Expert Meeting on Assessing the Impact of Public-Private Partnerships on Trade and Development in Developing Countries
Geneva, 26 March 2013

Opening statement by the Deputy Secretary-General of UNCTAD

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Mr. Chairman,
Excellencies,
Ladies and Gentlemen,

It is a great pleasure for me to welcome all of you to this Expert Group Meeting on the "Impact of Public-Private Partnerships (PPPs) on Trade and Development". The merits and demerits of PPPs, as well as the questions of their best possible design and modes of operation have attracted the attention of policy makers for several years now. As you are aware, the category of PPPs encompasses a broad scope of arrangements involving public and private sector agents in many different industries. Originally, most attention was given to their potential role in the facilitation of large infrastructure projects, but policymakers have increasingly been examining their use in other sectors, as well.

Given the breadth of the topic, we have sought to focus our discussion of PPPs to the slightly more limited, and yet most important to my mind, issue of their potential impact in helping small and medium-sized enterprises (SMEs) participate in Global Value Chains (GVCs).

The use of Global Value Chains is becoming an ever-more prominent feature of the international production landscape. Aided by falling transport and transactions costs, more and more international companies are slicing their production processes into ever-finer steps, and are locating each step where it can be completed most efficiently. Participation in such global value chains, by attracting FDI or becoming a key supplier feeding into the chains, holds significant potential benefits for developing countries, including new technologies, skills and know-how, as well as access to global marketing networks and new export markets. And indeed, several developing countries, mainly in Asia, are already well-integrated into such GVCs. According to UNCTAD's database, the developing countries' share in global value added trade has been increasing steadily since the 1990s.

However, many developing countries still face significant challenges in trying to integrate into such GVCs. One of the key challenges is that local firms and SMEs do not manage to establish links with large firms or TNCs, because they lack crucial technology or supply capacities to meet the standards and requirements of TNCs. In addition, many local enterprises face inadequate transport or energy infrastructure, hampering their ability to become competitive suppliers to international companies.

And the challenges do not stop there. Even those companies that have managed to integrate into a GVC will need to continue to upgrade their skills and productive capacities. This is necessary not only to keep up with the changing needs of the TNCs, but also to ensure wider development gains from trade. For a developing country, mere participation in a GVC by competitively completing one small step in the overall production process still carries a long term risk of being caught in the "middle income trap".

Governments in developing countries should therefore aim to strengthen the productive capacities of domestic suppliers, particularly in producing higher value added goods and services. Towards this goal, as indicated by the Issue Note prepared by the Secretariat, two sets of policies play an important role.

The first set aims at helping developing countries' SMEs increase their capabilities to participate in global value chains. Another set aims at assisting those that are already in the chains to be upgraded to produce higher value added inputs (e.g from parts and components suppliers to original equipment manufacturers).

In the past, many governments have used policies such as local content requirements and restrictions on expatriate managers to create better linkages between investors and the local economy. The approach of many Governments has now shifted to working in partnership with the private sector, including through PPPs. These partnerships can facilitate the building of local supply and value-addition capacity of small and medium-sized enterprises in order to engage and scale-up effectively in GVCs. As observed in the terms of reference for this expert meeting, this is particularly true in the mining and agribusiness sector, where PPPs can strengthen poor communities by building local productive capacity. The background note by the UNCTAD secretariat provides a number of concrete examples of successes in this area.

Making productive linkages happen under market conditions and in compliance with the WTO's TRIMs agreement, or using mechanisms to support TNC supplier-development programs on a voluntary basis are some of the new challenges. In this framework, the role of government mostly consists in removing the obstacles to greater interaction between large and small as well as foreign and domestic firms. These obstacles include both the "information gap" on the part of buyers and suppliers about linkage opportunities and the "capability gap" between the requirements of foreign affiliates and the supply capacity of local firms.

In this respect, many lessons can be learned from UNCTAD's technical assistance programmes, aimed at supplier upgrading, such as EMPRETEC, and at promoting TNC-SME business linkages. The *UNCTAD Business Linkages Programme* is a multi-stakeholder initiative that seeks to design and implement measures, incentives and strategies to transform TNC-SME linkages into sustainable business relationships that improve the performance, productivity and efficiency of entire industries.

A major focus of the programme is on empowering project partners to undertake business linkage activities above and beyond the life cycle of individual projects. Key stakeholders include transnational corporations, investment promotion agencies, business associations, local banks and business services providers, relevant government departments, and SMEs. As demonstrated by our field work, sustainable linkages do not always happen automatically as a direct consequence of the presence of TNCs. Attracting FDI strategically helps, as does strengthening the local absorptive capacity and developing domestic SMEs suppliers. Linkages policies need to be carefully designed: investment policies should provide for an enabling environment to build mutually beneficial linkages with lead firms of global value chains, to enhance the positive impact of FDI on the local productive capacity.

Ladies and Gentlemen,

The objective of this meeting is to highlight how PPPs might help small enterprises find their place in global value chains, what are the main constraints and opportunities and what the focus of policies should be to ensure the transformation of local suppliers into global suppliers. We look forward to learning from your first hand experience and the good practices of your countries.

I would like to encourage an active participation and debate in this Expert Group Meeting, to reflect on ways in which UNCTAD can continue helping developing countries to enhance the competitiveness of their small and medium-sized enterprises and their participation in global value chains. I also hope that this meeting provide a useful contribution towards the development of our inventory of good practices and policies aimed at addressing the challenges faced by developing countries' SMEs.

I wish you all an interesting and engaging discussion.