TD(X)/Misc. 3
13 February 2000

Original: ENGLISH

United Nations Conference on Trade and Development
Tenth session
Bangkok, 12 – 19 February 2000

HIGH-LEVEL ROUND TABLE WITH EMINENT ECONOMISTS

"Trade and development directions for the 21st century: the academic perspective"

Summary

Prepared by the UNCTAD secretariat. Not an official record.

The opening event of UNCTAD X in Bangkok on 12 February 2000 was a High-level Round Table with eminent academics who presented their ideas about the successes and failures of the past 50 years, and the implications these have had for development strategies and international arrangements and organizations, including the role of UNCTAD.

Opening the Round Table on Trade and Development Directions for the 21st Century, the Secretary-General of UNCTAD, Mr. Rubens Ricupero stated that the issue of whether movement towards freer trade on a non-discriminatory basis is consistent with the development aspirations of poor countries still vexes public opinion today. This was evident from the various public demonstrations in Seattle in the name of "development" and the "environment", and against the WTO, which assists member Governments to negotiate further trade liberalization.

The underlying issue of freer trade versus development surfaced as early as 1947 in Geneva discussions preparatory to the Havana Trade Conference. At that time, the underdeveloped countries argued that asymmetries in economic structure were incompatible with trading regimes that placed equal responsibilities on all countries. Today, these asymmetries have not disappeared; rather, they have been aggravated by the process of globalization. And the global financial crisis, which started in Thailand in July 1997, indicated that simultaneous trade and financial liberalization can have severe and unexpected consequences that have adversely affected only the developing countries.

Mr Ricupero believed it is timely to reflect again on the issue of trade and development, and to ask whether new directions can be found for the goal of reconciling multilateral trade liberalization with the successful development of countries that aspire to it. The formal business of inter-governmental discussion at UNCTAD X could be enriched in many ways, he said, by the participation of non-governmental partners with whom UNCTAD regularly collaborates in its work. Thus, some of the foremost experts in the academic community of development thinkers had been invited to take stock of how we face the new century and to highlight the policy messages that will give the right direction to UNCTAD's goal — freer trade and development. Each expert, he said, brings his or her own perspective, and it is unlikely that UNCTAD will agree with everything that is said; on some points, the experts themselves disagree, as experts will. Nevertheless, some memorable themes will emerge and resonate through the discussions of this Conference, and for the next four years.

Panellists' presentations

Professor Bernard Chavance (University of Paris, France), dealt with two questions: first, the lessons that can be drawn from the confrontation between the two main economic systems — capitalism and socialism — in the twentieth century; and second, those that can be learnt from the post-socialist transformation of the past decade. He noted that capitalism and socialism had opposed each other while mutually influencing the way they had developed. If socialism has failed, he said, it is with respect to its declared objectives, namely to catch up and overtake the advanced capitalist countries through a progressive economic system.

One of the main reasons for the failure of socialism lay in the inability of socialist States to adapt to change and in its systemic obstacles to innovation. He added, however, that while the historical judgement is that capitalism won, the outcome of the twentieth century is in fact ambivalent: considerable progress has been accompanied by the continuous lagging behind of the poor countries vis-à-vis the richer ones. The three main drawbacks inherent in capitalism, and highlighted by Keynes, have been confirmed by experience: instability, social inequalities and unemployment. Professor Chavance stressed that efficiency, equity, solidarity, and freedom are not fully compatible: they imply dilemmas, compromises and trade-offs. This Keynesian assessment of capitalism continues to apply today, after the collapse of socialism, its rival.

He mentioned three lessons that could be drawn from the experience of the past decade: one is that a purely economic view of transition is too narrow. Experience shows that interdependence between the economic, social and political spheres is at the heart of the transformation of the system and determines its legitimacy as well as its sustainability. The second lesson relates to the diversity of the transformation trajectories, such as the social and Euro-centred trajectory followed in Central Europe, the depression-cum-State-crisis experienced in Russia and the gradualist and high-growth path followed, for instance, by China. So, he said, there is not one way for transformation.

The third lesson relates to the role of the State in a successful transition and the necessity for its active involvement in the transformation process. He concluded that at various levels of economy and society, agreement on rules formulated by legitimate bodies, and on how to adapt them, is an underlying necessity.

Ms. Carlota Perez (independent consultant, Caracas, and honorary research fellow, University of Sussex, United Kingdom) stated that development is about the social acquisition of technological capabilities. As the knowledge society takes shape in the world today, there are three fundamental lessons about development.

First, successful development strategies are, and always have been, successful processes of technological development, implying intense efforts towards mastery of technology. They have essentially been successful learning processes with the ability to modify, adapt, improve and eventually, radically innovate foreign technologies. The experiences of Japan and the four new industrializing economies of Asia have shown that there is a deep and fundamental connection between catching up, or forging ahead, and mastery of technology. A main policy implication of this crucial lesson is that technology must be placed at the core, not at the edge, of development strategies. It must no longer be seen as a simple ingredient in development, nor can it be uniquely the province of specialists in science and technology. Technology must be one of the main concerns of top leaders of the development process, both in Government and in business.

Another lesson that has been learned from the more recent past is that fast growth and development are not equivalent. In this regard, it is important to note that the crucial difference is technological capabilities. It is neither the degree of liberalization, nor the speed of State disinvolvement, nor the depth of macroeconomic adjustments but the direction and intensity of technological learning that accounts for the real distinction between success and failure. Therefore, it is very important to understand that fast growth processes do not always lead to catching up or to development, and are not necessarily irreversible. But, those periods can be crucial in creating platforms for later advances.

The third lesson concerns successful growth and/or development processes. These processes may happen roughly in the same period, and tend to be similar in their basic elements. This is not a mere coincidence. What this means is that development opportunities are dependent upon worldwide phenomena that affect all countries at the same time. It means that there is a strong link between what is going on in the core countries and the possibilities for initiating or continuing the development process in the periphery. Except in the case of former socialist countries of the Soviet System, successful growth and development processes in the past 50 years have been positive sum games - development opportunities are generated by conditions in the core countries and are taken advantage of by those developing countries which have the appropriate strategies.

In conclusion, development opportunities are a moving target in the sense that what worked yesterday will not work today and what is working today will not necessarily be effective tomorrow. Successful development strategies respond to specific opportunities, and these are constantly changing based on technological revolutions. The fact that even traditional industries have been radically redefined is also typical of a change in the of techno-economic paradigm.

Today, there is a need to significantly increase the technological absorption capacity of each society through appropriate organization. In this regard, the international community needs to stop the sterile debate about State or markets and to start reinventing the modern strong State, capable of promoting development, improving the quality of life and overseeing the proper functioning of markets. Ms. Perez emphasized the need for a multilevel State organization to serve as an effective broker between global, national and sub-national levels, that can think global and act local.

She pointed to the importance of technological absorption capacity or human capital and suggested that the most essential meaning of the expression, “knowledge society”, is not the speed or volume of production of knowledge, but widespread access to it for all citizens.

Mr. Kwesy Botchwey (Harvard University, United States) addressed the problem of development finance, one of the most critical issues facing the poorer countries – the low-income countries of sub-Saharan Africa and South Asia – but also largely ignored in the recent debate on international financial architecture. He stressed that the concern for these poor countries is not so much how to manage the dislocations caused by the volatility of short-term capital flows, but rather how to attract capital, especially long-term finance, to support faster and sustained growth. He noted that the phenomenal surge in capital flows in the past decade, for instance, had fuelled the belief that the development financing needs of developing countries would be met by the more or less normal functioning of the market. However, the reality is that there is a high concentration of FDI flows in middle-income countries in South-East Asia and Latin America, while the low-income countries on the whole have been bypassed. Also, although official development assistance, continues to be the largest component of external finance to low-income countries it has fallen during the present decade. This, combined with a low level of domestic resource mobilization resulting from low-incomes, makes sub-Saharan Africa and South Asia the most capital-scarce regions of the world. They are also the least integrated into world financial markets and heavily dependent on falling aid flows.

Mr. Botchwey said that this underlines the need for debt relief, which could encourage private investment flows while freeing resources to boost domestic investment especially in the social sectors. While recognizing the important changes to the HIPC Initiative agreed in Cologne, he pointed to problems relating to the criteria to qualify for the Initiative and the unpredictability arising therefrom. He believed that much of the responsibility for reversing the trends still rests with developing countries, through policies that boost growth, enhance competitiveness and help to repatriate flight capital. But there is a need for action in the international arena too, to expand the participation of these countries in international trade, improve access to capital markets, move swiftly on debt forgiveness and forge creative new ways to mobilize and channel long-term capital to low-income countries.

Professor Frances Stewart (Oxford University) emphasized that income distribution is extremely important for development since it influences the cohesion of society, determines the extent of poverty for any given average per capita income, and the poverty-reducing effects of growth, and even affects people’s health. She pointed to accumulating evidence that more equal income distribution leads to higher economic growth. While strategies to promote more egalitarian growth seemed both feasible and desirable, in the 1980s and 1990s there has been a strong tendency for income distribution to worsen in both developed and developing countries. A variety of explanations for this have been advanced including trade liberalization, technology change, and the impact of liberalization and globalization more generally.

High inequality, she said, translates into growth-impeding factors as it leads to political instability, uncertainty and, therefore, to less investment and slower growth. Professor Stewart suggested six strategies for achieving more egalitarian growth: (i) agrarian-focused strategies and those aimed at increasing productivity in the rural sector; (ii) employment-intensive strategies; (iii) higher levels of and widespread education; (iv) asset redistribution, (e.g. land reform); (v) government policies towards structuring the market, to favour the less well-off; (vi) raising the rates of taxation and public expenditure to improve after-tax distribution. Professor Stewart said it was ironical that more equality promotes development, but the trend is in the opposite direction. She concluded that coordinated regional action, and better international action would help promote equality without weakening the ability to compete. For example regional coordination of domestic tax and benefits would permit improved distribution without undermining competitiveness, as would regional coordination of minimum wages at an appropriate level. At an international level, coordinated taxation of international capital flows and support for universal human rights to minimal standards of living would also contribute to improving income distribution. She concluded that a global economic environment would require a global social response.

Professor Deepak Nayyar (Jawaharlal Nehru University, New Delhi, India) emphasized that development must bring about improvement in the living conditions of people, a proposition that is often forgotten in the pursuit of material wealth and the conventional concerns of economics. Austerity now for prosperity later is no longer an acceptable trade-off. Despite enormous economic progress, development has been very uneven between and within countries. Thus in a world of unequal partners, the rules of the game for international economic transactions, are asymmetrical in terms of construct and inequitable in terms of outcome.

He stressed three points in this regard. First, there are different rules in different spheres. While national boundaries should not matter for trade and capital flows, clear demarcations exist for technology and labour flows. Second, there are rules for some but not for others, such as the conditions imposed by the IMF and the World Bank. Third, the agenda for new rules is partisan, such as the attempt to create a multilateral agreement on investment, which would seek rights for foreign investors without requiring obligations on their part. Globalization, combined with these asymmetrical rules, is bound significantly to reduce the autonomy of developing countries in the formulation of economic policies in their pursuit of development.

Professor Nayyar said that no country wishes to be excluded from globalization. The choice, then is between a market-driven, passive insertion into the world economy, and a selective strategic integration in which the nation State would play a role. The sensible approach would be the latter. In the international context, the State must endeavour to influence the rules of the game to make the outcome more equitable; developing countries should be allowed the time and the space to learn so that they can become competitive players.

In the national context, the State must endeavour to create the preconditions for ensuring a more egalitarian economic development. Two strategic approaches are paramount: the proactive approach to preempt exclusion would seek to develop mechanisms and policies to ensure that the benefits of development would be widely shared. This requires the integration of social policy into the strategy of economic development. The second approach can be characterized as reactive. This would curb the adverse effects of exclusion and provide social safety nets. The time has come to evolve a new consensus on development, which should be concerned as much with equity as with efficiency, and as much with social progress as with economic growth. The focus must shift from economies to people, and from means to ends.

Professor Ippei Yamazawa (Institute of Developing Economies, Tokyo, Japan) stressed that the process of globalization could not be stopped as it was not produced by the IMF or the WTO, but resulted from business activities taking full advantage of the development of science and technology. Thus, as it is an irreversible trend, countries have no choice but to maximize its benefits and to minimize its adverse effects. In order to respond successfully to the globalization challenge, policy prescriptions need to be sought at three levels – national, regional and global.

At the national level, domestic institutions, while putting legislation in place to make market mechanisms function, should also provide social security and safety nets to help those who lose from globalization. International organizations, such as UNCTAD and WTO, should help national Governments' efforts by modifying the global regime.

As not all developing economies are able to implement their domestic reforms effectively on their own, they require help from those who know their local needs and the reality. In this context, regional groupings have a role to play. APEC, which consists of both developed and developing members, has a unique agenda that combines liberalization efforts with facilitation (e.g. streamlining customs procedures and harmonizing rules and standards) and economic and technical cooperation in order to develop human resources and upgrade science and technology. These can both help assure the steady recovery of the countries affected by the recent economic crisis and avoid a recurrence of the crisis.

Some APEC members are willing to extend their help to non-members as well. In this context, he suggested that UNCTAD could play a catalytic role. And the international community could best utilize regional cooperation as a means of helping developing countries to respond successfully to the globalization challenge.

Dr. Alfred Maizels (Oxford University), speaking on commodity dependence, stressed that the commodity sector, on which the majority of the population in most of the least developed countries depends, is of crucial importance to the economic and social progress of these countries. However, he said progress in this sector is itself heavily dependent on changes in world commodity markets, particular on commodity prices. He noted that the present commodity price recession has been more severe and prolonged than that of the great depression of the 1930s. As a result commodity-dependent countries have faced large terms-of-trade losses: This seriously limits their potential for growth, and undermines their efforts at domestic policy reforms, debt restructuring and external resource mobilization.

He added that these interrelated problems have not in his view been seriously considered in UNCTAD or in any other international forum in the past 20 years, during which time the external trade and liquidity problems of these countries have continued to worsen. He felt that there is an urgent need for a new international common strategy to deal with the various pricing and related problems of commodity-dependent countries.

Such as strategy should be based on three principles: (i) a judicious combination of free market and market regulation mechanisms to be used as appropriate, in attaining agreed objectives; (ii) a distinction between different types of price problems (depressed levels, multi-year price cycles and short-term fluctuations, for example); and (iii) a consideration of the relationship between commodity problems and other sectors, particularly financial markets. In concluding he said that the present UNCTAD X Conference offers an opportunity to seriously consider the proposal that was made at UNCTAD VIII for a United Nations Commodity Conference.

Professor Alan Winters (University of Sussex), while discussing trade policy as development policy, believed that liberal trade is still the best way to enhance development, and that openness and non-discrimination should remain our watchwords for the future. He explained that import substitution arose naturally in the intellectual and practical policy-making environment after the Second World War. Local industry needed to be heavily protected and a strong case was made for special and differential treatment under the GATT. He believed that liberal trade is more likely to lead to development, and therefore, liberal policies that are simple, transparent and predictable are best. Although the adverse effects of liberalization cannot be ignored and one cannot pretend that noone gets hurt by trade reform, reform programmes should not be allowed to become hostage to some losers. The subtle timing and sequencing of liberalization is important, and there should be appropriate compensatory polices.

Professor Winters also expressed scepticism about regional trading arrangements for developing countries, which, in his view, are as likely to produce trade diversion as trade creation. He pointed to a lack of tools to measure adequately trade regimes. This prevents a proper assessment of policy regimes and the ability to determine at what stage policy falls into the "acceptable" range. He suggested this inability to measure trade regimes lies at the heart of the difficulty to prove conclusively that openness is best for economic growth. He therefore expressed the view that UNCTAD – which already produces trade policy data - should strengthen its efforts in this area, including through analytical work to design measurement methods and analytical summaries for these data.

Professor Alice Amsden (Massachusetts Institute of Technology) addressed the issue of whether late industrializing countries, including those with modest manufacturing experience as well as those which had successfully promoted manufacturing over the last 50 years, could continue to build their manufacturing sectors under WTO rules. In her view, WTO rules favour the advancement of science and technology and provide ample opportunity for countries to promote their manufacturing sectors. The most technologically advanced countries continue to promote their industrial competitiveness by subsidizing research and development, regional development and environmental protection. In addition, their up-and-coming firms benefit from special incentives offered for locating residence in science parks and industrial estates. Moreover, WTO is not inflexible with respect to tariffs, as it provides for safeguards and anti-dumping measures as well as measures to protect against all imports if they are at a level which jeopardizes the balance of payments.

This is not to belittle some concerns that developing countries have articulated about the WTO. Such concerns relate to trade in agriculture and services, including financial services, intellectual property rights, labour standards and the environment. In her view, there is, however, no shortage of methods that could be used by less industrialized countries to promote their industries under the WTO system. She also pointed out that in order to promote industries, countries could use "reciprocal control mechanisms" that successful industrializers have utilized in order to ensure that subsidies and other supports to business are used productively. These supports are tied to monitorable result-oriented performance standards. Use of such measures are still possible under the WTO, although Governments are more constrained in setting export targets as a condition for subsidies, and local-content requirements are prohibited.

Professor Peter Evans (University of California, Berkeley) said that the initial 25 years of the new millennium represent a historically unique opportunity for institution-building. He explained that the global political economy is built on information flows and market exchanges, but it is also built on an intricate set of rules whose maintenance and enforcement require concrete organizations, both at the global and national levels. He spoke of the need for rules coupled with robust institutions to enable a predictable environment. Unless problems of inequity and volatility are addressed in institutional terms they will grow worse. The complex changes in the organization of production and exchange resulting from globalization have far outpaced institutional frameworks of governance. Moreover, existing global governance organizations are still in their formative stages.

The creation of United Nations and the Bretton Woods institutions was coupled with the strengthening of national institutions aimed at social protection, he said. By combining an institutional framework aimed at international openness with one aimed at social protection it is possible to make openness socially beneficial and therefore politically feasible. However, these institutions are not sufficient since their benefits accrue primarily to citizens of the advanced industrial countries of the North Atlantic, and do not anticipate the extent to which technological and economic change can propel the openness of the world economy and undercut the social protection dimension.

In his view, the new burst in institution-building should ensure that benefits will extend globally and that the balance between social protection and openness will be redressed. Meeting these objectives would ensure that openness becomes socially beneficial and politically legitimate. Professor Evans referred to obstacles to creative institution building - the reactions to the WTO are an example of this confusion. Destruction of existing institutions will not allow us to return to some mythical past, he said. Developing countries are better off in a rules-based trading system with limits to the powers of stronger countries and transnational corporations. Moreover, opportunities exist to modify rules.

Formally the WTO provides for democratic decision-making procedures, but in practice the decision-making is more oligarchical than democratic. Developing countries showed both in Seattle and earlier, in the selection of the Director General, that the formal right to vote can generate informal power. Developing countries have powerful reasons to institutionalize some means of consensus-building in order to take advantage of opportunities embedded in the peculiar features of the WTO. This might require institutional innovations or might involve taking better advantage of the potential of existing global organizations such as UNCTAD. Rather than reconciling themselves to a supposedly unmodifiable system of globalization, developing countries must strive to reshape that system.

Mr. Hans Binswanger (World Bank, Washington DC) addressed the issue of why agriculture is so important to many developing countries for their rural growth and rural poverty reduction. The agricultural sector, he said, can generate sustained growth in rural regions and enable rural poverty reduction. But this has not happened largely because world trade in agricultural and agro-industrial products has grown slower than general trade. Developing countries have not been able to capture as large a share of trade growth in agriculture as in industry due to massive trade barriers to their agricultural goods. This has constrained agricultural growth and diversification in the developing world.

The constraints to agricultural trade – particularly agricultural protectionism in industrial countries - continue to inflict enormous welfare losses on the developing world, exceeding those from restrictions in the textile trade by a factor of three. And they more than negate the grant aid provided by developed countries.

While developing countries must continue their agricultural policy reforms, they must focus also on reducing the constraints to agricultural trade in the forthcoming round of WTO negotiations. Export subsidies should be outlawed, domestic producer subsidies reduced, access under tariff quotas increased, tariff escalation on processed agricultural products removed, and the level and dispersion of bound tariffs on agricultural imports reduced.

Mr. Binswanger believed that UNCTAD should define its functions and work programme in partnership with the WTO, FAO, IMF and the World Bank. These should include: providing a forum for developing countries on trade and related issues; maintaining trade-related databases and providing information; undertaking high-quality analyses; providing technical assistance in norms and standards and in dispute settlements; advocating better market access in industrial countries; and helping to build coalitions for seeking common developing country positions in multilateral trade negotiations.

Ensuing discussion

The brief discussion that followed the panelist presentations stressed the importance of human and institutional development, the critical role of the State, capital accumulation, building of technological capabilities, and the critical role of global governance, which should complement, and not substitute, national governance. Comments on globalization underlined concerns relating to inequalities and marginalization, particularly in relation to income distribution. The importance of social issues also was highlighted. It was suggested that special treatment be given to highly-indebted and commodity-dependent countries. Reacting to some of the presentations relating to reduction of government intervention, one comment was made that a strong State had been essential to the development of industrialized countries during the industrial revolution and that, therefore, it was also necessary for developing countries. Weaknesses in the capitalist system were also mentioned, especially that it encouraged the survival of the strongest. On technological development, the need for developing countries to acquire technologies was stressed.

As for the Uruguay Round agreements, it was pointed out that these had not provided the expected benefits for developing countries, and that the "positive agenda" put forward by developing countries at the WTO meeting in Seattle was not even taken into account. The failure at Seattle was a result of substantive disagreement among developed countries. The rules of the multilateral trading system included best endeavour provisions in favour of developing countries which would need to be made effective and legally binding. A truly equitable trading system, to ensure full participation of developing countries was advocated.