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Home | Archives | Contact Us | Wednesday, Aug 14, 2003

NEWS

Main News
Sport

Business

Foreign

Editorial

National

Hotline

Infotainment

The business of fighting poverty

By Paul Martin and Ernesto Zedillo

From China to Chile, from South Korea to South Africa, there is little debate about whether or not private investment is essential for 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 poor countries, or to the volatility of emerging markets.

But regulatory obstacles and unexploited marketplace gaps also prevent private capital from flowing to the poorest countries. This keeps small businesses in poor nations and regions from reaching their full potential.

Based on our own experiences—in Mexico, which has opened up to foreign investment and trade, and in Canada, which is a leading aid donor and a major source of private investment in developing countries—we are convinced that many of these problems can be identified, isolated and fixed.

The entrepreneurial energy is already there: visit the tiniest town in the poorest country on market day and you will see the private sector in action. If small businesses could expand beyond the village square, they could drive their countries' growth better than any aid agency.

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 Private Sector and Development, we agreed. For we are both strong believers in the need for substantial foreign aid flows to the world's poorest countries. We believe equally strongly in the public sector's role in providing essential services and infrastructure.

But ultimately, private investment must be the main source of income growth and job creation in poor countries—just as it is in industrialized nations. If we can identify specific measures that work to unblock the private sector's potential, these recommendations can be adopted both by individual countries and by multilateral agencies like the UNDP.

Some preliminary conclusions have already emerged:

n Even when budget deficits and inflation are under control, business growth is often inhibited by national and local impediments. Legal frameworks for business may be lacking, or bureaucracy may be excessive. More action to create an "enabling regulatory environment" could spur immense business growth;

n In the industrialized world, private financing can underwrite essential

Privatisation
New owners t
refinery
CBR reform
Common SAA
Cancun unlike
LSM sector re
11% growth
Foreign debt
spread out
CBR-NADRA
duplication
Cotton export
be raised on
Rs 43b textile
Faisalabad
Agricultural c
to Rs 60b
Vegetable pri
rain spell end
KSE gains 26
race towards
Dollar remain
Silicon Valley
recession
LSE takes a b
Buying boosts
SBP raises Rs
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year
The business
poverty

Find

public utilities like power plants and water systems. This is rarely possible in the developing world, which suffers from outmoded regulatory structures and underdeveloped capital markets. Yet many poor countries have untapped financial resources. Alongside efforts to attract foreign investment, equal energy should be directed at mobilizing and unleashing domestic capital;

In Canada, as in the US 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 that roughly \$9.3 trillion in land value—largely in the hands of the poor—lies unexploited 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.

Of course, continuing macroeconomic reform remains necessary. Market liberalization and trade expansion lifted millions out of poverty in the 1990's, particularly in China and India. In other regions, 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 UN Human Development Report. In most cases, these countries embraced macroeconomic reform, liberalizing trade and investment rules and improving fiscal management. But these policies did not automatically prompt the expected—and urgently needed—private investment. Part of the reason for this may be that economic reform must now move from the macro level to the micro level, from trade and monetary policy to the web of legal and financial impediments entangling small business. When the business potential of the developing world is unleashed, the benefits will be more than economic.

Indeed, private enterprise can create powerful interests vested in peace. Although businesses are competitive by nature, true entrepreneurs also instinctively 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 enhance global stability. 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.” Investors in developing economies should have the opportunity to do the same.

Paul Martin, a former Canadian finance minister, is a member of Canada's parliament and a candidate for the leadership of the governing Liberal Party. Ernesto Zedillo, a former President of Mexico, heads Yale University's Center for the Study of Globalization and leads the UN Millennium Project's task force on trade and financial issues. —Daily Times—PS

Home | Business

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