SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

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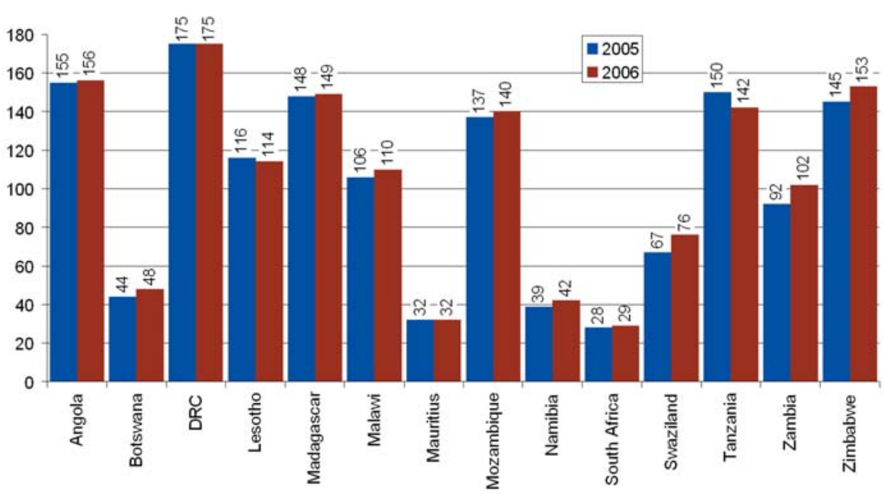
SPECIAL ISSUE: COMPETITIVENESS

As the year draws to a close, INSAT takes an in-depth look at the concept of 'competitiveness' and how it has changed; indices to measure competitiveness and initiatives and reforms to improve country and firm competitiveness throughout Southern Africa.

There is an increased recognition that, in becoming a better place to do business, the countries of Southern Africa are not only competing with themselves and each other but also with other developing regions in the world.

We speak to a number of policy makers and business leaders from around the region and beyond, to get their views on competitiveness in Southern Africa; what is working well, what still needs to be done and how the public and private sectors are working, separately and together, to address the challenges that exist.

Countries of Southern Africa Ranked According to Ease of Doing Business in 2005 and 2006



Source: World Bank Doing Business Report 2007. Last year's rankings (2005) have been adjusted for changes in the methodology, data corrections and the addition of 20 new economies.

INSIDE THIS ISSUE

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COMPETITIVENESS - A BRIEF OVERVIEW

Competitiveness has increasingly become a central focus of development economists and policy makers in developing countries in recent years. Despite a widespread acceptance of its importance to growth and development, there is no generally accepted definition of the term and the factors impacting country competitiveness remain subject to a wide debate.

The traditional view of competitiveness defines a country's competitiveness as the share of its exports in world markets and emphasizes the role of macroeconomic policies in general and the exchange rate in particular. Business leaders and politicians are often drawn to this view, in part because the link between the exchange rate and exports is straightforward and, more importantly, because linking competitiveness to market share is consistent with the business definition of competitiveness. For example, during a recent meeting with U.S. President George Bush, American automakers' CEOs charged that currency manipulation by the Japanese Government is the main reason for the massive U.S. automotive trade imbalance with Japan. Similarly, China has been under pressure from the US and other main trading partners to allow its currency to appreciate to stem its exports.

But the macroeconomic perspective of competitiveness has been criticized on two counts. First, defining a country's competitiveness as the share of its exports in the world market makes competitiveness a zero-sum game and therefore justifies distortionary government policies that aim to provide export subsidies or manipulate the exchange rate to capture a larger market share. Second, the macroeconomic view fails to take into consideration microeconomic factors that impact firm competitiveness which, the argument goes, ultimately determines country competitiveness.

The second perspective of competitiveness is rooted in microeconomic theory and it highlights the importance of factors impacting firm productivity in determining country competitiveness. While proponents of the microeconomic view acknowledge the importance of macroeconomic stability for economic growth, they argue that these conditions are not sufficient to generate growth.

Michael Porter, Professor at Harvard Business School and one of the foremost proponents of this view, argues that a nation's competitiveness is determined by the productivity of its economy which, in turn, is the outcome of the productivity of its firms. The foundations of microeconomic productivity, he says, rest on two sets of factors; the sophistication with which firms operating in the country compete and the quality of the business environment in which they operate. According to Porter, the business environment is affected by a wide range of factors that he divides into four categories: factor conditions such as physical and administrative infrastructure; context for firm strategy and competition; related and supporting industries; and demand conditions.

A third perspective of competitiveness focuses on the role of technology. The technology perspective shares with the microeconomic approach its emphasis on the role of firms in determining country competitiveness. According to the technology approach, firms are the main actors in the process of innovation, and learning and success in innovation at the firm level translates into improved competitiveness at the country level. The theoretical origins of this approach date back to the works of Joseph Schumpeter and, more recently, Robert Solow. Ganeshan Wignaraja, Senior Economist at the Asian Development Bank and author of several books on the role of technology in country competitiveness, maintains that the technology approach offers a "'more holistic' strategy to competitiveness" in the developing world compared to the macroeconomic and microeconomic perspectives. Wignaraja says the technology and innovation perspective suggests three core elements of a competitiveness strategy: a national partnership involving complementary actions by the government and the private sector; a liberalisation plus approach involving a mix of incentive and supply-side policy measures; and, where appropriate, policies to promote the competitiveness of particular industrial clusters.

Measuring Competitiveness: What Gets Measured Could Get Done

The growing importance of competitiveness for economic development has fueled efforts to identify and measure various aspects of country competitiveness. The World Bank's Doing Business Report and the World Economic Forum's (Forum) Global Competitiveness and Growth Competitiveness Indices have become the most widely used measures of country competitiveness in recent years. The factors included in these indices vary, reflecting their different theoretical underpinnings.

The Doing Business Report, which is based on microeconomic theory, provides indicators of the ease of doing business by measuring business regulations and their enforcement with respect to, among other things, starting a business, employing workers, access to credit and enforcing contracts.

The Growth Competitiveness Index, used until last year by the Forum to assess country competitiveness, examines the sources of growth and includes 35 variables relating to the macroeconomic environment, the quality of public institutions and technology.

In comparison, the Global Competitiveness Index, now being used by the Forum, is a much more comprehensive tool that incorporates both macro and microeconomic variables such as the functioning of labor markets, the quality of a country's infrastructure, the state of education and public health, the size of the market and business sophistication and innovation.

Development specialists say the availability of measures of competitiveness has allowed policy makers and donors for the first time to assess microeconomic conditions and identify necessary reforms.

Measure	Factors Considered
Export Competitiveness	The share of a country in the exports of a product in the world market in a given period divided by its world market share in the previous period.
Growth Competitiveness Index	Macroeconomic environment; and the quality of public institutions.
Global Competitiveness Index	Institutions; infrastructure; macroeconomy; health and primary education; higher education and training; market efficiency; technological readiness; business sophistication; and innovation. The Global Competitiveness Index also includes the Business Competitiveness Index which assesses the sophistication of company operations and strategy; and the quality of the national business environment.
Doing Business	Cost and the time it takes to start a business; dealing with licenses; hiring and firing workers; registering property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business.

"Until recently, we couldn't really measure with any confidence the microeconomic situation in a country, nor could we compare those results across national borders," says Jeffery Levine, Team Leader in the Economic Growth Office at the U.S. Agency for International Development (USAID). "Being able to do this has helped nations, the private sector and civil society, and yes donors too, to be able to dialogue about microeconomic issues and focus efforts to improve conditions for enterprises."

Ali Mansoor, Financial Secretary at the Ministry of Finance and Economic Development in Mauritius, and one of the champions of economic reform in the country, says measures of competitiveness have been useful in identifying "what is it that we need to improve" in order to make the country more competitive. (See interview on pages 12-13).

Nevertheless, competitiveness indices are often criticized for lacking a clear theoretical framework and for combining perceptions with hard data. "They put hundreds of things and then they come up with a number. What does it mean when a country gets a ranking?" Wignaraja says, "Micro level company behavior is translated into country ranking, but countries don't really compete like that or in that manner, it is firms that compete."

Levine agrees that measures of competitiveness have some limitations. "It is relatively easy to change a score, say number of days to register a business. You change the laws reducing the number of steps, and you've now improved your score and ranking. Did anything change for an entrepreneur trying to register his business? Is it worth starting a business in light of taxes, labor costs and export restrictions?" he asks.

Competitiveness and Development Efforts: The Challenge of Prioritization

Although the concept of competitiveness is not new to the development field, the approach to competitiveness and the understanding of its various determinants have changed dramatically in recent years. Following decades of experimentation with macroeconomic policy reform, there is a general recognition that a stable macroeconomic environment is not sufficient to generate economic growth.

Most development agencies have embraced a new approach to competitiveness that incorporates, along with macroeconomic foundations, microeconomic principles, and in some cases, social policies. "If there is a lesson to be learned from the structural adjustment era it is that macroeconomic reform only is not sufficient," says Demba Ba, Sector Manager for the Africa Region at the World Bank. "The approach that is commonly used today by most donors and most countries is to say that competitiveness is really composite of a little bit of macroeconomics, of microeconomics and some firm level type of competitiveness."

But in reality, most developing countries have achieved macroeconomic stability and have implemented what most economists consider "acceptable" macroeconomic policies. As a result, the focus of most development efforts has shifted to microeconomic conditions and different factors impacting firm competitiveness. "Where there are things to be fixed [on the macro level], there is a pretty good understanding of the principles. Technology is readily available as are the technicians and specialists to assist with the application," says Levine. "The challenges, however, are access to financing, and the incentives for enterprises to invest as well as for governments to make the foreign investment climate attractive. This brings us to the third aspect of competitiveness – microeconomic policy reform, or improving the business environment. This is an important focus now in our enterprise, trade and financial sector competitiveness programs."

But the challenge confronting development agencies and governments in developing countries is how to prioritize between a host of reforms, that all seem important if not necessary.

Levine argues that when it comes to creating a business environment that is conducive to investment "everything matters" but it is the "timing and sequencing of reform" that require further research and dialogue. "Looking at issues of sequencing and prioritization based on impact is where we are hoping to go with our collaboration with both the World Bank and the World Economic Forum. As one colleague says, "it is not enough to know there is a problem, we have to understand how to fix it," he says.

Ba disagrees with the notion that countries should aim to carry out comprehensive economic reforms. Instead, he says, a country that is trying to enhance its competitiveness should identify a product that has strong potential and implement all the reforms that are necessary to make that product succeed in the global market. "The notion that countries have to do everything was dispelled by the recent success of China. China did not reform the whole economy. What they did is that they decided that a certain region would be one of the best in the world in this product and then put in place all the necessary ingredients for that to work," he says. "The reform has to be linked to a product and a market, you do not have to reform the whole economy."

Southern Africa's Competitiveness: The Good and the Bad

Overall, countries in Southern Africa are making progress in improving their competitiveness and enhancing the business environment. The third annual SADC Regional Business Climate Survey (RBCS), released in South Africa in August, showed that business owners in the region believe that the business climate has improved compared to the previous year. And according to the World Bank's Doing Business Report 2007 four countries in Southern Africa – Botswana, Mauritius, Namibia and South Africa rank among the top fifty business-friendly countries in the world.

Other countries in the region are working on improving their business environment. Tanzania, for example, reduced the cost of registering a new business by 40 percent through a reduction in licensing requirements. The country also introduced a new electronic customs clearance system and risk-based inspections that cut customs clearance times from 51 to 39 days for imports and from 30 to 24 days for exports. It also cut property transfer fees and revised its company law to better protect small investors. Lesotho computerized its tax system and unified VAT and income registration forms to reduce the time for the tax registration for new companies to a day.

Moreover, many countries in Southern Africa are exploring ways to diversify their economies away from primary production and traditional sectors. Madagascar and Zambia are developing their tourism sectors, and Mauritius has aspirations for developing the information technology sector and becoming a service platform for the Indian Rim.

Still, the region has a long way to go and many hurdles to leap. According to the Doing Business Report, six countries in the region are among the 40 least business-friendly countries in the world. In Angola, starting a business takes 124 days and costs almost five times the average annual per capita income. Dealing with licenses takes 481days in Zimbabwe and 361 in Mozambique. Burdensome custom procedures and poor infrastructure are hindering Southern African trade, thus keeping the regional market small and fragmented.

Southern African Country Rankings in 2006 According to Various Indices

	Doing Business Report (175)	Global Competitiveness Index (125)	Business Competitiveness Index (121)
Angola	156	125	n/a
Botswana	48	81	69
DRC	175	n/a	n/a
Lesotho	114	112	115
Madagascar	149	109	97
Malawi	110	117	104
Mauritius	32	55	48
Mozambique	140	121	110
Namibia	42	84	75
South Africa	29	45	33
Swaziland	76	n/a	n/a
Tanzania	142	104	73
Zambia	102	115	116
Zimbabwe	153	119	103

The figure in brackets indicates the number of countries that were asessed.

Most respondents to the SADC Regional Business Climate Survey identified exchange rate fluctuations as a major challenge to their business. The survey also showed that crime, theft and corruption, and economic and regulatory policy uncertainty remain problems for regional businesses.

Shortage of skilled labor is another constraint that threatens to undermine countries' efforts to diversify their economies and attract foreign investors. Businesses around the region have been lobbying their governments to ease restrictions on hiring foreign workers. But with unemployment rates soaring in most countries in the region, governments have been reluctant to take measures that could limit hiring opportunities for locals.

Yet some governments are starting to look for ways to address the skills shortages. The South African Government is running a program that aims to speed up development of skills that are most needed by businesses in the country. Mauritius is planning to revise its labor laws to make it easier for companies to bring foreign workers. (See interviews with Lynette Chen, on pages 16-17, and Ali Mansoor, on pages 12-13).

The good news is that the new emphasis on firm competitiveness and its importance to economic growth seems to have captured the attention of governments in the region and prompted them to invest more effort into engaging the private sector and involving businesses in devising economic policies.

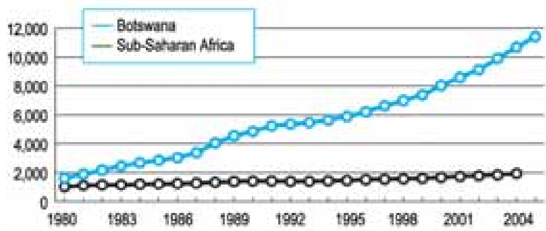
"I think the whole perception that governments should focus on government business and corporations have to focus on corporate business has changed. For Southern Africa and all developing regions we need to start looking into all sorts of partnerships between the public and the private sectors," says Lynette Chen, CEO of the NEPAD Business Foundation.

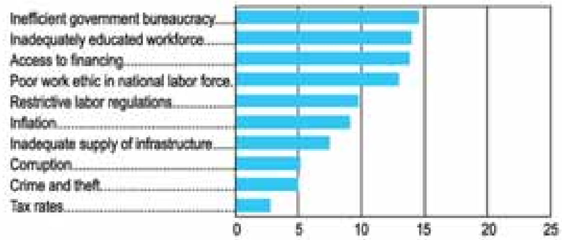
EXCERPTS FROM THE WORLD ECONOMIC FORUM GLOBAL COMPETITIVENESS REPORT 2006-7

GDP (PPP) per capita (US$), 1980-2005

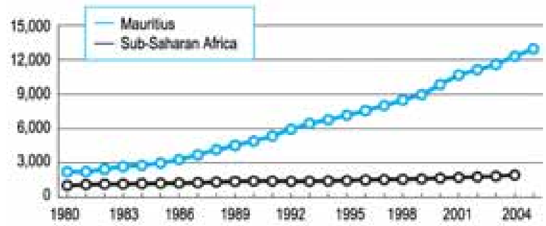
The Most Problematic Factors for Doing Business

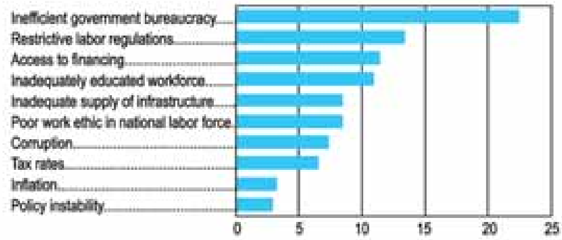
BOTSWANA



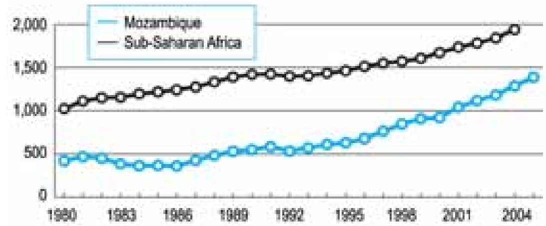


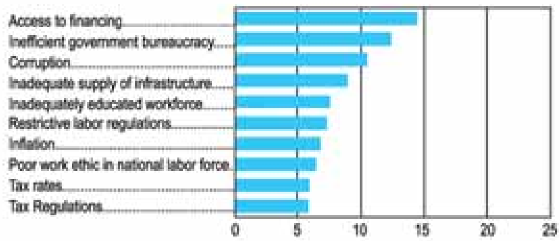
MAURITIUS



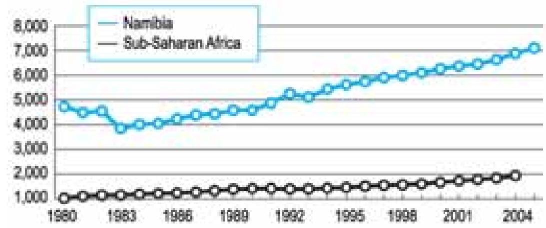


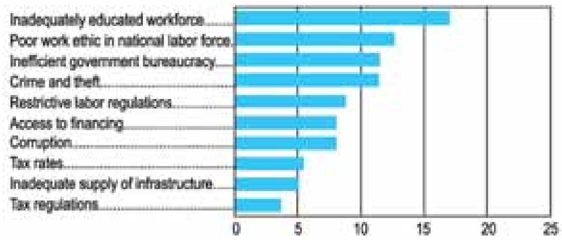
MOZAMBIQUE



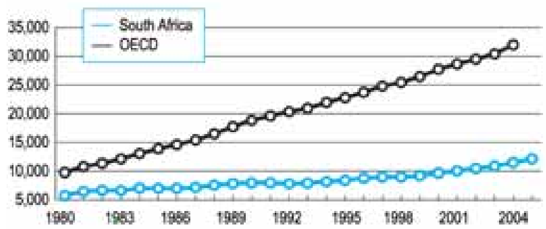


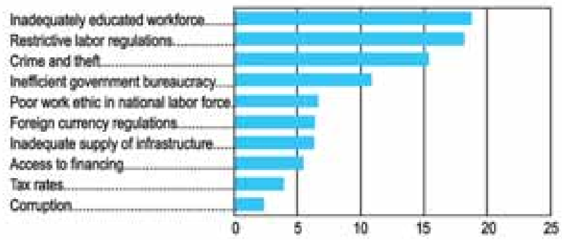
NAMIBIA



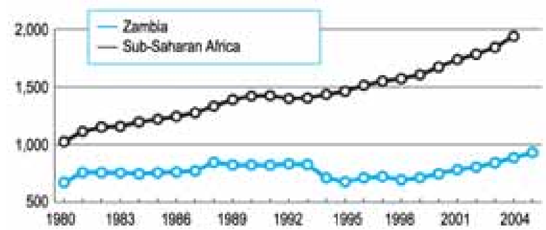


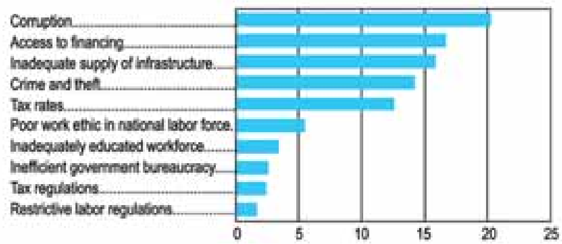
SOUTH AFRICA





ZAMBIA





Note on 'The Most Problematic Factors for Doing Business': From a list of 14 factors, respondents were asked to select the five most problematic for doing business in their country/economy and to rank them between 1 (most problematic) and 5. The bars in the figures show the responses weighted according to their rankings, expressed as a percentage of responses. Please note that the above charts only include the top 10 challenges identified in each country and not all 14 that were assessed.

HON. DANIEL NEO MOROKA...

MINISTER OF TRADE & INDUSTRY, BOTSWANA

The Hon. Daniel Neo Moroka was appointed Minister of Trade and Industry in Botswana in 2004 after stepping down as Commercial Director at BP Southern Africa.

Botswana has maintained one of the world's highest growth rates since becoming independent in 1966. Reliable public institutions have been key to Botswana's success and the country is known to have one of the lowest levels of corruption in Africa. Yet challenges remain – in particular regarding the diversification of the economy to reduce its dependence on diamonds.

A Presidential Task Force, the Business and Economic Advisory Council, recently completed its report recommending a number of fundamental reforms and initiatives.

Do you think that the various measures of competitiveness provide useful tools which countries and the private sector can use to improve their competitiveness?

They provide measurements of competitiveness which play an important role in the assessment and comparisons of economic and business climates in different countries and economies.

These tools provide Botswana with an international perspective of competitiveness and enable us to benchmark against those countries that are high performers. They provide indicators for investors and assist government to shape its policies and strategic direction.

As a country we strive for continuous improvement in our competitiveness ranking – aspiring to be among the top ten.

What do you see as the toughest challenges that Botswana faces in terms of improving its competitiveness?

We are a small country with a small domestic market. Therefore, unit costs, of utilities in particular, tend to be high. Some of the areas that present the biggest challenges are the cost of electricity, the cost of water, even the cost of telephones, as well as the cost of labour. These are definitely challenges that we must overcome in order to improve competitiveness.

But more importantly, I think we need to improve productivity levels because productivity is key to competitiveness.

The Business and Economic Advisory Council has made extensive recommendations for radical policy and institutional reform. How easy do you think it will be to implement reforms?

It is never easy to implement radical reforms because you tend to have entrenched culture and attitudes. So when you come up with radical reforms, the first thing to do is to deal with a change of mindsets. This is not an easy thing because, as the saying goes: "Old habits die hard".

Having said that, I think that we are sufficiently anxious to see this country move forward and take up its position in the global market. It should therefore be possible to achieve radical changes with some speed. The public sector in this country has been undergoing a reform process for nearly ten years now, and the general disposition is one that favors change.

The business licensing system in Botswana has been criticised as too complex and difficult, and a disincentive to investors. How are you going about addressing this challenge?

Indeed, a few years ago the World Bank Foreign Investment Advisory Service (FIAS) conducted a study in this country which identified regulatory and administrative bottlenecks that needed to be overcome.

The Trade Act has therefore been amended so that licensing committees would meet once a week, instead of once a month. We are also in the process of amending the Industrial Development Act, and one of the proposed changes is that industrial licenses will now be issued for an indefinite period.

It used to take over 108 days to license a business in Botswana. We have now given ourselves a target of doing this within ten working days. And I am pleased to say that we started this as a pilot and now we are, on average, doing company registrations within ten days.

My ultimate desire is that it should be possible to register a company within one day. In this regard we are installing computer systems in the registrar of companies' offices such that it should be possible for people to apply and register their companies online.

I am optimistic that in the not-so-distant future it should be possible to register a company within five working days.

A few years ago, Botswana released a draft Investment Code, but this was criticised as being anti-FDI in the way it was framed, and the draft code was then withdrawn. Is a new

Investment Code being drawn up?

I have undertaken to review the Investment Code and to reintroduce it.

An investment code is an instrument that enables you to screen genuine investors from those who masquerade as investors when, in fact, they are not. It sets out clearly the conditions and requirements that a genuine investor must meet and thus it enables the attraction of FDI. When the investors are easy to identify with clearly defined criteria, it is much easier to help them to obtain their permits – like work permits and residence permits – very, very quickly, unlike the current set-up where someone comes and they are subject to all sorts of screenings.

We will streamline the processes and therefore ensure a conducive environment for investors – where they will know that they can enter this country and it will be hassle free.

Government policy has focused on economic diversification through export-led growth for many years, but there has been limited success. What do you think still needs to be done to support the success of the policy?

Diversification of the economy has been a main objective of my Government, and as you rightly point out, this process has not achieved the results that we would have liked to achieve. One of the factors that has hampered us, apart from the small population, is the high cost of doing business in this country. This is a challenge that we will have to overcome. There is also a strong campaign, with the advent of the National Productivity Center, to work towards improving productivity.

If we are going to diversify the economy, we have to look at areas in which we are strong. As an economy we are strong in natural resources: we've got diamonds, cattle, rangelands, wildlife, national parks, and other scenic areas of importance. However, with regard to natural resources, we have to ask ourselves "What is it that we produce?" We have always exported our natural resource in commodity form and therefore what we now intend to do is to make sure that we add value to these through beneficiation. For example, that is why we are now promoting the cutting and polishing of diamonds here and eventually the manufacturing of jewellery and even the marketing of diamonds.

The tourism sector is another sector we have identified as a growth sector. The Delta has been promoted quite successfully, but we need to move from the Delta to the Kalahari and other scenic areas. Moreover, instead of just saying that we will only promote wildlife based tourism, we need to look at other forms of tourism, for example, walking trails – even in towns.

There has been extensive investment in education resulting in increased enrolment. What still needs to be done to the education and training system to ensure that skills shortages can be addressed and that educated young people can find work?

Historically we followed the British education system and in this system the emphasis is rather on theory. When we started our education here in the early years of our independence, and even before – we were actually producing people to work in the public sector. The private sector was very small – in fact, at independence it was virtually non-existent. Over the last 40 years the private sector has grown and the needs of the private sector have been diverse in terms of skills requirements.

The education system, in my view, has to be transformed such that it produces people who aspire to be self-employed, not people who look to somebody else to employ them. The need for practical training and skills and basic competencies that could be used in business or agriculture is very critical. With these skills and competencies, school leavers can look into the economy and identify niches that they can occupy and be self-employed

If we can reorient our education system such that it produces these kinds of people we will significantly reduce school leaver unemployment and improve productivity and skills levels.

How can Government and the private sector work together to encourage entrepreneurship and innovation in Botswana?

One of the things about developing countries is that, quite often, when you look at the difference between developed and developing countries, in developed countries there is continuous innovation and in developing countries there is no innovation.

When you look at what drives the innovation in developed countries it is actually research and development (R & D), and funding thereof. Now that is something that is lacking here and this is one area where the private sector and the government can work together to enhance innovation and entrepreneurship.

The private sector can provide funding for research in industry and business and even in science and technology, thus promoting the development of innovative capacity to grow the economy.

You had a long career in the private sector before becoming a Minister. How have you used your experience in the private sector to improve both policy-making and the functioning of the Ministry?

First of all, I would like to believe that I have brought private sector experience and that means a sense of urgency.

But, more importantly, I have also looked at the administrative and regulatory bottlenecks that have been identified, and because I understand their significance to the business community, I have been able to focus my attention on eliminating them.

What I have also done is to conscientize my Ministry's staff to understand our role. At the end of the day, it is about driving economic growth and using economic diversification as a strategy for that. We have to be seen to be businesslike, and acting like businesspeople and that is the kind of mindset that I think I have brought into my Ministry.

I have made it a point to work more closely with the private sector to gain regular insight into their needs in order to be able to make the environment much easier for them to do business.

HON. ANTONIO FERNANDO...

MINISTER OF INDUSTRY & COMMERCE, MOZAMBIQUE

The Hon. Antonio Fernando was appointed Minister of Industry and Commerce after President Guebuza won the elections in December 2004. Prior to that, he was Vice Minister of Transport and Communications.

In 1992, Mozambique emerged from a long civil war and quickly reestablished peace and stability. Since then, the country has made big strides. It has experienced economic growth of around eight percent per annum and has become a magnet for foreign investment. Mozambique's potential in areas such as agriculture and tourism is great, but its challenges are numerous, including inadequate infrastructure, a complicated business environment and issues of corruption.

The World Bank's Doing Business Report ranked Mozambique 140th in 2006. The country ranked 121st in the recent World Economic Forum Global Competitiveness Index. What is the value of such surveys from the Government's perspective?

They are valuable tools to see how we compare to other countries, both in the region and worldwide, in a number of competitiveness-related issues. Doing Business allows policymakers to compare regulatory performance with other countries, learn from best practices globally, and prioritize reforms. Although some of the methodology might be questionable and focus on perceptions rather than quantifiable and measurable results, these surveys highlight areas in which countries like Mozambique should improve to increase competitiveness and attract more foreign and national investment. The surveys are often able to put a spotlight on these issues at a high enough level in countries to create actionable change. For instance, in Mozambique, President Guebuza committed, at the 9th Annual Private Sector Conference earlier this year, to improve Mozambique's rankings in these surveys.

We understand that you are spearheading some of the Government's efforts to improve its ranking. Are you finding it challenging to promote reforms in diverse areas such as macroeconomics and labor?

Reforms to improve the business environment are always challenging and require time, money and lots of energy. I am spearheading the Government of Mozambique's effort to improve its ranking in the Doing Business Report with regards to business registration and licensing and I believe that we have made some measurable improvements in the past year-and-a-half. We have created a new office at the Ministry of Industry and Commerce specifically geared toward facilitating business registration and licensing requirements. In addition, there are various working groups, both within Government and between the public and private sectors, which are working on issues related to improving the business environment in Mozambique.

What is the fundamental approach that underscores Mozambique's efforts to improve its competitiveness?

In my opinion, the fundamental approach needs to be improving our business environment. And we are taking the challenge very seriously. We understand the important role the private sector plays in creating employment and contributing to economic growth and we must do all we can to attract and help the private sector become as competitive as they can.

What do you think about industrial or sectoral policies and do you believe that the Government of Mozambique should play an active role in identifying and supporting certain sectors?

Industrial or sectoral policies indeed have been subject to a heated debate and are often controversial among academics. I believe the Government of Mozambique has, first and foremost, the principal role of improving the business environment in general so that all private sector actors can have opportunity to thrive. It is through competition, and what Schumpeter calls "creative destruction," that our economy will thrive, our citizens will have jobs, our standard of living will increase and opportunities will abound for all. At the same time, there exist sectors that many believe hold particular potential for Mozambique – and this potential warrants additional attention by the Government of Mozambique in order to analyze if there is anything further we can do to facilitate the private sector entering into these sectors. One such area is services – others are tourism and textiles and apparel. There are others. I feel that it is incumbent on me to see how we compare in these sectors to our competitors and see if there is anything else I can do to promote additional investment into these sectors. Our EPZs [Export Processing Zones] are one good example of an industrial policy – a policy followed by many countries in the region and throughout the world. I would like to apply the same principle to other sectors – if possible. And that is what we are studying at this point – if this is possible or not.

President Guebuza recently launched a second wave of public reforms to take place between 2006 and 2011. Which areas have the Government of Mozambique identified as priority areas for reform?

President Guebuza outlined four priority reform areas – specifically, improved provision of services, professionalization of the public sector, good governance and the fight against corruption. Each of these four areas, I believe, will contribute to improved competitiveness. For example, when services are provided more frequently and with better quality, such as education and health services, our citizenship will be better placed to enter the job market. When the public sector provides responsive and accountable services to the private sector, investment will flow into the country. And when we promote good governance and not tolerate corruption, we create a more stable and predictable business environment. Specifically, I am making it a priority to focus on the simplification of business registration and licensing procedures, formalization of our inspection processes, our "Made in Mozambique" brand, trade facilitation, expanding markets for our services and goods, being responsive to the needs of the private sector and addressing supply-side constraints that affect our competitiveness.

How does the Government see the role of the private sector in improving the country's competitiveness?

The private sector plays a vital role in improving the country's competitiveness. It is the private sector that is the heartbeat of our economy. We need to do all we can to ensure that heartbeat is healthy. We have a very good working relationship with the private sector. We are listening, and as you can see from my previous answers, we are trying to improve the conditions in which the private sector operates in Mozambique. Each year, we have our Annual Private Sector Conference (CASP), which is attended by the President, economic ministers and the private sector. Last year, over 700 participations attended. It is here, as well as through working groups at the Confederation of Mozambican Business Associations (CTA) that we identify constraints to private sector development and improve the business environment.

The issue of property rights is often cited as an obstacle to competitiveness and a deterrent to investment in Mozambique. Does the Government have any plans for the short/medium term to reform property rights in the country?

I do appreciate the importance of property rights, and when speaking about industrial property rights and other forms of intellectual property, which does fall under my jurisdiction, we provide strong protection. Companies are able to obtain trademark, copyright and patent protection within Mozambique. And we have collaborated closely with Customs to work to stop counterfeit imports that were having a negative impact on our local industries. We are working to continue improving our ability to enforce intellectual property rights. With respect to physical property rights, which I feel you may be referring to, this is outside of my jurisdiction. I also recognize that this is an important issue. The Government of Mozambique will introduce a new Urban Land Law, which has already been approved by the Council of Ministers, that makes some positive steps forward in terms of land in urban areas. For example, when applying for licenses, a decision will be rendered within 30 days. In addition, transfer of urban buildings (*Predios Urbanos*) does not require any prior authorization anymore. And when urban buildings are transferred, the right for the land use will be transferred as well. The new law also establishes land titles for the right to use the land. These are positive improvements that I believe will help to facilitate economic activity in urban areas.

You are also spearheading a 'Made in Mozambique' campaign. How do you hope that this will help to enhance Mozambique's country and firm-level competitiveness?

Being proud to make Mozambican products and services will contribute to increased quality, which will help us compete in export markets At the same time, when procuring goods and services, companies within Mozambique will also now become more aware of the goods and services that are already produced within Mozambique. As you know, we have a large trade imbalance, and if we can start to reduce our dependence on imports and start consuming products and services in Mozambique, all on a voluntary basis, I believe we are making progress towards helping our private sector create jobs and ultimately reduce poverty.

There is increasing speculation that Mozambique hopes to soon join the Southern African Customs Union (SACU). How would joining SACU help Mozambique's economy and competitiveness?

We are currently reviewing the benefits and costs of joining SACU. A number of studies have been commissioned. While there may be some benefits, certain costs, such as those created by trade diversion and an inability to control our external trade policy due to the common external tariff and South Africa's strong domestic interests, potentially outweigh any benefits SACU can bring. I do understand the importance of free trade, and we are working to free up trade. We have signed a number of bilateral trade agreements with our neighbors and are working to negotiate even more free trade agreements. At the same time, we are working with the United States under our Trade and Investment Framework Agreement (TIFA) to improve our trade and investment links. We are also participating in negotiations on the Economic Partnership Agreements (EPAs) with the European Union – all ways of achieving the same result (free trade) as if we joined SACU, but still retaining our ability to control external trade policy. We have requested Observer Status in SACU and are still reviewing the possibility of joining SACU.

HON. IMMANUEL NGATJIZEKO...

MINISTER OF TRADE & INDUSTRY, NAMIBIA

The Hon. Immanuel Ngatjizeko has served as Minister of Trade and Industry since 2005.

Since achieving independence in 1990, Namibia has focused on diversifying its economy, supporting small and medium sized enterprises and creating favorable conditions for attracting foreign direct investment (FDI). Yet, since 2001, there has been a rapid decline in FDI and the country has not been able to significantly reduce income disparity among its population.

To turn the tide in terms of FDI the Government recently undertook an Investor Roadmap Study to assess the efficiency of the investment regime and is now in the process of implementing recommendations from the study.

Does Namibia attach importance to rankings such as the World Bank's Doing Business Report and the World Economic Forum's Global Competitiveness Index?

Critical measurement is essential in guiding governments to devise policies, strategies and transparent procedures necessary to attract high levels of Foreign Direct Investment through the innovative modernization and transformation of public sector service delivery systems. The same principles of self-assessment followed by continuous efficiency level upgrades should be part of a competent private sector, aware and knowing what competitors in other markets are up to, for greater global market penetration and share. Those companies competing not only globally, but in their own markets, may find themselves soon out of business if they do become less competitive than others.

Namibia has slid down global competitiveness rankings over the past three years. To what do you attribute this drop, and how does the Government intend to address the factors responsible for it?

It is difficult to attribute Namibia's drop in competitiveness rankings to a single factor, such as, for example, low levels of productivity. Rather, it is a combination of factors. First, the reason for a lower rank does not have to be due to any change in the absolute performance of a country, given that other countries may have done better or worse. Also, different methodologies used would produce different results. However, we know that the macroeconomic environment, the public institutions and the technology aspects of the country were assessed by the reports. Concerns cited include the independence of the judiciary, protection of individuals' property, fairness in awarding public contracts, the prevalence of crime, the balance between government expenditure and revenue, inefficient subsidies, and so forth. In terms of the Global Competitiveness Report released September 2006, we noted that the drop was not necessarily due to the country's economic performance (although there is lot of room for improvement there) but more because of weakened performances in social sectors including politics, education and health. Government ministries are in the process of addressing the shortcomings pointed out in the reports through new programs and policies in the education and health sectors. As a Government we are also moving in the direction of investing more financial resources into the productive sectors which can generate large-scale economic activity and increase the general competitiveness of the economy.

The Government of Namibia recently undertook an Investor Roadmap Study that assessed the efficiency of the country's investment regime. How do you intend to use the Investor Roadmap to improve Namibia's investment environment and competitiveness, and what are the priority areas for reform?

An Investor Roadmap is an important self-assessment document for the public sector ministries dealing with the facilitation of economic matters. It is a guide towards improving the service delivery levels for business promotion within the public sector, and to make the process of investing in the country less bureaucratic, more transparent, and easy. We have started to consult with all relevant stakeholders, including the private sector, to explore the areas of collaboration. The overall purpose is to ensure that a general climate of 'facilitation', rather than regulation is created, and that every stakeholder is aware of their role as integral partners in the process of investment promotion, given that it is a national agenda for the growth of the economy and therefore not limited to the Ministry of Trade and Industry.

Priority areas cover, among others: facilitation in terms of company registration; investment promotion and servicing; immigration facilitation; customs and revenue facilitation; mining and fishing license facilitation; investment land facilitation in urban and rural areas; labor issues, and environmental issues. We are also looking at institutional strengthening such as the mandate, location and structure of the national Investment Promotion Agency, overhauling of the Foreign Investment Act, revision and simplification of other legislations such as for taxation and company registration, and overall harmonization of policies and laws impacting on investment promotion.

As is widely known, reforms are never easy to implement, especially if they go directly against long held notions of absolute right and wrong, and if such reforms have a bearing on the mandate of other government ministries. However, we are hopeful, following the excellent consultative high-level stakeholders meeting which took place on instruction of Cabinet, that all ministries will contribute significantly to the implementations of the Investor Roadmap Study recommendations. In addition, the revision of old legislation and enactment of new ones will take some considerable time, as the process is usually cumbersome and costly.The Ministry of Trade and Industry has already started to work on some of the recommendations, for example, consultants from MIGA [Multilateral Investment Guarantee Agency] and FIAS [Foreign Investment Advisory Service] from the World Bank Group have been contracted to carry out a comprehensive review of the incentive regime and institutional reform of the Namibia Investment Centre. These reviews are expected to be finalized before the end of December 2006. In terms of Company Registration, the recommendation of computerization of the system has been already successfully carried out and will be in place before the end of the year. All in all, following the consultative stake-holders meeting, Cabinet will early next year deliberate on the outcomes of the meeting and give clear direction on the implementation of outstanding issues.

What specific challenges does the Namibian economy face in attracting more investors?

Our top priority is to deal with shortcomings in growing a pool of educated and highly skilled Namibians, available to sustain the envisaged economic development program of the country. Skills shortage at the high end and in technical functionalities is a fundamental problem which should be addressed to attract/train the required number of engineers, doctors, technicians, accountants and other specialists for the realization of the objectives to diversify and industrialize the Namibian economy. Another top priority which needs to be addressed now is the area of electricity or power generation. The country is experiencing insufficient supply of electricity due to capacity problems by South African suppliers. Therefore, Government has taken a principle decision to commit financial resources together with stakeholders from the private sector to develop the Kudu Gas fields in the south of the country to answer our industrialization needs

Also, Government is to redouble efforts to foster harmonious labor relations between the private sector and labor unions, to ensure that economic development can proceed without hindrance. On marketing, much needs to be done to raise the awareness profile of the country through international marketing and branding and through the strengthening of the promotional and service delivery capacity of the national investment promotion institution.

The capacity of the investment promotion institution is to be strengthened, through more resources and appropriate legal amendments designed to give it muscle to interact with local stakeholders for effective decision making on crucial investment matters. Thus, the focus will be on investor after-care to resolve nagging problems and constrains facing investors in the country. In the process, hopefully once we have satisfied the current investor component, re-investments could be generated from companies operating in the country.

Although the Government has acknowledged the need for public sector reform, progress has been very slow. Why?

Government is committed to the reform of the public sector but is currently facing capacity constrains in carrying out the reforms at a fast pace. However, we have started with the establishment of institutions such as the training academy for the civil service to ensure that all managers and officers are at the same benchmark intellectually, technically and in terms of Government focus and priority. Given that Government is the largest employer in the country due to the failure of the private sector to grow fast and create more jobs, the issue of downsizing should be approached with circumspection. This is a path that calls for a gradual approach in order not to destabilize the society by throwing into it thousands of retrenched workers.

How has Namibia's membership in regional bodies helped her economy so far? What can be done to enhance the country's competitiveness through regional memberships?

Namibia is member of the Southern African Customs Union (SACU), with the effect that its economy is highly integrated within the South African economy, which is the largest and most competitive in Africa. Due to SACU membership, the local industries are in direct competition with South African companies. While this may have negative consequences, it also serves to keep local industries alert and sharpen their competitive edge for survival in the regional and global marketplaces.

Within the region, Namibia is one of the major exporting countries to South Africa, and has a number of companies that are capable to withstand global competition. Furthermore, Namibia is party to the Southern African Development Community (SADC) Protocol on Trade. Though an assessment on the impact of Namibia's membership to SADC on its local industries and the economy has not been done, indications are that several Namibian companies have started to move into regional markets and increased sales.

As for the enhancement of Namibia's competitiveness through regional memberships, it should be appreciated that being a member of regional economic organizations is just one element of making the economy competitive. To be able to take full advantage of the available market at a regional level, supply side constraints in member countries should be addressed through investment inflows which will set off industrialization to enable value added products to reach regional and global export markets.

ALI MANSOOR...

FINANCIAL SECRETARY, MAURITIUS

PICTURE COURTESY OF LE MAURICIEN LTD

Prior to joining the Mauritian Government in 2006 as Financial Secretary in the Ministry of Finance and Economic Development, Mr. Ali Mansoor had a long career with the World Bank and the International Monetary Fund (IMF).

Mauritius has been one of Africa's few social and economic success stories. However, in recent years, Mauritian exports have been hit by competition from low cost textile producers, the loss of sugar subsidies from Europe and escalating oil prices.

To emerge from this situation, Mauritius has embarked on an ambitious program of reform which requires resources to the tune of US$5 billion in the next ten years, resources comparable to the current GDP of Mauritius.

Mauritius is renowned for its incredible economic transformation since the 1960s when it was a single-commodity agricultural economy. What was at the core of this success?

A combination of factors which revolves around the type of democracy we have. The British brought the democratic transition in a way that encouraged people to work in coalition governments. Therefore, we never had the idea of winner takes all. Governments have always been coalition governments. What is important about that is the notion that people need to work together, and the private sector and the Government work together in transforming the economy.

We have democratized the economy as growth has come and the fact that the growth was shared created a sustainable base. But we still need to democratize the economy much more.

Growth also came in part from learning how to use preferences in the global economy to our advantage and the rents were basically invested in human capital development, infrastructure and social welfare programs. That model worked very well and the result is that by the standards used internationally, there is very little absolute poverty in Mauritius. This is not to say that poverty is not an issue, but we have had equitable growth which lead to a situation where poverty in Mauritius is similar to what you find in an OECD country rather than in a low income countries.

What were the main factors that contributed to Mauritius' successful sectoral policies?

When Mauritius started out on its path, it was rather easy to know where we had a comparative advantage. We had low cost labor and textiles was a natural place to go. We also had natural resources in the form of the best beaches in the world, so tourism was also a natural place to go. This policy of picking winners was facilitated by the rents that emerged from the Multi-Fiber Agreement for example.

But the difficulty we have now is that as the economy becomes more sophisticated, and as the global environment becomes more competitive with less rents available to latch on to, it becomes much harder to pick winners. This is one of the problems of a transitional phase. We now need to move to an economy where the general business conditions are attractive and where we allow a lot of people to experiment with what each of them thinks is a good idea and have circumstances and support services where those who get it right can grow rapidly and those who got it wrong can switch to something else at a low cost. This is why it is now important to change the approach, because the world economy has changed and the circumstances facing us have changed. The economy has reached a point now where picking winners is no longer a feasible strategy.

Mauritius has embarked on an ambitious program of reform which requires US$5 billion in the next ten years. What do you hope to achieve through these reforms?

Creating a level playing field for businesses, a business environment that rewards and encourages business efforts, opening the country to make it very easy for people to come in and invest and try to turn Mauritius into a service platform for the Indian Ocean Rim.

We think we have a comparative advantage between Asia and Africa and creating a platform for firms that either come from Asia wanting to go to Africa, or the other way around, or that come from outside the region and want to serve the Rim. If you look at the characteristics of Mauritius, we have a very strong comparative advantage to make this work.

If you were designing an economy that would succeed in a globalized world, it may look a lot like Mauritius; a diverse population that is very open to foreigners, a very good climate and, for families, the environment is very attractive.

And what are the main challenges you foresee as you go down the reform path?

The biggest challenge in any change is getting people to accept the need to invest in some effort today for rewards which are in the future and which may seem uncertain. They know they have to pay a price now and it is not entirely clear to them how quickly they will get the result. So, convincing people that they need to stick to reform and getting some early harvest to convince people that the benefits are there are the main challenges. Moreover, we need to bring in foreign investment and to do that the infrastructure has to be upgraded so that Mauritius can become an attractive service platform. So, we come right back to the issue of financing. We are starting from a position of stress, especially in the budget, because for the last ten years we have accumulated debt and because we were hit by trade shocks, we are reliant on external assistance under initiatives such as Aid for Trade. But there, the handicap is that most of the assistance is geared towards low-income countries and when it comes to making Aid for Trade operational it is taking time and we need resources now. One of our challenges is to try to get the sequencing and timing of our needs and the external assistance lined up.

Another challenge facing Mauritius' efforts to become globally competitive is the lack of skilled labor. At the same time, Mauritius is targeting the Information Technology (IT) sector in its new export strategy. How do you reconcile your plans to develop the IT sector with a lack of skilled labor?

In the short run foreign human capital, in the long term upgrading skills. We are investing in a massive training program where we will help people create a small business and help them upgrade their skills. But in the short term we will address the skills shortage by making it much easier for foreigners to come and work here. We reformed the arrangements so now we have a single occupational permit that allows both residence and working rights and is automatically extended to spouse and children. There will be a natural evolution and as we train the right people, the demand by the firms that are here for foreign people will fall and the demand for domestic labor will rise. And by bringing foreign skilled labor they will help upgrade the skills of our people faster.

Speaking of Asian economies, in your view, what are the main factors that contributed to their success and are they any different from factors impacting the competitiveness of Mauritius?

What made Asian economies succeed is very similar to what made Mauritius succeed: good collaboration between the public and the private sector and because of this collaboration, developing policies that are generally friendly to business. In Mauritius, like many Asian countries, we have tended to favor established domestic firms over new entrants, whether domestic or foreign. But this model has reached its limits and many Asian countries have had to restructure following the Asian crisis and open up their economies much more, and we certainly have to do the same. It does not mean that we need to be against the existing business but we need to be much more open and make it much easier for new entrants to come in. So the lesson is to make the general business environment friendly to all as opposed to targeting certain sectors.

Also, like the Asian economies, we were fairly successful in running an active industrial policy. But that was a different era. The level of sophistication of the economy made it much easier in the past to decide where we had a comparative advantage and the existence of preferences accelerated decisions about where. At the same time, the pace of change at the time was slow which meant that we had time to react and figure things out. But now that the preferences have gone down and the world is changing very quickly, it becomes much harder for us, and for Asian economies, to operate the type of industrial policies that we used to implement.

How will new initiatives such as the 2006 Finance Act and the Business Facilitation (Miscellaneous Provisions) Act of 2006 affect the business environment and work to improve competitiveness?

They will impact the business environment positively. As for the specific reforms, there is a very major tax reform which will make Mauritius a very low tax platform where everybody will pay their share of taxes but at a low rate. Secondly, they will create a business environment where it is easy to start and invest especially for new entrants whether domestic or foreign. Thirdly, they will create a business environment where it is easy for foreign investors to come and bring in the staff they need and even for individuals to come and start businesses, including in the services area. These are major reforms in terms of changing the attractiveness of the country to attract foreign and local investment and unlocking individual initiatives.

But it will take time before we see full benefits because, first of all, the rest of the world needs to become aware of the reforms in Mauritius and, second, we need to establish the track record and demonstrate that these reforms are here to stay and that the fiscal consolidation that goes with these reforms is going to stay.

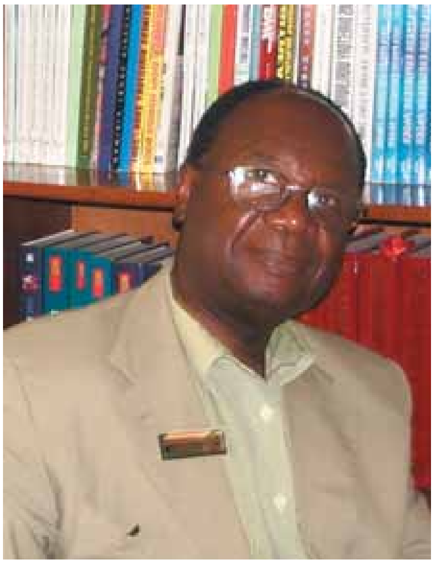
What did you learn about competitiveness during your career at the World Bank and IMF that you hope to bring to your current position in Mauritius?

Economic policy matters. After 50 years of experimentation with different development policies, we now have a relatively good understanding of which policies will deliver growth with equity and which policies will fail. The reform that Mauritius has embarked on now is very much in line with the positive experience that other countries have had in going down the same road.

Economic policy matters; opening up the economy, competition and a government regulating to make sure the market works are the three components of success along with heavy investment in human capital and making sure that the infrastructure that is needed to support economic activities is kept up by the government.

JUSTIN M. CHISULO...

CHIEF EXECUTIVE, ZAMBIA ASSOCIATION OF CHAMBERS OF COMMERCE & INDUSTRY



Mr. Justin M. Chisulo is Chief Executive of the Zambia Association of Chambers of Commerce and Industry (ZACCI).

He is also a spokesperson for the SADC Regional Business Climate Survey (RBCS), an influential annual regional survey that is now in its third year.

Zambia has a relatively open economy, which depends on the mining sector as the backbone of the economy. Sustained efforts in recent years to strengthen the public finances have contributed to improved macroeconomic stability and economic growth. Zambia has posted economic growth at an average of almost five percent per annum between 1999 and 2005.

Do you think that the various measures of competitiveness provide useful tools which countries and the private sector can use to improve their competitiveness?

Yes. Any institution, in any government, when they look at a measure of their regulations or institutions must then be in a position to say "Is this true?" And, if this is not true, "How do we get across what the true situation is?" In other words, these indicators should spur governments to carry out their own surveys to either confirm or dispute [what these indicators say]. These measures also help governments discover in which areas they are competitive or not competitive. But the sample size is very important, because if you speak to a certain group with certain ideas, the answers will provide the basis for what you will come up with.

From your point of view, in which areas do governments in the region need to enhance their role in creating a conducive business environment? And in which areas do they need to restrict their involvement?

In order for a country to be a player in the global market its products and services must be competitive on both quality and price. Both depend to a large extent on production costs. These costs arise due to a number of factors. Governments can help address some of these via: infrastructure development, institutional development and [increasing] economic and political certainty. At the same time, governments should limit their involvement in air transport, other than in providing a conducive regulatory environment; in communications, other than to open up the airwaves; and in banking, other than to facilitate setting up an environment that makes access to credit easy and affordable.

What, in your opinion, should be the short-term priorities of governments if they are to succeed in enhancing their countries' competitiveness?

In the short term, governments should focus on reducing tariffs and setting up long-term lending institutions to make access to credit easy and affordable.

What are some of the ways to set up such institutions?

There are two ways for governments to make finance cheap. One is to set up a development fund – a bank dealing strictly with long-term development needs. Secondly, they can underwrite the banks that lend long-term so the banks can have confidence that if somehow things don't work out properly they will still get their money back.

Perhaps one of the biggest challenges facing African economies in general is moving beyond competing on cheap labor and natural resources to adding value to their exports. Do you think that governments can play a role in facilitating a shift to higher value-added products and if yes, what type of industrial policies should they pursue?

Governments should implement industrial policies to encourage value addition. A good example of such policies is in Tanzania where the government decided to impose an export duty on raw hides and exempted processed hides. Such policies create employment, technological transfers and that is what we need in this part of the world.

Governments can also use industrial policies that protect local industries from dumping or unfair competition from imports, that identify and encourage setting up industries that have competitive and comparative advantage, and encourage the creation of clusters and value chains. Governments can also help in creating linkages between SMEs and large corporations or multinationals not only to ensure quality control but also technology transfer.

Could you tell us about the SADC Regional Business Climate Survey (RBCS) as an instrument that assists Southern African coun-

tries in improving their competitiveness?

The Regional Business Climate Survey is an instrument that can assist SADC countries to improve upon their competitiveness. The annual survey was carried in 2006 for the third time and asked more than 580 respondents to rate how 19 challenges affected their export/investment business in the region. The results indicate that the challenges still exist but on a reduced scale. Countries in the region should look at these perceptions of the business sector and attend to them.

The region would appear to be moving in the right direction. Some governments in the region have taken measures to attend to the regulatory and legal environment, while others are attracting more FDI and more and more workshops on regional integration are taking place. This can only enhance the perception that the region is on the move.

Why then, has there been a marked decline in the percentage of companies who are considering intra-regional/local investment? (Down from 73.80 percent of companies who said that they will invest intra-regionally in 2005 to 29.10 percent in 2006.) How do you explain the decline?

It is something that we could not really put our fingers on. My own analysis is that in the 2006 survey there were more service sector respondents included in the survey and when you are talking about the services sector there is very little actual physical investment in countries around the region. So this must have had a bearing on the overall investment in the region.

Do you think that Zambia has become a better place to do business?

I do think so. There is an increase in the level of communication between the private sector and the public sector and once you have that interaction taking place a number of things tend to happen – not at the pace that the private sector want them to happen, but they do happen.

For instance, two days ago we witnessed the launch of a project which has now reduced the number of days required to register a business from ten days to about a maximum of three days and it is electronic. We also have a group looking into the issue of work visas.

Now the bilateral and multilateral institutions have brought confidence to Zambia. The macroeconomic indicators are looking favorable. Inflation is now below ten percent; interest rates used to be 40 to 50 percent and now are around 27 percent. The exchange rate, apart from last year and the early part of this year, has stabilized and there is a lot of investment coming into the mining area and a lot of investment coming into the tourism sector.

The Zambian Government has taken several measures aimed at enhancing competitiveness including setting up the Zambia Development Agency which is a one-stop shop that aims to provide access to all the regulatory authorities dealing with exports, investment, standards, processing zones and registration of companies. The Government has also established a formal mechanism for dialogue between Government and the private sector and revised various regulatory and legal provisions relating to visas, borders and land tenure.

Of the countries from Southern Africa that we are reviewing in this issue, Zambia is the only country where business competitiveness ranked lower than country competitiveness in the Global Competitiveness Index. Why do you think this is the case?

I think this index is bound to change. The reason is that until a few years ago we never industrialized, we never replaced machinery. We were using old machinery and old methods, partially because we did not have the money because the tax regime made it very difficult for anyone to bring in the machinery. But now there is a realization that if you want to compete in the global market you have to have modern machinery, you have to have modern methods of producing goods. In other words: technology.

I think in the short term the private sector should focus on modernizing its tools of production to become cost effective. Second, and very importantly, it needs to raise the level of advocacy with the Government so that the cost of production – which includes the cost of material that they bring in, raw material and fuel, which is very high because of taxes – can be reduced. Third, and this we can do, we must have ready information about export markets.

What strategies should the private sector adopt to improve the business environment in the region?

There are several strategies that the private sector can pursue to improve the business environment in the region, including: elevating the level of engagement with governments in the region either at the national or regional level; forming regional business groupings to address challenges at the regional level; setting up information centers; and encouraging linkages that add value.

Do you think that regional trade agreements in Southern Africa have contributed to improving the competitiveness of countries in Southern Africa?

Regional trade agreements can certainly enhance competitiveness and provide markets. However, these agreements tend to be founded on the premise of one dominant partner. These agreements should move to a situation where the region as a whole is seen as one investment and trading market. While there has been some progress, we find that most countries in the region tend to belong to more than one regional trade agreement and because of that, tariffs, rules of origin, and documentation relating to domestic content are not harmonized. This undermines competitiveness in the region as a whole.

The first thing that needs to be done is that we need to accept that, while we need to protect revenues coming from duties, the benefits that come from enhanced trade and investment in a wider market more than compensates for it. It would be preferable if each country belonged to one regional agreement only so that various regulations and policies that impact the business environment can be harmonized within each regional grouping.

LYNETTE CHEN...

CEO, NEPAD BUSINESS FOUNDATION

Ms. Lynette Chen has been seconded to the NEPAD Business Foundation (NBF) by Hewlett-Packard South Africa, where she heads up Government & Public Affairs.

The NBF provides a platform for business to understand the principles of the New Partnership for Africa's Development (NEPAD) and to effectively engage in NEPAD initiatives from a private sector perspective. The Foundation strives to be the critical link between business and attaining the objectives of NEPAD.

The NBF envisages an African powerhouse to generate innovative economic growth that engenders socio-political stability and sustainable livelihoods for all Africans.

How do you think the challenges facing businesses have changed over time?

The business environment has changed quite drastically in the past fifteen years, mainly because of the faster pace brought on by technology which drew everybody into a closer global village. Previously, companies competed mostly locally but now they are competing on a global basis, with increased pressure to perform. So faster paced growth, faster technology, higher targets that are set by shareholders, have really meant that businesses need to look at their growth path more at an international level than just at a local level.

How can governments in the region help create the necessary conditions for business to grow and prosper?

I think the whole perception that governments should focus on government business and corporations have to focus on corporate business has changed. For Southern Africa and all developing regions we need to start looking into all sorts of partnerships between the public and private sectors.

For example, when the government implements a project it starts with a pre-feasibility study, followed by a feasibility study, sourcing funding, and finally developing the architecture with the design. The private sector comes in at the last stage only to implement. The feasibility process can take anywhere from two to four years which is far too long when you look at the rate at which other developing countries are growing. The only way to increase the efficiency is to see how the private sector can contribute its expertise and skills at an early stage. Through this process a new form of public private partnership has to be developed. Businesses need to take a risk and governments need to take an equal risk. This is essential if Africa is to grow at a faster rate. Businesses have started to realize that if they want to expand, they need to work with their governments; and governments need to realize that if they are to generate economic growth in their countries they need businesses to invest and they need to be more flexible and more open to changing policies and regulations to make it easier for businesses to operate in their countries. Issues like customs and duties, excise tax and work permits for foreigners need to be considered.

And what do you see as priority areas for governments to focus on to improve their countries' competitiveness?

The first step would be to review the regulations, especially with respect to taxes and excise tax to establish lower taxes and tax breaks and to make it easier for foreign workers to come into the country. If you look at developed counties like Canada or Australia, for example, they offer a lot of concessions for new businesses that want to invest in the country. Countries need to revise the current acts which are outdated and have not progressed to reflect the pace at which the world is developing.

Governments should also focus on regional integration. The only way that the Southern Africa region is going to be successful is through cooperation on policy and regulatory issues and around all sorts of topics including customs and excise, border control and development and investment of donor funding. They need to look at special development corridors that are not country specific but are going to benefit the region as a whole. But the progress in regional integration has been really slow.

What is the role of the private sector in improving the competitiveness of a country on the global stage?

The private sector can do this in many ways. First, businesses can do this by upgrading local skills; offering training opportunities and internships. Further, businesses should also enhance research and development of new products that can be exported as African products instead of merely being the resource hub for the globe. More manufacturing and processing capabilities need to be brought out in the region and businesses should find ways to do that.

South African labor policies are often described as inflexible and labor as expensive and unproductive. The country also suffers from severe skills shortages in some sectors. In your view, how do labor policies impact on the country's competitiveness?

We have restrictive labor laws and policies which makes it very difficult. If a company in India, for example, has an employee who is inefficient you can fire them right away. In South Africa you cannot do that. You have to go through a long process, three warnings, a hearing, etc. These policies are rooted in the history of the country and the legacy of apartheid. In those days the employees and the masses were represented by the unions and through the unions they had more rights than they did as individuals. That is why the whole union movement in South Africa has grown over the past fifty years and became one of the largest forces.

So all the labor regulations were developed to protect the employee, which is good, but from a big business point of view, especially when businesses compare these regulations to those of countries like India, they find them very cumbersome.

The other problem we have is skills shortages. Again, this comes back to apartheid, because the majority of South Africans did not have access to quality education. Many of the people that were skilled have emigrated – because of black empowerment they do not have many opportunities in South Africa. Through BEE [Black Economic Empowerment], companies are obliged to bring in and 'skill up' more black people, which is good in that it equalizes the disparity from the past. But, at the same time the current reality of the situation is that they are not skilled. The Government realizes this and they are caught in a tough situation. They need to increase the share of black people in the economy, which everybody agrees with, but there is a lack of skills right now and therefore the delivery in projects is often questioned.

If a country does not have a high level of skills it will not be able to compete in the global economy. So it is really a vicious circle.

What is the role of the NEPAD Business Foundation in improving competitiveness at the country and firm levels across Africa?

We were challenged four years ago to get businesses to come to the party to help achieve NEPAD's objectives. We then established the NEPAD Business Foundation (formally known as the NEPAD Business Group) with leaders of industry from different sectors like water, energy, ITC, agriculture, etc. There are now 13 sectors and through this we have been trying to coordinate with the NEPAD Secretariat to achieve NEPAD's objectives.

As business we look at what projects we are doing that involve Africa's promotion. For example, in the energy sector there is a big project called the Western Power Corridor (WESCO) which aims to provide electricity to five African countries using hydro-electric power from the Congo River. That particular project is predominantly an energy project, but what NEPAD did was to look at it not just as an energy project but look at all the sectors that could participate. Because it is hydro-electric power it means that the water sector needs to get involved and provide expertise, which in turn means that agriculture can benefit and also needs to get involved. Once these projects have progressed it gives opportunity for tourism and the resultant infrastructure. Through this one project we have linked five industry sectors. So we facilitate and coordinate industry cooperation and coordination in projects in Africa. Business has always been very skepitical of NEPAD, thinking that it is motivated by ideology, but we have been showing them that NEPAD can only be successful though the delivery of projects and business has a role to play in this; not from the philanthropic point of view and doing the right thing, but because there is a business potential by involving with NEPAD.

You spent some time in Asia. Economic ties between the region and China are growing rapidly – how can China help enhance the competitiveness of countries in Africa? What lessons can Southern African countries learn from China about competitiveness?

A couple of weeks ago [November 2006] there was the Africa-Beijing Summit and 48 African Heads of State attended that summit – which is an incredible presence. I think the reason so many attended is that China has approached Africa in a completely different way from the rest of the world. Other countries' approach has been "Oh Africa, you poor continent how can we help you? How can we donate?"; whereas China has approached Africa from a commercial (business and partnership) perspective. They identified Africa as the investment destination of choice and they have engaged in pure business transactions with Africa. It is a business deal. They come here because they want the minerals and in return they build roads, infrastructure and housing. There has been criticism about China coming in and plundering Africa's resources and then leaving. In reality it is not as harsh as that. In reality, they build top quality infrastructure and African countries can immediately leverage off that infrastructure. Africa does not have the skills at the moment to build such infrastructure and if they were to build it themselves, with the lack of funding – through donors – it would be a long complicated process. So I think it is a win-win situation.

In terms of how China can help African countries improve their competitiveness, China should train the African people to maintain and sustain the systems it builds. Doing that it will help improve local skills.

African countries can learn a great deal from China and Asian countries. The entrepreneurial spirit we find in Asia can be taught to Africans from a young age. Governments can also learn from the Chinese Government. The Chinese Government runs the country like a business, they are looking at China as a whole and they look for opportunities. For example, they look at Africa and say, we want to trade with Africa because we need this product and we need to trade with the US because we need something else and so on. They are running the country like a company and they are doing what they think is in the best interest of the whole population. And the efficiencies are there.

GRAHAM MACKAY...

CHIEF EXECUTIVE, SABMILLER PLC

Mr. Graham Mackay joined South African Breweries in 1978 and was appointed Chief Executive of the company in 1999. Under his leadership the company acquired Miller Brewing Company in the United States in 2002 and subsequently became SABMiller. He is based at SABMiller's head office in London.

Mr. Mackay has led SABMiller's rapid global expansion which has seen the company make inroads in Europe, China, India, Africa and Central America.

Today, SABMiller has brewing interests or major distribution agreements in over 60 countries spread across six continents, including in 29 countries in Africa.

SABMiller has brewing or beverage interests in many African countries. What are your greatest challenges operating in Africa?

It is a fallacy to think of Africa as one market or as a continent in which everything is common. Different countries have different challenges. One of the problems in Africa, of course, is volatility of currencies and in the performance of individual economies and markets.

Many of the markets are quite small, the infrastructure costs are high, and the costs of doing business are relatively high per unit because the markets are small. So a challenge is making maximum use of infrastructure and striving for comparable efficiencies.

But I have to say that the biggest overall challenge is simply the volatility of conditions from one year to the next. Our portfolio of businesses helps to shield us against such volatilities – it is a broad portfolio, as you said.

SABMiller is planning to expand 'selectively' within Africa. What determines your choice of countries to invest in?

I am not sure where the word 'selectively' is coming from because it implies that we are sort of picking and choosing in Africa. I would say that our attitude is a lot more positive than that would imply. In fact, we have tried to invest in various countries in Africa without success – but it has not been for a lack of trying – we are generally very keen on further investments in Africa. It is a question of finding attractive entry points for that.

We do have relatively substantial growth across our existing portfolio, so quite a lot of the expansion is just following the organic growth in individual markets. For instance, we have relatively active expansion programs underway in countries such as Tanzania and Mozambique.

Elsewhere there are some breweries which are still in state hands and which we have tried to acquire via privatizations. And that obviously affects whether we go in, or not.

There are other countries where there are some obstacles raised by existing players – where it is difficult to enter the market in a relatively normal way. What I mean is to export the products in and then build a beach-head and then build a brewery – which would be a typical way to enter new markets. In many markets in Africa that is difficult because of tariff barriers.

But overall, it would be true to say that the biggest hindrance to further investment in Africa is not our unwillingness to invest, but finding suitable investment targets.

Do the various measures of country competitiveness such as the World Bank Doing Business Report affect your investment decisions?

I would not say that they have an overwhelming influence on our decisions. We use a number of triangulation points when we look at a country and we do very comprehensive country reviews. We would hope to know quite a lot more about that country than you can simply pick up from an index of competitiveness.

We would decompose those measures and have a look at the underlying causes and the underlying business climate.

So, in principal that sort of survey is useful, but much more at a detailed level than simply using an output index of that kind.

Today SABMiller has investments across the globe. How does your experience in Southern Africa compare to that in other developing countries?

I would say that our African experience is somewhere in the middle of the pack. They are not the most difficult environments to do business that we have encountered anywhere in the world, and they are also not dead easy.

But in Southern Africa as a whole, I think that the business climate compares reasonably well to the average of our experience across other emerging markets. It is not easy and unconstrained as it is in some, but equally, it is not the worst.

Based on your experiences in the region, what are the priority areas that countries should address in the short term to improve their competitiveness?

In general, I think the thing that hinders Africa more than anything else is what is generally called 'governance' – which is the quality of the laws; the property right protection; the level playing field – just the business climate.

Within that there is another pretty important issue and that is the question of borders and tariffs and taxes. There are many obstacles to cross-border trade within Africa which are very unhelpful to multinationals because they force sub-economic choices. They make transaction costs much higher; they tend to bias investments in the wrong direction, or try to bias investments in the wrong directions – and ultimately simply become a burden on investment.

We have always been in favor of low or no tariffs, wherever we have operated.

Perhaps one of the biggest challenges facing African economies in general is moving beyond competing on cheap labour and natural resources to adding value to their exports. Many argue that governments can, and should, implement industrial policies to facilitate the shift to more value-added products. Do you believe that governments can or should play an active role in facilitating such a shift?

I am not a deep expert on this topic, however, I have to say that I am a skeptic about the ability of very specific industrial policies to shape investments. I think that those are sometimes overstated. And I think that a level playing field and good governance and low tariffs will sort out most ills – let the market decide, rather than export processing zones and the like.

Another challenge facing African countries is the lack of skilled labor. In your view, what role can businesses play in enhancing the level of skills on the continent?

In the countries that we are talking about, the formal sector is quite limited in the role that it plays directly in the economy.

And what you need is for the formal sector, that may be populated by some multinationals as well, to be surrounded by networks of smaller, medium and micro-sized businesses – which are not as intensive in formal skills and education.

I regard this whole problem as being very much a stratified, or layered, problem. At one level, you have skills demands by manufacturing industries such as ours, which are high skills, specialized skills, and a high level of education and training. And we educate and train to procure that and we hire people who are capable of operating at that level and then moving on – onwards and upwards.

My kind of company is one that has a strong multiplier effect on employment in others parts of the economy, and by and large, that multiplier effect results in jobs that are not as highly skilled and are much more extensive. And I am talking here about jobs upstream, in the agricultural and raw material industries; as well as downstream, in the distribution and retailing industries.

So the effect of a company like SABMillers's operations in these countries is that you have a relatively small central nexus of highly specialized skills, which we do a lot to maintain and develop, but then you have a ripple effect out to the broader economy of jobs that are created for semi-skilled and unskilled labor. You know, the population sort of filters up through those layers through your efforts.

Do you think that regional businesses are doing enough to improve the business environment in the region? What areas/issues should the private sector in the region concentrate on in the short the term?

I think that the private sector can do a lot if what it is asked to do, or what it is trying to do, is directly related to its own business. I think that the private sector ultimately is by far the most powerful force for good economic development and it should be encouraged to be that, but I think that once the private sector starts to stray too widely from its core competencies its relevance and its ability to procure change drops off dramatically.

So quite frankly, I think that regional or other businesses invest where they see opportunities, and the most they can do to improve the business environment is to put pressure on the relevant governments to provide a better environment themselves for investment. I do not think that businesses can supplant the role of government in that regard.

SABMiller has pledged US$2.5 million to the Investment Climate Facility (ICF) over the next five years. How do you hope that will work to improve the business environment and competitiveness in Africa?

The first point that I should make about that ICF is that it is a pledge made in hope. Some of it is conditional because there are the review milestones coming up, at which time the process of this ICF will be evaluated and we, like the other private donors, will decide whether there has been enough progress of the kind that was envisaged to warrant continuing with the rest of the pledge.

It is early days yet and those milestones have not yet been reached.

Now, I personally hope that the ICF will be used to create a climate of better governance in those countries because that, I think, is by far, the biggest stumbling block – not skills provision or anything else like that. I think that the obstacles to business in Africa are obstacles on the demand side. They are not obstacles on the supply side such as the supply of capital or the supply of labor and so on. I think that those things will sort themselves out as long as there is demand.

I want to emphasize the points I made earlier about level playing fields, good governance, low tariffs – you will be surprised at what can blossom in that environment. And it does not need artificial stimulation because artificial stimulation, I think, usually carries a very high price.

COMPETITIVENESS, PROSPERITY AND POSITIVE HUMAN VALUES

Not so long ago if one spoke about competitiveness and private sector development as a core principle of economic development, they were met with something between indifference and antagonism. Now, it is bandied about in the corridors of the multi- and bi-laterals, and viewed as a critical part of any nation's strategy to help its people.

We see this in Rwanda, a post conflict society, landlocked, with few natural resources, a small amount of specialized infrastructure, and until recently, weak institutions. Even a skeptic might say if the ideas of competitiveness could be useful there, in mining and tourism and coffee, surely, they are useful in many other places in Africa. Before we do that, let us talk about a couple of related concepts, prosperity and positive human values.

What is Prosperity? Prosperity is the ability of an individual, group or nation to provide shelter, nutrition and other material goods that enable people to live a good life, according to their own definition. Prosperity helps to create the space in peoples' hearts and minds so that, unfettered by the everyday concern of the material goods they require to survive, they might develop a healthy emotional and spiritual life, according to their preferences.

We can think of prosperity as a flow and a stock. Many economists view it as a flow of income; the ability of a person to purchase a set of goods, or capture value created by someone else. We use a notion of income called purchasing power.

Prosperity is also the enabling environment that improves productivity. We can therefore look at prosperity as a set of stocks. We have listed below the seven kinds of stock, or Seven Forms of Capital, the last four of which constitute social capital. In this conceptualization we see all forms of prosperity falling into the following categories: natural endowments such as location, sub-soil assets, forests, beaches, and climate; financial resources of a nation like savings and international reserves; man-made capital which are buildings, bridges, roads, and telecommunications assets; institutional capital such as legal protections of tangible and intangible property, government departments that work with little hidden costs to the economy, and firms that maximize value to shareholders, and compensate and train workers; knowledge resources such as international patents, and university and think tank capacities; human capital which represents skills, insights, capabilities; and culture capital which means not only the explicit articulations of culture like music, language and ritualistic tradition, but also attitudes and values that are linked to innovation.

Moving away from a conceptualization of prosperity as simply a flow of per capita income enables us to consider a broader system, and the decisions for investment in an enriched and enabling "high-productive" environment. Nobel laureate Amartya Sen suggests that, "The advantage of a stock view would be to give us a better idea of a nation's ability to produce things in the future."

Why Does Prosperity Matter? We know that individuals around the world have vastly different purchasing powers and countries possess stocks of wealth in different proportions. According to Thomas Sowell, "We need to confront the most blatant fact that has persisted across centuries of social history – vast differences in productivity among peoples, and the economic and other consequences of such differences."

There are intimate connections between poverty and malnutrition; but poverty is more insidious than statistics can indicate. Poverty destroys aspirations, hope, and happiness. This is the poverty you can not measure, but you can feel. There is a rich literature on correlation between incomes and such progressive human values as: productive attitudes toward authority, tolerance of others and support of civil liberties, openness toward foreigners, self-esteem, sense of personal competence, interpersonal trust, and satisfaction with one's own life. Ronald Inglehart writes that higher rates of self-reporting of both objective and subjective well-being are correlated with the levels of national prosperity.

What is Competitiveness? Nations that do not create wealth for their citizens share much in common. Our evidence, and that of others, suggests that they are over-reliant on natural resources, including cheap labor; and that they believe in the simple advantages of climate, location, and government favor. Because of this they often do not build the capacity to produce differentiated goods and services that create greater value for demanding consumers who are willing to pay more money for these goods.

By focusing on these easily imitated advantages, on these lower forms of capital, they compete solely on the basis of price, and therefore, tend to suppress wages. It is exports based on poverty, not exports based on wealth creation; and the only competition they are in is to see which country can stay the poorest the longest until its society disintegrates.

A nation's ability to create both price and non-price value for consumers inside and outside the country is what determines its productivity, therefore its prosperity, and most importantly, its impact on the goals, assumptions, attitudes, and values, of its people.

The rewards are great for nations that embrace competitiveness. Post-genocide Rwanda is a powerful illustration. In 2002, Rwanda's coffee industry refocused on "relationship specialty coffee". Starbucks now sells Rwandan bourbon coffee in the US. Coffee export receipts have doubled since; price to farmers has tripled. Specialty coffee is changing values, and bringing hope to five hundred thousand families and helping in reconciliation.

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