IPoA – MTR High-level Roundtable 2

Trade and Commodities, Economic Diversification and Graduation

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- Honorable co-chairs, Excellencies, ladies and gentlemen! SDG Goal 8 calls for sustained per capita growth and to achieve GDP growth in the LDCs of at least 7% per year.

- While most LDCs have experienced solid economic growth even after the global financial crisis, their median growth rate since 2010 (5%) still fell short of this target. Also, averages can be deceptive. While some LDCs actually exceeded 7% GDP growth (Ethiopia, Myanmar and Rwanda), others grew only below the average; and in some (conflict-stricken) countries growth actually declined. Moreover, in per capita terms the average LDC growth rate was only 2.7%. This means that the majority of LDCs was not able to make greater progress in narrowing the gaps with more developed countries. And, of course, if the past patterns remain unchanged, it will make it more difficult to absorb the rapidly growing share of youth into the labor market.

- Target 8.2 therefore rightly emphasizes the need to achieve higher levels of productivity through diversification, technological upgrading and innovation and a focus on high-value added and labor-intensive sectors.

Why is diversification needed?

- First of all for growth: Diversification is typically conducive to sustained strong growth, and at lower levels of development helps achieve structural transformation and moving up the income level. In a recent study, the IMF has analyzed experiences across its low-income country members from 1962 to 2010. This paper entitled Sustaining Long-run Growth and Macroeconomic Stability in Low-Income Countries—the Role of Structural Transformation and Diversification shows that the top one-third most diversified low-income countries grew twice as fast as the least diversified countries during 1962 and 2010.

- Second, for macroeconomic stability: Diversification helps build resilience to external shocks and terms-of-trade volatility. Empirical evidence suggests that during 1962 and 2010, output volatility was almost 20 percent less in the top one-third most diversified low-income countries compared to the least diversified.

- Third, to respond to the increasingly challenging global economic environment. Structural diversification of the economy has always been an important policy objective. The end of the era of high commodity prices has now reinforced the urgency, in particular for commodity-dependent and least developed countries, to identify broader sources of economic activity to reduce dependence on commodities as the dominant source of output, employment, exports, and public revenues.
Specific structural policy reforms to support diversification

- For many LDCs, increasing agricultural productivity may hold the key to fostering structural transformation and, in turn, diversification, and to improving living standards.
- And for this, it is important to remove market distortions, including maintaining overvalued currencies or taxing agricultural exports that may penalize the agricultural sector in LDCs.
- Elements for a cost-effective strategy include investment in rural roads, electrification, irrigation, greater financial access for rural areas, and R&D to develop and disseminate improved seed varieties.

Integration into the international trade system

- The tradable sector plays a very important role by transforming skills, increasing productivity, and driving the way to the quality ladder.
- Policy reforms such as calibrated import liberalization measures are important.
- Development partners can also provide important support through “aid for trade,” trade preference schemes for poor countries, trade related capacity-building efforts, and project preparation assistance.
- Last but not least, barriers to imports and domestic subsidies on agricultural products in advanced economies are a significant obstacle to export expansion for many LDCs and need to be addressed with more urgency.

Thank you for your attention!

References


IMF, 2014, Sustaining Long-Term Growth and Macroeconomic Stability in Low-Income Countries.”

IMF, 2015, WHD REO chapter on diversification, April.