Interactive Thematic Sessions UNCTAD/XI/8
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UNCTAD PARTICIPANTS CONSIDER WAYS TO BOOST PRODUCTIVE CAPACITIES OF DEVELOPING COUNTRIES, MAKE SMALL BUSINESSES MORE COMPETITIVE

Challenge Is to Attract outside Investment, Retain It, Generate Benefits for Development

Top trade ministers, private-sector representatives and civic actors gathered in São Paulo, Brazil, for the eleventh session of the United Nations Conference on Trade and Development (UNCTAD XI), devoted a full slate of discussions today to several of the key challenges facing poor countries: how to attract foreign direct investment (FDI), retain it and generate benefits for broader social development.

In two meetings today, a broad spectrum of stakeholders discussed strategies for making small domestic firms more competitive and considered ways developing countries could upgrade their productive capacities and boost local business cultures in order to attract outside investors. Stressing that globalization could be used as a tool for development, participants agreed that developing countries must improve their policies, enhance their export competitiveness, and find ways of opening new opportunities for export-oriented FDI into emerging economies, in both manufacturing and services.

Trade and economics experts led the lively interactive discussions, which touched on the role of multinationals, creating attractive and competitive local business environments, investment promotion agencies, and delicate emerging issues like job outsourcing, with one expert warning that it was necessary to protect the rights of workers, as the lure of lower costs could lead unscrupulous employers to use "offshoring" as a tool against organized labour.

A representative of big business pointed out that corporations were often unaware of the benefits of investing in developing countries, so governments and chambers of commerce should invite the press to publicize the positive aspects of emerging economies. Other experts emphasized that strengthening the competitiveness of domestic enterprises, particularly small and medium businesses, was vital for developing countries to benefit fully from international trade and investment opportunities and to achieve the Millennium Development Goals.

Noting that a microeconomic or community-level context was often missing from country policies, one expert stressed that boosting the competitiveness and productivity of local firms led to job creation and

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improvement of the standards of life. "Poor people are not stupid", said another, adding that once given opportunities, including access to credit, they could prosper and contribute to their own development. It was crucial to provide linkages for the informal sector to enter domestic markets and to have access to the public-sector facilities.

Government representatives and ministers shared their national experiences, many emphasizing that FDI could play an important role in promoting national competitiveness, transferring skills, creating jobs and improving the technological bases of individual countries. Several speakers recounted their countries' efforts to attract outside investments, and the sometimes-fierce competition to attract foreign projects. However, the key was not just to attract FDI, but also to retain it and use it for the benefit of development.

Stressing the importance of "a sweatshop-free" development model, ministers said that low labour costs were no longer sufficient -- it was also important to develop the labour force, create a broader range of skills and develop the infrastructure and support institutions. Also, if least developed countries could not take quantum leaps required to make their economies attractive, they could take initial steps to attract investment by supporting domestic investment, promoting local businesses and introducing favourable policies. Still, least developed country governments should not be too "pliable" or make excessive concessions to foreign companies.

UNCTAD Secretary-General Rubens Ricupero joined the complementary discussions, saying that since virtually every country today was trying to attract some form of outside investment, the issue was no longer whether FDI was desirable but how to ensure that people in the developing world and economies in transition derived the expected benefits from outside investment. Those included creating new jobs, enhancing new productive capacity, improvement of exports, and the promoting broader development.

He also stressed that trade negotiations were irrelevant when developing countries lacked competitive products and businesses. Therefore, supply side improvements were critical if countries of the South wanted to improve their trading positions. Policies and measures must be adopted which improved the overall business environment and provided access to credit at fair and competitive rates.

Just before the close of the meeting, the Minister of Commerce of Angola announced that his country was joining the joint UNCTAD, Chevron and the United Nations Development Programme (UNDP) EMPRETEC initiative, which promotes entrepreneurship and the development of small- and medium-sized enterprises. The Conference was also informed about an UNCTAD-OECD project -- the "Bologna Process" -- which was providing assistance to small and medium enterprises.

The panellists included: Sanjaya Lall, Professor of Development Economics, University of Oxford; Maria Livanos Cattaui, Secretary General, International Chamber of Commerce; Amir Mitra, Secretary-General, Federation of Indian Chambers of Commerce and Industry (FICCI), New Delhi, India; John Evans, Secretary-General, Trade Union Advisory Council (TUAC)

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to the Organisation of Economic Cooperation and Development (OECD); and Patricia Francis, President, World Association of Investment Promotion Agencies (WAIPA).

Also participating were: Alan Kyerematen, Ghana's Minister of Trade Industry; Mido Rwayitare, South Africa's President and Executive Chairman of Telecel International and owner of Mont Rochelle Winery; Donald Johnston, Secretary-General of OECD; Andre Van Heemstra, Board Member of UNILEVER; Yk Modi, President of the Federation of Indian Chambers of Commerce and Industry and Chairman of YKM; and Annie Sc Wu of China's Federation of Industry and Commerce.

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Interactive Session: Leveraging Foreign Direct Investment for Export Competitiveness

The eleventh session of the United Nations Conference on Trade and Development (UNCTAD XI) devoted the morning and afternoon sessions of its second official day of its work to an interactive discussion on building productive capacity as a way for developing countries to benefit from globalization and trade liberalization. The first of two debates focused on foreign direct investment (FDI) and export competitiveness.

Conference Vice-President ELAINE DRAGE (United Kingdom) introduced the theme, urging the participants to focus on policies and strategies, as well as the challenges developing countries faced in building productive capacity. She highlighted the need to develop internally competitive capacities in order to attract foreign direct investment. Multinationals played an important role because they often controlled capital, knowledge, technology and market channels. She warned that much of that knowledge was concentrated in a few of the world's power centres, so it was important to focus on how best to build productive capacities and attract investment interests in poor countries that were geared to enhancing their overall development, as well as economic growth.

The panellists included: Sanjaya Lall, Professor of Development Economics, University of Oxford; Maria Livanos Cattaui, Secretary General, International Chamber of Commerce; Amir Mitra, Secretary-General, Federation of India Chambers of Commerce and Industry (FICCI), New Delhi, India; John Evans, Secretary-General, Trade Union Advisory Council (TUAC) to the Organisation for Economic Cooperation and Development (OECD); and Patricia Francis, President, World Association of Investment Promotion Agencies (WAIPA).

Former CNN anchor HILARY J. BOWKER, of Media + Communications, moderated the discussion, which she opened with a question to the audience. How big was foreign direct investment in export production and performance? She answered that foreign investment accounted for one third of total world production and about 70 per cent total world trade. So developing countries wishing to enhance their position and promote economic growth, must participate in FDI schemes. Such participation was a way for small countries to gain market access and participation in the global value chain in which exports occurred.

Mr. LALL said that transnationals were searching for production sites as much as anyone else, so an important question was that investment was affecting the developing world. By example, she said that the biggest single export today was electronic products, handled almost exclusively by multinational corporations in economic powerhouses in Asian and East Asian regions. That intense concentration and its impact on developing countries was worrying, particularly with the information and communication technologies (ICT) boom looming as the next frontier for growth. Developing countries must create much better policies and investment environments to attract FDI, create competitive bases, and perhaps, most importantly, create policies and environments to keep foreign investors and companies in their countries.

Ms. LIVANOS CATTAUI warned that while export-oriented foreign direct investment brought important benefits, it was not a substitute for domestic capital formation. Poor countries often ran the risk of creating dynamic outward economies and stalled domestic ones, as was the case in some parts of Latin America. There was also the risk of getting a quick jumpstart in investment or foreign export spheres by offering incentives, without erecting the proper infrastructure.

Export competitiveness could not be an end to itself, but must be part of a broader domestic development strategy aimed at connecting small home country firms to broader international markets. Domestic resource and capacities must be enhanced. Still, developing countries needed access to world markets, but, unfortunately, too many barriers existed -- to international markets and even between developing countries. Firm, tough efforts to improve investment climates in the developing world were necessary, as was dedicated government attention to policy change and getting local business to sign on to national investment strategies. Governments must promote transparency and good governance, and local business communities must be effective, she said.

Ms. FRANCIS said that investment promotion agencies made a difference; countries without them were at a distinct disadvantage. Her organization was helping developing countries determine what was the best way to attract investment, and to research policy environments. As countries modified investment environments, it was important to enhance industry and production strategies, including technologies, human resources, and incentives. Countries must mix policies with strategies for attracting investment and, in the medium term, focus on the wider social development agenda. Foreign direct investment was not only about jobs, she said. Governments must get investments to flow into developing countries, stay there, and contribute to development.

Mr. EVANS' central point was that when dealing with the question of outsourcing, it was necessary to put employment and social issues at the centre of attention. That was what the trade unions he represented were concerned about, for some of the worries in connection with outsourcing and the resulting loss of shifting jobs were real. It was necessary to protect the rights of the workers in both developed and developing worlds, as the lure of lower costs could lead some unscrupulous employers to use offshoring as a tool to fight organized labour. Attracting investment, such growing economies as China and India, threatened the good working conditions that workers in developed countries had managed to achieve. To counter the threat of protectionism and ensure that labour rights were respected, it was necessary to introduce right policies and regulations. There were constructive ways to reach agreements. It was necessary to encourage strong unions

Mr. MITRA said that with the development of new technologies, some 66 per cent of the value created was captured by the United States' offshore companies, with that country's net savings expected to exceed $300 billion. However, some 3.3 million jobs that were expected to be outsourced from the United States were but "a drop in the bucket", compared with the total. At the same time, it was expected that in a decade, there would be a 10 million job shortage in the United States, partially due to the ageing of the population.

THOMAS EICHELMANN focused on the European countries' participation in offshoring, in which many large companies were involved. The results in many cases exceeded expectations. Only some 3 per cent of the companies involved in a recent survey had been unsuccessful. Some 40 per cent of outsourced projects went to Asia, mostly to India. However, there were prospects for similar developments in other areas.

Discussion

In a lively interactive discussion that followed the panellists' presentations, relevant stakeholders from governments, the private sector and civil society addressed key policy issues and identified ways to enhance the contribution of FDI to the export performance of developing countries -- not only in natural resources and manufacturing, but also in services.

Sharing their national experiences, several speakers spoke about developing countries' efforts to attract foreign investments, noting, in particular, fierce competition to attract foreign projects. However, the key was not just to attract FDI, but also to retain it and use it for the benefit of development. Low labour costs were no longer sufficient -- it was also important to develop the labour force, create a broader range of skills and develop the infrastructure and support institutions.

Most FDI was directed at the private sector and, in some cases, national investment policies did not permit companies to benefit from outsourcing, a participant of the debate said. It was important to address that situation. Diversification of national and regional economies was relevant in that respect, as well as development of the infrastructure. Governments needed to stimulate their capital markets, regulate surpluses and introduce the reform agenda that would improve the business environment.

A speaker pointed out that most investments still flowed among developed countries. Foreign investment remained a scarce resource for poor countries. Few investments were made to satisfy domestic markets only -- in today's globalized world, most investments played a role in the world economy. It would be counterproductive for developing countries to say no to foreign investments while waiting for their domestic economy to develop. Much remained to be done to facilitate trade by removing obstacles, bureaucratic barriers and lowering tariffs. Instead of shortcuts to attract investment, it was necessary to embrace openness, promote sound competition and cut down on red tape, recognizing that domestic and foreign investment went together.

Several delegates agreed that to increase development impacts, it was important to use local supplies and improve skills and knowledge. Sustainable economic links among countries could produce win-win situations, as investment by developed countries in their partner nations paid off in the long run. Despite the fact that risks were high and initial returns poor, many developed countries' companies were involved in the transfer of knowledge, also trying to improve the situation of the poor.

One speaker from the Latin American region stressed that creating an enabling policy environment did not necessarily guarantee attracting foreign direct investment. It was, therefore, critical for developing countries to enhance local economies and promote local-level policies that could spur confidence-building and investment at community levels. It was also important to offer a supportive legal system and ensure predictability at the local level.

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Another speaker, offering a success story from the European region, said his country had benefited from vigorous promotion of inward investment. That, and the creation of a highly competitive business sector, had assured foreign investors that they could operate in a profitable and growth-oriented environment. Businesses invested in order to serve markets, whether local regional or global, he stressed. He suggested that what developing countries needed to do was to try to provide the best possible solutions for international corporations and investors, whether by providing the best location or best products and services tailored to international markets.

Several participants stressed that there was a risk in promoting incentives, which could, in the long term, be counterproductive. He added that openness was a two-way street, so the risks of export competitiveness must be shared by developing countries, as well as multinationals in rich countries. He added that governments must interact with civil society and the public at large, which would enable them to gauge the effects of trade-related policy changes.

Joining the discussion midway through, UNCTAD Secretary-General RUBENS RICUPERO said the question was no longer whether FDI was desirable, as there was virtually no country not trying to attract some form of investment. The question was how to ensure that the people in the developing world and economies in transition derived the expected benefits from investment. Those included the creation of jobs, creation of and enhancement of new productive capacity, improvement of exports, adding value and the promotion of overall development.

So UNCTAD was, and had been, focused on helping developing countries find ways to link the benefits of foreign direct investment with their overall development. He stressed that it was also important to look at the quality of the policies that were created. Here, he highlighted the success of Cambodia, which, because of its tragic past, would have had every excuse not to perform in the investment sphere, but had been performing, with UNCTAD's help, and innovation and determination on the part of the Government.

One of the aspects raised in the debate was the use of investment policies for peace-building and post-conflict reconstruction. Leveraging FDI for development could create new trade opportunities, create jobs and help to normalize the situation in the countries involved. However, political stability was one of the aspects required for FDI, for investment flows were very sensitive to the risks on the ground. Governments needed to learn from other countries' experiences in attracting and promoting investments. The recommendations of UNCTAD could be very useful in that respect. Right investment legislation, tax incentives and policies could play an important role in expanding the input and creating a favourable investment climate.

Several speakers highlighted the role of the mass media in the shaping of the international investment climate. A representative of a major multinational company, Daimler Chrysler, pointed out that businesses were often unaware of the developing countries' attractive features and resources. To attract foreign investment, governments and chambers of commerce should invite the press to publicize the positive aspects of their economies. On the same issue, another speaker said that international media often painted a negative picture of the situation in a number of

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African countries. That situation needed to be reversed, for many developing countries could present important opportunities for investment.

It was also pointed out that the private sector was aware of the need to change perceptions about certain countries, for often there was a significant gap between their image and reality, a panelist said. Companies needed impartial and honest investment guides that they could trust. Of utmost importance were the issues of creating business transparency and building reliable partnerships with individual companies.

As for the poor nations, several debate participants emphasized the importance of creating favourable conditions on the ground. If the least developed countries could not achieve a quantum leap in making their economies attractive, they could make initial steps in attracting investment by supporting domestic investment, promotion of local businesses and introduction of favourable policies. At the same time, governments should not be too "pliable" in making excessive concessions to foreign companies. Emphasized in the debate was "a sweatshop-free model of development".

A number of developing countries insisted that domestically, they had done "everything that the doctor ordered", yet they were not receiving either sufficient official development assistance (ODA), or foreign direct investment. Without strong domestic economies or institutions, they had little chance of attracting sustainable interest from foreign investors, but they were not rich enough to bear the costs. Called upon to provide assistance to developing countries, international efforts needed to be placed in a broader perspective of investment for development, a speaker said, stressing the need for increased cooperation between various agencies.

Building Competitive Export Capacity of Developing Countries' Firms

The second thematic session of the day was chaired by Idris Waziri, Minister of Commerce of Nigeria, and moderated by Lala de Heinzelin of Enthusiasmo Cultural, Brazil.

Mr. WAZIRI said that, quite obviously, developing countries would not be able to take advantage of increased world trade, unless they increased their productive capacity. The nature of a relationship that should exist between the public and private sectors needed to be better defined. The concerns and needs of developing countries needed to be considered. Incentives were needed to improve their competitiveness, and he hoped that today's session would address the policies and actions required to achieve that goal.

Ms. HEINZELIN said that the best way to predict the future was to create it. That could be a motto of today's discussion.

The subject of this afternoon's debate was presented in a pre-recorded message by the keynote speaker, Professor of Harvard Business School MICHAEL PORTER, who said that efforts to achieve economic development and create more just societies represented a never-ending quest for many countries. While a lot of attention was placed on macroeconomic policies and infrastructure development, consistent focus on small firms and enterprises -- a microeconomic context of development -- represented a missing link in countries' policies. Development of competitiveness and productivity of firms led to job creation and improvement of the standards of life. Success of the export sector was deeply affected by the development of the domestic sector. In that connection, one could not ignore retailing, transportation and development of services.

In thinking about the process by which firms became more productive and competitive, one should take into account whole groups of firms in a single field that mutually interacted as providers and recipients of goods and services, as well as associated infrastructure and institutions. For example, even the best hotel would not be successful without other elements of such a cluster, which also included restaurants, services, roads, transportation and so on. Thus, it was important to develop industrial clusters to increase competitive and productive capacities of developing countries' firms. He believed that promotion of cluster strategies was the way to promote exports.

Among the main issues that needed to be addressed in order to create a favourable business environment for small and medium firms, he mentioned removal of regulatory barriers, promotion of fair competition, and creation of opportunities through outsourcing from the public sector. Any nation also needed a strategy for management training. Developing productive capacity of firms was one of the most important factors that could determine the success of economy on the whole. Instead of artificially distorting or subsidizing businesses, governments should address the issue from the point of view of cluster economy, placing emphasis on the enterprise at a small firm level.

The session's lead discussants were Alan Kyerematen, Ghana's Minister of Trade Industry; Mido Rwayitare, South Africa's President and Executive Chairman of Telecel International and owner of Mont Rochelle Winery; Donald Johnston, Secretary-General of the Organisation for Economic Cooperation and Development (OECD); Andre Van Heemstra, Board Member of UNILEVER; Yk Modi, President of the Federation of Indian Chambers of Commerce and Industry and Chairman of YKM; and Annie Sc Wu of China's Federation of Industry and Commerce.

Brazil's point of view on the matter was provided by its representative, SYLVANO GIANNI, who said that everybody knew about the problems small companies faced in achieving access to markets due to the lack of experience and funds, as well as poor managerial practices. Brazil was focusing on entrepreneurial segments that had better chances to participate in international trade. The Government was encouraging inter-business cooperation, promoting the improvement in the quality of goods and entrepreneurial structures. It was also seeking help from international institutions, including UNCTAD. The initiatives under way included consolidation of small firms with social inclusion measures and introduction of relevant legislation.

Mr. KYEREMATEN said the greatest challenge for developing countries in integrating economies in the global market was not negotiating trade access preferences by developing capacities of local firms. Africa, he said, had barely scratched the surface in that regard, and the potential of its national businesses had yet to be realized. It was also important to urge development partners, who would rather support traditional social programmes to more readily help with boosting productive capacities. His own country had targeted special sectors for growth and the government had picked "winners" -- entrepreneurs -- to drive growth and competitive business expansion.

Mr. JOHNSTON echoed Professor Porter's comments on the importance of effective clusters, and stressed that territorial development could be very attractive to foreign investors. He said that, with the spread of new communication technologies such as broadband, local-level development would increase. It was also important to create entrepreneurs and promote at the community level, the importance of "becoming a job creator rather than a job seeker".

Mr. RWAYITARE shared with the delegates his experience as an African businessman. In 15 years, he had built 14 networks on the continent and believed that even under the most unpropitious circumstances, one could build a successful business.

Important for success were political stability, strong leadership and sound development policies, he said. Most African entrepreneurs had no collateral to support their business, and there were no financing institutions that were specifically prepared to address their needs. The most serious challenge was the lack of skills. All stakeholders should recognize the important role of the private sector in development and poverty reduction.

Mr. HEEMSTRA of UNILEVER stressed the importance of attracting, developing and retaining qualified human resources. It was important to match people with jobs, so that people could prosper and grow. Leaders of the business must ensure the importance of standards in corporate culture. They should employ people attracted to their ethics, and hiring was becoming more and more discriminating in that respect. Remuneration instruments that were gaining popularity were shares or options that allowed employees to share in the profits. Dedication and skills needed to be rewarded. Also important were continued education on the job and engagement of workers with activities of local communities.

His company sought to provide access to markets to local firms, he continued, in many cases backing up credits for its suppliers. It also provided them with support to upgrade their equipment and improve safety standards. If managed responsibly, international business could improve local business capabilities.

Interactive Discussion

Participants in an interactive debate stressed that developing countries faced varying challenges, depending on their individual conditions. While some of the industries had strong international links, others were driven by necessity. In many cases, people started small businesses, because they did not have a better alternative, and need-driven entrepreneurship was not oriented towards external markets. The challenge was to fairly distribute the benefits of economic growth and include such businesses in relevant infrastructure.

Poor people were not stupid and were capable of conducting their business responsibly, a speaker said. Once given opportunities, including access to credit, they could prosper and contribute to their countries' development. It was imperative to provide linkages for the informal sector to enter domestic markets and to have access to the public-sector facilities. Small enterprises were capable of saving money and conducting cross-border trade. Africa was too rich to be poor.

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Experts also highlighted the importance of linking small local firms with multinational corporations. An expert from East Asia said that "smart partnerships" between small and large companies should promote job creation and training, technology transfer and most importantly, mentoring and coaching. He added that the links must be mutually beneficial, and policy frameworks must ensure that large corporations practice social responsibility when operating in developing countries.

Mr. MODI said that recent experience had shown that growth alone could not make businesses work for the poor. Sustainable development must be inclusive development and must create vast numbers of jobs, as well as reciprocal links between small and medium enterprises and large corporations. He stressed the importance of corporate social responsibility, mentioning empowerment of the farmers through the provision of access to the Internet in local languages, providing real-time information on relevant issues.

Also on the subject of corporate responsibility, a speaker said that the Conference should address not trade per se, but socially responsible trade, which should contribute to sustainable development. Social business responsibility and the vision of socially responsible firms should be translated into precise indicators.

Ms. WU said that businesswomen must respect local cultures and traditions when operating abroad. It was important, therefore, to have a local partner to help women entrepreneurs navigate local customs. She also stressed the importance of information-sharing and exchange, and suggested that a focus on youth exchange programmes between trading countries could be a way to help improve access and increase competitiveness in the long term.

Women entrepreneurs encountered more difficulties than their male counterparts, a speaker said, including legal problems and difficulties in getting loans. Targeted programmes were needed to empower women. It was important to raise their self-esteem and provide them with training to meet their needs.

Linking this afternoon's discussion with the morning session, a speaker said that creation of regional business associations could contribute to the flow of FDI in Africa and Asia. For that to become a reality, however, it was necessary to make sure that association members had interest in doing business together and to analyse the constraints involved.

Instead of producing job seekers, a speaker said, countries should seek to support entrepreneurs who could create jobs. Entrepreneurship development centres had been created in India with the help of international institutions.

In his concluding statement, Mr. RICUPERO said that trade negotiations did not mean much for those countries that did not have much at stake as far as international trade was concerned. The problems of supply should receive more international attention, as well as the efforts to make developing countries more competitive in that respect. Both local and foreign direct investment could play an important role in that regard. That was why the Conference was giving prominence to those issues. Most of the speakers in the debate had noted that it was not enough to attract FDI -- it was important to attract quality investment.

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Many governments were committed to the development of indigenous firms and were making progress in development of small and medium enterprises, he continued. Many cases of successful government policies had been presented. In today's world, firms had to compete not only on price, but also on quality, accessibility, timeliness and a number of other factors. For that reason, a number of government had adopted small- and medium-enterprises support policies aiming to create clusters addressing the needs of all companies in a mutually dependent value chain. Creation of linkages between foreign and local firms could enhance the capabilities of small and medium enterprises. That was precisely why UNCTAD had become fully engaged in the area, and he was grateful to the governments that provided support to its initiatives.

Local small and medium enterprises would only be able to take advantage of new opportunities if policy and support measures were adopted to improve access to knowledge and technology, and promote a favourable business environment. The terms of credit were as important as the issue of getting access to financing. Support from such enterprises as credit cooperatives was required. Developing countries needed to keep their options to formulate their interest rate policies open, for they were related to the issue of external debt. Becoming competitive was related not only to a country's wishes, but to its capabilities, as well. It was also necessary to pursue institutional and policy reforms to build domestic productive capacity. The UNCTAD was deeply committed to those issues and intended to extend its cooperation with other bodies, including the OECD.

The Chairman of the session, IDRIS WAZIRI, Minister of Commerce of Nigeria, said that the lesson everybody could share was that developing countries had no business being poor, for they were sitting on a goldmine. They needed to take their fate into their own hands, create wealth and jobs and fight poverty.

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