UNITED
NATIONS

TD

United Nations
Conference
on Trade and
Development

Distr.
GENERAL

TD/B/44/15
14 October 1997

Original : ENGLISH

TRADE AND DEVELOPMENT BOARD
Forty-fourth session
Geneva, 13 October 1997

High-Level Segment

GLOBALIZATION, COMPETITION, COMPETITIVENESS AND DEVELOPMENT

Note by the UNCTAD secretariat

I. Basic issues

1. The rapidly increasing economic interdependence of countries which has characterized the globalization phenomenon over the past decade has been nowhere better manifested than in the growing participation of the developing countries in international trade and capital flows, thus improving the global division of labour and allocation of savings and investment. Sound and stable macroeconomic policies and outward-oriented trade policies have been important country-level factors in this change.

2. The principal driving force in the globalization process today is the search by enterprises for profits worldwide. Given the virtually global access to markets which has been the consequence of the liberalization of world trade over the various "rounds" of trade negotiation, firms are freer than ever before to pursue strategies which allow them to exploit all available sources of competitiveness - be they labour costs, capital costs, raw material costs, locational advantages, the presence of partner firms or other factors - in whatever markets in which they choose to compete. International competition has become the spur to improve resource allocation and productive efficiency - and ultimately to achieve greater development.

3. At the core of this vision of the globalized economy is the enterprise - whether micro, small, medium or large in scale. Ideally, the firm reacts flexibly and quickly to a dynamic setting characterized by new technologies, changing market

demands and the relentless entry of new competitors. This ideal well reflects the situation in many highly developed countries. However, it is but a caricature for most firms in many developing countries. Exposure to the competitive pressures of international trade, and the influx of foreign direct investment (FDI), may well be stimuli to improved competitiveness. But for many developing country enterprises, quite the opposite may also be true: exposed to international competition, or to domestic competition from firms established with the help of FDI, they may be unable to compete. For these firms, developing a supply capacity which is competitive internationally but does not endanger domestic social and political stability is the first order of priority.

4. It should be recognized that in its widest sense, competition means “survival of the fittest”; indeed, it has been said that “competition kills competition”. There has thus always been wide recognition of the need for governmental intervention to maintain markets which are structurally and operationally competitive. Thus, if globalization and liberalization are to lead to competitiveness and development, they must be accompanied by appropriate competition policies and laws to prevent a situation in which the elimination of tariff and non-tariff restrictions to trade is negated by firm-imposed barriers to competition or by government-imposed distortions to free competitive markets.

5. While the above propositions command a large degree of consensus among both development analysts and policy makers, there is also agreement that the pursuit of competition must take into account the specific development features and constraints of countries at different levels of development. If it is true, as many economists argue, that competition will normally generate static efficiency gains in the short run, Governments will nevertheless still need to decide what types of market structures are best suited to their economies in order to achieve dynamic efficiency gains in the long term. Similar issues arise at the global level in connection with, for example, the protection of intellectual property rights. Competition policy and laws thus need to be reconciled with other policy objectives and instruments within a broader context of promoting sustainable growth and development, including objectives related to employment and income disparities.

6. These issues have become even more complex in the new context of globalization and liberalization. To begin with, as international firms begin to operate in the world economy as if it were a single market and production space, the issue of competitive markets is now being posed in terms of the "contestability" of markets, i.e. not only actual trade competition in goods and services, but also potential competition resulting from the establishment of foreign firms through direct investment. This has rekindled concerns about the impact of the growth of international investment flows or large firms on the competitive nature of domestic markets. One result is that growing attention is being paid at the national level to the need to combine increased contestability with competition policies aimed at preventing market concentration and abuse of dominant positions, and/or with policies directly aimed at improving the competitiveness of domestic enterprises.

7. At the global level, globalization has given rise to the emergence of new forms of cooperation/competition among firms, which create new challenges for competition policy. For example, cooperation arrangements, including strategic alliances, among large firms to undertake joint research and development, with a

view to competing later in the commercialization of the results, may help to advance the frontiers of technological progress. However, they may raise the barriers to entry into world markets, particularly for developing country firms. In such circumstances, competition policy and laws need to create the conditions under which prospective new entrants can improve their competitiveness, so as to overcome the cumulative disadvantages of late entry.

8. Globalization has also created pressures for a "level playing field" for the global operations of enterprises, through the tightening of multilateral trade disciplines, their extension to all countries and the negotiation of multilateral disciplines in new policy areas, including those covering industrial and even social policy. It has also propelled initiatives for the proliferation of regional agreements aimed at achieving deeper integration than that possible at the multilateral level, to enable enterprises to set up regional production networks.

9. Globalization has spurred the perception that differences in industrial policies can create distortions to trade and therefore should be brought under multilateral (or regional) disciplines. The increased mobility of productive resources has extended this concern beyond that of industrial policy, to broader social, fiscal and environmental issues. Thus, many policy makers tend towards the view that by not adhering to, or not effectively enforcing, international norms, countries are creating unfair competitive advantages for themselves in attracting investment and competing in international trade.

10. Developing countries are thus attempting to design policies which ensure that they benefit from the efficiency gains that a liberal trade and investment regime, and deregulation and privatization can offer, while at the same time ensuring that their broader social and economic objectives are not compromised. Also, they wish to ensure that their access to world markets is not frustrated by anti-competitive practices. The challenge is to design policies that permit a liberalization of trade and investment regimes while preserving their ability to effectively pursue these latter goals. This may call for a broader concept of competition policy and laws at the national level and stronger international cooperation.

II. Managing competition: Lessons from successful development experiences

11. Governments in all countries that have successfully closed the gap on the leading industrial economies have pursued policies aimed at directing the form and focus of competition, be it between domestic firms or from the international market-place, to achieve specific development goals. Central to those policy efforts has been the recognition that the effectiveness of domestic firms to enter and contest markets can be impeded by interrelated institutional and structural obstacles that hold back the process of investment, technological progress and exporting. These include market failures as well as problems linked to the organization of industry and the supply of entrepreneurial, managerial and technological capabilities. Moreover, the need to commit investment resources over a long time period and the need for most firms to take time to learn how best to produce a chosen product or set of products add an element of uncertainty to the growth process. Introducing

these dynamic elements makes competition a more unpredictable process than the textbooks would have one believe.

12. Striking a balance between the static and dynamic components of competition is particularly difficult for developing countries in today's globalizing world, where the gaps - whether measured in terms of income, productivity performance or technological capacities - are greater than ever, and where small market size, limited availability of entrepreneurs and of production inputs, outmoded technology, inefficient distribution and communications systems or poor information flows combine to create barriers to market entry. In addition, firms from newly industrializing economies usually enter mature product markets where there are well-established competitors that have already undergone a costly learning process. Initial production costs are therefore often higher than those of foreign competitors. Under these conditions liberalization needs to be managed so as to unleash creative rather than destructive forces in the economy.

13. So far, the developed countries and the newly industrialized countries (NIEs) of (North) East Asia, beginning with Japan, have been the most successful in harnessing competition to their development objectives. Differences in policies certainly characterize these economies, but central to sustaining the momentum of industrialization has, with the possible exception of Hong Kong, China, been the pursuit of policies designed to promote profits and to provide incentives to private firms to invest in productive capacity and productivity, and to compete aggressively for a greater market share both at home and abroad. To this end, government policy was oriented towards deepening and upgrading the industrial structure so as to attain a composition of manufacturing output and exports similar to that of the already advanced industrial countries, rather than towards enhancing the microeconomic efficiency of resource allocation.

14. Trade policies designed to stimulate local activity in these economies have combined various incentives and protection for industries at different stages of maturity. In the early stages of development, traditional infant industry problems required high levels of protection for local industries. However, even in these early stages, policy measures were selective with the clear aim of achieving international competitiveness, and thus closely linked to goals of industrial deepening, export promotion and technological upgrading. Moreover, since the tight restrictions on some imports were accompanied by low or zero tariffs on others, the average tariff rate and overall coverage were quite low.

15. Trade policies were complemented by policies to increase rapidly the rate of savings and investment. Countries in East Asia, with the exception of Hong Kong, China, used fiscal instruments, such as tax breaks, special depreciation allowances and the deferment of tax payments on profits, to increase corporate profits and to encourage retentions in order to accelerate capital accumulation. Such policies also played a catalytic role, since banks were more willing to make loans for investment qualifying for accelerated depreciation allowances.

16. In addition, profits were raised above levels that would have been attained under free-market conditions, through a combination of selective protection, controls over interest rates and credit allocation, and managed competition, including the encouragement of mergers, the coordination of capacity expansion,

restrictions on entry into specific industries, screening of technology acquisition, and the promotion of cartels for specific purposes such as product standardization, specialization and exports. As a result, domestic prices were allowed to deviate from international ones. This was particularly true in Japan, during its catch-up period, and in the Republic of Korea and Taiwan Province of China - the three economies where the international competitiveness of national firms was steadily built up and industrial deepening proceeded furthest.

17. The Japanese model of managed competition evolved after the Second World War. From an early stage measures aimed at sequencing new entrants and coordinating production capacity were employed to achieve scale economies and to deter excessive competition. The initial monopolistic position, which allowed firms to earn high profits from which they could build a strong investment strategy, was subsequently modified so that additional entrants would emerge. As industries became more sophisticated, liberalization measures were used to strengthen financial and technical capabilities, but these were complemented with supervised merger activity, as for example with steel production in the late 1960s, so as to ensure that scale advantages were not lost.

18. Similar practices were followed in the rapid industrialization drives elsewhere in the region. In the Republic of Korea, entry restrictions were used in the late 1960s and 1970s to promote specific industries, and capacity expansion was also regulated. In the Industrial Development Law (enacted in 1986) further measures were taken to prevent “excessive competition” among domestic firms supplying both local and foreign markets. This approach created additional profits (to be used for investment) from sales on domestic markets made possible by protection made conditional on export performance.

19. In Taiwan Province of China, where large firms have been a less prominent feature of the economic landscape, cartels have been used to regulate output and exports for a series of key products. Here, the accumulation of above-free-market profits was linked to exporting by tying the allocation of import licences to export performance, a practice which ensured that those obtaining the windfall profits from importing scarce commodities were at the same time contributing to the economic success of the country by exporting.

20. Managed competition extended to the entry and activity of foreign firms. Japan excluded FDI and looked for alternative ways of accessing foreign technology and know-how. In the Republic of Korea, where government measures to upgrade were focused on strengthening domestic capabilities, restrictions on FDI were commonly used to protect domestic conglomerates. However, the selective use of FDI did play a role - actual and potential - in disciplining domestic firms. FDI played a somewhat greater role in Taiwan Province of China, but here too there was a clear preference for promoting indigenous enterprises and enhancing domestic capabilities. In these economies, successful upgrading has recently allowed a more liberal approach to FDI, in line with their higher levels of industrialization and the emergence of their own TNCs.

21. Most of these measures were applied, in a deliberately concerted way, to specific industries at particular moments in time. They did not just reallocate given resources among various sectors, but also significantly increased the overall

rate of accumulation in a number of ways. Firstly, in promoting investment in industries with greater potential for learning, scale economies and productivity growth, the policies served to raise the average rate of return on investment, and hence total profits, thereby stimulating capital accumulation. Secondly, the overall rate of capital accumulation was raised as the result of forward and backward linkage effects that these favoured sectors generated for the rest of the economy. Finally, the policies also contributed to growth by easing key macroeconomic constraints on capital accumulation, including particularly the balance of payments constraint on capital goods imports.

22. A number of factors account for the successful management of “super-normal” profits in East Asian NIEs in accelerating capital accumulation and growth, compared with other developing countries that pursued similar policies. First, the profits were achievable through productive activities which served broad national interests, and governments acted to close off non-productive channels of wealth accumulation. Second, the provision of fiscal subsidies and the realization of these profits were related to performance standards. Significantly, the reciprocity between government support and private sector performance entailed a faster rate of capital accumulation and growth. This was not only because support was often provided in exchange for higher investment, but also because better export performance as a measure of the quality of investment necessitated faster accumulation in order to raise competitiveness through adaptation of new technology, scale economies, learning and productivity growth.

23. Effective implementation of such policies in East Asian NIEs depended crucially on building appropriate public and private institutions. Creation of a strong bureaucracy based on the principles of meritocracy, continuity and insulation from day-to-day political pressures played a major role in establishing an effective government-business network needed to ensure reciprocity. Formal and informal links with peak business organizations, as well as sectoral ties, were instrumental in the design, implementation and coordination of policy measures.

24. A corporate structure based on large, diversified business groups and concentration of ownership in the hands of a small number of inside investors, together with a close relationship with banks, has allowed enterprises to take a long view and hence to establish a pattern of corporate governance which has not been pressured by considerations of short-term profit goals. Such forms of business organization and ownership provided especially effective institutional arrangements under conditions of scarce endowment of capital, entrepreneurship and skill and of inadequate and imperfect information. They helped overcome coordination problems in investment decisions; facilitate exchange of information and reduce risks and uncertainties surrounding investment projects; and internalize economies of scope and realize interrelated investment opportunities by encouraging firms to create externalities for each other as well as provide cross-subsidies in financing infant industries and R&D. Similarly, the internal capital market organized within banks and firms served to reduce the borrower's risk and to lower the cost of investment and the rate of return required by investors to undertake investment.

25. These conclusions provide an answer, for the countries considered, to the question “How have some developing countries succeeded in achieving competitiveness in specific sectors or industries, and what policies were conducive to success?”

They also suggest that - again for these countries - the answer to the question “Was exposure to international competition sufficient or were active policies for the promotion of competitiveness also necessary?” is plainly that exposure was not enough and that competition was managed. Other country experiences could offer some other lessons. The specific cases considered above also provide elements of an answer to the questions “What has been the role of competition law and policies in establishing necessary conditions for successful integration of developing countries and economies in transition in global markets?” and “Has success in achieving international competitiveness had positive consequences for employment, growth and development?” for the countries considered. The High-Level Segment will need to discuss whether these observations and conclusions can be carried over to other countries in the new context of a globalizing and liberalizing world economy.

III. Globalization and marginalization

26. Another question which the High-Level Segment will need to address is “Has the risk of marginalization facing the least developed countries and other structurally weak or vulnerable economies been increased by the process of globalization, and if so, what can such countries do to accelerate growth and development?”

27. The processes of globalization and liberalization have opened up many new opportunities to developing countries for the expansion and diversification of their economies, as well as for world-wide prosperity through increased scope for broadening the international division of labour and improved factor mobility. Some developing countries have been able to benefit from this situation. However, integration is not a one-way phenomenon; it may sometimes be reversed, and it may coexist with a parallel process of marginalization. The concept of marginalization is extremely complex, and many attributes could be used to characterize the phenomenon. At one level, marginalization can be seen as a social condition, referring to disadvantaged groups within individual societies. At another level, it can be considered as an economic phenomenon affecting entire countries which jeopardizes their economic and development prospects and which makes it difficult for affected countries to reap the potential benefits that increasing integration could bring them.

28. In the intergovernmental context of UNCTAD, primary attention is paid to the marginalization of countries. Given the liberalization of economic and trade regimes in recent years, a natural way to characterize such marginalization is via the degree of a country’s integration into the globalizing world market-place. Such countries generally have a number of defining characteristics. One is that they have been unable to diversify their economies to any significant extent over the past two decades and thus continue to experience very high commodity dependency. The declining importance of primary commodities in world trade, combined with these countries’ loss of market share in world primary-commodity markets, puts them in a weak position to benefit from globalization. Changes in the sectoral composition of world output towards less commodity-intensive service sectors, combined with technological advances making for less raw material use per unit of output, appear to foreshadow a continuing long-run decline in the prices of primary commodities relative to those of manufactured goods. Without success in diversifying their

economies, therefore, these countries are thus likely to find their relative position continuing to worsen.

29. Second, both FDI per capita and FDI as a share of GDP are very small, and in many cases FDI is declining in these countries. Indeed, there is a well-recognized tendency for capital, technology and skilled labour to be increasingly concentrated in the richest and more dynamic economies of the world. If it is correct (as many believe) that technological development has significant positive externalities, this “concentration” feature of globalization could become self-reinforcing, and thus a further barrier to these countries’ attempts to attract FDI, so necessary for the development of internationally competitive industries.

30. Third, many social indicators are highly correlated with marginalization: such indicators as life expectancy, infant mortality, per capita availability of doctors, literacy rates, average length of schooling and number of telephones per capita all show dramatically lower levels for these than for other countries.

31. To what extent is the marginalization noted above the result of globalization? The answer to this question is complex. What can be said is that rapid import liberalization will have difficulty in enhancing productivity and promoting competitiveness when the industrial structure is weak. The ability of the domestic industries of weak economies to respond to competition is impeded by inefficiencies which are due to inappropriate technology, obsolete equipment, inadequate infrastructure and support services, and previously excessive levels of protection. Although in due course import liberalization will have dynamic positive effects on growth and employment, in the short run there is a risk of the failure of inefficient domestic firms, with the attendant social costs if workers lose their jobs and cannot shift immediately to produce static efficiency gains from more productive employment elsewhere.

32. Nor is an across-the-board import liberalization necessary for promoting investment and exports. The examples of successful export-oriented development strategies in East Asia described in section II above show not only that firms must first be strongly established in domestic markets but also that export success preceded, rather than followed, the adoption of import liberalization policies. While it is essential to ensure that exporters have access to raw material and other inputs at world prices, mechanisms such as duty drawback or export retention schemes can be effectively utilized for this purpose. The institutions needed for the effective functioning of such schemes have not been established in the countries that risk marginalization. Instead, emphasis has been placed on general import liberalization as a way of promoting efficiency and competitiveness in traded goods sectors.

33. Globalization and the accompanying liberalization have also had other consequences for the structurally weak economies. Thus, trade liberalization in these countries was initially accompanied by real currency devaluations to avoid a sharp deterioration in the balance of payments. Since the real exchange rate is a key variable affecting investment under an outward-oriented development strategy, it is all the more important to secure its stability by exercising appropriate control over liquid capital flows. However, with the liberalization in the 1990s of both current and capital accounts, Governments have been seriously restricted in

their ability to manage exchange rates in a way conducive to export expansion. Moreover, the debt-servicing requirements of the serious debt overhang from which most of these countries suffer create a constant drag on their ability to finance the infrastructure and trade-related services which are so necessary to effective competition in the globalized economy.

34. Further, the formation and the expansion of regional trading arrangements (RTAs), most of which do not include the structurally weak economies, have created more risks for these economies. RTAs provide preferential market access to their own members, and hence discriminate against non-members. The growth of RTAs has accelerated in recent years, with new RTAs (such as NAFTA and MERCOSUR) being established, others expanded (e.g. the EU) and formal links being established among certain existing RTAs, so that RTAs cover an increasingly large share of world trade potentially discriminatory against the excluded countries.

35. Of course, in principle the least developed and other structurally weak countries have access to other measures that can promote exports, particularly non-traditional exports. In the absence of selective export promotion policies, competitiveness depends on the behaviour of real wages and the real exchange rate, as well as on productivity growth. Productivity can improve via growth based on high and rising rates of investment associated with rising employment, and via a one-off increase in labour productivity associated with static efficiency gains resulting from labour-shedding under conditions of stagnant or declining investment. A sustainable improvement in export performance requires not only productivity growth based on rising investment rates, but also policies that ensure that real wages do not increase faster than productivity growth, and that the exchange rate is maintained at a stable and competitive level. Unfortunately, in most of these countries, real wages have already been considerably depressed, and hence there is very little scope for further reducing real wages in the interest of competitiveness. Furthermore, as already noted, the scope for an active exchange rate policy is being narrowed by financial liberalization. This leaves the least developed and other structurally weak countries with a policy conundrum, which the High-Level Segment might wish to address.

IV. Electronic commerce and the future of competition in international trade

36. The advent of electronic commerce constitutes a new challenge to thinking about competition and competitiveness in international trade. In many respects, the strategies followed by the organizations and enterprises involved in the activities pertaining to the broad field of electronic commerce foreshadow the ways in which competitive (and sometimes anti-competitive) behaviours may shape global markets in the years to come. For smaller players (including many developing countries - especially the least developed countries - and, more generally, small- and medium-sized enterprises) electronic commerce could offer new ways of competing in foreign and international markets. At the same time, the simple fact that electronic commerce cannot take place in the absence of minimal telecommunications infrastructure raises direct questions of access for such smaller players, as well as for entire regions, such as Africa. Over the last four months, several major players (the United States, the European Union, Japan and the OECD) have made their

positions public about what could be a “global framework for electronic commerce”. The High-Level Segment thus offers a timely opportunity to examine the development dimension of this debate, and to propose some avenues for action in this regard.

37. Electronic commerce is a domain where the neo-Ricardian theory of international trade finds its first real-life applicability: transaction costs are minimal, and information is symmetrical and widely accessible. This is why some analysts have described it as “friction-free capitalism”, while others have preferred to consider it as a “post-capitalist model of competition”. From an analytical point of view, electronic commerce has the following three characteristics: (i) it is an information-intensive (and hence technology-intensive) way of conducting trade; (ii) it entails minimal (sometimes nil) transaction costs; and (iii) it provides greatly increased mobility of some production factors. Electronic commerce can thus be both an instrument of further integration of smaller players in global trade, and a factor of further marginalization for some others. The cost of entry to international networks would be the discriminant factor.

38. Another characteristic of electronic commerce *vis-à-vis* competition relates to the fact that it involves the cooperation of a large array of players, including hardware manufacturers (e.g. telecommunications equipment, computers), software producers (e.g. operating systems, encryption software, web browsers, databases, intelligent agents), generic service providers (e.g. telecommunication carriers and operators, Internet service providers, trade brokers) and sectoral service providers (e.g. customs, banks, transporters, insurers). In this complex environment, many strategic alliances are woven on a daily basis, and constitute a permanent challenge to regulators and competition agencies.

39. In the area of policy, electronic commerce is still largely uncharted territory. For some of its most active participants, this is an asset, since it will allow rapid development of international electronic trade flows with a minimum of legal, regulatory and fiscal obstacles. Others, on the contrary, consider that electronic commerce will not yield its full benefits unless some rules of the game are established to make it a truly global instrument for economic growth and development. In this context, some of the main policy issues which could be addressed are the following:

- Access - how can electronic commerce be rendered accessible to all, and in particular to the less advanced regions of the world? How could decreasing costs in telecommunications be better geared to LDCs’ participation in global networks? What is the status of ongoing efforts to “better connect Africa”? How are new developments (such as the launching of Low Earth Orbit satellite systems (LEOs)) likely to affect them?

- Trade negotiations - how should the multilateral process aimed at further trade liberalization deal with electronic commerce? Following the conclusion of the Information Technology Agreement in Singapore (December 1996), WTO members proceeded to successfully negotiating the Agreement on Basic Telecommunications Services (Geneva, February 1997). As discussions on trade in financial services continue, and as the “new issue” of trade facilitation starts being actively explored in the WTO, electronic commerce appears more and more as a “missing link” in the ongoing multilateral process.

- Competition laws - how should existing regulations on competition be amended to take account of the advent of electronic commerce? For instance, electronic presence is much easier to obtain than physical presence on any given market or territory: how does this simple fact affect the current notions of contestability of national markets?

- Intellectual property - how should intellectual property rights (IPRs) be reconsidered in the light of the possibility of transferring and selling instantaneously massive amounts of information and data practically anywhere in the world? How can intellectual property be effectively protected in such a world?

- Payments - how can governments and relevant monetary authorities monitor money creation in the age of electronic payments? As electronic instruments of credit, credit guarantee and payment start to be used on a global (i.e. extra-territory) basis, without being necessarily linked to any specific currency, who can exercise the relevant macroeconomic authority and control over such flows?

- Taxes - how can fiscal authorities levy taxes and duties on electronic commercial flows? And should they? In a majority of developing countries, import duties account for the largest share of government revenues: how are such revenues going to be affected by the expansion of electronic commerce, and how would a “tax-free Internet commerce” (such as proposed by the United States) affect the income of these countries?

- Security - how can participants in an electronic transaction be guaranteed the confidentiality and integrity of the information and data transferred? How to combine the necessary confidentiality of commercial transactions (including through encryption of messages) with existing rules on export control or competition?

- Governance - how can global infrastructure for electronic commerce (such as the Internet) be adequately governed without hampering the expansion and development of electronic commerce, especially in the less developed parts of the world? How does the current debate on Internet domain names affect this issue?

40. The issue of setting up a global framework for electronic commerce is of specific importance to the players with relatively low levels of information infrastructure, such as the LDCs and the African continent in general. Experiences in a significant number of LDCs show that access to global information networks can be offered at relatively low cost. They also show that the latest and most sophisticated tools for electronic commerce are often among the easiest and simplest to use, and that their cost is constantly diminishing. UNCTAD has even demonstrated, with its “Trade Point Incubator”, that LDCs with no Internet access

could have an active Internet presence. The possibility of participating in electronic commerce is of particular importance to island and land-locked LDCs, for which transport costs are often prohibitive. Recent experiments carried out by UNCTAD’s Trade Point programme have shown the potential of electronic commerce tools for LDCs exporting services such as tourism.

41. In many LDCs and African countries lacking the “critical mass” of consumers necessary to attract foreign capital to the financing of their telecommunications infrastructure, electronic commerce offers an avenue where significant returns on investment can be anticipated. Because of the polyvalence of the necessary infrastructure, electronic commerce can contribute to endowing poorer countries with important communications tools and equipment for education, health and government. The new perspectives offered by LEOs could provide opportunities for the development and integration of LDCs, as well as of the African continent as a whole. It should be kept in mind, however, that in poorer countries, even more than in other parts of the world, electronic commerce will become a contributor to external competitiveness only if these countries are in a position to leapfrog to the underlying technologies and corresponding *modus operandi*. This will require imaginative approaches to the financing of such leapfrogging, including through human resources development. Successful examples such as those of Grameenphone in Bangladesh are an encouragement in this context.

42. Recently, a number of major players have taken initiatives in regard to electronic commerce, including the United States, the EU, Japan and the OECD. So far, however, the development dimension has been remarkably absent from the debate on electronic commerce. Many of the proposals made could indeed be considered as positive ones regarding the development process in developing countries, and in particular in the least developed countries. However, in the absence of development-specific thinking and analysis of the various options available, it remains difficult for these countries to express active support for a positive agenda on global electronic commerce.

43. The High-Level Segment offers a timely opportunity to fill this gap. Discussion could in particular focus on measures to enhance the access of less advanced regions, including Africa and the least developed countries, to electronic commerce and its underlying technologies and know-how.
