

Fostering Competitiveness Strategy and Partnership

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Introduction

Trade in our days is a multi-national activity. It is governed by international arrangements many of which are not usually within the formulation or the controlling capacity of individual countries. This is most so when it comes to developing countries whose share in it is too insignificant¹ to empower them play any visible role in making those arrangements.

Since trade is also a vital instrument of sustainable development in the largely integrated economic order we are in, it is obvious that all countries strive to direct it to their best national interests. This results in the economically powerful leading the way to making its terms and conditions best suited to their needs first and foremost. Accordingly all international arrangements of trade are designed in a way that benefit the industrialized world most and avail opportunities for the rest of the world not necessarily for the purpose of addressing the latter's development priorities but essentially to ensure the flow of their contributions to the sustainable benefits of the former. It is because of this fundamental conflict of interest, I believe, that international trade rules, which prohibit developing countries from pursuing strategies they may find suitable for their development purposes, (eg. protection of and subsidies to selected economic sectors) do not most of the time apply to the developed ones².

In the following pages, I try to high light the most important areas that I think must be considered in any serious endeavour of fostering competitiveness within a genuine framework of development partnership. I look at them from two perspectives. The first is where African countries have to look inward by way of alleviating home-borne problems that stifle their own competitiveness. Often this part is overlooked and development solutions are sought from outside. I believe the first step and the closest one to practice is to examine if there is anything that can be done at home. If there is the will, determination and commitment, trying to resolve development bottlenecks at home can go the longest distance in that direction. In fact, many did achieve their development targets in this and only this.

The second dimension becomes apparent in the context of the global integration we are bound to leave with. This emphasizes the need for working together if global development is to be achieved to avert the forces that drive globalization from equally globalising the anger, despair and social tensions that ravage most of the developing countries as the result of the imbalance in the world economic order.

I will be glad to discuss the issues I raised and am available on the following address:

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¹ The total share of the 49 LCDs in world trade was about 0.4% in 1999.

² Protection and subsidies are largely prohibited in developing countries while the developed pump billions annually to do the same.

I. Raise Productivity of Domestic Firms

African countries need to carefully examine their position in the dynamics of international trade. In that, they have to focus on three areas that deserve special attention:

1. They need to set priorities for their development and make concerted efforts in those directions. Among others they must:

- Identify areas where they have maximum competitive advantages and try to exploit them in time. Africa is losing its natural competitive advantages because its governments do not act in time to identify and make use of them. Therefore expedience is a crucial essence here.
- Once such areas of competitive advantages are identified, maximum endeavours must be exerted to exploit them fully. This requires mobilizing all resources available including those of development partners around the world.
- The strategy to enhance this exploitation must involve all national and international stake holders with clear understanding that competitive advantages in one country are not only those of that country but also of all those trading with it in the larger global context.

2. Africa must develop its private sector to head the economy. Experience proves the fact that unnecessarily close relationship between economic development and political power in Africa is one of the reasons for the inconsistency of growth in the continent. In Africa, an enviable development initiative started by a government is doomed to demise when that government falls because there is no capable private sector to continue it. Since political stability has generally much to be desired in the continent, development is equally intermittent. Else where, where politics and economics are far apart³, we see generally consistent development taking place lead by the private sector.

Therefore, building a competitive capacity of trade in Africa calls for the development of a private sector to engine the dynamism of trade dissociated from the political power in office. The way forward to this requires the following among others.

- Targeted and timed government intervention to support the development of the private sector must be promoted. The experience of today's rich countries proves it is necessary to nurture infant industries until they can build the capacity to withstand foreign competition. Countries such as the USA and Germany categorically rejected free trade until they had established themselves as major economic powers. In the same way the recently industrialized countries are known for their protective policies which enabled them achieve what they did. Infant firms in developing countries are no different from theirs. They often lack the efficiencies of large-scale operations, the availability of technology and finance, and other advantages, which these economic powers now have. Therefore, their growth and survival require national and international policies that allow them to compete at home and abroad. There is no historical or moral ground for the industrialized countries to justify their strong

³ Italy has far more political power mobility than many African countries but the Italian economic development is hardly affected by the political turmoil.

assertion for developing countries to follow a different, liberalized, course of development policy.

- Most of the time avoidable costs render private sector initiatives in African uncompetitive in national and international trade. By all accounts, institutions that support the growth and expansion of physical investments are inadequate. In light of the recent development of entrepreneurial skills in the continent and the challenges they have to face as a result of the least exposure they have to opportunities and possibilities, the presence of small scale industry development centres like the Small Business Administration of the USA in early 1960s can do very well by way of untangling the strands of problems that the private sector finds itself in.

The lack of basic infrastructural requirements like housing for office space, land for construction, power supply and communication, affordable credit facilities, etc. are chronic problems of all private business initiatives in most of African countries. Institutions like industrial estates and export processing zones, which are not common in many parts of the continent, can enable selective intervention in overcoming infrastructural, information and service deficiencies in the same way they strategically served many countries that have scored successes in trade capacity building. They are administrative options that must be resolved at the beginning for real achievement of development objectives.

- Licensing of trade in the developed world is a simple affair. Often it does not take more than a few procedural requisites. The modus operandi is clearly stipulated in the application and there are adequate institutional consultation and guidance if necessary. This facilitates in shortening the lead time for starting businesses and rationalizes operations as such. Time is money in business and money is the centre piece for all businesses by which they are run, their performance is gauged and their contribution to national development is measured. Bureaucratic licensing and administrative procedures are unfortunately quite prohibitive in Africa. They are subjective and can vary from applicant to applicant. They are cumbersome and inconsistent. They take time and unnecessarily cost a lot. By some accounts, the cost of sluggish administration and bureaucracy is a good percentage of the cost of direct materials in manufacturing concerns. Therefore, streamlining these and rationalizing the bureaucracy is of paramount importance in an African trade capacity building agenda.
- Competitiveness is the result of development and development is in turn a result of teamwork the inseparable members of which are the private sector on one hand and the government representing the public at large on the other. In an endeavour to bring about sustainable development and competitiveness in trade, this partnership is indispensable. Partnership becomes lasting and meaningful only if it is between compatible partners and therefore to bring the level of private sector compatibility to a standard that makes it useful for such a partnership, its associations and advocacy groups like chambers of commerce and industry must be supported and strengthened.

- Justice in Africa is an area that has to lay a more firmer structural basis for the private sector to flourish. In most of our countries, the general legal frame work still in use is the one of colonial days and is irrelevant to current situations. Usually, new directives are issued by the various governments that come to power to modify archaic legal contents and make them suitable for the various policies they pursued. In most cases, such modifications are never officially published as they should be and thus law enforcing agents find it difficult to reconcile the divergent do's and don'ts. This makes it possible for an officially existing regulation to have been overridden by a white paper which may result in a business person committing serious offences for having obeyed the original law. This can be attributed to be one of the factors that create fertile ground for corruption and serious insecurity on the part of the public in general and the private sector in particular.

3. Clearly trade is not a one-party affair. It is an activity that requires a fully integrated teamwork with each member of the team having a clearly defined role to play. Putting each partner's role in clear and concise terms requires all the facets of a matured democracy that Africa lacks in most cases. Therefore, Africa needs to expedite its democratisation process in order to enhance its competitiveness in trade. In this it will have to make adequate progress in the following areas, among others:

- An important step forward to democratisation is to ensure administrative clarity and trust in the type of governance in place. This requires transparency in operations and accountability for public duties. Africa has a lot to do in this direction. Officials avoid answering public request for information because the way they discharge their duties are too irregular for that. Misuses of public office, nepotism, irresponsibility, incompetence, inefficiency, etc. characterize our civil servants. The total effects of these all are ambiguity, inconsistency, and misuse of public resources and to cover these up black out of information. These must be rooted out in the first place. Partnership cannot thrive where there is no clarity of purpose and action. And without heart to heart partnership of all the stakeholders, national development has proven impossible.
- In Africa, we need to lay down a well-defined and clear vision of development that can rally all forces behind its objective. This can be achieved only if all the national stakeholders are involved and international partners are consulted in the formulation process. Experience of South East Asian countries in this regard can teach us a lot. Malaysia is a role model in this unhindered participation of the private sector in matters of national concern ensured the dramatic success in the economic development of that country. A clear national vision articulated in the exercise of public-private partnership helps not only in rationalizing the application of the limited resources of the continent to its priority areas but also consolidates all efforts in this direction and enhances expedient development.
- Extensive corruption and excessive bureaucracy in Africa act as a tax on trade. The administrative strength to punish officials for failing to perform their public duties correctly must be strengthened. We have experiences of cases in which embezzlers are penalized to pay a little portion of the public funds they are found to have misappropriated, sent to jail for a couple of weeks or months and then set free to

enjoy the rest of it. Many have become millionaires in this way. Misuse of public office in non financial matters does not seem to be a problem at all. Senior officials who publish unfounded data for public consumption and lead it to devastating results are never held accountable for their misguide. If they have not executed any of their duties at the end of a given term, they are only transferred to other posts or at the worst retired while the public stands to suffer the result of such irresponsibility and unaccountability. This must change in pursuit of a working partnership of government and private sector in national capacity building.

II. Competitiveness in International Trade

Identifying the characteristics of the prevailing environment and designing approaches that consider the variable realities on the ground must precede building competitiveness in trade. In this regard, it is of utmost importance that the weaknesses of international trade arrangements as they stand now are addressed before all if they are to benefit all participants in the scene equally. There are several aspects that can be sited as crucial. I would like to mention those basic ones I feel must be given an urgent treat.

1. Enhance the role and ability of developing countries to negotiate in international trade agreements:

- From development point of view, the most important part of international trade is where countries export goods and services they produce to their trading partners. Since the importance of export trade has increased to a proportion of becoming a priority in any national development strategy, it has been necessary to guide this relationship on bilaterally and multilaterally agreed upon principles and terms and conditions. This is what is now governing international trade relations and where developing countries require a lot of capacity building.
- Obviously, the final agreement depends on the substantive contents put forward by the partners in the agreement as their priority issues. In this regard, the trade agenda of the world's richest nations is primarily driven by a desire to help their companies to expand production by breaking into profitable foreign markets. As a result, international trade agreements are initiated by these interests and therefore are bound to reflect their priorities and contexts.
- They are often far removed from the realities in developing countries and not only lack in relevance to their immediate trade needs but are also complex and complicated abstractions of otherwise simple business practices if they had been drafted in their contexts. This disables representatives from developing countries from competently negotiating in the agreements and fails to forge terms and conditions helpful for trade development in their respective countries.
- It may also be stated that not all developing countries have the capacity to democratically be represented in such complex negotiations. Actually many lack in civil servants with requisite skills and experiences not only as a result of chronic political instability facing them but also due to migration of capable professionals from third world countries to the developed ones.

- At the end, many developing countries' representatives shy to oppose proposals put forward by their developed counter parts whatever the results may be to the interests of their countries and let them be adopted as they are. Their governments also find it difficult to risk the economic or political fall-out of proceeding with an investigation against rich countries when the need arises.

2. Make world trade rules fair:

- In theory, international trade agreements like those of the WTO operate by consensus but in reality the governments of rich countries dominate the WTO. Its rules are often agreed upon by the powerful economies prior to their presentation for discussions and thus are usually in a state where weaker economies can no more make a difference. In effect developing countries lose the chances of promoting policies in their own development interests.
- The WTO rules are also based on standardized development needs for all other partners in the agreement in what can generally be defined as "one-size-fits-all" approach. As a result the peculiar characteristics of different developing countries are moulded together with the end results that are far removed from the interests of the countries concerned.
- Despite the irrelevance, they enforce the primacy of such global rules over national interests and challenge developing countries' sovereign rights of how best to address their own economic priorities. In essence, this leads to their depending on the trading formula of their developed partners which necessitates attracting investors from those countries.
- As a result governments of developing countries frequently compete with each other in attracting foreign investors and go as far as enacting laws which are far less favourable to their individual national interests than might have been achieved within the framework of a more collaborative international approach.
- This has helped TNCs increasingly secure access to (and often control over) markets in developing countries in areas previously denied to them whereby now the largest 200 TNCs account for more than a quarter of global Gross Domestic Product and some individually exceed⁴ the total GDPs of several developing countries.

3. OECD markets must open at least as much as developing countries are expected to open:

- Developing country governments display massive hypocrisy when it comes to trade liberalisation. They fail to practise what they preach.
 - They advocate that unbridled trade liberalization is in the interest of all. They practise some thing very different by restricting access to their own markets for the products of most importance to the developing countries such as agriculture and textiles.

⁴ Wal-Mart, General Motors and Ford have a bigger turnover than Africa's entire GDP.

- They also declare subsidies distort the workings of the market, leading to inefficiency. But they subsidise their farmers to produce food domestically, which could be imported at lower costs from developing countries. They do this partly because they recognise the insecurity that comes with over-dependence on food imports while at the same time denying developing countries the opportunity to operate the same safeguard.
 - Developing countries are being prevented from protecting themselves adequately against cheap imports, which undermine local food producers and food security. In the WTO, they are generally required to reduce tariff barriers on agricultural goods by an average of 24% by 2005 (36% for developed countries).
 - While developing countries are unable to protect themselves sufficiently against cheap imports, most rich countries continue to use domestic and export subsidies to protect their own producers. These subsidies⁵ - which can include direct payments to farmers or payment to reduce export marketing costs - are used by rich countries to offload surplus production at prices lower than their domestic markets.
- When poor countries have the capacity to make products more cheaply than rich countries, they find the gates of these same rich countries locked against them.
 - According to the World Bank, if the Quad (USA, Japan, Canada and EU) abolish peak tariffs on exports from the 49 least developed countries, the latter would earn an extra \$2.5 billion a year which is 11% of their current export earnings.
 - The WTO rules do little to discourage tariff escalations, where rich countries maintain much higher import tariffs on imports of processed commodities than of raw materials. This deprives developing countries of revenue and deters them from diversifying their export away from dependence on raw materials as a development strategy.
 - Since it increases the tariff the more goods are processed, it keeps the least developed countries in the place of producing commodities that are subject to wide price fluctuations rather than getting the added value from processing them. For instance, EU trade rules make it much easier for developing countries to sell cocoa to Europe than chocolate bars.⁶
 - Other non-tariff barriers such as sanitary and phytosanitary measures allow rich countries to restrict imports on health grounds. Even though they have agreed, in the WTO, to abide by the findings of international bodies, rich countries can also impose standards that are stricter than those set by the international bodies. There are also anti-dumping measures used by the richer countries to protect their producers against cheaper produce imported from developing countries. These trade barriers are

⁵ In 1999, OECD countries paid a total of \$362 billion to their farmers (every person in the UK pays over 50 pounds per year to UK farmers while only 4% of the population actually farms).

⁶ Cocoa enters the European markets with no tariff, but the duty on chocolate can be as much as 27%.

especially serious for the least developed countries since nearly 75% of their exports go to them.

- Although WTO rules set out punitive measures on members that exercise hidden protectionist policies, most developing countries do not have the resources nor the political capacity to mount effective scientific challenges to import restrictions by developed countries to enforce those rules.
 - Poverty occurs when markets are either non-existent or distorted. Poor communities lack the information and institutions to provide enabling environment for market exchange to take place to their benefits.
 - Developed countries can immediately take advantage of market opportunities when developing countries liberalise. EU and US goods have flooded into developing countries since the AoA was signed. But developing countries can rarely take full advantage of the new opportunity when rich countries open their markets. Many developing countries are not able to take advantage of lower tariffs because supply-side restrictions prevent them from competing effectively in world markets in the short to medium term. These include poor infrastructure, ineffective institutions, lack of capital, skill-shortages, and an inability to respond quickly to new market opportunities.
4. Make arrangements in the multi-national negotiations for the private sector of the developing countries to be involved.
- It is evident that DFI does shift its operations to other parts of the world when conditions change. Although it is still vital for development, domestic investment and domestic policies that enhance domestic entrepreneurial skills are ultimately decisive in the industrial development of a country in the final analysis.
 - For many developing countries industrial development forms the corner stone of their development objectives. Whether through agricultural processing, development of new high-tech industries, or specialisation in textiles, they aim to expand domestic production, and thus increase added value. This expands and widens consumer choice and increases the benefits of trade. For these countries the option of introducing a variety of investment policies to suit their national purposes is vitally important.
 - The party that earns its livelihood in this can best articulate the optimum modality of doing so and therefore the most appropriate issues relevant to industrial development cannot be expected to happen without involving this stakeholder. Hence, involving the private sector of developing countries in international negotiations and multi-lateral talks relating to capacity building becomes indispensable.