capital, knowledge and technical spillovers among all its members.
- (b) **Improve market access and market entry conditions among the countries of the South.** The existence of fixed export costs is a potential impediment to trade despite good market access conditions. South–South trade cooperation should aim at reducing those costs through, for example,

cooperation on trade facilitation issues. The recent dynamic growth of South–South trade appears to have defied the high tariff barriers among developing countries, but it could also suggest that coordinated efforts to reduce trade barriers through, for example, the Global System of Trade Preferences among developing countries would further enhance the South–South trade relationship.

- (c) **Enhance business information flows among the countries of the South.** Participants, particularly experts from developing countries, indicated that they needed to obtain more market information about other developing countries on a real-time basis. Networks of exporters that provide information about requirements related to access to markets should be promoted. Any trade relationship naturally requires greater networking among the private sectors. In that connection, one participant reported positive experience with respect to government-organized trade fairs, which allowed business sectors to be exposed to new business contacts in new markets.
- (d) **Continue to exploit new economic thinking on entering new and dynamic sectors (i.e. diversification), while paying attention to country specificity.** The meeting confirmed that there were benefits to be derived from further exploiting economic thinking in this area. At the same time, the views of experts from developing countries confirmed that a set of constraints and opportunities with respect to export diversification could be very different from one country to another. A “one-size-fits-all” approach should therefore definitely be avoided. Also, national experts suggested that further analysis in services sectors would be valuable since almost all developing countries see those sectors (e.g. tourism, IT-enabled services and health-related services) as the future direction of their sectoral diversification.
- (e) **Enhance viable interaction among policymakers and researchers.** The meeting emphasized that a platform for researchers and policymakers to exchange their views and ideas could be highly beneficial for both groups. Participants agreed to create an interactive network in which they would be active partners.

27. The future research agenda suggested at the meeting included the following topics:

- (a) Country-specific and sector-specific studies on factors influencing entry into new and dynamic sectors;
- (b) Potential impact of market access improvement on South–South trade;
- (c) Cross-fertilization effects of South–South trade and South–South investment flows;
- (d) Possible interface between a productive capacity in goods and development of services sector(s) in developing countries;
- (e) Factors influencing the upgrading of the production process, and whether South–South trade is a testing ground for new exports from developing countries;
- (f) Factors that would ensure development-enhancing South–South RTAs, with a view to ensuring gains for poorer members of such RTAs; and
- (g) Pros and cons of entering into a production-sharing scheme – for example, whether the Asian success is something that could be replicated elsewhere.

28. Participants noted that the meeting had made a useful contribution to the UNCTAD XII preparatory process, and suggested that its recommendations be incorporated into that process, particularly under the sub-theme “Key trade and development issues and the new realities in the geography of the world economy” and in the context of the interactive thematic round table on “Emergence of a new South and South–South trade as a vehicle for regional and interregional integration for development”, to be held on 23 April 2008.

II. Organizational matters

A. Convening of the expert meeting

29. The expert meeting on participation of developing countries in new and dynamic sectors of world trade: the South–South dimension was held at the Palais des Nations, Geneva, from 16 to 17 October 2007.

B. Election of officers

(Agenda item 1)

30. At its opening meeting the expert meeting elected the following officers to serve on its bureau:

Chair: H.E. Mr. Clodoaldo Huguency (Brazil)
Vice-Chair-cum-Rapporteur: Mr. Fredrik Arthur (Norway)

C. Adoption of the agenda and organization of work

(Agenda item 2)

31. At the same meeting, the expert meeting adopted the provisional agenda circulated in document TD/B/COM.1/EM.34/1. The agenda for the meeting was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. New and dynamic sectors of world trade: the South–South dimension
4. Adoption of the report of the meeting

D. Documentation

32. For its consideration of the substantive agenda item, the expert meeting had before it a note by the UNCTAD secretariat entitled “New and dynamic sectors of world trade: the South–South dimension” (TD/B/COM.1/EM.34/2).

E. Adoption of the report of the meeting

(Agenda item 4)

33. At its closing meeting, the expert meeting authorized the Rapporteur to prepare the final report of the meeting under the authority of the Chair.

Annex

Attendance

1. Representatives of the following States members of the Trade and Development Board attended the meeting:

| | |
|----------------------------|-----------------------------|
| Belarus | Mauritania |
| Bosnia and Herzegovina | Mauritius |
| Brazil | Mexico |
| Cambodia | Morocco |
| Cameroon | Mozambique |
| China | Myanmar |
| Côte d'Ivoire | Nepal |
| El Salvador | Nicaragua |
| Ethiopia | Norway |
| Honduras | Pakistan |
| Iran (Islamic Republic of) | Russian Federation |
| Italy | Rwanda |
| Jamaica | Saudi Arabia |
| Jordan | Sierra Leone |
| Kazakhstan | Switzerland |
| Kenya | Turkey |
| Kyrgyzstan | United Republic of Tanzania |
| Malawi | Viet Nam |
| Mali | |

2. The following intergovernmental organizations were represented at the meeting:

African, Caribbean and Pacific Group of States
Commonwealth Secretariat
European Commission
South Centre

3. The following United Nations organizations were represented at the meeting:

Economic Commission for Africa
Economic Commission for Europe
International Trade Centre

4. The following specialized agencies and related organizations were represented at the meeting:

International Monetary Fund
Food and Agriculture Organization of the United Nations
United Nations Industrial Development Organization
World Bank

*For the list of participants, see TD/B/COM.1/EM.34/INF.1.

5. The following non-governmental organizations were represented at the meeting:

General Category

International Federation of Business and Professional Women

Special Category

International Council of Nurses
