Preface

The best example of globalisation opportunities and risks is the greater participation of developing-country producers in international trade. It is hard to think of a product, even a very sophisticated one, that has not been at least partly produced in a developing country. International trade and investment have been formidable vehicles of knowledge diffusion and development. The robust growth of several Asian “tigers” and of a growing number of developing countries around the globe demonstrates this potential.

But this positive picture needs qualifying, as outcomes of expanded trade and investment have not been uniform across countries or industries. Though developing-country producers have been incorporated more and more into international production networks (or value chains), they often perform simple assembly work, yielding little value-added. Enlargement of the pool of potential suppliers, coupled with a greater concentration of buyers (and thus stronger bargaining power), has depressed export prices and margins for these suppliers. Very many low-income countries, especially in sub-Saharan Africa, have not greatly increased their participation in international trade, as the continent’s share of world exports has declined while most countries still export unprocessed raw materials.

This poses a tremendous challenge for firms and decision makers in developing countries. What explains the different abilities and returns of companies in global value chains? What determines the reward structure for the firms involved? How can governments (and their development partners) promote the private sector and improve its international competitiveness? These questions have long been discussed in academic and policy circles. Diagnoses have ranged from blaming market failure, government failure or both. Policy prescriptions have leaned variously towards an active industrial policy (picking winners) or a hands-off approach (improving the enabling environment). The overall evidence suggests an enabling business environment

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is crucial for private sector development, but this is not enough. Even the best environment cannot remedy structural shortcomings and provide firms with the capability to produce and compete. Meanwhile, though important, direct policy interventions cannot replace genuine private initiative.

To add to the policy debate, the OECD Development Centre and the Development Co-operation Directorate organised in December 2003 a workshop in Phnom Penh (Cambodia) on trade capacity building and private sector development in the region. The workshop brought together key stakeholders from the public and private sectors, civil society, research and regional institutions as well as major bilateral and multilateral donors to discuss trade and investment challenges for less advanced countries in South and Southeast Asia. The workshop identified particular challenges in enhancing the competitiveness of the private sector, sought ways to strengthen private-sector associations' input to national trade and investment policy processes and to reinforce the institutional support structure for the private sector, and identified lessons for donors and national policy makers in responding more effectively to the needs of the productive sectors.

Through extensive review of Southeast Asia country experiences, this study addresses the challenges to strengthen firms' international competitiveness. It critically assesses how government policies, donor-supported programmes and foreign direct investment can jointly contribute to reinforcing firms' capabilities, facilitate their insertions into international production networks and eventually upgrade their operations. It builds and substantially expands on background reports prepared for the Phnom Penh workshop and on the workshops' conclusions, as a contribution to the ongoing debate on aid for trade, capacity building and private sector development.

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