

# TRADE, TRADE POLICY AND ECONOMIC TRANSFORMATION

13 December 2017, Buenos Aires, Argentina

## Event Report

Sonia Hoque  
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## INTRODUCTION

On 11-13<sup>th</sup> December 2017, the International Centre for Trade and Sustainable Development (ICTSD) hosted the Trade and Sustainable Development Symposium (TSDS) alongside the Eleventh World Trade Organization Ministerial Conference in Buenos Aires. The TSDS was attended by global thought leaders, key private sector actors, active civil society groups, as well as high-level governmental and intergovernmental organisation representatives.

The [Supporting Economic Transformation \(SET\) programme](#) held a panel [session](#) at the TSDS on the 13th December to discuss trade, trade policy and economic transformation. Panellists included:

**Dr Dirk Willem te Velde**, Principal Research Fellow and Head, International Economic Development Group at ODI chaired the event. Other speakers included:

**Dr Lucio Castro** – Secretary for Productive Transformation, Ministry of Production of Argentina

**Patricia Francis** – Former Executive Director of ITC, and former member UN Secretary-General's High-Level Panel on Women's Economic Empowerment

**Anabel Gonzalez** – Senior Director, The World Bank Group

**Andrew McCoubrey** – Deputy Director for Trade for Development, Department for International Trade, UK

**Dr Maximiliano Mendez-Parra** – Senior Research Fellow, ODI



## Key Points from Session

- Trade is crucial for economic transformation. No country has transformed in a sustained way in a closed economy context.
- There are significant opportunities to transform economies by addressing distortions in agriculture, eliminate subsidies in fisheries and work towards new disciplines on e-commerce. [Detailed papers on these issues can be downloaded here.](#)
- Addressing these issues can contribute to diversify economies and increase productivity, key elements of economic transformation.
- An effective dispute-resolution mechanism has helped transform economies, such as in Costa Rica (textiles).
- There is a need to adjust rules and introduce some flexibilities for small states. Regulations on the financial sectors applied by developed countries harmed diversification opportunities in the Caribbean.
- Economic transformation remains relevant in middle-income countries such as Argentina, and trade remains key. A new, smart and intelligent way to integrate into the global economy is needed. The new national productive plan aims to achieve this.
- The full recording of this event by ICTSD can be viewed [here.](#)

## INTRODUCTION

Economic transformation is crucial for the type of growth that reduces poverty, create jobs and is resilient to shocks. However, many low-income countries have failed to transform successfully. Trade has nearly always been a key component in those countries that have transformed successfully. This event unpacked the role that trade plays in the process of transformation in a number of countries and regions and discussed how trade policy provisions such as those currently under discussion at the WTO can further contribute.



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**DR MAXIMILIANO MENDEZ-PARRA – SENIOR RESEARCH FELLOW, ODI**

Experience shows that all countries have had to use trade for economic development and there is a necessary condition linking trade and transformation. Domestic markets are not large enough to provide the required size, diversification of demand, and competition to provide cost effective inputs.

Trade provides opportunities for diversification in production, helps the discovery and development of new productive capabilities, and helps to create higher domestic value-added in trade. If economic transformation has been successful we will observe a production and export structure which is more diversified, and higher domestic value-added in output and trade.

SET analysis has shown that current negotiation issues could contribute to economic transformation in developing countries. Namely, negotiations on agriculture, fisheries and e-commerce will help to create production, and export opportunities, in sectors where current trade distorting practices make them uncompetitive. This also has implications that countries need to increase production and export opportunities. In addition, they can also help to increase global productivity by increasing output and exports from efficient suppliers.




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A healthy multilateral trading system remains key to achieve these outcomes. The three legs of the system (dispute-settlement body, progressive trade openness and rule based disciplines) need to be in place and working well.

The key findings from the [SET study on implications of WTO negotiations on developing countries](#) are below (in-depth papers via hyperlinks below, and a summary paper is available [here](#)).

**1) [AGRICULTURE](#): Trade helps to increase agriculture productivity**

Reducing trade distorting domestic support can unlock export in new products. No price distorting public stockholding can increase agriculture productivity in, and increase the value of, exports from poorer countries.



## Agriculture

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Price support mechanisms to build up food stocks are costing some emerging economies up to **\$15 billion** annually. Food security issues can be better addressed by promoting agricultural productivity and trade.

2) **FISHERIES:** Undistorted global fish markets increase value added and productivity

Eliminating fisheries productive capacity enhancing subsidies will help to increase fish prices, expanding captures, and exports from efficient suppliers in developing countries.

## Fisheries

A removal of the annual **\$35 billion** of subsidies for fisheries in developed and emerging countries (of which a quarter are fossil fuel subsidies) would benefit fisheries value chains in the poorest countries, as well as reduce the depletion of fish stocks, and improve future food security.



3) **E-COMMERCE:** The digital economy provides new transformation options

Newer disciplines on E-Commerce/digital economy can contribute to diversifying goods exports, and contribute to the modernisation of the services sector.



## E-commerce

A reduction in tariffs on e-commerce goods and services could increase trade by developing countries. Even a 1% decrease in tariffs could lead to a (nominal) increase of **\$2-3 billion** in high-technology imports and exports, boosting economic transformation.

These issues, and other issues under discussion, are likely to bring net benefits for the world’s poorest countries. Nevertheless, some countries may need support if they are to benefit substantially, and in others there will be manageable losses.

Developing countries will benefit from a renewed commitment by all, to uphold the rules-based global trade system, including a strong dispute-settlement body.

**ANABEL GONZALEZ – SENIOR DIRECTOR, THE WORLD BANK GROUP**



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Anabel discussed global value chains (GVCs) and the multilateral trade system but began with an example of how trade rules can support economic transformation using the example of Costa Rica. Twenty-five years ago, it produced coffee, bananas, sugar and beef. After a crisis in the 1980s it began to think about economic transformation. The first idea was to attract investment in textiles which was successful, soon starting to export to the US. Soon after they faced a restriction related to using US fabric. Costa Rica challenged this at WTO, won the case in the dispute settlement system, and the US withdrew the restriction. This experience shows how the system helped a developing country trying to reform.

Linking this experience to GVCs, we have seen GVCs have been used by countries such as Lesotho, Bangladeshi etc. to develop, create jobs and improve productivity both in manufacturing and services. Four features set developing countries apart from traditional production entry – customisation of production, sequential production decisions, high contracting cost and global matching of goods, services, themes and ideas. Expansion of GVCs needs a global system that can support all these processes. Some of this can be found in deeper trade agreements that are being signed, and World Bank research finds high impact due to these.

Trade policy is a necessary enabler, but is not sufficient for participation in global chains. Creating world-class links with export-processing zones, attracting foreign direct investment, and good connectivity, local GVC links, expanding capacity of local domestic firms, and sectoral policies plus a range of other policies are also key.

**ANDREW MCCOUBREY – DEPUTY DIRECTOR FOR TRADE FOR DEVELOPMENT, DEPARTMENT FOR INTERNATIONAL TRADE, UK**

The analysis done by ODI is crucial for us whilst we revise our trade policy as we leave the European Union. There has been a shift in development and aid in the UK towards working on economic development and growth. We have increased our spending on economic development and have invested in a new range of programmes looking at manufacturing, infrastructure, and regional value chains. We have been working with the World Bank to work on economic transformation and growth and have made a major investment into CDC, all as part of the new economic development strategy. This is a new push in this area by the UK government.

Reducing distortion to trade is very important in agriculture. Some of the examples in the paper such as cotton and fisheries are very useful. We hope the door is open to discussions on fishing etc. in the coming months after this conference. For development agencies return on investment in aid for trade is off the chart – this is “the place to be” (compared to health,



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education and humanitarian work). DFID are pushing for further integration of women to trade, including women's economic empowerment, and will be working on this in the near future.

## PATRICIA FRANCIS – FORMER EXECUTIVE DIRECTOR OF ITC, AND FORMER MEMBER UN SECRETARY-GENERAL'S HIGH-LEVEL PANEL ON WOMEN'S ECONOMIC EMPOWERMENT

Economic transformation is not unique to developing countries. We now hear a lot of developed countries talking about inequality of trade deals, which we have faced all along in developing states. Lots of our countries became dependent on preferences and this depressed economies, and stopped innovation and competitiveness. After preferences, commodity agriculture decreased and many countries tried to diversify into services like tourism and ICT. We found our governments had a tough time transforming from a commodity base to new areas and this had an impact on government ability to collect revenue from taxes etc.

Most Caribbean economies are focused too much on tourism, and have not sufficiently developed industries. There are lots of areas they can do much better. One example of this is the sports industry. Ahead of the Athens Olympics, Puma was allowed to use Jamaican flag in return for uniforms for our athletes. I pushed for provision of a village in the Olympic park to promote Jamaican products and tourism. This shows we did not know how to make money from things we are good at – this needs to be learned and is common in developing countries.

In financial services, we are up against OECD and their rules which are challenging, and we need to find a unique selling proposition, how to make ourselves special. With advent of e-commerce, we have seen that we can use it as a means to get our products and services "out there", This includes music, sports, entertainment etc.



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Finally, on women's economic empowerment, women are critical in our economies and we need to find ways to ensure they can move up from small industries to more defined industries. The UN high-level panel on women's economic empowerment is an excellent resource to find out more about how to do this.

## DR LUCIO CASTRO – SECRETARY FOR PRODUCTIVE TRANSFORMATION, MINISTRY OF PRODUCTION OF ARGENTINA

In Argentina, the main objective for the government is to become "normal", and a high-income country. There are two phases to this. The first phase is normalisation (controlling inflation, eliminating export restrictions etc.). The second phase is encapsulated in the national productive plan in Argentina, which intends to improve productivity across whole economy, to in turn, create more jobs. Around a third of the population is under the poverty line, and we need more jobs in the private sector. We have an eight-point plan on the following areas:

- 1) Reduce capital
- 2) Improve infrastructure

- 3) Simplifying very complicated labour regulations.
- 4) Tax reforms
- 5) Eliminating red tape
- 6) Facilitating access to technology
- 7) Competition policy (to increase competition)
- 8) Intelligent integration to global economy

The next step for us is in the 'knowledge economy'.

We believe Argentina has a huge opportunity to participate significantly in this area. We have large knowledge-intensive services sector; many companies that now dominate Latin American market began in Argentina.

This is a huge opportunity for us and is currently the third largest revenue generator. We can construct policies in this area to support growth further.



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## QUESTION & ANSWER WITH AUDIENCE

### Questions

- *Where does industrial sector stand in industrial process? Argentina used to be very rich, but is not so rich now, and is a very expensive country – uncompetitively so. How does this impact Argentina's transformation?*
- *Some small countries, such as those in the Caribbean, are tax havens. What is the benefit of this to them?*
- *On Argentina, and intelligent integration. What does 'intelligent' mean and what is different from past?*
- *How have institutions impacted development in the Latin American region?*
- *Africa is grappling with what to do with commodity sector. With price booms, they developed linkages back and forth to promote economic transformation. There is now disillusionment, things have not turned out as hoped, and prices are falling. What are the panel's thoughts on this?*
- *What do you think about specific proposals by the G90 to change trade rules to support economic transformation?*

*There is a lot of interest in policies to encourage diversification and transformation. Some countries are using unorthodox policies like second-hand clothing bans. Is there any merit to this approach or in complete contrast to openness (to encourage trade)?*

### Responses from the panel:

**Max Mendez-Parra:** It is important to think beyond traditional industrial sectors like manufacturing to things like services. We have conducted analysis on how efficient services are needed to support manufacturing and increase productivity in manufacturing. On commodities, prices were high and there was little focus on other sectors like agriculture. Countries were not worrying about linkages from commodities to other areas like improving agricultural sector (developing machinery for example). On the second-hand clothing

ban (Mitumba), a ban affects the livelihood of many people negatively, and there would be an influx of cheap clothing from other countries (therefore, backfiring from the original aim to develop their own industry).

**Andrew McCoubrey:** We echo the need to link services to the industrial sector. We have a programme called Invest Africa, which needs careful thinking. The word industrialisation is broad, and used differently by people, and interventions need to be tailored using evidence to different countries.

**Patricia Francis** – We need a lot of things in place to make an industry work, and understand markets. From my experience of working in Africa, quality control related to commodities are key. A lot more value could be added to products simply by having quality control processes in place.

On tax havens, this is about how you manage money, not tax evasion. Caribbean countries are doing the same thing as countries in Europe but are treated differently. People are looking at insurance, and returns of investment, and the quality of jobs in financial sectors are much higher. There are two sides, taxes should be collected by developed OECD countries *and* the countries which are havens, it is not an equal game. More dialogue is needed for real reciprocity and transparency.

**Lucio Castro:** It is important to consider the industrial sector in a global context, which is different to the 1960s and 1970s. Argentina now has an integrated approach. It has a well-diversified country with a developed industrial base. Argentina is the only place apart from Thailand, which is making and exporting trucks to many countries and we are very optimistic about future.

Productivity in factories is high, but the problem starts when products leave the factories. There is poor logistics, and there are the same issues as developing countries. Some firms which are very competitive in the region (even when the sector as a whole is not) so we remain optimistic.

On policy, one priority is around financing. Argentina is starved of financing, similar to many African countries. This is a huge challenge and taming inflation is not enough. Argentina has established a modern development bank two years ago which works on financial inclusion and with the private sector. Argentina is also trying to move forward in technological innovation and provide incentives to invest in research and development, looking at technology transfer centres and trying to link scientific community to business community. Finally, Argentina addresses the lack of skilled workers by providing professional training, especially with automation and helping workers to adapt skills.



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For further information on the SET Programme see [set.odi.org](http://set.odi.org) or contact the SET Programme & Operation Manager at [s.hoque@odi.org.uk](mailto:s.hoque@odi.org.uk).