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CAPACITY DEVELOPMENT WORKSHOP

**towards the
FOURTH GLOBAL FORUM
ON REINVENTING GOVERNMENT**

**The State, the Private Sector and Civil Society:
Partnerships for Development and Democracy**

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Capacity Development Workshop on Citizens, Business and Governments: Dialogue and Partnerships for the Promotion of Democracy and Development

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Module 7. Globalisation, Role of the State and the Enabling Environment

Aide Memoire

The globalization of the world economy has necessitated a revisitation of the role of the state. The transnational revolution in information technology, finance and trade in the past two decades is leading governments to rethink the framework of economic policies in tune with changing global economic realities.

Within the increasing globalized world economy, the myriad of issues including economic growth, private sector development, and trade & investment have reinforced the importance of government regulation for a competitive environment for the market forces to thrive. Increased globalization of investments and transactions in product and capital markets has created a consensus on the importance of incorporating economic governance into the broader national framework for economic growth and development.

Although considerable strides have been made by countries in reforming domestic policies, not all countries have benefited from globalization equally. Marginalization of groups within a country has heightened the need for effective management of the adverse domestic impact of globalization. There is a need to devise an appropriate mix of policies and regulation which minimizes the negative fallout while allowing for greater integration into the global economy.

An efficient and competitive private sector forms the basis of the current development paradigm for achieving sustainable economic growth. Privatization, liberalization and deregulation provide the necessary enabling environment for the private sector to function efficiently. Economic or market regulation by the state aims at promoting greater competition through efficient resource allocation and by ensuring that the free market principles are not distorted. Foreign direct investment can add to investment resources and capital formation. It can also be the means to transfer technology and skills, and the innovative capacity while providing access to international markets. Foreign investment also plays an important role in improving productivity and export growth in the host country. Liberalizing the regulatory environment for FDI has a powerful impact on income and welfare. However, the magnitude of these effects depends, among other characteristics, on the domestic regulatory environment which promotes competitiveness.

Along with the evolving role of the state is a shift in the paradigm in favor of socially corporate behavior for businesses brought about by the negative impact of globalization.

Informed consumers are increasingly favoring companies with economically viable, socially responsible and environmental-friendly corporate strategies.

In this context, the new role of the state in the global economy is has become one of building an ‘enabling environment’ conducive to a competitive private sector, attracting foreign direct investment and promoting sustainable economic and social development. This reinforces the role of the government in partnership with the businesses, the NGO’s, the civil society and the public not only as consumers but as responsible actors.

This panel will provide an opportunity for participants to:

- Discuss key issues regarding the changing role of the state in a globalized world, the capacity of economic regulatory institutions to promote FDI in support of development while minimizing the adverse social impact of globalization;
- Share experiences and best practices in promoting dialogue and partnerships between the policy makers and the private sector on issues in promoting FDI, building a regulatory framework, and socially responsible corporate behavior;
- Identify strategies and approaches to formulate and implement policies, programmes and initiatives fostering synergies between the State and the private sector in partnership with the civil society; and
- Provide a platform for discussion for among government, the private sector, and non-governmental organizations and members of civil society.

Session One:

1. Globalization and sustainable economic development: the new face of state – private sector-civil society partnership

Globalization has brought with it greater challenges but also enhanced opportunities. Trade liberalization globally has brought into sharp focus the benefits to be reaped from greater penetration of foreign markets, technological advancements and economic growth. Multi-national companies and private capital flows, cutting across geographical boundaries, form the essential link between developing country trade, investment and economic development.

Despite the significant efforts made by many developing economies to pursue reforms and to become more integrated into the global economy, many countries are still experiencing disappointing growth rates, external shocks and adverse impact on the poor. The first session will discuss the changing role of the state and private sector development. It will explore the reasons why results for so many developing economies are not measuring up to initial hopes and will seek to promote a better understanding of the cases of success.

Among other topics it will focus on:

- What is globalization?
- What are some of the benefits and costs of globalization?
- How do we manage the process of globalization to effectively minimize its adverse impact?
- What do the states need to do to minimize the impact of globalization on the poor?
- What is the interrelationship between sustainable economic development, FDI policies and a regulatory framework?
- Some guidelines for an effective state-private sector-civil society partnership to maximize benefits from globalization.

Session Two: Public-Private Partnership in a Globalized World Economy

2. Attracting Foreign Direct Investment: What do the states need to do?

Private sector development aims at achieving economic growth and reduction of poverty by enhancing competitive forces and competitiveness, which produce growth and jobs. Second, it allows governments to have greater fiscal space needed for spending in social sectors and infrastructure, which are fundamental to sustain growth in the long-run. Foreign direct investment (FDI) – and multinational corporations (MNCs) as the main conduits through which FDI takes place – are primary vehicles for private sector-led growth. FDI brings to a host country not only capital, productive facilities, and technology, but also employment, new job skills, management expertise, export markets, and tax revenues. In many countries, fiscal deficits have limited the ability of governments to impose further taxes or borrow from capital markets to finance development. This has in turn generated pressures to downsize the public sector, privatize state-owned enterprises, and deregulate markets. This requires of both policy-makers and business leaders to be cognizant of the changes that have occurred in the last decade in the pattern of FDI flows, developed and developing alike; specially the globalization of FDI and the resulting increase in international and domestic competition in product and service markets.

It is important to keep in mind that that the potential FDI inflows to a country are strongly influenced by both the business enabling environment the institutions designed to protect the competitive process. Moreover where the regulatory framework is inadequate the performance of multinational corporations (MNCs) is weaker, which in turn undermines the expected benefits of FDI on the host country's economic development.

This paper will focus on issues such as:

- What is the role of FDI in economic development?
- What has been the impact of FDI flows and its spillover effects on economic growth? How have FDI flows affected the structure of the economies?
- What factors in the host country influence the size, location, and decision of multi-national companies?

- What are the linkages between the global and domestic finance systems and their impact on host country financial stability and ability to promote FDI?
- Do domestic firms benefit from FDI?
- Do firms with foreign participation contribute to higher employment?

3. Corporate Social Responsibility

Socially responsible corporate behavior includes open and transparent business practices, ethical behavior, respect for employees, communities, and the environment. Firms investing globally are increasingly being called upon to adopt socially responsible and environmentally sound policies. Multinationals are exploring ways to prevent pollution instead of cleanup; conserve natural resources for promoting sustainable environmental development framework. In support of government efforts, firms where the domestic regulatory framework is weak, multi-nationals have a social responsibility to support developing countries initiatives in promoting transparency and accountability. This paper will address the following issues:

- How can multinational corporations in developing countries take on more socially responsible corporate strategies?
- How can they both, developing countries and corporations benefit from such initiatives?
- What can governments do to encourage socially responsible corporate initiative?
- How can the consumer and civil societies influence the states and the firms to ensure full participation and inclusion in the benefits of economic growth?

4. The enabling environment for private sector development: Building the domestic institutional and regulatory framework

In a fast globalizing world economy, the regulatory framework requirements of countries have changed in line. An important aspect of the new role of the state is to work with private sector to provide regulatory frameworks supportive of competitive markets. Notwithstanding, the state and the private sector remain a distance apart. Though considerable strides have been made by countries in terms of undertaking structural adjustment reforms, including liberalization and privatization of domestic economies, much remains to be done, especially in those countries liberalization, deregulation and privatization has been slow.

There is a need to reform the regulatory framework to better suit the demands of the economy and the society and the institutional capacity of the state. Developing countries need to adopt adequate regulatory policy regimes. They need to ensure that effective controls on anticompetitive behavior are in place not only in the domestic market but globally. Whereas there is a growing consensus among most nations that regulatory policy regimes are important factors in the free and fair functioning of markets and global economic integration, there is less convergence on what constitutes an effective regulatory framework.

A regulatory framework should must be set within a the overall ambit of appropriate trade, finance, and investment policies and a sound and stable macro economic framework. It has to be set within the nation's own political, economic , social and cultural context. In this context many choices are available to the developing countries and many issues need to be addressed. Secondly, an overall regulatory framework is required where the role of the government institutions as players is clearly defined and effectively enforced. Enforcement brings its own set of issues of implementation.

This paper will address these issues.

- What constitute an appropriate framework of policies, institutions and regulation in the globalized world economy?
- What are the policy, legal and regulatory requirements for promoting FDI and how do we build an enabling environment?
- How do the governments' approach to regulatory policy affect the quality of FDI inflows and the benefits these flows bring into countries?
- Are competitive markets likely to attract the type of FDI required to enhance economic growth, international competitiveness and consumer welfare?

Session Three

4. Interlinkages between the FDI and the Regulatory Regime: Regional experiences

Whereas the cornerstone of the new development paradigm is a private sector led growth strategy, there is recognition that each country needs to devise its own indigenous domestic regulatory and competition framework, and the associated governance structures. Despite progress made in recent years, economic growth and investment is hindered by a number of impediments in many countries. Domestic regulatory environment and competition remains limited due to incomplete price liberalization, administrative restrictions to FDI, and slow progress in privatization.

Drawing upon lessons of experience and best practices worldwide this session will present the country experiences where states have successfully undertaken reform to provide a conducive environment for attracting FDI and promote sustainable economic growth and development.

5. The Enabling Environment for an Effective State-Private Sector Partnership: Lessons learned and best practices

This segment will pull together the presentations to conclude with major themes and broad issues discussed. Based on the presentations it will present some guidelines on defining the macroeconomic context and building an effective strategy to promote FDI, building quality institutions and the capacity of the state to design high quality regulation. Before It will bring together key issues regarding the changing role of the state in a globalized world and what needs to be done in building the economic

regulatory institutions to promote FDI in support of development while minimizing the adverse social impact of globalization;