

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

Marrakech, Morocco, 10-11 December 2002

## **Module 8: Trade and Investment in a Globalized Economy**

### **I. PURPOSE OF THE MODULE**

The aim of this module is to bring together key stakeholders from the public sector, private sector, civil society, research and regional institutions to focus on interactive trade and development policy spaces and options likely to be enhanced by investment opportunities and institutional innovations, bringing the need for human development to the forefront of challenges being confronted by countries in global integration.

By the end of this module, participants will gain a greater understanding and appreciation of how to streamline the interface between WTO negotiations, national and inter-regional policy, and institutional analyses, in order to enhance competitiveness at specific inter-sectoral levels. Participants will also be equipped with the required policy tools for using the knowledge gained, in partnership with the private sector and civil society, to reap the benefits that globalization of trade and investment has to offer, both in terms of growth and in terms of sustainable human development, while minimizing the social costs of restructuring and the external shocks associated with increased openness.

### **II. METHODOLOGY**

Participants will be presented in the first session with a conceptual and analytical framework for analysing the inter-linkages between liberalization, consistent economic growth and sustainable human development, equipping them with the policy tools for steering their integration into the global economy.

The subsequent three sessions will explore these inter-linkages in greater detail, providing both theoretical and concrete examples, which together with the conceptual framework will shed light on the trade and development policy spaces, and institutional innovations that are likely to achieve the required outcome.

Sessions 2-4 will cover the following areas:

2. Strategic management of negotiations in the WTO and other multilateral fora.
3. Understanding of TNCs strategies, investment behaviour and pro-active policies to ensure technology transfer from TNCs to SMEs.
4. Active policies to increase the competitiveness of SMEs so that they succeed in the global market.

The Module will conclude with a wrap-up session summing up key policy lessons and points raised for developing interactive trade and policy spaces that enhance competitiveness in the global economy.

### **III. PRESENTATION OF THE SESSIONS**

#### **Introduction**

Globalization is one of the defining features of the last part of the 20th century. During 1990-2000, trade flows grew faster than the Gross Global Product and Foreign Direct Investment (FDI) more so. New communication systems and various technological innovations, a new multilateral trade system based on liberalism and new actors such as the World Trade Organization (WTO) and Trans-National Corporations (TNCs), have been the driving force behind the expansion of the market economy and the integration into the world economy.

Most developing countries have seen, in integrating into the global economy, a solution to their predicament and a strategy to renew growth. But while the East Asia countries have clearly benefited from integration into the world economy – poverty has steadily regressed in this part of the world – there has been no marked improvement for most Low Income Countries (LICs). For some of the Least Developed Countries (LDCs), marginalization has increased. The expected convergence between economies has not occurred, except among the most advanced economies; while the gap between industrialized and developing countries has widened.

In the best cases, trade liberalization can impulse short-term growth. But it can also be a disruptive force. Trade liberalization itself is not sufficient to drive sustained growth. Trade has to be part and parcel of the national strategy of development in order to contribute to sustainable growth. To maximize the positive outcomes of a trade policy, this latter needs to be linked to other policies, macro and sectoral, including development of human resources, measures for building a strong institutional base, incentives for the private sector as well as investment in public infrastructure. On the international side, additional measures are required to improve market access for the goods for which developing countries are competitive. Without such measures, developing countries will not get the expected benefits from globalization.

The sharp increase in trade originates in part from TNCs, which are seeking the most efficient combination of productive factors and which fragment their production by investing in subsidiaries and joint ventures abroad thereby creating intense flows of merchandises between the different productive units of a same group. While the majority of FDI flows are directed towards industrialized countries, developing countries received inflows of US\$240 billion in 2000. This compares to ODA figures of US\$53 billion, showing that foreign direct investment has the potential to be a new force for development in tandem with the principles of the Monterrey Conference. However it should be noted that of that more than 80 percent of that US\$240 billion is concentrated in 10 developing countries.

#### **Session 1: Conceptual and Analytical Framework**

Success in the global economy is dependent on maintaining a balance between three policy spheres: liberalization; consistent economic growth and human and social capital development.

The outcome is human development – combination of economic and social rights that brings knowledge and opportunity to all levels of society. Human development expands choices allowing people to decide on a better future for them and their children. It enlarges their capabilities and puts their skills to good use drawing the technological and innovative infusion that industries need to gain a competitive edge and punch above their weight in world markets. It promotes an enabling environment unleashes the entrepreneurial power with which people can lay claim to the ownership of wealth generation and enjoy the fruits of their hard work.

Where the policy spheres are well-balanced, research shows that with a healthy and well-educated workforce, foreign investment brings with it new technological know-how that spills over into the local economy, leading to increased productivity and economic growth, boosting sustainable human development and moving production up the value chain. In these economies, small- and medium-sized enterprises (SMEs) are thereby endowed with the capacity to compete effectively in the international market.

At the same time, consistent economic growth fosters financial and political support for the values of good governance by providing income to fund expenditure on social capital and by bringing about a stability that encourages saving and investment, and ensures long term prosperity.

However, it is important to balance global integration with the need to build the capacity of an economy to cope with international competition. Rushing into liberalization too soon can lead to trans-national corporations crowding out domestic firms with a technology gap that is too wide to bridge. Liberalizing the capital account before opening up trade and labour markets and strengthening the banking sector, encourages investment for speculative gains at the expense of higher value-added production, which could lead to financial crises.

### **Session 2: Strategic stance in WTO negotiations**

The Uruguay Round, culminating in Marrakech in 1994, established a new multilateral system governing the global trade in goods. But the momentum for global trade did not end there. Since then regional and bilateral agreements have proliferated and negotiations in trade no longer restrict themselves to the movement of goods. The World Trade Organisation is progressively opening new areas of the economy to international competition such as public services, the movement of capital and labour, the ownership of technology and economic sectors such as oil, gas, water, health and education, telecommunications, software, tourism, insurances and banking. New opportunities can limit the choices societies make in building their own industrial and service base while managing their integration into the global economy. Negotiations on agriculture are a case in point as the huge domestic subsidies paid to farmers of the industrialized countries makes it difficult for developing countries to compete. Elimination or reduction of these subsidies would have an immediate and positive impact on the life of millions of farmers in developing countries. It is essential to strengthen national trade policy through institutional innovation and by connecting the policy stance of the negotiators at the WTO and at regional trade bodies with the objectives of government, business and civil society at home.

Countries now have new opportunities to aim for a decent playing field at the international level. Special and Differential Treatment (S&D) could be one way for societies to widen the flexibility with which they act and allow weaker sectors to ease themselves into the trading system. But should this flexibility apply to a whole country or to various sectors, and be bound by their state of development? In negotiations countries need both stronger capacities to raise issues and negotiate in the multilateral fora, good analytical capacities in their home country to provide substantive backstopping grounded in the productive sectors that are affected by the issues over which they are negotiating. At the same time is there a need for strengthening regional trade agreements in order to lead the negotiating agenda at the WTO and fill the gaps in the trade agenda. How can regional trade agreements get the teeth that traders are asking for? And will they reduce the need for more bilateral deals? How can the needs of a burgeoning informal sector be reflected in trade agreements?

### **Session 3: FDI and Technology Transfer: Forward and Backward Linkages to the Economy**

With the global fragmentation of production through liberalization of trade and investment regimes, companies are choosing to spread their production around the world. The driver of this trend is foreign direct investment. Its importance as a force for development was recognised at Monterrey. FDI flows rank favourably with development aid in much of the world. At the same time an important spillover from this is technology transfer. Where the human capital capabilities are present, FDI, either in the form of joint ventures or wholly owned subsidiaries, brings with it new technological know-how that spills over into the local economy, leading to increased productivity and economic growth and a general move up the value chain. However, where the required human capital is not present TNCs can crowd out domestic firms with a technological gap that is too wide to bridge.

The challenge is for countries to maximise the gains from FDI and trade by harnessing technology transfer, thereby initiating a catch-up process. This means providing an educated workforce who can both understand and use the technology creatively, encouraging new

knowledge to spread both up and down the supply-chain from recipient companies, and enhancing that knowledge through incentives to promote R&D and private-public partnerships with universities. The state also has a role to play in targeting investors effectively, matching producers with their requirements and attracting the kind of investment that brings in progressively higher added value to exports.

#### **Session 4: Competitiveness, Clusters and SMEs**

Improving competitiveness is essential for succeeding in the global market. Firms need to create a good quality product with the best technology available and at a reasonable cost. Furthermore, they will gain an advantage by developing long-term relationships with suppliers and customers, and employing an innovative marketing strategy. For least-developed and transition economies, competitiveness must focus on SMEs. Often employing a large proportion of the population, especially women, their success is crucial to promoting a positive social outcome from the globalization of trade and investment.

The fragmentation of global production offers SMEs the opportunity to build linkages with other and with large core companies, usually TNCs and their subsidiaries, through sub-contracting relationships. SMEs can thereby increase their competitiveness by benefiting from positive spillovers and a general move up the value chain. This does not negate the role of the state. Government is needed more than ever to bring reforms to the supply side and release the energy and creativity that resides within. This involves fostering an enabling environment for entrepreneurs in which a suitable infrastructure is present, the rule of law is fairly applied, red tape is minimised, financial markets are fluid and accessible, and the workforce is both educated and healthy. Furthermore an infrastructure is required that allows SMEs to build linkages with each other and acquire synergies in sharing production, accessing credit, identifying training needs, developing management standards and quality control, and creating logistical networks. Grouped together, clusters can ensure that their concerns are transmitted more effectively to trade negotiations, central and local government.

Examples of clusters today include the Northern Italian automotive industry, the Hyderabad IT industry and the Bombay film industry, the Brazilian aerospace industry and the Swiss watch-making industry.

#### IV. AGENDA Workshop 8

Day One	
Welcome	
1430-1445	By Module Chair: Mr. Reinaldo Figueredo Director, UNCTAD-UNDP Global Programme
Session One: Conceptual and Analytical Framework	
1445-1600	<p>Speaker: Mr. Georges Chapelier Senior Policy Adviser, UNCTAD-UNDP Global Programme</p> <p>Participants will gain an insight into analysing the inter-linkages between liberalization, consistent economic growth and the development of human and social capital, and an appreciation of how these linkages can be used as policy tools for integrating into the global economy in pursuit of human development and in partnership with the private sector and civil society. This approach will form the underlying methodology for the following three sessions, which will explore the linkages in greater detail. The UNCTAD-UNDP Global Programme on Globalization, Liberalization and Sustainable Human Development will also be presented.</p>
1600-1615	Coffee Break
Session Two: Strategic Stances in WTO Negotiations	
1615-1745	<p>Speaker: Mr. Reinaldo Figueredo Director, UNCTAD-UNDP Global Programme</p> <p>Participants will gain an insight into the new Round of talks at the WTO covering trade in services, and discuss the options for participating effectively in the on-going negotiations as a pre-requisite for countries wishing to integrate successfully into the global economy, while preserving their policy space. Furthermore, they will gain a greater understanding of how the capacities of negotiators can be increased to raise issues and negotiate in multilateral fora, backed up by substantive analytical capacities in their home countries. This session will include experience from negotiations and interactions with productive sectors for energy and agriculture and an exploration of S&amp;D.</p> <ul style="list-style-type: none"> <li>• How can the asymmetry of power between the industrialized countries and the developing countries be reduced?</li> <li>• How can countries preserve their policy spaces while participating fully in new negotiations? How to make the S&amp;D more relevant and acceptable to all?</li> <li>• How can regional trade agreements plug the holes of the international agenda and be made more relevant?</li> </ul>
End of Day One	

Day Two	
Session Three: Technology Transfer: Forward and Backward Linkages to the Economy	
0900-1030	Speaker: Mr. Mongi Hamdi Chief, Technology for Development, UNCTAD
	Participants will gain an insight into technology transfer and how knowledge from TNC subsidiaries spills over into the local economy leading to increased productivity and economic growth and a general move up the value chain. They will discuss the challenges governments face in order to provide an enabling environment for investors and domestic entrepreneurs, an educated workforce who can use the knowledge creatively, and an R&D infrastructure that enhances that knowledge. This session will include country experience from Brazil, India and South Africa.
	<ul style="list-style-type: none"> <li>• How can linkages be enhanced with the host economy?</li> <li>• How can private-public partnerships be established with universities for R&amp;D purposes?</li> <li>• How do economies move up the value chain?</li> </ul>
10.30-1045	Coffee Break
Session Four: Competitiveness, Clusters and SMEs	
1045-1230	Speaker: Amb. Werner Corrales UNCTAD-UNDP Global Programme
	Participants will gain an understanding of the importance of improving competitiveness in order to compete in the global market through firms producing a high quality product at reasonable price, while taking advantage of long-term relationships with suppliers and customers. They will discuss how by developing relationships with TNCS, SMEs can benefit from a move up the value chain, and how establishing an SME infrastructure through the cluster approach allows synergies in production, logistics and training. Case studies from India, Jamaica and Nicaragua will be presented.
	<ul style="list-style-type: none"> <li>• In order to enhance the competitive edge of SMEs, what should the relation be between domestic measures and the negotiation process at the WTO?</li> <li>• How to move from low wage labour manufactures and natural resource industries to more complex products, with higher added value?</li> <li>• Are clusters of enterprises and productive chains the way forward for developing countries to increase their competitiveness?</li> </ul>
Wrap-up Session	
1230-1300	By all speakers
	Rapporteur: Ian Richards UNCTAD-UNDP Global Programme
	Participants will receive a summing-up of key policy lessons and points raised for developing interactive trade and investment policy spaces that enhance competitiveness in the global economy.
End of Module	