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BREAKING NEWS INTERNATIONAL

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Paul Martin and Ernesto Zedillo

Private investment must be the main source of income growth and job creation in poor countries -- just as it is in industrialized nations, say PAUL MARTIN and ERNESTO ZEDILLO

By PAUL MARTIN AND ERNESTO ZEDILLO
From Friday's Globe and Mail

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From China to Chile, from South Korea to South Africa, there is little disputing any more that private investment is the driving engine behind prosperity and growth. But private investment too rarely benefits the poorest of the poor -- precisely those who need it most.

Some blame an unfair world trading system, in which wealthy nations knock down all trade barriers except their own. Others point to the debt burdens shouldered by some of the poorest countries, or to the volatility of emerging markets.

But we have become convinced that there are also many regulatory obstacles and unexploited marketplace gaps that prevent private capital from flowing to the poorest countries, and which keep small businesses in poor regions from reaching their full potential as employers and engines of local development.

Based on our own experiences -- in Mexico, which has aggressively encouraged foreign investment and trade, and in Canada, which is both a leading aid-donor country and a major source of private investment in developing countries -- we are also convinced that many of these problems can be identified and fixed. The entrepreneurial energy is already there: Visit the tiniest town in the poorest coun- try on market day and you will see this incipient private sector in action. If these small

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businesses could expand beyond the village square, who would doubt that they could lead the growth of their countries better than any aid agency?

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This is why, when UN Secretary-General Kofi Annan and UN Development Program administrator Mark Malloch Brown asked us to lead a new Commission on the Private Sector and Development, we readily agreed. Our fellow commissioners -- who include such noted business leaders as Carly Fiorina of Hewlett-Packard and Miko Rwayitare of South Africa's pioneering Telecel -- bring to the commission a wealth of experience in both the industrialized and the developing world.

These commissioners are all practical people, and have no interest in treading anew on well-covered theoretical ground. Instead, the commission will be taking a hard look at what stops private investment from reaching the poor. It will report back to Mr. Annan by the end of the year, with concrete policy recommendations that can be acted upon by developing and developed countries, as well as by multilateral development agencies. The report will be followed by pilot programs that will quickly demonstrate the impact of our recommendations.

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We both believe strongly in the need for substantial flows of foreign aid to the world's poorest countries. And both of us believe equally strongly in the critical role of the public sector in providing essential social services and infrastructure. But ultimately, private investment must be the main source of income growth and job creation in poor countries, as it is in industrialized nations. If we can identify specific measures that can unblock the potential of the private sector in many countries, these recommendations can be adopted both by individual countries and by multilateral agencies such as the UNDP that provide policy advice and support throughout the developing world.

Though the commission was officially launched just last Friday, preparatory work began last October. Some conclusions have already emerged.

Even when budget deficits and inflation are controlled, business growth in developing countries is often inhibited by national and local bureaucratic impediments. Legal frameworks for business may be lacking, or undue bureaucracy may be excessive. More action to create an "enabling regulatory environment" could spur immense business growth.

In the industrialized world, private financing can underwrite essential public utilities such as power plants and water systems, as is done routinely in the bond markets of the U.S. and Canada. This is rarely possible for similar projects in the developing world, which suffers from outmoded regulatory structures and underdeveloped capital markets. Yet many poor countries have substantial untapped financial resources. Alongside efforts to attract foreign investment, at least equal energy should be directed at mobilizing and unleashing domestic capital.

In Canada, as in the United States and Western Europe, a modest home, a small plot of land or a solid credit history can be enough to secure a loan. But such small-scale loans are hard to obtain in developing countries, which often lack the necessary institutional arrangements such as credit agencies and clear property rights. Hernando de Soto, a member of our commission, estimates there is roughly \$9.3-trillion in land value, largely in the hands of the poor, that lies unexploited for

potential use as collateral to spur investment and growth.

Companies now tapping the huge consumer demand represented by the poor in developing countries are reaping big returns. We are investigating what business insights and policy steps made such successes possible. Often, policymakers eliminated legal bottlenecks or created new institutional mechanisms to facilitate

investment.

None of this is to say that continuing macroeconomic liberalization is unnecessary. On the contrary: Market reforms and trade expansion lifted millions out of poverty in the 1990s, particularly in China and India. In other regions as well, developing countries that liberalized their economies and encouraged foreign investment grew faster than they otherwise would have.

But many countries -- 54, in fact -- were poorer in 2000 than they were in 1990, as documented in the 2003 Human Development Report, released this month by the UNDP. In most cases, these countries too have embarked on macroeconomic reforms, liberalizing trade and investment rules and improving fiscal management. But such policies have not automatically prompted the expected -- and urgently needed -- private investment flows. Part of the reason may be that economic reform now needs to move from the macro to the micro, from trade and monetary policy to the web of legal and financial impediments entangling the small-business owner.

The developing world -- home to four-fifths of the world's population -- is obviously critical to the future of business, big and small. And business is crucial to the future of the developing world. When this potential is unleashed, the benefits will be more than economic. Private enterprise can create powerful interests vested in peace, through deep and daily partnership. Although businesses, by definition, have an impulse to compete, true entrepreneurs also have an impulse to collaborate in building new markets -- a manufacturer in one country or region seeks marketers, financiers and distributors in other countries and regions. Ties among private companies build the global family and enhance global stability.


But most important, a more efficient global deployment of private capital will help us keep the promise made by world leaders to reduce by half -- at least -- the number of people suffering from extreme poverty by 2015.

In the formative years of the North American economy, the entrepreneurial Quakers were wryly said to have come to the New World "to do good, and they ended up doing well." Today, investors in developing economies should have the opportunity to do both.

Former Canadian finance minister Paul Martin is a candidate for the leadership

of the Liberal Party. Ernesto Zedillo, former president of Mexico, is head of the Yale University Center for the Study of Globalization and leads the UN Millennium Project's task force on trade and financial issues.

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