

BUSINESS FOR DEVELOPMENT: IMPLICATIONS FOR EXPORT STRATEGY-MAKERS

HAITI

A QUEST FOR COMPETITIVENESS

(With special references to the least developed economies as they relate to the turbulent world trade environment)

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BRIEF INTRODUCTION

It is a great honor for us to participate on behalf of our country in this gathering to share with you our views on the prospects for growth in the international trade of the least developed economies in the midst of the ongoing globalization and the trade liberalization process. Our remarks are formulated by taking into consideration the selected theme of this year's debate that is *Business for development: Implications for export strategy*. This paper is somewhat a quest for enterprises based in least developed countries (LDCs) to improve their productivity and efficiency in existing industries and for these economies themselves to provide favorable business environments that are conducive to entrepreneurship and private risk-taking ventures.

REDEFINING THE CONCEPTS OF INTERNAL MARKET AND PROTECTIONISM

The convergence of national economies towards globalization has changed the content of the concept of internal market that has taken a new meaning. Indeed, the scope of national market that is virtually used to being confined within the frontier of individual country now extends, at least theoretically, to the scale of the universe.

At the same time, the notion of protectionism has been implicitly redefined, as a result of the world trade new order. Henceforth, the best protection firms can provide for themselves are their competitiveness; that is their ability to be, at the very least, as efficient as their counterparts in the global market. Therefore, to be successful, they need to incorporate the very best technologies available to their industries and to be creative in order to acquire the competitive edge they require to outperform their competitors in the global market.

TEHNOLOGICAL CHANGE AND INNOVATION CHALLENGES

The difficulties of such achievements lie in the national business environments of LDCs that are far from being supportive of technical mutation and innovation in the absence of:

- sufficient high quality and specialized inputs, such as: skilled labor, cheap capital and efficient technologies;
- strong institutional tradition and medium term policies and/or strategies conducive to investments coupled with intense and robust competition among firms and within industries;
- dependable local suppliers and related companies, namely in essential services like: power and water generation and telecommunications facilities, etc.;
- clusters as opposed to isolated enterprises or industries.

COMPARATIVE AND COMPETITIVE ADVANTAGES OF LDCs OVER TIME

The LDCs have been hitherto mostly factor-based economies. Their comparative advantage has been primarily driven over time by basic factor conditions, such as: cheap labor, natural resource endowment, other than petroleum, strategic location¹, etc. As a result, they have been showing for decades great interest in activities like: metal extraction (gold, copper, bauxite, etc.), agribusiness (coffee, cocoa, sugar cane, tobacco, tea, spice, fruit and vegetable, etc.), cement, textile and clothing industries that allow them to make intensive use of the production factors they possess in abundance. The LDCs have also been capable of producing relatively simple industrial articles, whose designs have often been conceived and developed abroad. Unfortunately, the extensive exploitation of natural resources in some LDCs have contributed to alter dramatically their physical environments and biodiversities and, thereby, to jeopardize the prospects for sustained economic growth and poverty alleviation.

Based on the high level of poverty preventing most LDCs from using extensively chemical inputs (fertilizer and pesticide) in agriculture, they have de facto the potentialities for developing sound bases for organic production and export. Nevertheless, to take advantage of this growing international market, each country of that group has to position itself as a credible producer, in implementing certification mechanisms and procedures to ensure that goods are produced and processed in conformity with world-class standards applicable in biological agribusinesses.

STRATEGIC RESPONSES TO POOR BUSINESS CONTEXT

In today's international market geared towards market segmentation, product differentiation, technological variance and scale economy, LDC-based companies can hardly attain competitive levels of productivity and efficiency by just relying on factor endowment strategies. Governments and business communities from LDCs need to make courageous decisions and the crucial strategic turn to take the economies to the positions where they become less sensitive to fluctuations in good or commodity prices, exchange rates and terms-of-trades.

In order to win the war on poverty, the LDCs have to create favorable home base conditions for existing and newly created companies to extend their capabilities in the value chain of production. They do not have to attempt to reinvent the wheel, but only to take a technological shortcut. This goal is attainable in three (3) different ways²:

¹ Haiti is now perceived by foreign investors, mainly from USA, South Korea, Taiwan and Dominican Republic, as a platform to conduct competitive businesses based on low-cost labor or simply as a springboard to enter larger markets that provide preferential trade treatment to the LDCs. Nowadays, it is largely on demand, as a location for free zone, export assembly, mainly clothing or garment industry.

² Foreign direct investments - whether equity or non equity, strategic alliances, regional and international cooperation - appear to be capable of offering in the short and medium run a better shortcut perspective. They have the potential to deliver on three major aspects that are vital to growth in the international trade of the LDCs: market access, risk capitals and efficient technologies. Only matter the business conditions that need improving in most LDCs so that they become more attractive to foreign investors.

- assimilating or adapting foreign technologies and corresponding know-how through licensing, technical assistance contract, etc.;
- using foreign technologies as models or reproducing them in order to meet LDC specific needs;
- creating conditions favorable to foreign direct investments (FDI).

Individual firms may, just on the improvement of the technologies they use to perform and compete in their respective markets, undertake to give strategic responses to the challenges inherent to national business environments. In that respect, Haiti has known some success stories of firms that have been able to develop autonomously the ability to achieve high level of productivity and efficiency.

A distillery “*Successeurs de Jean Gardère & Cie*”, established in Haiti since 1862, has been capable of adapting its capacities over time to the dynamics of the world demand to supply, under the brand *Barbancourt*, a unique variety of rum highly appreciated around the world. In the same order of ideas, the business people affiliated to the national association of mangoes exporters have been selling for years in the US market a mango called *Francis* that is unique in its kind. They are now making plans to diversify with the introduction of new varieties of mangoes and the capture of other lucrative markets. On the other hand, the Haitian tobacco and pharmaceutical industries have been capable of competing with the world most successful companies of cigarettes and laboratories.

In the essential oil industry, *Agri Supply-Frager* has taken steps to increase its capacity and performance in distillation. This enterprise that is, for the time being, ranked world first producer and exporter of vetiver oil has almost tripled its capacity of production and reduced the distillation process to merely four (4) hours. Such a technological innovation gives it a considerable competitive advantage to outperform its competitors, whether foreign or locally based, that continue to operate on the basis of a thirty-six hour distillation process.

However, competitive advantage being a dynamic concept, firms that have reached relatively high levels of performance and efficiency need to keep upgrading their methods of production and improving the quality of goods they release in the markets. From that standpoint, *Agri Supply-Frager* has envisioned to work with an internationally well-known Haitian artist (painter and sculptor) to explore the opportunity to gradually extend its capabilities in the value chain of production. The rationale is to make its products rather sensitive to knowledge-driven factors like painting, skillful and tasteful sculpture (small decorative containers, small paintings, miniaturized statues or figures, etc.) and ultimately to gain, through designing and marketing, a larger part of export proceeds to be redistributed in the forms of further innovation, higher prices for raw materials and wages for workers.

VULNERABILITY OF THE LEAST DEVELOPED ECONOMIES

The integration of the LDCs into the world trading system has been for decades adversely affected by supply-side constraints characterized by the dependence of these economies on narrow production and export base. Parallel to that, the lack of significant progress in the current negotiation process to reach agreements on outstanding issues (relating to agriculture, market access, etc.) also is a major common source of concern. Meanwhile, the competitiveness of LDC economies³ in the world market continue to be hampered by quota and SPS measures, particularly on meat, fish and fruit and also by developed country subsidies on cotton, which have a negative impact on the capacities of African countries like: Benin, Burkina Faso, Chad and Mali to implement successful development policies and poverty reduction programs.

On the other hand, the void in the TBT agreement concerning non trade barriers, namely: *varying national standards*, is considered as a serious impediment to LDCs' small and medium sized manufacturers willing to enter particular market segments like electronics or electrical industry.

NEEDS FOR EXPORT GROWTH POLICIES OR STRATEGIES

In order to address the *vulnerability* of their economies, LDC governments have to take at least the following set of actions:

- diagnose the actual situation of local industries to assess their needs for improvement or modernization;
- take a close look at the rapid changes occurring in the textile industry, as the date approaches for its full integration into the multilateral trade framework, in an effort to identify products for which LDCs might have comparative and competitive advantages in the international context;
- find meaningful and effective ways to create conditions for effective subsidy-free international competition on cotton and other products vital to least developed economies;
- engage in negotiations with potential donors or sponsors (bilateral agencies or donors, regional and multilateral financial institutions) to induce them to make available, through national commercial banks or financial institutions, credit lines or donation funds for the purpose of providing cheap capitals to help LDCs' most vulnerable firms or industries to restructure or modernize production structures and reformulate (if needed) strategic plans, with a view to facing fierce competition in world trading.

³ Considering the fragility of the Haitian industries that have been over-protected for years, one has to anticipate the risk to having them immediately exposed to regional and international competition. It seems that, to actually secure their chances for survival in the turbulent international trade environment and the prospective implementation of the Free Trade Area of America (FTAA), there is need for a moratorium to allow them sufficient time to restructure and modernize and, thereby, to improve their competitiveness, locally, sub-regionally, regionally and internationally.

These policy or strategy proposals are in line with current ITC's efforts to implement, through a pilot program, the Cd-rom "*The secrets of strategies template*" it has developed to help formulate national trade strategies⁴.

Beyond those measures, whose main objective is to revitalize existing local market oriented firms or industries, LDC governments need to create an overall attractive environment conducive to investment, trade innovation and technology transfer. In that regard, the followings are among the important aspects, which are worth considering:

- an operational framework for the development of basic science, research and technological capacities;
- an enabling institutional base for the emergence of national technical skills;
- a general economic environment rewarding entrepreneurship and innovation;
- a dependable legal system protecting primarily intellectual property and providing mechanisms and procedures for disputes settlement⁵ among nationals and foreigners business partners;
- a coordinated set of actions involving a core of ministries (Trade and Industry, Public Health and Agriculture, etc.) aimed at elaborating policy and procedures, implementing mechanisms or facilities for standardization, quality control and product certification;
- a policy for industrial estates to secure land tenure and to maintain rents and prices at competitive levels;
- a policy of competition⁶ accompanied with the corresponding legislation and the administrative and judicial procedures;
- an agribusiness policy taking into account the potentialities and specificities of individual LDCs for bio production and export, the land constraints and the need to ensure food security;
- a master plan for industrial development;
- a permanent consultative mechanism between the public and the private sectors on various levels: national positioning on the issues of negotiations, policy and/or strategy advocacy, agreements monitoring, etc.;

SPECIFIC STRATEGIC ACTIONS

The followings are among the issues that need to be given high priority in order to keep LDC economies in tune with the dynamic and changing international trade environment.

⁴ A formal request has been recently addressed to ITC to enlist Haiti as a participant in the pilot program aiming at helping countries to formulate their national trade strategies.

⁵ A revision of the overall business legislation is under way, within the context of the pilot phase of the Integrated framework project for Haiti, with the technical assistance of ITC. One aspect of the new legislation will be an arbitration law for the eventual settlement of disputes between native and foreign business people.

⁶ The Ministry of Commerce and Industry (MCI) of Haiti and the UNCTAD have agreed upon the principle of a technical cooperation program on competition policy. The first mission in the context of this agreement is expected to take place in the end of October or during the second week of November.

- a. **Macro-economic stability:** To start with, LDC governments need to have a clear consciousness of the importance of stable macro-economic environment for growth in investment and trade. They have to take on political, economic and institutional grounds a series of measures to show their commitments to restructuring public services, maintaining healthy public finances, stabilizing prices and exchange rates and taming inflation.
- b. **Political and social stability:** To the extent that LDC governments wish to substantially increase capital inflows, they must at first guarantee political and social stability and secondly improve the safety conditions of their countries. They also have to show greater transparency in public management.
- c. **Infrastructure:** Sustainable economic growth requires, not only reliable infrastructures but also continuous efforts aiming at improving them so that they remain attractive to the private investors. LDC governments need to put emphasis on building or renovating road networks, upgrading existing power facilities, building new ports and airports or reinforcing the capacities of existing ones, improving the telecommunication systems, etc. Besides being vital to competition in today's world market, the latter is crucial to securing and sustaining economic growth.

At the same time, it is imperative to increase the efficiency of the information system in LDCs to allow firms, whether national or affiliated to foreign corporations, to communicate in order to advantageously compete in the international market. In order to create conditions for innovation and progress, there is also need for LDC governments to establish legislative and institutional frameworks that promote rivalry as well as robust and healthy competition⁷ among firms and within industries.

- d. **Education and training:** The capital stock of an economy encompasses not just the physical infrastructure (roads, ports, telecommunications, etc.) but also the level of education, labor skills, attitudes and managerial talent. It is important to ensure good economic performance that human resources be receptive to technological changes and participate to their diffusion as well, in part by attracting, as it becomes possible, high-tech foreign investments. However, this can hardly be realized without proper improvement in health, education and training. Therefore, earnest efforts are to be made to try to reconcile the objectives of LDC governments in education with the actual needs of national business communities.

There is also need to promote productive cooperation between industries and learning institutions, as well as private sector efforts at training and retraining. On the other hand, public institutions are to be strengthened to better regulate target

⁷ In that regard, the Haitian government has to complete the modernization process of the state-owned companies to open up to the private sector and to real competition over-protected market segments as important as power generation, water supply and telephone service, etc.

market segments and work out plans and strategies to help educate and train upper and middle level staffs as well as the workforce in line with high level of competitiveness.

Standardization, technical barriers to trade (TBT), sanitary and phyto-sanitary (SPS) measures are issues of great importance for the integration of the LDCs into the multilateral trading system. However, it will not be possible for exporters from these countries to meet the corresponding requirements without proper training and technical support. They will need to build or reinforce their capacities in market and product development as well as in testing. Thus, technical assistance will have to be considered in respect of the provision of timely information on TBT and SPS agreements and other multilateral trade measures.

- e. **Technology transfer and diffusion:** Education and training being only part of the picture, LDC governments also have to create conditions that facilitate inter-sectorial linkages and encourage foreign investors, especially the targeted ones who dispose of suitable technologies to share in joint ventures their capabilities and expertise with native business men and women; namely: sub-contractors and eventually, suppliers. The only presence in LDC like Haiti of internationally well-known corporations can trigger a chain reaction that ultimately leads to substantial sequential and related investments (clusters of interrelated firms or industries) conducive to the diffusion of efficient technologies and ideas across sectors and industries for the benefit of the whole economy.
- f. **Business advocacy:** The World Trade Net Program has organized a series of events under the heading of *Business to Cancún* to enabling business people to participate effectively in the process of sharing negotiating positions to the upcoming Ministerial Conference to be held in Mexico (Cancún) in September 2003. Most LDCs, including Haiti, have been invited to take part in e-discussions held within that context. But their participation to these virtual consultations has been limited, either by the weaknesses of existing national networks or the malfunctioning of basic structures for business advocacy in respect of WTO matters.

Business advocacy has been proven a useful tool in facilitating the integration of business views in national positions. For instance, the African Growth Opportunity Act (AGOA) and the Haitian Economic Recovery Opportunity Bill⁸, which have been recently introduced to the US Congress, are perceived as good examples of the kinds of success that can be reached through cross-frontier lobbying.

⁸ This bill, if enacted by the Senate and House of representatives of the United States of America (USA) in Congress assembled, will provide to Haiti opportunity similar to that afforded to the least developed countries in Africa in allowing more flexibility in the type of fabrics that can be used to garner higher trade benefits. The ultimate objectives is to keep the economy from deteriorating, to secure political stability, investments and jobs for the growing Haitian workforce.

Although these two pieces of legislation might not guarantee a long-term perspective, they would at least highlight the effectiveness that concerted actions to promote business advocacy could achieve. Consequently, there should be continuous efforts from both private and public sectors in LDCs to build on these achievements and, by the same token, to create conditions for effective dialogue and good partnerships nationally, regionally and internationally.

The opportunities for cooperation between public and private sectors abound with the globalization process and the ongoing regional and multilateral negotiations, including the follow-up of Cotonou Agreement. The issues raised from every context open up ways for effective business advocacy to take place. For example, national positions are yet to be defined in specific WTO negotiating areas, namely: those relating to the agreements on TRIPS, Agriculture and Service, to say nothing of the systemic issues regarding specific needs, interests and concerns of the LDCs (market access, trade related technical assistance, special and differential treatment, subsidies and so forth.).

From that standpoint, ITC is expected to play a crucial role in helping LDC public and private institutions to better comprehend the implications of the issues arising from the WTO agreements, to engage in a long term educating process and dialogue, with a view to implementing permanent mechanisms for trade policy related to business advocacy.

CONCLUSION

The above remarks are our personal contributions to the Executive Forum's efforts, calling for new businesses, policy and/or strategy directions as well as greater transparency in public affairs and cooperation between public and private institutions, to help the LDCs to better respond to the drastic changes in the world trading system. We hope they will in some way serve to inspire productive actions profitable to the least developed countries in general and to Haiti, in particular.