



**United Nations
Conference
on Trade and
Development**

Distr.
LIMITED

TD/B/COM.3/L.27
14 January 2004

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Commission on Enterprise, Business Facilitation
and Development
Eighth session
Geneva, 12–15 January 2004
Item 3 of the provisional agenda

**IMPROVING THE COMPETITIVENESS OF SMEs THROUGH ENHANCING
PRODUCTIVE CAPACITY**

Chairperson's summary

1. A representative of the secretariat introduced the key substantive issues for the Commission to discuss under the agenda item and emphasized their relevance for UNCTAD XI theme II on "Building productive capacity and international competitiveness". She also presented the issues note "Policies and programmes for strengthening SME competitiveness" (TD/B/COM.3.58), prepared by the secretariat, which sets out the key areas of enterprise policy that have been examined by the Commission since UNCTAD X and provides concrete policy options on them.

2. The report of the Expert Meeting on Policies and Programmes for Technology Development and Mastery, including the Role of FDI was presented by the Chairperson of the Expert Meeting. The meeting examined policies and programmes that Governments could consider in order to improve competitiveness and to upgrade their technological development. It found that key drivers are governance, skills, technological effort, technology transfer and infrastructure. Only a handful of developing countries, most of which are located in East Asia, have improved their standing relative to other countries. There is, however, no single East Asian model that encompasses all the countries of the region. All possible variations and approaches in terms of government strategy and levels of intervention can be found in East Asia. Nevertheless, the following factors were identified as critical for the success of East Asian economies: (a) the vision and commitment of the Government; (b) skills training; (c) attracting export-oriented foreign direct investment (FDI); (d) support for local industry; and (e) local technological efforts in terms of research and development (R&D). The critical question was what lessons could be learned by other developing countries from the success of the East Asian

economies. It was concluded that the principles underlying the success of Asian countries provide important guidance to policy makers in other countries, even if they cannot be automatically replicated.

3. Another aspect that the Expert Meeting considered was the related question of how entrepreneurship contributes to competitiveness. A survey by Global Entrepreneurship Monitors on entrepreneurial activity found that countries differed greatly with regard to the level of entrepreneurial activity, with developing countries often leading the way compared with developed countries. The survey distinguished between two types of entrepreneurs: opportunity entrepreneurs and necessity entrepreneurs. The latter became entrepreneurs because they had no other means of earning their livelihood, while the former identified business opportunities and pursued them. There were also "high potential entrepreneurs", namely entrepreneurs who aim to achieve high levels of growth for their business. The results of the survey showed that although such entrepreneurs are very rare, they play a very important role in creating new jobs, sales and exports and also have an important role in pushing the country up the technology ladder. One of the conclusions of the discussions was that it is important for policy makers to distinguish between the different types of entrepreneurs and to design different types of policies for them.

4. The Expert Meeting also discussed the interface between technology policies and WTO commitments. What emerged from this discussion was that very few of the policies considered were completely immune to countervailing measures, especially if they resulted in increased exports that affected someone else's market. It was therefore important that developing countries become more active in the different forums of the WTO so that their concerns are taken into account when trade rules are discussed.

5. The report on the Expert Meeting was followed by an interactive panel discussion on national competitiveness policies and international commitments. The first panellist discussed the enhancing of enterprise development and competitiveness in Mauritius. The country has managed to diversify its productive sector to new areas through a range of incentives and support schemes for small and medium-sized enterprises (SMEs) the key elements of which are the following: low corporate tax; preferential loans to enterprises through the Development Bank of Mauritius; a reduced rate of interest and the possibility of introducing an interest bonus scheme for SMEs; grant schemes for potential entrepreneurs for feasibility studies; export support schemes to assist SMEs with regard to overseas fairs/marketing; a training refund of up to 70 per cent of expenditure; grants for R&D projects; reduced cost of international calls and the Internet after liberalization of the telecommunications sector; issuance of temporary work permits to overseas workers in selected sectors; setting up of a Textile Emergency Support Team (TEST) to help textiles enterprises improve in areas such as production, marketing, finance and strategic planning; streamlining of permits required for the launching of new enterprises; the Export Credit Guarantee Insurance Scheme to boost exports, particularly to difficult markets in the countries of the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA); and increased focus on SMEs with the creation in December 2003 of a ministry responsible for them. Moreover, the continued economic development of Mauritius depends to a great extent on the WTO's recognizing that small island economies should be treated differently.

6. The next panellist discussed the role of SMEs in WTO law and policy. He noted that WTO rules are generally neutral and supportive of SMEs, but could be further developed in a number of areas, such as technology development and finance, especially with regard to non-actionable subsidies; the agricultural sector, especially with a view to creating framework conditions for niche products, such as protection of geographical indications and protection of traditional knowledge;

competition rules; government procurement; and trade facilitation. He noted that from a traditional trade policy perspective, subsidies are per se considered distortive, but from the point of view of innovation, they are important for remedying market failures in R&D. R&D assistance is subject to actionable subsidies. Public financing is possible, but subject to complaint in the event of trade-distortive effects. This results in a lack of legal security and the possibility of procedural harassment. Therefore, Governments could consider going back to the “traffic lights” approach with regard to the Agreement on Subsidies and Countervailing Measures. He also highlighted the Agreement on Agricultural Subsidies (Annex 2) as a good example of ways of providing subsidies in other sectors too. Finally, he encouraged developing countries, particularly least developed countries, to revise their views relating to the so-called Singapore issues, which could be beneficial for their development.

7. The third panellist provided comments on the report of the Expert Meeting and on the issues note prepared by the secretariat, and made some suggestions with regard to UNCTAD’s future work. He noted that in addition to WTO law and policy, other international norms had an impact on SME competitiveness, and singled out the proposed Basel II Capital Accord of the Bank for International Settlements. He noted that estimates in Asia indicated that the costs of financing for SMEs could increase dramatically. With regard to future work for UNCTAD, he said that business skills development for SMEs should be continued, particularly under the Empretec programme, and expanded to combine business development services and financial services for SMEs and SME and large-enterprise ventures. UNCTAD’s work could also focus, within FDI policy analyses, on how far business linkages and local firms, including SMEs and SME clusters, could have access, with the support of public authorities, transnational corporations and providers of business development services, to cost-effective incentives for upgrading their production capacities.

8. In the discussions that followed more details were requested to explain the success of Mauritius. Questions were also asked about how the balance between FDI and local enterprises had been achieved in Mauritius and what specific government actions it required. One delegate questioned the feasibility of interest bonus schemes since they distorted markets. With regard to WTO Agreements, some delegates noted that developing countries were hesitant to engage in negotiations on competition policies and other Singapore issues as the outcome of these negotiations was unclear and there was a fear that they could further reduce policy space.

9. The briefing on Empretec focused on the work carried out by the Empretec coordination unit in Geneva after the external evaluation requested by the Working Party had been presented. In September 2000 a team of external evaluators had provided a set of recommendations in order to improve the effectiveness of the Empretec programme and to better meet the expectations of programme stakeholders. In particular, the evaluation report recommended that two issues of strategic importance be focused on: operational (financial) sustainability and international networking. The Empretec team had therefore undertaken the following actions: updating of the training methodology; organization of international meetings; diversification of the portfolio of services; and development of the Empretec Management Information System (MIS), a web-based software program for benchmarking national Empretec programmes, companies and participants (www.empretec.net).

10. Thanks to the MIS the Empretec programme can now rely on a verified database of Empretec companies, on a continuously updated roster of national trainers, and on initial data for assessing the performance of the Empretec Centres and for monitoring the impact on the beneficiaries. The MIS will still require constant and continuous efforts by the team in Geneva to keep the system updated. Additionally, ongoing monitoring and requesting of data from the country programmes are required, especially if reports on performance and impact assessment are to be periodically prepared and presented to donors, representatives of other international organizations and Empretec directors for

mutual learning and transfer of best practices among programmes. The national director of Empretec Zimbabwe, who was present at the meeting, confirmed that data on impact assessment are now crucial for both internal management purposes and external fund-raising.
