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First session
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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 first session

Held at the Palais des Nations, Geneva, 26–27 October 2017

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Contents

Introduction

The first 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 on 26 and 27 October 2017, 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. Chair's summary

A. Opening plenary

1. In her opening remarks, the Deputy Secretary-General of UNCTAD emphasized that changes in the world economy over the last 50 years had made economic integration at once more inevitable and more challenging. The shift in trade away from producing and exporting goods, towards providing specific tasks or business services, as well as advances in information and communications technologies, had profoundly affected the structure of world production and trade. Some developing countries had seized the opportunities presented by the changing scenario and had begun to export higher value products through participation in global value chains and regional value chains. Developing countries, however, faced new challenges stemming from fragmentation and the risk of narrow specializations that could restrict their technological base and increase dependence on transnational corporations to access international markets. Given these opportunities and challenges, the Deputy Secretary-General highlighted the need to formulate integrated development strategies to enter international production networks, matching developing countries' capabilities with market opportunities.

2. The Director of the Division on Globalization and Development Strategies of UNCTAD reviewed some of the main issues to be discussed during the session. He emphasized that participation in global value chains did not guarantee industrialization and economic development. Evidence of a positive association between participation in global value chains and industrialization was weak. Some countries, mainly in East and South-East Asia, had successfully integrated into global value chains, yet in other countries, progress in this area had stalled or even reversed. The key issues concerned how to harness global value chains for economic development and what countries could do to foster inclusive growth in the current environment of weak global demand, falling commodity prices and increasing financial market volatility. Reviving global demand and trade required an ambitious agenda, going beyond traditional solutions focused on the removal of trade barriers and greater liberalization. Many large international firms currently competed in highly imperfect markets and in a highly polarized world. Economies that had been successful in the past, such as Japan and the United States of America and, more recently, China, had built productive capacity at both the sectoral and firm levels. Given these examples, the Director noted that the current focus of growth strategies and industrial policy in developing economies should not be on the means (liberalization, deregulation and privatization) but rather on the ends (building capacities, creating jobs and linkages and diversifying the economy).

3. The Chair emphasized that the foremost objective of the session was to understand the conditions under which international production networks could operate as drivers of development and inclusive growth, and the strategies that were the most effective in this regard.

B. Harnessing international production networks to foster inclusive growth and local productive capacities

(Agenda item 3)

Global value chains, local capacities and inclusive growth

4. The first plenary meeting addressed global value chains and their connection with the overall process of development. The keynote speaker, the Minister of Industry and Productivity of Ecuador, highlighted how a country could successfully manage the process of integrating into global value chains. The export and production structure of Ecuador focused mainly on primary and agricultural products. The Government had, however, also invested heavily in complementary areas such as infrastructure, telecommunications, logistics and human resources, to improve export competitiveness. At the same time, Ecuador had relied on an industrial policy that promoted diversification and high value added production in manufacturing and services. Ecuador had overcome challenges related to participation in global value chains and access to international markets through an integrated industrial policy that focused on five key areas, namely entrepreneurship and innovation, quality, productivity, investment and markets. In addition, the Government had created regulatory frameworks and a favourable economic environment for exports, and facilitated competitiveness and innovation. The emphasis had been on improving the quality of products, diversifying goods and services, generating sectoral innovation and strengthening the production system.

5. The first panellist discussed challenges in building local production systems in the least developed countries that involved both vertical and horizontal linkages. Most participation in global value chains among countries in Africa, for example, was upstream, and the region had experienced limited downstream integration and difficulty in capturing value creation. In general, least developed country integration into global value chains and regional value chains often involved primary and extractive sectors more than manufacturing. These economies had not yet benefited from industrialization and inclusive growth. The panellist highlighted that the success of a global and/or regional value chain-led model of industrialization depended on the interplay of three factors, namely the type of national and international production networks, governance models and technological change. Fast technological change, for example, could disrupt employment, such as had occurred in the mining sector in South Africa, and job retention was conditional on the extent to which the local economy integrated vertically along international production networks, as well as horizontally across productive firms, and sectors and tiers, of the local production system. Political economy factors could also affect the development of local production systems by distorting incentives and allowing certain players to extract rents. In this context, the effectiveness of policy and business and foreign direct investment strategies depended on targeting critical organizations, linkages and bottlenecks in local production systems.

6. The second panellist noted that the design of effective policies relied significantly on the quality of data available to policymakers. The issue of measurement in global value chains was relevant in this regard. Due to production decoupling over the past few decades, the comparative advantages of countries were no longer defined in terms of products or sectors, but increasingly in terms of tasks or functions. The measurement of a country’s specialization could be carried out at the level of activities or business functions within industries, rather than at the level of entire industries or products. An analysis of specialization patterns conducted using such a methodology had shown that since 1999, the United States and long-term members of the European Union had specialized in research and development activities, and emerging economies had developed comparative advantages in production and assembly activities.

Focus on value addition in southern Africa

7. The second meeting explored the potential of southern Africa to further develop regional value chains as an alternative route to greater value addition and production diversification. The region presented promising complementarities and offered opportunities in different sectors, such as capital equipment for mining and agroprocessing

and renewable energy. These opportunities were currently underexploited. UNCTAD was working closely with some economies in the region on a project aimed at favouring the development of regional value chains, and strengthening the Southern African Development Community, in the framework of a regional industrial action plan.

8. The panellists considered recent regional trends highlighting shifts in trade flows away from traditional markets that had taken place in the region, and the growing importance of China as a trade destination. They noted that southern Africa was experiencing rapid gross domestic product growth and strong urbanization, thereby fostering fast-growing markets for goods and services. The continued growth of regional markets opened new opportunities for intraregional trade, the strengthening of regional value chains and a rise in the manufacturing content of exports. The panellists emphasized, however, that these opportunities could only be fully realized with the support of adequate policy measures, at both the national and regional levels.

9. The first panellist stated that industrial policy was key in this context. By fostering high levels of fixed investment in manufacturing, increased export sophistication and technological change, industrial policy could sustain manufacturing exports and industrial growth. In South Africa, in the 1990s, policymakers had attempted to respond to different interests and goals simultaneously. As a result, industrial development had not expanded beyond mining and heavy industry. Instead, the country had experienced rapid import penetration, slow export growth and diversification and rising unemployment levels. In 2007, policymakers had put in place an initial national industrial policy framework, in which industrial policy was well articulated. The framework targeted diversification, value addition, employment, economic inclusion and regional integration, and incorporated policy instruments from industrial financing to public procurement, focusing on three key sectors, namely the automotive, machinery and food and beverages sectors. Finally, the framework sought to promote productive regional integration with an emphasis on complementary regional value chains.

10. In addition, the panellist noted that targeting regional value chains in southern Africa was an effective development strategy for several reasons. From the current 470 million, the regional population was expected to grow by over 60 per cent by 2030, and real household consumption was projected to grow by 3.5 per cent per year. In addition, regional markets were less demanding with regard to branding and marketing and were less standard intensive. Furthermore, there were established distribution networks, and access to information was easier. Free trade and investment agreements had been secured. However, economic integration was far from complete, and concerns remained regarding the prospects for further integration, due to the implementation of national policies not in support of the regional integration agenda, and to the growing importance of non-tariff barriers and asymmetries, whereby South Africa, for example, had experienced greater export success vis-à-vis other regional trade partners, in particular with regard to non-mineral products.

11. A specific concern regarding the regional dominance of South Africa related to the recent expanding regional penetration of leading supermarket chains from South Africa. The second panellist noted that these chains had benefited from first-mover advantages, and served as conduits for products from South Africa. Local suppliers in other countries in southern Africa were challenged by growing competition from imports and the dominance of these supermarkets. To re-equilibrate this situation, policymakers needed to design measures that included supplier development initiatives and a regional code of conduct for supermarkets.

12. In addition, the panellist stated that South Africa benefited from increasing dominance in exports of capital equipment for mining, reflecting its position as a regional hub with strong capabilities. Some countries in the region, such as Mozambique and Zambia, were among its largest destination markets. Other countries in the region had experienced uneven development, and their policymakers needed to take measures to share knowledge and develop a coordinated approach to foster their capabilities, seek local content policies and develop backward mineral linkages to leverage their extractive industries, which could lead to multipliers and lateral migration into other sectors.

13. The secretariat noted that limited and unbalanced regional development was not the only challenge facing the southern African region. Other challenges arose from the emerging digital economy, built on digital infrastructure, which included Internet access, education in information and communications technology, digital skills, cloud computing, data infrastructure, data intelligence, three-dimensional printing, robotics and electronic commerce. Digital infrastructure was a key asset for the digital economy, as it enabled the transformation of big data into information and knowledge, which in turn could create value that formed the basis of artificial intelligence, which then generated more efficient and less costly products and services. In global value chains and regional value chains, digitization could reduce the number of lead firms and change the nature of production, with a shift from mass manufacturing towards smaller localized production units for mass customization. In addition, digitized global value chains would become shorter, with production moving closer to consumers. Finally, digitized global value chains were expected to move to countries with higher digital skills.

14. With regard to a query on whether global value chains could continue to be seen as a route to sustainable development and a way of attracting foreign direct investment, in the light of recent trends in reshoring, the panellists emphasized that developing countries needed to foster digitization know-how to attract foreign direct investment, while negotiating on critical issues such as key code sharing and the free flow of data. In response to a question on whether there were sectors besides manufacturing that embedded positive characteristics such as productivity growth and linkages, and whether the disruptive role of digitization was being exaggerated, the panellists stressed that changes were occurring at a fast pace and that countries needed to be prepared for modifications, yet this process could be viewed as creative destruction, which provided some opportunities for countries. Finally, with regard to a query on whether agriculture might be viewed as a sector generating high productivity growth, and the possible demise of manufacturing linked to de-industrialization, the panellists suggested that de-industrialization was a problem if it occurred prematurely, and that, unless there was a sector that could serve as an alternative to manufacturing in terms of serving as a driver of productivity growth, it would take much longer to catch up than in the past. At the same time, it was important to be flexible and to consider the potential role of other sectors, such as agriculture, in generating increasing returns and value addition.

Using industrial policy to sustain inclusive growth

15. The final meeting focused on the use of industrial policy to sustain inclusive growth. The experts highlighted emerging industrial and trade dynamics, along with the challenges posed by new technologies, and addressed ways to harness participation in global value chains for inclusive and sustainable industrial development.

16. The first panellist discussed the implications of advanced manufacturing systems and digitization on global value chains, and highlighted that merely linking into global value chains might not be sufficient. There was a need to link different stakeholders and to build entrepreneurial capacities, as well as for appropriate regulations to reduce concentration in different markets. In addition, the panellist highlighted that digitization was redefining the organization of production within and between firms, and affecting the origin of rents. The drivers of change were science and technology, global challenges and emerging aspirations and values, and there was a growing need for strategic visions and coordinated policy actions to anticipate changes and shape policies to make development more inclusive and sustainable. New partnerships were needed for transformative changes, and the State needed to play an active role and work with the private sector.

17. The second panellist highlighted the fact that new technologies created leapfrogging opportunities for developing countries and late starters, yet only those countries that had worked to create capacities could take advantage of emerging technologies. The experiences of countries in South America compared with the experiences of countries in South-East Asia could provide lessons. For example, countries in South-East Asia had diversified into two-robot-intensive industry, and could better sustain productive jobs. In contrast, countries in South America had only one-robot-intensive industry and therefore did not have opportunities for diversification. In particular, the comparison of robot

densities in 2008 and 2014 suggested that the Republic of Korea and Singapore, for example, which had higher densities, could take advantage of opportunities as they arose, while countries in South America had not yet been able to do so. In addition, industrial and innovation policies, training policies and education policies, together with wage and distribution policies, needed to be in place to share the gains of improved productivity and create demand for new products. New emerging windows of opportunity included artificial intelligence, related to big data collection, algorithms, advanced sensor technologies and three-dimensional printing. Modern technology could be harnessed in the operations of the craft sector in developing countries.

18. The third panellist examined experiences in some economies in Africa to draw lessons on the impact of global value chains and foreign direct investment on development. Economic upgrading in global value chains was important, and could be achieved through higher value-added production in the form of production, function and intersectoral upgrading through better skills and know-how, capital and technology and processes. The panellist noted that firm-level research in 20 countries in Africa had shown that global value chain participation through foreign direct investment had led to production upgrading, and that government support had played a critical role. In addition, foreign direct investment could lead to productivity and technology spillovers through global value chains and higher levels of domestic competition, making domestic firms more efficient. Yet the characteristics of foreign firms, related to ownership, organization and sourcing strategies, and whether foreign direct investment was market or efficiency seeking, were also important. Technology gaps and absorptive capacities were crucial areas of focus for domestic firms. Countries in Africa needed to attract quality foreign direct investment; one way to engage with foreign firms was to create export processing zones or special economic zones, along with matchmaking between domestic and foreign firms and connecting them to the international markets.

19. The secretariat addressed the role of industrial policy in the context of accelerated automation and the use of robots, describing the nature of industrial robots and industry 4.0. Robot-based automation had increased the speed of automation, with its reliance on computer software, yet such automation needed to be economically profitable. The use of robots in sectors such as textiles and apparel had therefore been limited, to prevent the loss of low-wage employment. The use of smaller robots, combined with three-dimensional printing, could lead to new opportunities for industrialization in developing countries. In addition, digital technologies played a role in reshaping production processes and business models, as well as trade flows, and it was important to preserve policy space in the context of multilateral trade rules.

20. During the ensuing discussion, one delegate shared the experience of policymaking in Cuba with regard to integrating into global value chains. Another delegate noted that Ecuador had comparatively higher Internet participation rates than many other developing countries. Finally, one panellist noted that the International Federation of Robotics was the only available data source, yet had a number of limitations.

Conclusion

21. Discussions at the session clarified that simply targeting increasing participation in global value chains offered neither automatic nor straightforward pathways to industrialization, since it was the type of participation in global value chains, and a country’s positioning in the global distribution of tasks, that mattered. This required strategically fostering the development of the productive capacities and capabilities needed to upgrade production, and anticipating emerging opportunities. In constantly changing scenarios, however, there was no single optimal policy approach. Rather, policymaking needed to be pragmatic and open to experimentation. It was therefore important to preserve policy space and strengthen special and differential treatment provisions for developing countries under the Agreement on Trade Facilitation of the World Trade Organization. The Chair emphasized a number of policy recommendations, including on the need to develop productive capacities and capabilities, noting that policies should anticipate changes and emerging opportunities, target linkages and be structurally feasible and politically viable, and that South–South and regional integration should be strengthened.

22. In this context, UNCTAD could assist Governments in devising and implementing industrial policy strategies, continuing and scaling up initiatives such as the Productive Transformation Policy Reviews with the Development Centre of the Organization for Economic Cooperation and Development, and serve as a venue for exchanges of experiences among Governments, aimed at achieving consensus on strategies and scaling up existing regional arrangements and forms of economic cooperation in the South.

II. Organizational matters

A. Election of officers

(Agenda item 1)

23. At its opening plenary, on 26 October 2017, 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, elected Mr. Luis-Alberto Vargas Rojas (Nicaragua) as its Chair and Ms. Thembekile Mlangeni (South Africa) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

24. Also at its opening plenary, the Multi-year Expert Meeting adopted the provisional agenda for the session (TD/B/C.I/MEM.8/1). The agenda was thus as follows:

1. Election of officers;
2. Adoption of the agenda and organization of work;
3. Harnessing international production networks to foster inclusive growth and local productive capacities;
4. Adoption of the report of the meeting.

C. Outcome of the session

25. 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)

26. At its closing plenary, on 27 October 2017, 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 of UNCTAD attended the session:

Algeria	Morocco
Argentina	Nepal
Austria	Nicaragua
Bahamas	Nigeria
Chile	Philippines
Czechia	Saudi Arabia
Ecuador	South Africa
Ethiopia	Spain
Germany	Trinidad and Tobago
Jordan	Tunisia
Lao People's Democratic Republic	Turkey
Mexico	Uganda

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:

Organization for Economic Cooperation and Development
Organization of Islamic Cooperation
South Centre

4. The following United Nations organs, bodies and programmes were represented at the session:

Economic Commission for Europe
International Trade Centre

5. The following specialized agency was represented at the session:

United Nations Industrial Development Organization

6. The following non-governmental organization was represented at the session:

General category

International Centre for Trade and Sustainable Development

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* This attendance list contains registered participants. For the list of participants, see TD/B/C.I/MEM.8/INF.1.