Martin Khor. 2000. Globalisation and the South; some critical issues. United Nations Conference on Trade and Development (UNCTAD) discussion paper 147 (April).

Key issues on trade

- commodities:
  - specialisation based on international division of labour with most countries in the South producing and exporting commodities and importing capital, intermediate and manufactured consumer goods;
  - four implications of this form of specialisation:
    - limited skills, knowledge and productive capabilities;
    - costs of changing the production/export pattern;
    - vulnerability to shocks;
    - terms of trade: unstable and following a declining trend.

- trade liberalisation:
  - unequal process of liberalisation;
    - the South is put under pressure by the North to liberalize, whereas the North keeps its sensitive areas (example, Common Agriculture Policy) basically unreformed;
    - the Northern economies generate most of the MNE and FDI (out), thus they are more willing to embark on what they call "liberalisation", which is little more than extending the instruments of the MNEs to dominate international production, trade and finance.
  - three implications from trade liberalisation:
    - trade deficits due to:
      - narrow specialisation, shocks and terms of trade;
      - slow growth in industrialised countries (slow down of exports and cheaper imports);
      - exports do not necessarily increase (as they need a market and commodities usually face low price and income elasticities for demand);
      - and if they do, the terms of trade may deteriorate;
      - import expenditure increases because the bulk of imports may comprise crucial capital and intermediate goods, as well as fuel and manufactured consumer goods not produced at home.
    - together with the liberalisation of the capital account, trade liberalisation may actually lead to more economic instability;
    - failure to sustain the development of domestic productive capabilities due to both cheap imports and easy entry for foreign investors.

- WTO negotiations and disagreements
  - disagreements over substance:
    - introduction of new issues (including the controversial multilateral agreement on investment, MAI) before the old issues have been resolved in such a way as to favour developing countries:
      - tariff peaks in developed countries were maintained or only reduced in sectors that developing countries do not benefit from;
      - despite the gradual liberalisation of textiles, developing countries have not gained anything from it;
      - anti-dumping procedures have been used to stop developed countries to import from developing countries;

            - protection in agriculture remains high.
        - measures that have been implemented are almost only those that favour developed countries and restraint economic change in developing countries, namely: liberalisation of industrial policy and introduction of TRIMS (trade related investment measures) and TRIPS (trade related intellectual property rights).
    - disagreement over procedures: developed economies (within the G7 and OECD) decide on their own agendas and priorities and then try to impose them on the WTO negotiation table.

Key issues in finance

- ***capital markets*** and liberalisation:
    - increase in the movement of speculative capital;
    - impact of short term capital inflows and its volatility:
        - economic instability
        - huge exchange rate fluctuations
        - loss of economic competitiveness
    - lack of regulation of, and transparency about international financial markets.

- ***debt crisis***
    - creditors do not share the burden of debt with debtors;
    - inappropriate response to the debt crisis:
        - demand management versus supply side adjustment;
        - coordination of measures and recycling of deficits and surpluses.

Key issues in investment liberalisation

- ***motivation:*** developed economies are pressing for almost complete liberalisation because they want their MNEs to expand further their market access. Whether one supports liberalisation or protection depends on whether one exerts more power through the market or the state;

- ***main measures:*** national treatment from pre-establishment of foreign investment; broad definition of foreign investment that goes far beyond FDI; and prohibition of adoption of performance targets and performance related incentives;

- ***liberalisation FDI and its impact:***
    - determinants of FDI:
        - main determinants are market access, investment and profit opportunities, domestic technological and infra-structural capabilities, economic growth, macroeconomic and political stability;
        - liberalisation has never been a factor determining the flow of investment;
        - hence, the proposed liberalisation may not affect FDI flows, but may well reduce its benefits for the host country, while given MNEs full power;
    - FDI and capital formation:
        - FDI also includes M&A, which may not involve a fresh inflow of capital, but only a transfer of ownership of assets;
        - FDI may also decrease domestic savings, as:
            - domestic investors may be put out of the market;

        - domestic shareholders who have sold their assets may spend their income in speculation with financial assets and consumption, rather than re-investing it;
        - local consumption may increase because with inflows of foreign capital the rate of interest may go down.
    - FDI may also have a negative impact on the balance of payments (or a marginally positive one) depending on:
        - the actual relationship between forex savings, forex earnings and the demand for imports of capital, intermediate and consumer goods created by FDI;
        - the actual relationship between inflows of FDI and repatriation of profits, royalties and other repayments.
    - FDI may reduce the overall investment in the economy if it puts local businesses out of the market.
- Under low domestic technological capabilities, the host economy is unlikely to absorb the technology, knowledge and experience that are associated with FDI;
- FDI also have sensitive political implications associated with the interests of domestic agents and political sovereignty. This problem will be exacerbated by fuller liberalisation;
- Need to differentiate between different forms of foreign capital and FDI.