

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Informal Encounter on International Governance:

Trade in a Globalizing World Economy

*Jakarta, Indonesia, 19 and 20 June 1991**

* This summary has been prepared by the UNCTAD secretariat in the context of its preparations for UNCTAD VIII and is being circulated for the convenience of delegations. It does not purport to be a comprehensive account of the views expressed by participants in the Informal Encounter, nor does it necessarily reflect the views of the secretariat.

INTRODUCTION

1. In the context of the preparations for UNCTAD VIII undertaken by the UNCTAD secretariat, independent and government experts participated in their personal capacity in an informal encounter on *International governance: trade in a globalizing world economy*, which was held in Jakarta, Indonesia, on the 19 and 20 June 1991 (list of participants attached). The encounter was organized by UNCTAD, hosted by the Government of Indonesia and co-financed by the Government of Japan. The purpose of the encounter was (i) to promote an exchange of views on the concept of globalization; (ii) to examine the implications of globalization for the evolution of international trade and patterns of interdependence; and (iii) to consider the contributions of international governance to making the process beneficial to all countries and, in particular, developing countries.

I. GLOBALIZATION: AN ASSESSMENT

2. Over the last few years, the world economy has been subjected to a series of shocks and changes which have made it both less predictable and richer in opportunities and challenges. The need for an improvement in international governance is felt with a particular acuity in the area of trade.

3. Because many of the most recent developments in international trade constitute an intellectual as well as a practical challenge to the way policy-makers, negotiators, and analysts address trade issues, it is often difficult to tackle such elements in a concrete and straightforward fashion. The discussions in the Informal Encounter, however, were particularly rich in examples of practical situations and precise cases which showed that issues such as "globalization" and "international governance" were a necessary component of any productive debate on the future of the international trading system.

4. Very early in the discussions, participants underlined that, in the domain of trade, the issue of international governance is made both more burning and more delicate by the ongoing process generally referred to as "globalization".

1. Main characteristics

5. Over the last 20 years, largely owing to advances in information technologies, international economic relations have been affected by a set of trends generally referred to as "globalization". This phenomenon can be seen as the third of three "layers of internationalization". Historically, the first of these layers was that of international trade. The 1970s were marked by the rapid emergence of yet a second layer, which analysts have labelled "financial integration", whereby international investment flows outpaced trade flows. Then, starting in the early 1980s, the third layer (globalization) was superimposed on the first two, by placing technology (and especially information technology) at the forefront of competition. Strategic alliances between firms and the pervasive use of planetary information networks are spearheading a reshuffling of comparative advantages, in which continuous innovation and flexible organization become crucial sources of profitability. Therefore the consideration of interdependence now requires that increased attention be given, in addition to trade and finance, to technology, as well as to the rationale and impact of the "global strategies" of private firms.

6. The process of globalization has proved to be a contradictory one, whereby trends towards global integration (e.g. of financial markets) co-exist with growing regionalization as well as

with tendencies towards fragmentation, in particular through the establishment of incompatible and competing standards and procedures in sectors dominated by proprietary networks.

2. Practical consequences

7. Although difficulties were expressed in understanding the concept, as well as in defining the process, there was broad agreement that globalization comprises phenomena that affect international economic relations in all sectors. These phenomena include, *inter alia*, inter-sectoral integration at the level of national and world economies; the growing mobility of factors of production; the rapid internationalization of production and the growth of trade; the blurring of the distinction between policies addressing different objectives, such as industrial policies on the one hand and competition policies or trade policies, on the other, or the distinction between competition and trade policy, etc. To a large extent, these phenomena stem from:

(a) Advances in technology in general, which are affecting competitiveness in all sectors; advances in information technologies in particular, which are changing the ways firms and nations are trading with each other;

(b) The emergence of global private networks, which are modifying the way firms compete with each other. By networks is meant not only communication devices, but also organizational tools which allow participants in them to mobilize the network's resources in the pursuit of diverse objectives, thus creating new comparative advantage;

(c) Changes in corporate strategies characterized by increased intra-network co-operation, on the one hand, and increased inter-network competition, on the other.

8. For example, "global delivery systems", such major airlines' computer reservation systems (CRSs),¹ are global, not simply because of their geographic reach, but because of their capacity to integrate and/or bring to the market packages of services or goods belonging to previously separate sectoral markets. In a single transaction, it is now possible to purchase travel services, hotel accommodation, car rental services, insurance and credit services. In that sense, competition involves facing the challenge of competition not only from other countries, but also from other sectors. Other examples in the area of services involve the diversification of financial institutions into insurance and *vice-versa*, which has been at the centre of growing competition between banks and insurance enterprises worldwide. In textiles, the introduction of computer-aided design (CAD) used for pattern-making, grading and marking, and numerically controlled cutters (NCC) are contributing to a "new deal" of comparative advantages among producers. Their main benefits -- i.e. a quick response to changing market requirements, a shorter turn-around time in grading and marking, and considerable improvements in fabric utilization -- have been reducing the comparative advantage of low-wage and abundant labour. In addition, telecommunications have made it possible to fragment the production process in different locations, as design can take place closer to the fashion centres, while production, which is still labour-intensive, can be located thousands of miles away. In this area, a few developing countries have been moving up the scale of comparative advantage by rapidly adopting similar strategies.

¹ By computerizing and interconnecting their reservations systems, major airlines have not only been able to speed up their bookings operations, but also to optimize their fleet operations. More importantly, however, such networking has enabled major operators to 'bundle' some travel-related services. The cost of establishing and operating such global networks is such that only companies with a *critical mass* of operations can profitably join them. As some analysts have remarked, this reinforces the disparity between the major players and their would-be competitors. In addition, the efficiency of CRSs has already induced a shift in the value-creation process in the sector of travel and travel-related services: such a shift is clearly in favour of the host countries of CRSs, and away from the actual providers of tourism services, for example. Major CRSs are System One (Texas Air), Sabre (American Airlines), Apollo (United Airlines), Amadeus (Air France, Lufthansa, Iberia, SAS), Galileo (British Airways, Swissair, KLM, SABENA), Abacus (Cathay Pacific, Singapore Airlines, Thai International Airways).

3. Challenges ahead: marginalization and fragmentation

9. There was broad agreement that globalization does not necessarily imply a greater integration of all countries in the world economy. In fact, it has been a highly uneven process, led by enterprises in a relatively small number of developed market-economy countries and an even smaller -- albeit growing -- number of developing countries. Among the factors limiting developing countries' participation in the globalization process, the following were mentioned: low level of technological development, inadequate infrastructures, small market size, financial constraints, local limitations imposed on foreign direct investment, limited market access for developing countries' exports, inadequate technology transfer. It was pointed out, however, that there was a growing differentiation among developing countries, with an increasing number of countries becoming able to participate, to a greater or lesser extent, in the globalization process. These trends notwithstanding, developing countries are only marginally involved in decisions shaping the rules and the future developments of globalization.

10. It was noted that the process of globalization has been accompanied by a growing tendency towards fragmentation in the form of regionalization around each of the triad members (United States of America, Western Europe, Japan) which are leading the process. Although, in the absence of appropriate policies, regionalization threatened to create trade blocs, it could also pave the way to a more effective multilateralism: problems that emerged at the regional level could be resolved regionally first, and the solutions then be extended to the multilateral level. Moreover, there were differences in the regionalization processes observed, with different implications for multilateral relations. Some processes were driven mainly by markets (financial and technology flows) -- i.e. Japan, NICs, ASEAN; others by policies (trade etc.) -- i.e. United States and Canada plus potentially Mexico and Latin America; still others by political considerations or by a combination of the above -- i.e. EEC, Eastern Europe, EFTA, North Africa.

11. Finally, a number of participants underlined that *economic* globalization was only one dimension of a wider process that touched upon every facet of the human condition. Demography, employment, education, poverty, endemic diseases and environmental degradation were issues that needed to be addressed globally and thus fell within the realm of international governance.

II. TRADING IN A GLOBALIZING WORLD ECONOMY

12. It was felt that, as globalization has so far been restricted to a small number of developed and developing countries, the linkages between trade and the globalizing trends have only now begun to be understood and analysed. For the majority of developing countries, which had remained predominantly exporters of commodities, it was difficult to see how globalization could affect them in concrete terms and, therefore, help them to design their policies accordingly. It was, however, generally accepted that, for all countries, globalization not only created opportunities, but also presented new challenges.

1. Reshuffling comparative advantages

13. Among the opportunities, and also the challenges, mentioned was the creation of new competitive advantages through increased mobility of factors of production and continuous innovation, sustained productivity growth and improvements in production processes. The growing opportunities for South/South integration and for small countries or small firms to participate in the global economy were also mentioned.

14. However, the extent to which countries or their firms could benefit would depend on the

degree to which they are, or will be, integrated into the global trade, investment and technology flows. In this connection, factors which might facilitate or constrain such integration were highlighted. The overall level of economic development, the level and the type of skills available, the availability of adequate infrastructures, were considered important determinants of a country's integrative capability. As for the role of domestic policies, the importance of which was stressed by a number of participants, it was pointed out that they had been covered extensively in another informal encounter which had been devoted entirely to national governance.²

2. The increasing role of foreign direct investment (FDI)

15. In view of the central role played by FDI in the process of globalization, it was argued that the integration of developing countries could be accelerated through increased FDI flows to these countries, but that such an increase would of course depend on their policies regarding FDI, as well as on the local macroeconomic environment more generally. Other participants felt that, since most developing countries are on the receiving end of FDI, integration through this channel would not take into account these countries' specific development requirements. In this connection, it was pointed out that some of the developments associated with the globalization process, since they usually involve large transnational corporations (TNCs), carry the risk of increased vulnerability, particularly for developing countries: globalization was seen as contributing to the increase of traditional restrictive business practices (e.g. collusive tendering, market-sharing, exclusion from markets, prohibition of exports and other cartel-type arrangements), as well as introducing new ones, which could be described as "systemic" in the sense that they need not involve intentionally negative practices on the part of firms, but result from the new organizational models that make it difficult for the outsiders or late-comers in the process to benefit from the opportunities offered.

3. A need for action

16. Finally, it would appear that globalization has been creating new forms of division of labour additional to those prevailing in the past. Some participants stressed that, if left to market forces alone, these developments could lead to suboptimal allocation of both human and economic resources and to further widening of the development gap between countries. The systemic obstacles to access to networks, for example, cannot be overcome without specific actions. The need for international co-operation and rule-making was therefore greater than ever. For the developing countries, which in their majority constitute the weaker link in the process of globalization, international co-operation should ensure that their specific needs are reflected in the systems to emerge. The answers to the problems raised by globalization have yet to be formulated. The rule-making exercise has only just begun in the developed countries. There is, therefore, still time to formulate the "development paradigm" to be injected in the debate.

² See *Informal encounter on national governance: the respective rules of the public and the private sectors in promoting sustainable development*, Caracas, Venezuela, 13-15 February 1991 (UNCTAD VIII/1).

III. INTERNATIONAL GOVERNANCE AND TRADE

17. The complexity and uncertainty characterizing the globalization process are increasing both the urgency and the difficulties of establishing a coherent framework for international governance in the trade area. The participants agreed that globalization was introducing new issues regarding both the concept of international governance and how to translate this concept into operational procedures. There was broad agreement that effective international governance involved the solution of long-standing problems, such as access to markets, RBPs, etc., although views as to how this could be achieved varied.

18. Among the issues discussed, there are a number in which international action is deemed necessary and to which UNCTAD should lend its support and have a role to play. These include: the institutional framework, access to markets, restrictive business practices (RPBs), financial issues, development of human resources, and trade efficiency.

1. Institutional framework

19. The international community has so far not succeeded in setting up an effective framework for attending to the interests of all countries in an equitable way. A key condition for this seems to be a regular and constant involvement of developing countries in international efforts regarding trade, finance and technology flows. UNCTAD VIII, being a universal gathering and a forum for discussing interdependence, would provide an opportunity to examine the totality of issues involved in globalization. The discussion of this issue pointed to the growing integration of developing countries into the multilateral trade system, as evidenced by the growing number of countries that had autonomously undertaken measures (particularly trade-liberalizing measures), which were considered to constitute a positive contribution to the broad objectives of the Uruguay Round.

20. International institutions concerned by the globalization process could certainly place more emphasis on technology. Among other areas requiring additional attention, "rules of origin", "anti-dumping" and competition policies were mentioned. Regarding the latter, the suggestion was made that, eventually, minimum international criteria could be set against which domestic policies could be measured.

2. Market access

21. Market access has remained a central issue of concern for developing countries. The observation was made that, even under the most optimistic forecasts concerning the Uruguay Round, problems of market access will remain. Some participants stressed that, in order to ensure that the goods of developing countries enjoy better market access, it will be necessary not only to remove the discrimination faced by these countries' exports in terms of tariff and non-tariff barriers in developed markets, but also to expand the scope of the generalized system of preferences (GSP), for example to services, and to provide preferential market access to all possible areas of export interest to developing countries. UNCTAD could be the appropriate forum to pursue discussion on non-tariff barriers (NTBs) and the future of the GSP. Dissenting views were expressed about the necessity and desirability of pursuing current GSP schemes.

3. Restrictive business practices (RBPs)

22. The discussion supported (see previous section) that RBPs have been made potentially more important by globalization. In this connection, the need to foster equality of opportunity in international trade would involve policies in the following two areas:

- access to competitive structures and the tools for gaining competitiveness, mainly technology, information networks, distribution and marketing channels, services infrastructures and greater participation in trade; and
- action to prevent and control RBPs.

23. The adoption of rules that would bind both States and their enterprises -- which would be the most extreme possibility -- was supported by some participants on the grounds that governments have been adopting a dirigiste approach when their own national interests are at stake, providing State support to their enterprises, or acting on behalf of their enterprises to maximize their global expansion. The view was expressed that binding rules could act as a constraint on FDI and thus have a countervailing effect. The adoption of guidelines whose observance will be based on self-discipline would appear as another option. The need for a campaign to raise the awareness and increase the understanding of developed-country enterprises about the results of accepting such disciplines in terms of mutual benefits and complementarity was mentioned.

4. Financial issues

24. For the majority of developing countries, financial constraints will be limiting factors for access to the infrastructure, technology and know-how which are necessary to build comparative advantage. The importance of financing issues was brought up by several participants. These included not only the need for further improvements in the international debt strategy, but also the need to mobilize other external sources of financing. With the exception of FDI that has also been linked to technology transfer, the need to restore a better balance between structural adjustment and project financing and the build-operate-and-transfer (BOT) schemes was mentioned.

25. The lack of appropriate infrastructures in many developing countries constitutes an important obstacle to the diffusion of technology. International financial aid will continue to play a role in this case.

5. Human resources

26. In many instances one of the main limitations for a country's capacity to absorb technologies is the lack of appropriate local human skills. UNCTAD could play a role in providing technical assistance for training in the use of networks and towards the development of capabilities to accelerate the diffusion of technology more generally. In view of the expressed wish of developing countries' governments to make extensive use of the market as a means for organizing economic activity, the need for organizational and managerial skills will become increasingly more important. The provision of incentives by developed-country governments to their enterprises for managerial training in developing countries and in economies in transition could also be envisaged.

6. Trade efficiency

27. Participants underlined the need for prompt international action in the area of trade-related information flows. The pervasive effect of worldwide information networks (of which many are privately-owned) is going to be increasingly felt in developing countries. This constitutes both a major opportunity and a daunting challenge. On the one hand, a more global diffusion of the productivity gains which these networks have allowed could significantly increase the overall level of efficiency in international trade transactions and accelerate the integration of developing countries (as well as economies in transition in Eastern and Central Europe) into a freer, more transparent and more open trading system. On the other hand, the present landscape of global networks is one of fragmented standards and strictly limited access. If left to so-called spontaneous forces, this situation would unavoidably lead to (i) further segmentation of markets and loss of possible economies of scale, (ii) further marginalization of developing countries and economies in transition.

28. It was underlined that, in this area, the need for internationally accepted rules and guidelines was urgently felt. Such rules and guidelines would cover not only norms and standards (for hardware, software as well as for trade-related messages and trade procedures), but also the conditions governing the possibility for outsiders (i.e. the firms and countries that do not own these global infrastructures) to gain access to the networks. It was repeatedly stressed during the discussions that the exercise of "rule-making" had only just started in this area, and that there was still time to inject a positive "development paradigm" into on-going discussions. It was proposed that UNCTAD should take the lead in launching an international initiative in this area and offer a focal point for the fostering of on-going initiatives related to (i) the promotion of commonly accepted norms and standards for trade-related information flows (e.g. in EDI), (ii) granting network access to outsiders, and (iii) establishing an Information Network for Trade and Development, which would carry up-to-date and universally accessible information on procedures, trade laws, preferential arrangements, markets and opportunities for developing countries' exports.

IV. CONCLUSIONS

29. By and large, globalization constitutes a potentially positive force for growth and development. However, current trends point to the possible emergence of a "fragmented global economy", within which large economic spaces would develop their respective internal (intra-zone) complementarities to the prejudice of inter-zone trade flows.

30. Apart from the international trading system itself, the main victims of such a situation would be the large majority of developing countries, and possibly economies in transition. The need for better governance in the trade sector is thus particularly felt in these countries.

31. The advent of globalization does not diminish in any way the urgency with which the longstanding problems faced by developing countries (e.g. market access) should be addressed by the international community. However, the new context in which international transactions are taking place calls for a greater awareness of the importance of foreign direct investment, trade and business practices, and technological innovation with regard to the trade performance of developing countries, as well as to the functioning of the international trading system.

32. As far as international trade is concerned, the current situation is characterized by the growing need for clear and fair rules of the game, in particular in those areas which have been most affected by technological advances (e.g. information-intensive services), and organizational changes (e.g. through networking). UNCTAD has a particular role to play in this context, by offering as early as possible the "development paradigm" which this debate is still largely lacking.

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