INFORMAL REPORT BY THE WTO SECRETARIAT TO THE AID-FOR-TRADE SESSION OF THE COMMITTEE ON TRADE AND DEVELOPMENT OF 6 NOVEMBER 2018

WORKSHOP ON "INDUSTRIALIZATION, ECONOMIC DIVERSIFICATION AND STRUCTURAL TRANSFORMATION"

On 5 November 2018, a workshop on "Industrialization, Structural Transformation and Economic Diversification" was held which discussed trends in economic diversification and industrialization and highlighted some policy and practice perspectives. The workshop was the first of the thematic events planned as part of the 2018-2019 Aid-for-Trade Work Programme. In his opening remarks, the Chairperson, **H.E. Mr. Diego Aulestia, Ambassador of Ecuador**, noted that industrialization was a key dimension to structural transformation and economic diversification and one of the main deliverables that developing countries wish to see from the Aid-for-Trade Initiative.

Dayong Yu, WTO, set the scene by presenting trends in export diversification for merchandise goods between 1994 and 2014. His presentation showed a clear trend towards diversification which was closely and positively linked to GDP. He noted that while export products of most countries have been more diversified, the degree of diversification declined together with trade volume during the economic downturn. Some regions (Asia and Eastern Europe) had been preforming better than others (notably Sub-Saharan Africa and Latin America and the Caribbean). Among LDCs, Cambodia, Bangladesh and Myanmar had seen important progress in diversification and structural transformation. For the most part, other LDCs' exports in general were still less diversified. Product groups where economic diversification had been registered in LDCs included in agriculture, leather, clothing and footwear products. A group of countries for which export diversification had not been recorded was small economies.

The first session focused on policy perspectives. **Frank Van Rompaey, UNIDO**, noted that structural change was a central feature of economic development and as economies evolved, the manufacturing industry played a key role. Manufacturing offered the possibility of higher levels of productivity, more rapid productivity growth and greater technical change than agriculture, or below a certain income, many parts of services. The sector had strong linkages with other sectors, which enhanced its pivotal role in economic development. Diversity in industrial production and exports mattered. Industrial diversification and upgrading was essentially about building technological capabilities at firm and industry level - capabilities in design, production, procurement and quality management. Such capabilities served as the main vehicle for productivity change in manufacturing and indeed in the economy as a whole. There were different ways to support industry and the precise choice of the instrument perhaps mattered less than the way they were applied. Current research highlighted the need to focus on key constraints to new investment.

Piergiuseppe Fortunato, UNCTAD, suggested that international trade had not triggered structural transformation and diversification in most developing economies during the last two decades. While trade volumes had increased by over 300% during this period, the index of export diversification displayed an increase of only around 10%. Furthermore, many developing counties remained locked in low value-added activities. Most African and Latin American economies, in particular, had experienced stagnation in growth of industrial capacity, and some even de-industrialization. He also noted that concentration increased dramatically in most markets and that this increase was associated with rising functional inequality. The role of intangibles and rules biased in favour of multinational corporations had fostered these dynamics. In this respect, Mr Fortunato highlighted how Free Trade Agreements were shifting their focus from reducing barriers at the border to reducing domestic regulation and NTBs and to promoting investment protectionism. He advocated the need for policy space and industrial policy to foster economic diversification and expansionary macroeconomic framework to support global demand.

Annalisa Primi, OECD Development Centre, noted that we live in a fast-changing landscape characterised by changes in patterns of demand, global geopolitical shifts, digitalisation and new technologies. While there had been a lot of changes, most had been focused on China and few countries have been able to climb the value ladder. She highlighted the three common challenges for developing countries as they diversified their economies, closing the productivity gap (particularly in an Industry 4.0 era) and increasing benefits from trade and foreign direct investment. She also cautioned that traditional industrial policies would not work in an Industry 4.0 world. Finally, she highlighted the importance of resource mobilization to implementing industrial policies.

Comments on the presentations focused on the importance of capturing services in diversification data, and considering the impact of LDC graduation for industrialization efforts. There were also calls to support the private sector, promote value addition on natural resources and foster regional integration. Participants also wished to see more discussion and examples of how Aid for Trade was contributing to structural transformation.

The second session offered some national and regional practice perspectives. **Debora Ponce from Guatemala** demonstrated how Guatemala had been able to enter and move up through the four phases of the textile and apparel value chain to become a full-service provider. Textiles and apparel accounted for 8.9% of Guatemala's GDP and were valued at more than US$1 billion in 2017 with 79% destined to the US and 14% to Central America. In addition to regional and bilateral trade agreements, she emphasized the importance of building business trust and relationship over a long period of time. Furthermore, building Guatemala's textiles and apparel industrial capacity involved fostering an innovation culture, qualified workforce, an integrated and complete supply change and infrastructure and regional integration of the Central American market. Guatemala also enforced strict labour and environmental protection policies.

Talha Alim on behalf of the LDC Group noted that the world trade share of LDCs remained below 1% and highly concentrated in certain products, exporting LDCs and markets. Export baskets were largely characterised by commodities, 10 LDCs account for 77% of LDCs' trade and 10 export markets receive 96% of LDC exports. There is therefore a need to diversify products, markets and balance the trade share amongst LDCs. Notable here is access to finance. He emphasized the need to enhance institutional infrastructure (through public, private partnerships (PPPs), improve customs procedures, physical infrastructure and investment. He also insisted on the importance of the WTO as a rules-based framework in which to achieve development.

On behalf of the African Group, **Vahini Naidu** provided a historical overview of industrial policy in Africa. She noted that African countries witnessed three industrial policy eras. Import substitution industrialization had been pursued in the 1960s and 1970s. Structural adjustment programmes had been pursued in the 1980s and 1990s which prescribed a one-size-fits-all approach and had led to the de-industrialization of the continent. In the 2000s more focus had been placed on social issues and not industrialization and building productive capacity. This had only changed with the launch of the SDGs. She noted that the SDGs coincided with "Agenda 2063, the Africa We Want"; the AU agenda underpinned by "industrialization as an engine for economic diversification and structural transformation". The overriding imperative of the AfCFTA is to boost intra-African trade, promote market integration and industrialization in Africa. In closing, she suggested that the African Group was of the view that Aid for Trade was not meeting its objective of building supply-side capacity. It is for this reason that the African Group had called for improving and strengthening the AfT Initiative and had requested the WTO Secretariat to review Aid-for-Trade Achievements.

Geremew Haile, Ethiopia, presented how his country's industrial policy focused on providing infrastructure and targeted light manufacturing through state intervention as the first step to their long-term goal to become a heavy manufacturing hub for Africa. Active and defined state interventions include building a reliable industrial workforce, infrastructure, logistics and trade facilitation and facilitating domestic industrial linkages. The Hawassa industrial park is considered "Africa's Best Model Park" quadrupling FDI to US$4.2 billion in 2016/17 from US$1.1 billion in 2011/12.

There was no further time available for questions or comments. Copies of presentations and a podcast are being made available on the WTO website.
