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Ministerial round table: Escaping the middle-income trap

Summary prepared by the UNCTAD secretariat

1. During the discussion, the panellists highlighted the importance of adopting industrial policy measures aimed at increasing domestic value addition and the need for a restructuring of the international economic architecture in order to favour economic convergence by middle-income economies.
2. In his opening remarks, the Director of the UNCTAD Division on Globalization and Development Strategies stated that economic growth in recent decades had lifted many low-income countries out of poverty, but only a few of those countries had been able to close the per capita income gap with the advanced economies. He suggested that such a lack of convergence was related to the difficulties encountered by many developing countries in transforming their economic structures. In fact, many middle-income countries still lacked the capabilities required to compete on a broad basis in high-productivity activities with advanced economies.
3. There had been some success stories nonetheless. In most of these catch-up economies, for example in East Asia, progressive diversification towards more sophisticated and higher value added activities, leading to productivity convergence, was achieved through strategic policy interventions. The implementation of such policies, however, was particularly difficult in the current context of a globalized world economy. A rethinking of international economic institutions and rules aimed at making global firms and markets more compatible with economic convergence was therefore of critical importance to sustain development.
4. The panellists examined four pillars around which an effective strategy leading to economic convergence should be built: productivity growth, social inclusion, regionalism and policy space.

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5. The commodity super cycle of the 2000s was a key source of economic growth for many African and Latin American economies. Exploiting natural resources alone, however, could not guarantee sustainable labour productivity growth; at the end of the cycle, many developing countries had experienced problems related to Dutch disease and a marked slowdown in growth performance. Sustainable growth in productivity required industrial diversification and upgrading. However, this could be achieved only through the implementation of appropriate industrial policies, such as the targeting of more dynamic sectors, skills creation and the reduction of informational asymmetries. To be successful, industrial policy should be also integrated into a coherent set of policies on macroeconomics, finance, trade, investment and the labour market aimed at fostering structural transformation.
6. It was important to ensure social cohesion. Increasing inequality within and across countries threatened to undermine progress made by many developing economies during the 2000s. Guaranteeing inclusive growth, in turn, relied on the adoption of the right fiscal policies – those that struck a balance between incentives to investment and redistribution, and job creation in the formal sector.
7. Another crucial element was identified in the regional component of development strategy. Recent evidence suggested that regional productive and trade integration delivered multiple benefits to developing economies. Regional trade was more intense in manufacturing and capital-intensive products, while regional value chains, as opposed to global ones, guaranteed the capture of value addition at the regional level. Despite the positive effects of regional value chains and the proliferation of regional agreements, regional economic integration remained underdeveloped, especially in Africa and Latin America. In this respect, the experts stressed the importance of supporting the emergence of regional value chains and proposed the adoption of strategies leading to the progressive substitution of intermediate products imported from developed economies with regional and domestic production.
8. The panellists agreed that it was important to guarantee enough policy space to developing economies. This quest was particularly difficult in the current global scenario, given the multiple constraints imposed by the international trade and financial architecture that limited the adoption of key policy instruments such as localization requirements. Without a significant rethinking of the current architecture, it would be difficult for most developing economies to achieve the structural changes needed to sustain economic development.
9. The discussion also benefited from the analysis of the country experiences of Ecuador, Mauritius and South Africa. These countries had reached middle-income status and were now facing the challenges of sustaining industrialization and diversification in a scenario dominated by transnational corporations based, for the most part, in developed economies. Further, entering global value chains per se did not automatically deliver development, but the right policy approach was required to build those capabilities needed to benefit from participation in global value chains and to “climb the value ladder”.
10. The three countries strove to invest in the real economy rather than financial speculation and to facilitate the access of small and medium-sized enterprises to credit. They also strove to actively involve the private sector in the industrial policy debate in order to invest in the needed capabilities and infrastructure facilities and to design effective incentive schemes to facilitate the participation of local firms in global value chains. All three countries were trying to exploit their specific advantages using an innovative policy mix. Ecuador, for example, had attempted to foster local production of high value added intermediate products; Mauritius had focused on the ocean economy, given its strategic position in the Indian Ocean; and South Africa had given priority to the industrial sector.

11. The comparison of country experiences and the establishment of an ongoing policy dialogue that would favour the sharing of best practices and lessons learned among developing economies was of paramount importance to facilitate the adoption of an effective policy mix that could sustain durable and inclusive growth projects. In light of its mandate and history, the panellists suggested that UNCTAD could play a pivotal role in promoting the emergence of such a dialogue on a regular basis. This was also the objective of the joint activities undertaken together by UNCTAD and the Development Centre of the Organization for Economic Cooperation and Development.
