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# Asia-Pacific Regional Forum on Industrial Development, Shanghai 2000

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Keynote address

by Supachai Panitchpakdi



**UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION**

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DEVELOPMENT, SHANGHAI 2000**

**Keynote Address**

**WTO, Globalization, and New Technology:  
Changing Patterns of Competition and New Challenges for Sustainable  
Industrial Development**

**By**

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**Tuesday, December 5, 2000**

**Shanghai, The People's Republic of China**

Excellencies,  
Distinguished Participants,  
Ladies and Gentlemen,

1) First and foremost, I would like to express my heartfelt appreciation to UNIDO for inviting me here today. It is indeed a great honour for me to have the opportunity to deliver the keynote address before such a distinguished audience at the UNIDO Asia-Pacific Regional Forum on Industry. I am also confident that this regional forum will be successful in meeting its goals and objectives.

2) My topic today is *"WTO, Globalization, and New Technology: Changing Patterns of Competition and New Challenges for Sustainable Industrial Development"*.

### **Globalization**

3) Globalization is often described as the process of increasing integration of the world economy and of the countries becoming more interdependent and interconnected. As we embark on the 21<sup>st</sup> century, advances in information and communication technologies (ICT) help pave the way for increased economic integration through unprecedented rapid flows of goods, services, capital and ideas. Each day, more than US\$ 1.5 trillion is traded in the global currency markets whereas nearly a fifth of the goods and services produced are traded each year.

4) Much has been said of globalization helping us to realize the benefits of free trade through comparative advantage and division of labor. There is also supporting evidence of the link between external openness and economic growth via greater access to technology.

Ladies and Gentlemen,

5) As we enter the new millennium, we find ourselves in an era of knowledge-based economies where possession, distribution, and consumption of knowledge play an important role in economic growth. Competitiveness is becoming more dependent on human capital and acquisition of technology. In order for LDCs and developing countries to avoid falling further behind the more advanced economies, they must be

able to bring and apply information, ideas, and innovations from abroad. Foreign direct investment and international trade are considered as useful instruments for the transmission of knowledge and technology.

6) When we buy a foreign product which we cannot produce ourselves, we can learn about the innovation of that product and perhaps one day we can manufacture them ourselves. When a transnational corporation opens an overseas plant, the host country can learn from the technology know-hows that are brought in. This will improve the local workforce and enable them to acquire skills that they would never have gained if the plant had not been based there. These are good examples to show how openness in foreign trade and investment can bring opportunities to improve human resources. Clearly, globalization has its virtues.

7) However, there are also many critics who observe that the acceleration of the globalization process is accompanied by a sharp increase in economic inequalities. Many less advanced economies are often at risk of being on the receiving end of the globalization process. The fact that the fruits of globalization are not shared evenly are exemplified by the fact that more than 1.4 billion people around the world are struggling to get by on less than \$1 a day, one third of the children in developing countries are plagued with malnutrition, and an estimated 900 million people are either unemployed or underemployed. Moreover the LDCs account for less than 0.5 percent of the world exports and they receive less than 1% of the world's total foreign direct investment.

### **Digital Divide and IT**

8) Not too long ago, UN Secretary-General, Mr. Kofi Annan, stated that "the main losers in today's very unequal world are not those who have been exposed too much to globalization. They are those who have been left out". A good example where developing countries are being left behind is in the area of information technology, and this has come to be known as the Digital Divide. At present, less than 5% of the total world population of 6 billion have access to the internet. Sadly, only 10% of these internet users are in the developing countries.

9) At the last G-8 meeting in Okinawa, the industrialized countries acknowledged the seriousness of this problem and pledged to help make the opportunities derived from the global information economy be as broadly

available as possible – from the poorest to the richest nations. Improving the availability and affordability of the internet in the less-advanced nations will certainly be the key instrument and effective means to bridge the technology gap between the North and the South. The Information Technology sector, which provides the infrastructure that makes electronic commerce possible, can assist developing countries in expanding their share of international trade.

Ladies and Gentlemen,

10) The World Trade Organization has paid full attention to the changing demands in the 21st century and it recognizes the vital importance of information technology and its roles in economic development and growth. This rule-based organization is fully determined to remove any barriers that can impede the potential of internet and information technology. In this connection, the WTO has already prepared to meet this objective with its 1996 Information Technology Agreement, 1997 Fourth Protocol of Basic Telecommunications, the 1998 Work Program on E-Commerce, and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

### **Trade Liberalization**

11) It is unlikely that the globalization trend will be reversed and the world in this millennium will certainly be even more integrated and more interdependent. The volume of international trade has been rising, and much of this is due to the combination of advanced information and communications technologies and the remarkable efforts of the GATT/WTO to dismantle trade barriers, both tariff and non-tariff types in the past eight rounds of multilateral trade negotiations.

12) The performance of the multilateral trading system under the auspices of the GATT/WTO over the past fifty three years has assured us of its viability. The WTO is responsible for promoting the rules of law and creating new trade opportunities for its Members. Since its inception, global trade has expanded seventeen folds. Open trade with multilaterally accepted rules also help provide global stability and predictability to our trading system. There is no denying that this system has contributed considerably to the overall growth of the world economy.

## **Accession**

13) While some people have expressed their doubts on the future of this organisation after the debacle in Seattle, it should be pointed out that at present, there are almost thirty nations awaiting their accession to the WTO. In fact, the economic gains from multilateral trade negotiations through the exchange of concessions will tend to be greater, the larger the number of countries involved. For the WTO to maximize its potential, it needs to have membership that covers the whole world. No doubt, China's desire to enter this rule-based organization will serve this purpose since its membership will bring most of the world's trade under the same multilateral rules and disciplines.

14) Over the past fourteen years, China has shown its strong determination to become a WTO Member and it has made many significant concessions on tariff reductions in several areas. The Chinese accession, in particular, will offer many new market opportunities in the agricultural, industrial, telecommunications, insurance and financial sectors with its 1.3 billion consumers. Restrictions on business ownership will also be eased for foreign investors. Indeed, China's long journey and its commitments to be a part of this rules-based organization are a true testimony to how important the WTO is. Its membership will certainly bring significant global impacts economically and politically since it will help bring greater balance to the multilateral trade negotiations.

## **More Competition (changing patterns of competition)**

15) Under WTO rules, there will be greater competition between Chinese firms and foreign companies, both in China's domestic market and on the world stage. Undoubtedly, this intensified competition will require China to make some necessary adjustments and structural changes. Although China will most likely retain its comparative advantages in labor-intensive industries, it will face greater difficulty in the areas of capital and technology-intensive industries once exposed to fierce international competition.

16) A dose of fair competition will heighten the pressing needs of many protected domestic companies to accelerate the improvement of their production processes and management quality. As in many other countries including my own, many of China's state-owned enterprises are overstaffed

and are not commercially viable. Thus, the nation will probably have to address this issue before being fully exposed to foreign competition. Fortunately, reformers will have more power and flexibility to reach their goals with these impending WTO's obligations.

17) At present, the most competitive sectors or firms in China are those which receive little or no protection. On the other hand, telecommunications, insurance, banking and financial industries will have a arduous task to cope with this new environment which the market opening agreements bring. In addition, one of remaining obstacles will be for the government to bring the country's regulatory environment in line with the WTO system. Besides changing its current commercial practices, China will need to revise some state as well as national laws and regulations to order to be in accordance with WTO rules.

### **Benefits (FDI) and Industrialization**

18) On a positive note, the membership will bring many opportunities as well as challenges and the long-term benefits will outweigh the costs. Without a doubt, Chinese consumers will enjoy lower prices as well as a wider selection of goods and services while the Chinese producers and exporters will have Most-Favoured Nation (MFN) status in all markets of any WTO Member country. In the near future, China can expect an ensuing surge in Foreign Direct Investment (FDI) which will likely be diverted from other countries in the region. With greater transparency and predictability under the WTO rules and disciplines, many foreign firms will want to make their presence felt in China by opening their branches or plants after its accession. Thus, China will likely join many countries in the region in a shift from a rural and agrarian society towards a manufacturing-oriented one. Industrial restructuring as well as increasing numbers of SMEs in China will proliferate.

### **Industrialization**

19) It is undeniable that the globalization process and the WTO have helped accelerate the pace of industrialization worldwide. The average tariffs on manufactured goods in developed countries have been brought down from 40% in 1948 to the current level of 4% . Many developing countries have been the direct beneficiaries from this. As of now, the production of manufactured goods by developing countries has expanded



significantly to 75% of their total exports. Accordingly, the share of employment in the industrial sector in these countries, in particular the newly industrializing Asian economies have experienced significant growth as well. Even though job expansion in the service and knowledge-based sectors has grown in the developed countries, the industrial sector will maintain its importance in creating employment in many of the developing countries.

### **Sustainable Industrial Development**

20) Thus, the policy makers must pay full attention to formulating a sustainable industrial policy which will remain an integral part of the development strategies in their countries. Such policy will include three objectives: economic, social and environmental .

21) UNIDO and its technical cooperation programmes have been actively advocating the three dimensions of sustainable industrial development (competitive economy, productive employment, and sound environment) in many developing countries. In principle, the WTO shares these same goals with UNIDO; however we may have less flexibility in achieving these objectives. Even though we recognize the importance of sound environment, we have our own mandate, namely, to serve as a multilateral trading forum whose objectives are to promote free and fair trade and use trade liberalization as a means to combat poverty, promote economic growth and increase employment. We must bear in mind that the WTO was specifically established to discuss trade issues.

22) It is well recognized that the most integrated nations in the world community usually express greater concern about environmental protection. As income levels increase, their concern about the environment and the amount of resources available for environmental protection will rise as well. There are also some empirical evidence suggesting that pollution increases at the early stages of development but decreases after a certain income level has been reached. This observation has been known as the Environmental Kuznets Curve (EKC). Hence, free and fair trade will elevate the living standards of the poor which in turn can lead to a slowing down of environmental deterioration.

23) Yet, over the past few years, the WTO have been subjected to the growing criticisms from many NGOs and environmental groups which push

for a trade and environmental linkage. Although trade liberalization probably creates some damage to our ecological system, it is safe to say that environmental problems have been exacerbated by the rise in industrialization, population growth, and urbanization (with or without trade).

24) One should also acknowledge that the WTO is a member-driven organization. The organization itself does not make the global trade rules. Instead, the Members who convene every two years at the Ministerial Meeting make these rules, whereby the organization upholds them through its Dispute Settlement Mechanism (DSM) in the cases of disputes or violations of Agreements. Since the mishap at the Seattle Ministerial Conference, the WTO Members still remain at odds on various issues since its decision-making process is based on consensus whereby each member has one vote. And, the opposing views between the North and South on the trade and environment linkages are probably the one of the most controversial.

25) Developing countries and LDCs fear that these non-trade concerns, namely labour standards and environment, will be used by industrialized countries as another protectionist tool. It is the prevalent view of the developing countries that environmental standards are a function of the stage of development of the economy. Therefore, to impose on the developing countries the same environmental standards which are applied in advanced economies, especially without financial and technical assistance, would raise their costs of production and consequently weaken their comparative advantage in the export sector. Many developing countries also point out that rich countries are often guilty of causing most of the environmental damages (in terms of the amount of environmental damages per capita). The less advanced countries also claim to be parties to a number of multilateral environmental treaties (MEAs) and thus it would be most appropriate to deal with environment issues in the relevant forums.

26) Furthermore, imposing trade sanctions on less advanced economies will be counterproductive in solving the problems. Instead, greater market access, not less, will help raise living standards and improve environmental protection in these poor countries. The more affluent a country is, the better its chance to afford environmentally-friendly technologies. Developing countries and LDCs are concerned about the environment as much as the developed countries; they are, however, not in the same position as those

more fortunate nations to adopt the same types of technologies or levels of measures. As a matter of urgency, they are faced with the more pressing needs to reduce their poverty levels, fight starvation and struggle to provide access to the basic needs such as education and health care with only limited resources.

### **Committee on Trade and Environment (CTE)**

27) Concerning the environment, there exists a pertinent organization, namely the United Nations Environmental Program (UNEP) for this particular issue. An ongoing work program under the WTO's Committee on Trade and Environment (CTE) was also established to replace GATT's EMIT (a working Group on Environment Measures and International Trade) to analyze the relationship between trade and environmental issues to promote sustainable development." The High-Level Meeting on Trade and Environment was also held in March 1999 to enhance the dialogue between the WTO and civil society regarding this issue.

### **Reduction of Harmful Subsidies**

28) At present, some Members have taken the initiative to improve the environment by tabling proposals to end harmful subsidies that promote industrial over-capacity. A new round of global trade talks can enable the "diffusion of environmental-friendly technologies" around the globe by lowering of tariffs on the environmental friendly sectors. Moreover, a new round could positively redress harmful subsidies, such as those maintained by some Members for agriculture, fisheries and fossil fuels. The goals of the WTO are not only to ensure market liberalization but also to achieve sustainable development for all its Members.

### **Conclusion**

27) In closing, I would like to re-emphasize that the 21st century will be full of opportunities and challenges. Technological advancements will not only change our lifestyles, the ways we conduct business and the methods in which we produce goods. As industrialization is intensified in the era of globalization, the level of environmental deterioration will inevitably increase. Thus, the real challenge in the 21st century will be to find an agreeable global approach to achieve economic wealth and fair income distribution while attaining a healthy environment. But at the same time we

must also respect each country's sovereignty in designing a regulatory framework for environmental protection that is appropriate for their own stage of development.

Low-interest financing for environmental-friendly technologies from the international agencies to poor countries will enable the SMEs to afford the necessary equipments, while the strengthening of international cooperation in reducing poverty and granting technical assistance will be part of the solution. And finally, I would like to commend UNIDO for its exemplary works and I personally look forward to working closely with UNIDO in achieving our shared goal of sustainable industrial development and combating our common enemy – that of poverty.

Thank you for your kind attention.

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