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Multi-year Expert Meeting on Enhancing
the Enabling Economic Environment at All Levels
in Support of Inclusive and Sustainable Development,
and the Promotion of Economic Integration and Cooperation
Second session
Geneva, 19 and 20 March 2018

Report of the Multi-year Expert Meeting on Enhancing
the Enabling Economic Environment at All Levels in
Support of Inclusive and Sustainable Development, and
the Promotion of Economic Integration and Cooperation
on its second session

Held at the Palais des Nations, Geneva, 19 and 20 March 2018

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Introduction

1. The second session of the Multi-year Expert Meeting on Enhancing the Enabling Economic Environment at All Levels in Support of Inclusive and Sustainable Development, and the Promotion of Economic Integration and Cooperation, was held at the Palais des Nations in Geneva, Switzerland, on 19 and 20 March 2018, in accordance with the terms of reference approved by the Trade and Development Board at its thirty-first special session in April 2017 (TD/B(S-XXXI)/2).

I. Chairs' summary

A. Opening plenary

2. In his introductory remarks, the Director of the Division on Globalization and Development Strategies of UNCTAD likened the global economic picture of today, characterized by hyperglobalization, to that of the 1920s, when austerity was the default macroeconomic policy regime. In both periods, concerns had been voiced about trade and structural transformation, in particular with regard to secular stagnation, technological unemployment and looming trade wars. In both periods, rapid technological change was also a significant feature.

3. He said that the Havana Charter (1948), now 70 years old, had offered a blueprint for a “more balanced and expanding world economy” through a combination of increased domestic spending, open markets, the spread of industrial development, long-term capital flows and strengthened workers' rights. Although the Charter never entered into force, its influence could be seen in efforts by the General Agreement on Tariffs and Trade to reduce tariffs, and through flexibilities and safeguards that had become part of the multilateral consensus following the Second World War.

4. In a review of economic policy narratives over the years, he stated that it was erroneous to focus on which was the bigger source of disruption – trade or technology. Instead, in a hyperglobalized world, it was essential to examine how non-marginal changes in trade patterns or technology interacted with real world macroeconomic and financial dynamics, and how this played out in national and international politics and policy.

5. Introducing document TD/B/C.I/MEM.8/5, entitled “Adapting industrial policies to a digital world for economic diversification and structural transformation”, he said that the digital revolution had produced two key overlapping technologies: (a) robotics and (b) big data, the Internet of things and three-dimensional printing.

6. Although there were varying perspectives on the impacts that new digital technologies would have on economic diversification and structural transformation, it was clear that they would have disruptive and distributional consequences and would require a balanced, pragmatic policy response. As stated in the *Trade and Development Report 2017*,¹ such a response should be part of a global “new deal” containing a reflationary, regulatory and redistribution component. Industrial policy had always been about mobilizing underutilized resources, raising productivity and building linkages across firms, activities and sectors in an attempt to diversify the economy. It was also about managing rents in ways that could bring about wider public goals rather than reinforcing narrow private interests to undertake industrial policy. Countries needed policy space and a supportive international environment to undertake such industrial policies.

7. The Chair recalled that the main objective of the meeting was to understand the impact of digitalization on developing countries.

¹ UNCTAD, 2017, *Trade and Development Report 2017: Beyond Austerity – Towards a Global New Deal* (United Nations publication, Sales No. E.17.II.D.5, New York and Geneva).

B. Adapting industrial policies to a digital world for economic diversification and structural transformation

(Agenda item 3)

Digital technologies, economic diversification and structural transformation

8. During the first informal session, experts discussed how the use of new digital technologies was affecting economic diversification and structural transformation, including by shifting traditional boundaries of individual industries and those between industry and services.

9. The keynote speaker, the Minister of Industry and Commerce of Sri Lanka, stated that, although digitalization was providing new opportunities for developing countries, such countries required digital capabilities to reap its benefits. The digital divide was widening and no longer depended on information and communications technology (ICT) infrastructure alone. There was a need to develop digital infrastructure that would enable countries to develop more sophisticated goods and services. Furthermore, digitalization was blurring the boundaries between goods and services, affecting the trade competitiveness of countries.

10. He said that Sri Lanka was making considerable efforts towards building its digital infrastructure, developing digital skills, modernizing government and service delivery; and leveraging ICT for economic and social development; it was also promoting Sri Lanka as an ICT destination. The State-owned Information and Communication Technology Agency was driving these initiatives, based on the five-pronged strategy of the e-Sri-Lanka initiative. Further, Sri Lanka was a member of the Friends of E-commerce for Development at the World Trade Organization. At the eleventh ministerial conference of the Organization, Sri Lanka had decided to continue the work programme on e-commerce based on the existing mandate. This area required debate on rules and laws, which might become enforceable if e-commerce became part of the negotiations at the World Trade Organization. It was essential that policy space and flexibilities be preserved for developing countries, especially the least developed countries. However, the debate needed to move beyond e-commerce.

11. It was important to know the consequences of a permanent moratorium on electronic transmissions, whether digital trade should be governed by the General Agreement on Tariffs and Trade or the General Agreement on Trade in Services, whether electronically delivered products should be treated as goods or services, or both, and what was encompassed in the spectrum of electronic transmissions.

12. The first panellist described the exponential pace of technological change and the digitalization of all spheres of the economy, which had greater effects than previous industrial revolutions. With regard to their impacts on economic diversification and structural transformation, there were opportunities stemming from enhanced connectivity and human empowerment on the one hand, and challenges from job displacement on the other. Job creation might fall short of job displacement or lead to lower pay. Distributional effects were determined by the nature of technological change, which usually was not neutral but favoured capital over labour, skilled labour over unskilled labour, and developed countries over developing countries. The speaker discussed various aspects of required digital capabilities and infrastructure, explaining how to build different categories and levels of digital skills and competencies. It was important to develop digital skills for all, which could be achieved, among other things, by using online platforms for teaching and learning and open access to scientific literature. Policy and regulatory guidance and support, as well as collaborative efforts at the national and international levels, were also necessary.

13. The second panellist examined the uneven adoption of robots to better understand the policy implications of digital automation. He noted the higher estimates of potential automation-related job losses in developing countries, due to the high share of routine tasks. However, the use of robots remained highly concentrated in developed countries and China. Such use was determined more by economic feasibility than by technological feasibility, which was linked to specific technological features of certain production processes that

many studies had neglected, such as the inability of robots to handle a wide range of fabrics in the apparel sector. In his view, the continued large differences in labour costs between developed and developing countries would imply that cost benefits from offshoring – the moving of certain labour-intensive activities from developed to developing countries that had been widely observed over the past three decades – significantly outweighed those from reshoring, the more recent phenomenon of moving previously offshored activities back to developed countries. For developing countries, the risk of automation-based job losses stemmed less from robot-based automation in those countries. Rather, the risk was greater in developed countries or in those developing countries that were geographically close to developed countries, where some reshoring could be observed. While such reshoring had primarily been associated with the reshoring of production activities, these would now be undertaken by robots and had therefore not led to increased employment in developed countries.

14. At the industry level, the impacts of automation on employment remained uncertain and would depend on many offsetting effects at the task, enterprise, industry and economy-wide levels. The impact of robots on the retail sector should be explored as well. Historically, the effects of automation on overall employment had generally been positive.

15. The third panellist said that there were broad areas of opportunities and risks for developing countries associated with digitalization. E-commerce sales, global Internet traffic and cross-border business-to-consumer e-commerce were increasing rapidly. Yet a wide digital gap in the areas of global connectivity, gender and engagement among micro, small and medium-sized enterprises remained between developed and developing countries. Key challenges included infrastructural weaknesses, such as in the electricity sector; the risk of dominant market players and cognitive barriers with regard to awareness and knowledge of digital technologies; and low levels of electronic literacy. Small businesses were less prepared to derive benefits from the digitalization of global value chains.

16. Three policy implications on data issues should be borne in mind: data privacy, competition (anti-trust) policy and surveillance. With developing countries lagging far behind in terms of Internet use and e-commerce, there was a lack of data protection and consumer protection laws, affordable ICT and cloud infrastructure, and skilled workers, such as data scientists.

17. During the ensuing discussion, several speakers emphasized the need for technology transfer to bridge the digital divide. Moreover, digital industrial policy needed to be part of the wider industrialization process, for example, to ensure reinvestment of profits. Other speakers raised concerns about the developmental prospects of commodity-dependent countries in a digital world. Yet others stressed that the digital economy was broader than e-commerce and asked for guidance on effective ways to regulate the digital economy and ensure that Internet governance standards were appropriate for their stages of development. One speaker expressed the view that UNCTAD was the best forum to discuss Internet governance and the digital economy, considering that there was no opportunity to do so at the World Trade Organization.

Making industrial policy fit for the digital world

18. During the second informal session, the experts explored how industrial policy should be adapted to foster economic diversification and structural transformation in a digital world. The panellists presented industrial policy approaches that had been adopted in various countries and regions.

19. The first panellist emphasized that knowledge raised competitiveness and could make it possible to capture rents through research and development, and commercialization. Industrial policy needed to ensure that the ensuing knowledge surplus was reinvested into broad-based productivity and further knowledge production. However, the surplus was also subject to a struggle between public funders of science and innovation, and the private firms that commercialized that science. In Africa, digitalization was generally approached through new institutional economics and its focus on transaction costs, information asymmetry and property rights. However, it was important to bear in mind the potential of

digitalization in reducing production costs, including by strengthening transport and electricity infrastructure. Research in Africa was heavily dominated by donor paradigms with an emphasis on commercial applications of publicly funded research and humanitarian aid. This had led to the incorporation of business school perspectives into research and training. ICTs were generating a new kind of value from data. Given that these data were often concentrated in platforms owned by developed country firms, there was a risk that digitalization in Africa could widen the knowledge gap.

20. The second panellist described how recent innovations were changing industrial dynamism and development policies. There was wide variance across developing countries regarding the benefits of global value chains. Digitalization could be a game changer because it accelerated innovation and could change the governance structure of value chains towards platform- or consumer-centred forms. While the former was thriving on data and associated network effects that could strengthen the position of incumbent firms, the latter could allow customers to capture a larger share of a value chain's total value added and be more sustainable. Yet both forms would allow platforms to appropriate rents from data ownership. More investment was required to move towards these new forms of governance, with increased regulation aimed at reducing rents and preventing abuse of dominant market positions.

21. The third panellist discussed strategic approaches towards digitalization that had been adopted by some middle-income countries. His review suggested that such approaches existed, but most had not moved beyond the discussion, consultation or planning stages. They also required better articulated and measurable milestones, resources and pathways towards outcomes, and should be formulated in such a way as to help policymakers avoid being captured by vested interests. These shortcomings partly reflected existing uncertainties as to the effects of digitalization on manufacturing and society, which necessarily meant that these approaches were largely experimental and exploratory. While underlining that each country's public policy approach was highly contextual and should reflect its specific circumstances, he said that most countries experienced the following common needs:

- (a) To connect these approaches to broader national development strategies;
- (b) To involve multiple stakeholders so as to allow for synergies across policy areas;
- (c) To give the private sector a key role;
- (d) Too engage in strategic partnerships with successful foreign partners in order to accelerate learning.

22. The fourth panellist focused on the industrial policies of China. Over the past three decades, these policies had changed from horizontal to selective, from technological to organizational and from plan-based to market-oriented policies. Showcasing the experience of the city of Shenzhen with regard to high-speed trains, liquid crystal panels and industrial development, he said that a combination of horizontal and selective policies encouraged the use of research and development to overcome technological problems, the development of industrial clusters to improve manufacturing chains, and support for specific enterprises to evolve as global players. China could learn from the industrial policies of the United States of America, especially with respect to the scale of government research and development expenditure. Despite the adoption of several initiatives, digital manufacturing was still at an early stage in China, and it continued to face challenges in developing both its hardware and software.

23. The last panellist focused on the challenges posed by digitalization in Brazil. He stressed the need for close coordination between industrial production and education policies. Rural provinces continued to suffer marginalization, and forward-looking education policies had encountered difficulties in implementation. This had resulted in little structural change, despite the economic upswing that had taken place between 2004 and 2013. A holistic policy approach to productivity and competitiveness was required to avoid shortages of skilled labour.

24. During the discussion that followed, some speakers wondered whether manufacturing was still relevant in a digital world where most manufacturing could eventually be automated. Others pointed to the close ties between transnational corporations and research institutes resulting in donor-driven research, recalling that ICT-based benefits in manufacturing could be generated only if the required infrastructure and manufacturing base existed, and that research and development should be tailored to local needs, even in donor-funded research.

25. Some speakers wished to know how to avoid job displacement caused by digitalization, and in particular, how effective national policies and international regulations were. Several speakers wondered whether the Continental Free Trade Area of Africa could be leveraged for digital industrialization – especially data ownership issues – by building local digital infrastructure that would enable African enterprises to exploit African data first and by exploiting potential synergies between domestic and regional markets.

South–South and triangular cooperation in the digital economy

26. During the fourth informal session, the experts examined the role of South–South and triangular cooperation in fostering economic diversification and structural transformation in a digital world.

27. The first panellist said that understanding the nature of the digital economy would be crucial to determining what the South could do to benefit from it. Industrialization was the disembodiment of physical power and had established the factory as the key institution, while the digital economy was the disembodiment of intelligence and had put the digital platform on centre stage. Digital platforms served first as the “data mine” and then as the “brain” of the concerned sector, converting data to digital intelligence in the process. Given that digitalization was affecting all sectors, the entire economy was becoming “platformized”. This implied a paradigm shift that required a radical, rather than an incremental, shift in policies. Digitalization would reorganize production, and concentric layers, or ecosystems, would emerge, replacing current governance configurations of value chains. Such ecosystems would become centred on where the highest digital power was located. Hence, digital industrialization would be driven by the capacity to leverage local, national and collective data rights for the creation of public value. These shifts would require a new political economy of data, jurisprudence, laws and regulation. A strategic mix of actions adopted by the South to promote digital industrialization might involve, at the country level, maintaining current international arrangements but progressively creating manoeuvring space and enhancing digital power to move closer to the centre; and collectively, seeking alternative decentralized centres of digital power, loosening the current coupling arrangements and forces of digital ecosystems, and bringing politics, law and regulation to decentralized digital ecosystems. The first steps would involve building digital infrastructure, collaborating towards the creation of national and regional data rights, and promoting digital market integrations to ensure the economies of scale required by digitalization.

28. The second panellist focused on the challenges of digitalization faced by Pakistan. He said that the country had broadly followed free market principles, and its main trading partner was the United States. The One Road One Belt initiative of China offered Pakistan the possibility to achieve economic modernization and reindustrialization through investment in infrastructure and manufacturing development, the provision of finance, and the establishment of a new regional development paradigm.

29. The third panellist outlined the challenges faced by South Asia. A review of the current situation suggested that South Asia was an importer and user of technology – not an innovator – and that technology and manufacturing equipment providers charged exorbitant prices for their products and services, in addition to controlling the use of technology in ways that were unfavourable to countries in the region. To change this situation, it would be necessary to build strong institutions that fostered innovative ideas. Therefore, Governments and the private sector needed to invest in institutions that could help build the digital skills required for innovative research and that could help build a digital economy.

30. The last panellist discussed efforts to build a single digital market in the European Union. The European Union was harmonizing key policy areas, by replacing national regulation with regulation applicable throughout its member countries. Largely successful initiatives had been launched to harmonize regulation. These included creating content portability, abolishing internal restrictions to the flow of data, establishing common standards on copyrights and creating a single European payments area.

31. Areas where regulation might prove disadvantageous were as follows: the harmonization of privacy standards, which might be too restrictive and stifle innovation; an emphasis on data localization rather than cybersecurity and accountability; and the establishment of net neutrality rules, aimed at preventing unfair throttling, and hence rent-seeking behaviour, but which could lead to excessive rules affecting the adoption of more advanced data-intensive services.

32. During the discussion that followed, many speakers expressed concern about the evolution of digital platform monopolies and the ensuing difficulties for developing countries to benefit from digitalization. They wished to know whether and how these issues should be addressed in the World Trade Organization. China might have successfully addressed at least some of these difficulties, but its size and economic system might well make it a special case. Other speakers expressed similar concerns, suggesting that South–South and triangular collaboration might be a promising path for other developing countries. Yet others wondered about the impact of digitalization on Africa as a region. In reply, a representative of the UNCTAD secretariat indicated that several initiatives on South–South cooperation in digitalization were under way that also covered Africa. Some experts expressed diverging views on the idea that data was the “new oil”.

33. Before closing the meeting, the Chair highlighted the key points of the meeting as follows:

(a) The impacts of the digital revolution – still in an early phase – were not yet clear. However, it was clear that the digital revolution could not be compared to previous industrial revolutions or technological waves. Technological progress was not neutral and would have major impacts on income distribution, changing the division of labour. In that respect, it was important to understand who had ownership of the platforms in which future technological changes would take place;

(b) With regard to policy challenges, increased policy coherence was necessary to have an adequate regulatory framework. Competition could only be addressed by cooperation in public policy between countries. However, there was no universal solution. Public policy required clear objectives and needed to be contextual;

(c) There was a need to build infrastructure and increase investment in all countries involved;

(d) The digital revolution created new opportunities for the developing world, but taking advantage of those opportunities depended on expanding digital capabilities and existing infrastructure;

(e) It was necessary to prevent the digital divide from widening. It was important to develop sound educational policies and integrate them into economic policies. There was no clear conclusion as to the impact of automation on labour – jobs would not necessarily be lost, but would be reshaped;

(f) The potential impacts of digitalization on resource-based economies for which industrialization was still an aspiration was an overriding concern. Digitalization could support the efficiency of business process of manufacturing to re-engage with international trade;

(g) There was a need to address the governance of digital systems at the international level and decide who would be the main players and stakeholders involved;

(h) The role of data was of crucial importance in the digital economy, bringing with it a risk of rent-extraction behaviour in some natural-resource-based economies.

II. Organizational matters

A. Election of officers

(Agenda item 1)

34. At its opening plenary on 19 March 2018, the Multi-year Expert Meeting elected Mr. Diego Aulestia Valencia (Ecuador) as its Chair and Mr. Muhammad Irfan as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

35. Also at its opening plenary, the Multi-year Expert Meeting adopted the provisional agenda for the session (TD/B/C.I/MEM.8/4). The agenda was thus as follows:

1. Election of officers;
2. Adoption of the agenda and organization of work;
3. Adapting industrial policies to a digital world for economic diversification and structural transformation;
4. Adoption of the report of the meeting.

C. Outcome of the session

36. Also at its opening plenary, the Multi-year Expert Meeting agreed that the Chair should summarize the discussions.

D. Adoption of the report of the meeting

(Agenda item 4)

37. At its closing plenary, on 20 March 2018, the Multi-year Expert Meeting authorized the Vice-Chair-cum-Rapporteur to finalize the report after the conclusion of the meeting.

Annex

Attendance*

1. Representatives of the following States members attended the session:

Algeria	Nigeria
Bahrain	Oman
Brazil	Pakistan
China	Peru
Congo	Philippines
Côte d'Ivoire	Saudi Arabia
Gabon	South Africa
Ghana	Spain
Iran, Islamic Republic of	Sri Lanka
Jordan	Sudan
Kazakhstan	Switzerland
Kenya	Turkey
Madagascar	Zambia
Morocco	

2. Representatives of the following non-member observer State attended the session:

State of Palestine

3. The following intergovernmental organizations were represented at the session:

Accredited

African, Caribbean and Pacific Group of States
Organization of Islamic Cooperation
South Centre

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

Food and Agriculture Organization of the United Nations
United Nations Industrial Development Organization

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

General category

Engineers of the World
International Network for Standardization of Higher Education Degrees

* This attendance list contains registered participants. For the list of participants, see TD/B/C.I/MEM.8/INF.2.