



NEW CHALLENGES

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNITED NATIONS DEVELOPMENT PROGRAMME

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Launching the Second Phase

The UNCTAD/UNDP Global Programme on Globalization, Liberalization and Sustainable Human Development will soon complete its first phase. Operating in selected countries in Central America, Africa and Asia, the Programme undertook a series of country assessment studies and national workshops at the country level. At the global level, it organised and co-financed initiatives aimed at promoting a better understanding of the linkages between globalization and dimensions of sustainable human development, and enhanced the ability of developing countries to participate effectively at regional, bilateral and multilateral negotiations.

Senior policy makers, including Ministers, members of academia and prominent figures in civil society, attended the meetings. For the Global Programme these events helped it to pinpoint recurring areas of concern for countries wishing to integrate into the global economy (*see reports of national workshops on pages 3-5*). These include the need for training in commercial diplomacy, the drafting of competition and investment policy as well as institutional reform and the inclusion of a human development perspective.

The outcome of the first phase has driven the Programme to concentrate more on activities at a country level. The Programme will assist willing countries to draw up national action plans, in cooperation with the UNDP's country and inter-country programmes. Within the framework of the national action plan, the Programme will concentrate on selected areas (*see priority areas for technical assistance in capacity building, page 8*). These will include technical assistance in institutional capacity building for training in trade policy and negotiations. Not only will this improve their participation in bilateral and multilateral meetings, but also it will enable them to put forward their own agenda in multilateral discussions and negotiations on trade matters and to draft investment and competition policy. At the same time, negotiators will better understand the impact of the agreements that they negotiate on their economies and human development. At the country level capacity building will assist policy makers in ensuring a greater consistency between social and economic policies on the one hand, and policies at the macro, sectoral and micro levels on the other. The Programme will also undertake new country assessment studies, having received requests to participate from the Governments of Bolivia, Burkina Faso, Côte d'Ivoire, Lesotho, Morocco and the United Republic of Tanzania.

The various initiatives taken so far have clearly shown that no country has the option or ability to stop the process of globalization. The keywords for the Governments of developing countries are "preparation" and "management". Governments have a responsibility to put in place an environment conducive to, and consistent with, the achievement of national priorities and development goals in order to maximise the benefits of globalization and to minimise the risk of marginalization of the most vulnerable groups. These factors will determine the winners and losers of the integration game.

On Other Pages

Acting at the Country Level: Activities Undertaken

Sequencing in Brazil	2
National Workshops in Central America	3
National Workshops in Africa	4
National Workshop in Nepal	5

Country Assessment Studies Launched

Jamaica	5
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Acting at a Global Level: Activity Undertaken

Regional Policy Dialogue for Africa	6
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Global Level Activities: Looking to the Future

Expert Meeting on Governance	6
Training in Commercial Diplomacy	7
Best Practices in Technology Transfer	7

The Global Programme

Priority Areas for Technical Assistance in Capacity Building	8
To Find out More about the Programme	8

Sequencing in Brazil

This case study on “The Sequencing of Trade and Capital Account Liberalization: the Experience of Brazil in the 1990s” was undertaken by Mr. Ricardo Gottschalk of the Institute of Development Studies at Sussex University. It re-examines the literature on the sequencing of liberalization policies, with a focus on the current and capital accounts of the balance of payments, and sequencing issues using the liberalization reforms in Brazil in the 1990s.

The study addresses the questions of how political factors and policy objectives have influenced the order and pace of reforms, and shows that the decision to embark on capital account liberalization at an early stage was driven by three major economic objectives: price stabilization, trade liberalization and fiscal reform. First, it helped Brazil defeat chronic inflation; second, it favourably affected agents' expectations that reforms would not be reversed; and finally, it gave time for fiscal reforms to move forward.

With such broad reforms, including a high interest rate policy linked to stabilization objectives and a privatization programme, much of the external capital flowed to the country in pursuit of arbitrage and speculative gains, with considerably less flowing to investment in new (productive) capacity. External capital was also used to support micro reforms, investment and modernization, but this process was neither deep nor wide enough to bring about an effective change in the country's export pattern or to expand export capacity to considerably reduce its counter-cyclical behaviour. Poor export performance was also explained by an overvalued exchange rate and by large fiscal deficits. A policy-consistency requirement would have been for the fiscal adjustment to take place much quicker, but this was not feasible owing to political constraints.

Overall, the elements gathered in this study support the view that a more gradual liberalization approach would have been advisable. This would have helped prevent a number of policy inconsistencies that were all but impossible to avoid given the complexity of the tasks being pursued. A gradual approach could have also contributed to less speculative behaviour in financial markets, and given time for the building up of institutions to help external capital to be channeled to productive activities. In the tradable sector liberalization policies alone cannot build an export sector, needed to meet the external obligations of an open, net-capital-importer economy, such policies need to be accompanied by more proactive actions to support the sector.

Today sequencing literature focuses on the phasing of the capital account. An increasingly held position is that of the prior need to strengthen the domestic financial system, develop markets and institutions and adopt prudential controls. The point is to know how external capital, in its different forms, can be beneficial to development objectives of countries that lack appropriate institutions. Therefore, attention should be refocused on what supportive policies are needed. The Brazilian experience demonstrates that markets alone generally frustrate expectations. A useful step ahead would be to acknowledge that markets should be regulated in areas such as finance and accompanied by selective public policies in others such as trade.

Guatemala City, San Pedro Sula, Tegucigalpa, San Salvador and Managua

Four countries – El Salvador, Guatemala, Honduras and Nicaragua – were selected for the programme because they have a common set of problems and are all members of the Central American Common Market (CACM). Three studies for each country were carried out, dealing with (i) trends in growth and global integration; (ii) trends in human development; and (iii) problems affecting the development of micro and small enterprises.

The workshops held in April and May 2000 recognized the connection between successful integration into the global economy and a substantially larger investment in people, education and health, which is needed to diversify exports and attract foreign direct investment. However, human development is hampered in El Salvador, Guatemala and Honduras by low tax income, and in Nicaragua and Honduras by debt. Overvalued exchange rates have stalled the export diversification programme, which made great progress during the 1990s, and have discouraged foreign direct investment. In trying to attract foreign direct investment for sophisticated activities, Governments were asked to consider measures such as signing double taxation treaties with the United States, their main export market.

However, governance problems in the region have reduced the ability to formulate and execute effective economic policy and have resulted in a lack of political will in strengthening the Central American Common Market, an indispensable link to the world economy. Governments were asked to pay greater attention to micro-enterprise development, which is viewed as an important bridge between faster growth and sustainable human development, as it supplies inputs to exporters, thereby fostering backward linkages from the export sector to the rest of the economy.

Governments in all four countries requested follow-up activities, which should be operational in nature and which could go beyond the traditional scope of UNCTAD's activities. This calls for a more innovative approach, in cooperation with other organizations, such as the United Nations Industrial Development Organization (UNIDO), the International Trade Centre (ITC), the International Labour Organization (ILO) and the Inter-American Development Bank.

All countries indicated that they needed technical assistance and advice in the context of the Central American Common Market and bilateral negotiations. In Honduras and Nicaragua, it was suggested that the Global Programme could assist in the preparation of Poverty Reduction Strategy Papers for admission to the Highly Indebted Poor Countries (HIPC) initiative and towards preparations for a Regional Consultative Meeting with donor countries in March 2001. It appears that the Global Programme has been well received in Central America. The workshops marked the start of a relationship that will be innovative in its approach and one that will draw on the strengths of the Global Programme.

The Central American workshops were attended by high-level government officials, including Ministers of Economy, entrepreneurs and leaders of civil society. In the case of Honduras, presidential candidates and human rights advocates also participated. A special workshop was also held in Honduras' commercial capital, San Pedro Sula, aimed specifically at the business community.

Harare, Blantyre & Gaborone

All the meetings were opened by the respective Ministers of Industry and Commerce, with the active participation of high-level representatives from academia, business and civil society. In Zimbabwe, the results of the country assessment study were also presented to the leader of the Movement for Democratic Change, who was very interested in the findings.

Three countries in the southern African region – Zimbabwe, Malawi and Botswana – were selected for the country assessment studies, with work beginning in April 1999. Workshops were subsequently held in national capitals between December 1999 and April 2000.

Although many findings were similar to those for Central America, there were important differences, namely internal economic and political instability in Zimbabwe and poor institutional capacity in policy formulation in Malawi. Moreover, the spread of AIDS in the region represents a serious threat to society and the economy.

The workshops recognized that the success of integration into the global economy is based on substantial investment in people, which is a requirement for diversifying exports and attracting FDI. Furthermore, economic diversification is a pressing need for Botswana and Malawi, with the latter relying heavily on tobacco as an export crop. However, the low level of human development is an obstacle to diversification and the ability to attract FDI in sophisticated activities.

There is potentially a large role for micro and small enterprises in making the link between faster growth and sustainable human development. They also represent an important tool for diversifying the economy, but require improved access to support services such as credit facilities, marketing, transportation, telecommunications and trade facilitation. Coupled with the issue of micro and small enterprises is that of international competitiveness, which is at the root of the vulnerability of the Malawian and Zimbabwean economies. Malawi also faces a large debt burden, which prevents it from investing productively to improve its competitiveness.

Regional integration is widely seen as a building block for successful integration into the world economy. However, regional ties need to be strengthened and research needs to be undertaken to train policy makers in negotiating on trade and investment matters. Domestically, policy implementation is weak with too many institutions becoming involved, unclear lines of responsibility and a lack of accountability.

The response from participating Governments was very encouraging. Botswana's Minister of Industry and Trade requested technical assistance in carrying out the Trade and Investment Policy Reviews, and drafting a competition policy. The Global Programme was asked by each Government to provide assistance in enhancing the negotiating skills of the region's commercial diplomats. It was felt that regional institutes should play an active role in this respect and that training and research activities should be undertaken on a regional basis – as is the case for Asia (*see page 7*) and Latin America (*see issue 2, January 2000*). As part of the second phase, these points, which fall into the priority areas for the Global Programme's technical assistance schedule, will form the basis of national action plans for the region.

National Workshops: Nepal

Kathmandu, March 2000

Nepal is the first country in South Asia to have been assessed in the first phase of the Programme.

To start the proceedings, participants in the workshop were asked to consider whether globalization and liberalization are necessarily complementary. For example, China is more integrated into the global economy than South Asia, but it is less liberalized. However, the costs of abstaining from the world economy were fully recognized and it was suggested that Nepal should work out a balance between globalization and regionalism, using the South Asian Association for Regional Cooperation (SAARC) as a shield against any negative effects caused by the world economy.

The workshop also discussed domestic economic issues in the context of integrating into the global economy. A well-developed social and physical infrastructure was seen as essential for attracting FDI, promoting the profitability of the agricultural sector and alleviating poverty. However, it should be recognized in the case of Nepal that FDI is not a supplement to domestic saving – it is more important as a source of technology and market access. In attracting FDI, Nepal was asked to examine the case for integrating further into SAARC.

Poverty alleviation remains a pressing issue and participants noted that traditional ideas such as human capital, remunerative employment and productive assets should not be ruled out. In the agricultural sector, the need for land redistribution was recognized as a facilitator of equality and high growth. A number of participants stressed that donors could be requested to finance a market-driven system in order to reduce the confrontational aspect of land reform.

COUNTRY ASSESSMENT STUDIES LAUNCHED

Jamaica

The Jamaica country assessment study was launched in March 2000. A country assessment study for Tunisia will take place in September.

A mission was undertaken to hold consultations with officials at the local UNDP office, and representatives of the national Government, business community, NGOs and academia as a prelude to launching the country assessment study. Professor David E. Bloom, Harvard University, will be the international coordinator of the study.

The second mission to Jamaica by the international coordinator will take place in early September. He will set up a national team in consultation with the UNDP office and the Government to prepare the inputs that are needed to carry out the country assessment study.

ACTING AT THE GLOBAL LEVEL: ACTIVITY UNDERTAKEN

African Policy Dialogue

Windhoek, Namibia, 10-12 May 2000

The Regional Policy Dialogues were organised by the International Centre for Trade and Sustainable Development (ICTSD) under the aegis of the Global Programme. The ICTSD provides a bridge between development and environmental NGOs, trade and development officials in Governments, consumers, unions, academia and United Nations organizations such as UNCTAD and the World Trade Organization.

www.ictsd.org

The African Policy Dialogue was the last in a series of three Regional Policy Dialogues among different development actors. This Dialogue reviewed the region's experience with globalization and the links between globalization and sustainable human development.

In analyzing the African experience with globalization, participants underlined the need to pair economic liberalization with social policies in order to allow greater consistency between liberalization strategies and national development goals. Trade liberalization and the need to encourage FDI flows formed the core of the debate.

Diversification strategies are also necessary. Resorting to trade in non-traditional exports, especially processed agricultural, food and feed products, will contribute to Africa's growth prospects. Since this trade is labour-intensive, it may make a significant contribution to poverty alleviation through the creation of employment opportunities. However, many countries have discovered that there is more than one path to sustainable human development. And often that, by virtue of different countries' histories, cultures and resource endowments, the means to promoting sustainable human development can take various forms.

Participants questioned the viability of export processing zones as export development strategies for Africa, and concluded that the evaluation of past experiences could provide useful lessons in this respect.

The renegotiation of the Lomé Convention, an international aid and trade agreement between the European Union and the ACP states, was discussed. A consensus emerged on the need to understand better the implications for national economies of the Economic Partnership Agreements, which are due to replace the previous agreements. This will enable African countries to articulate their positions and to negotiate more effectively with the European Union.

GLOBAL LEVEL ACTIVITIES: LOOKING TO THE FUTURE

Expert Meeting on Governance

Early 2001

This initiative is planned in collaboration with the Centre for Population and Development Studies at Harvard University.

In the light of the country assessment studies and the national workshops, an expert meeting on governance is planned under the Global Programme. The meeting will explore the links between governance and sustainable human development within the context of globalization and will approach the issue from the long-term perspective of development capacity building. It will pay particular attention to the compatibility of systems of domestic and international economic governance and will bring together policy makers, academic experts, the private sector and other members of civil society.

Training in Commercial Diplomacy

New Delhi, November 2000

This meeting is the second of a series of regional meetings aimed at identifying region-specific research and training needs in international trade. The first meeting was held in Santiago de Chile in November 1999. Several countries have requested training in this area.

Improving capacity development in the field of commercial diplomacy is a key part of the second phase of the Global Programme (see *priority areas for technical assistance, page 8*). This meeting will identify research and training needs in international trade, specific to the Asia-Pacific region, and will establish a network of institutions that could stimulate horizontal cooperation and exchanges in the field of international trade. It will facilitate a dialogue on the international trade agenda from a regional perspective.

The meeting is organized in collaboration with United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Indian Institute of Foreign Trade (IIFT). The ESCAP, SAARC, APEC and ASEAN secretariats, as well as trade negotiators from countries in the region will participate. Participants will also include a group of 20 representatives of the region's main research and training institutions that have an interest in, or are already developing, activities in international trade.

In order to train trade negotiators, UNCTAD is drafting a Post-Graduate programme on international trade, which will be launched in selected universities in developing countries. It will establish regular contacts between students and UNCTAD staff and will enable students to attend UNCTAD and WTO meetings.

Best Practices in Technology Transfer

Certain developing countries have succeeded in increasing their technical capabilities and adapting new technology. The Global Programme wishes to promote an exchange of knowledge in this area among developing states.

The studies will be undertaken in three successful countries, to review the modalities by which technology is being transferred, the context in which the transfer has taken place and the ways in which the process is managed.

They will be organized by the relevant national institutions and are expected to provide useful insights for decision-makers in both the government and private sectors. They will involve the study of successful acquisitions of product and process technology in sectors of relevance to developing countries, to establish the common ingredients of success.

The results of these studies will be widely disseminated among developing countries.

This initiative is being organised in collaboration with UNCTAD's Commercial Diplomacy Programme, part of the Division on International Trade in Goods and Services, and Commodities.

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Priority Areas for Technical Assistance in Capacity Building

The discussions at national workshops and the conclusions of country assessment studies have revealed recurring areas of concern for countries wishing to manage their integration into the global economy in a manner supportive of sustainable human development. It is these areas which will form the basis of the Global Programme's technical assistance agenda as it draws up national action plans in cooperation with the UNDP.

1. Bilateral, regional and multilateral negotiations;
2. Formulation of investment and technology policies to attract foreign direct investment and ensure that such investment contributes to development capacity building;
3. Formulation of competition policy and laws;
4. Strengthening institutions for effective economic governance and management of liberalization policies in pursuit of sustainable human development.

These areas point to the need for an effective management of the globalization process in order to ensure that the benefits and opportunities are more evenly distributed among countries and groups.

This has significant implications for the analytical and technical assistance work of both UNCTAD and UNDP, as a greater focus and coherence among sectoral, country-level, inter country level and global programmes is required.

The Global Programme was launched in September 1998 and is based in Geneva. A partnership between the UNDP and UNCTAD, its main objective is to assist developing countries, especially those with a low-income, to manage their integration into the global economy in a manner supportive of sustainable human development.

FOR COMMENTS, SUGGESTIONS OR INFORMATION ABOUT ON THE GLOBAL PROGRAMME, PLEASE CONTACT

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