

**THE DOHA ROUND FOR DEVELOPING COUNTRIES:  
CAPACITY BUILDING FOR TRADE AND INVESTMENT**

**OH-SEOK HYUN  
PRESIDENT  
TRADE RESEARCH INSTITUTE  
KOREA INTERNATIONAL TRADE ASSOCIATION**

**PREPARED FOR PANEL DISCUSSION  
DOHA ROUND: WHAT IS CRITICAL FOR ASIA**

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## **1. Greetings and Introduction**

Good afternoon, ladies and gentlemen, distinguished guests,

It is certainly a pleasure to have an opportunity to present and share my thoughts related to Doha Round in the context of Asia. Before I go on to discuss the critical factors, I think it is necessary to remind ourselves that there is not much time left for Asia to prepare for the imminent implementation of what we all had agreed at Doha. Whether we like it or not, we all have come to terms on the basis that we all believe and have faith in the agreement, that it will improve the business condition for some, and the economic condition for sustainable development for others. Then, with only a couple of years reserved for a full implementation, we can not afford to discuss every detail of the problems. On an occasion like this, we need to tackle most fundamental and critical issues that must be solved in time before its full implementation.

## **2. The Critical Question(s) to Capacity Building**

So following the question of this session, what is critical for Asia? I would like to say in short that my answer is that most critical is the capacity building for trade and investment. One of the current challenges faced by developing countries is how to increase their share in international trade.

There are ways to achieve this end. However, simply opening up to free trade and investment flows does not seem to be an adequate strategy for countries at the low end of the technology ladder. Stabilization and liberalization can remove the constraints to growth caused by poor management, inefficient public enterprises, high entry costs for private enterprises, and restrictions in FDI.

Nonetheless, they can not by themselves allow the economy to build more advanced capabilities to escape the so-called “low-level equilibrium trap.” After an initial spurt of growth, economies with static capabilities slow down as their inherited advantages are exhausted. Without enabling

support from the government, they find it difficult to bridge the gap between their skills, technologies and capabilities and those needed for international competitiveness.

Thus, under the circumstances, there are two ways that capacity building can be realized.

One way the government can support in achieving the aforementioned causes for bridging the gap is to have continuous dialogue with its international counterparts. The other measures can be found in building capacity for investment.

Regarding the dialogue method, the present international dialogue, however, is almost exclusively focused on negotiation and trade information. In sufficient attention is paid to the technical infrastructure and capacity required. The following issues in capacity building in trade should be emphasized in their dialogue.

First, market access can be enhanced when the developing countries have internationally recognized standards infrastructures, such as product certification schemes.

Second, improvement of supply capacity for competitive and sufficient quantity of products.

Third, achievement of compatibility of national with international standards.

Finally, the sense of ownership is important in developing countries. A country that lacks a deeper sense of conviction that it is applying its own strategy is unlikely to muster the political will required to carry out a meaningful transformation.

Now let me briefly mention about the capacity building for investment, which is quite a critical factor playing in the field of economic development.

Flows of investment to developing countries, especially the least developing countries, are very low, despite economic policy liberalization, measures to improve the investment climate and the creation of institution such as investment promotion agencies.

The following issues in capacity building for investment promotion deserves attention.

Capacity building at national level requires constant efforts to improve the business climate and sharpen marketing techniques. These efforts could be supplemented with promotion of partnerships between foreign and domestic small and medium sized enterprises such as technology transfer, sub-contracting and other form of strategic agreements. More emphasis should be placed on establishing linkages between FDI promotion efforts and the financial infrastructure.

Finally national investment promotion agencies in developing countries often attempt to draw the experience of successful institutions, mostly from the developed countries.

However, national agencies, especially in less developing countries, do not have access to the same level resources as these. Therefore, much of the advice and best practice guidelines do not get implemented. More practical strategies could be based on the actual needs and intentions of the small number of existing investors.

Along the course of dialogue and developing states' struggle to overcome the capacity building difficulties, there exists a potential danger that industrial structure in low-income countries may regress into simple activities that do not provide a basis for rapid growth. This is one important reason why liberalization has had such poor results in African countries. Liberalization has also led to discontinuities in technological learning in many countries of Latin America, without affecting the growth and competitive performance.

What we, therefore, look into is the ways in which these less developed countries to enhance, or improve their capacity. In other words, what are their strengths? What hinders their effort in utilizing their strength points? These countries often have a huge base of capabilities in such industries as food processing and automobile manufacture, but find it difficult to move into dynamic high-tech activities. The rule setting part of the international system that deals most

directly with development has so far been more concerned with facilitating globalization than with helping countries cope with its demands.

This approach, broadly labeled as the “Washington Consensus,” has been based on the implicit premise that free markets and rules to promote market forces will accomplish both objectives: liberalization is the best policy response for all.

(1) The WTO is enforcing trade liberalization throughout the world, although the least developed countries (LDCs) have been given a longer grace period, now fast coming to an end.

(2) It is also enforcing related measures such as TRIPs and TRIMs that allow policies such as copying and local-central rules which were extensively relied upon by the NIEs.

(3) This has been considerable liberalization in developing countries and countries with economies in transition. Government plays a steadily diminishing role in the allocation of product resources.

The ultimate objective of the current phase of reform is a liberal production trading and investment framework in which the driving force is private enterprises responding to market signals. However, as noted simply opening up to market forces does not deal with many structural problems of development.

### **3. Provision of Public Goods**

The most successful developing countries in recent economic history (the Asian NIEs) intervened intensively in market, with many different strategies to build up the competitive capabilities. Their experience suggests that there is a significant and positive role for government in promoting the “collective goods” needed for sustained development.

The real issue is not whether governments should intervene, but how. It is generally admitted that governments have a larger and more positive role to play than the Washington Consensus

allowed for, and that liberalization per se will not alleviate poverty. Nor will it counter the growing divergence in development performance and the marginalization of large parts of developing world.

There is a need for more nuanced strategies than the old Consensus, with greater support for the international community. It makes clear that the challenge is not simply to promote liberalization or to alleviate poverty.

It goes much deeper and into more difficult areas – the enabling forces behind industrial and technological development. In this sense, international bodies such as ADB should undertake collective action. This has to do with provision of global public goods such as providing the basic infrastructure of international economic relations.

As for the global public goods, some tend to identify them with the enforcement of free trade and capital movements – a level playing field regardless of income, size and development.

Others argue that in view of market failures, caused by learning, externalities, and cumulative effects, a truly fair system would give preference to weaker players. However, optimal economic rules are not given by theory; much depends on the analyst's reading of market efficiency and government capabilities.