



ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

Subcommittee on International Trade and Investment

First session
27-29 October 2004
Bangkok

ADDRESSING SUPPLY-SIDE CONSTRAINTS AND CAPACITY-BUILDING

(Item 6 of the provisional agenda)

Note by the secretariat

SUMMARY

In order to capture the potential benefits of increased market access opportunities generated by trade liberalization, countries need competitive enterprises that are able to produce goods and services at a cost and quality required by the market. They also need to have efficient mechanisms in place to ensure that these goods and services can reach international markets within the time and cost required to stay competitive.

The present paper provides an overview of a number of factors that are important for enhancing the productive capacity of the enterprise sector and facilitating cross-border trade, along with some policy recommendations. It also outlines a number of areas in supply-side capacity-building where ESCAP could make a contribution.

The Subcommittee is invited to deliberate on these issues and guide the secretariat in further enhancing the implementation of its work programme in supply-side capacity-building. In this respect, the Subcommittee is, in particular, invited to review the list of options for priority areas within supply-side capacity-building presented in the table and give guidance to the secretariat to ensure that its work priorities reflect the capacity-building needs of member countries. Furthermore, the Subcommittee is welcome to make suggestions as to good and innovative practices in the region that may be shared, upscaled or replicated in other member countries.

Introduction

1. Successive rounds of trade agreements and negotiations within the GATT/WTO framework, along with trade agreements at the regional and bilateral levels, have brought substantial reductions in tariffs and other barriers to trade, and thereby increased market access. However, while this opening up to increased international trade has contributed to enhanced growth in many countries in Asia and the Pacific, trade liberalization in itself is not a sufficient condition for increased trade and growth.
2. In order to derive greater benefit from the increases in market access, countries need competitive enterprises that are able to produce products and services at a reasonable cost. They also need to have efficient mechanisms in place to ensure that these products and services can reach international markets within the time and cost required to stay competitive. Thus, countries need to combine measures to enhance the productive capacity of their enterprise sectors with measures to facilitate cross-border trade, thereby further reducing the cost of conducting trade.
3. To improve enterprise competitiveness, countries need to create a business climate that allows companies to operate as efficiently as possible and thereby contribute to growth and employment generation, while at the same time ensuring sustainability in terms of the well-being of people and protection of the environment. A good business climate is characterized by smoothly operating markets and accessible, efficient, transparent and accountable public and private sector institutions, good infrastructure, a skilled and productive workforce, access to capital and technology, easy, low-cost and timely access to information, access to efficient and competitively priced business support services, including transport, information and communication services, and efficient trade procedures and support structures.
4. Although the above-mentioned factors are important to all firms, they are of particular importance for the development of small and medium-sized enterprises (SMEs), since they are particularly dependent on sound economic policies and a conducive institutional setting. Owing to their small size, SMEs are in a weaker position to search for information, enforce contract and property rights and protect themselves against rent-seeking and predatory behaviour based on might.¹ They are also more vulnerable to trade protectionism and exchange rate fluctuations. World Bank research on SMEs in south-west China has shown that firms located in cities with better investment climates exhibited productivity rates of about 50 per cent above the average, while firms located in cities with poorer investment climates had productivity rates of about 50 per cent below average. Since SMEs are an important source of employment and income generation in most countries in Asia and the Pacific, not least so for poor people, the effect of the investment climate and related support institutions and services on SMEs merits special attention.

¹ Per Ronnås, Örjan Sjöberg and Maud Hemlin, eds., *Institutional Adjustment for Economic Growth* (Ashgate Publishing Ltd., Hants, United Kingdom, 1998).

5. Increased inflows of foreign direct investment (FDI) have often proved to speed up the economic growth and development of countries. However, in many cases it has also been observed that most FDI actually goes to countries that already have a relatively smoothly functioning business sector. This further emphasizes the crucial importance of the development of a business climate conducive to the growth of competitive domestic enterprises, both as an end in itself, and for the effects it will have on future possibilities of attracting FDI.

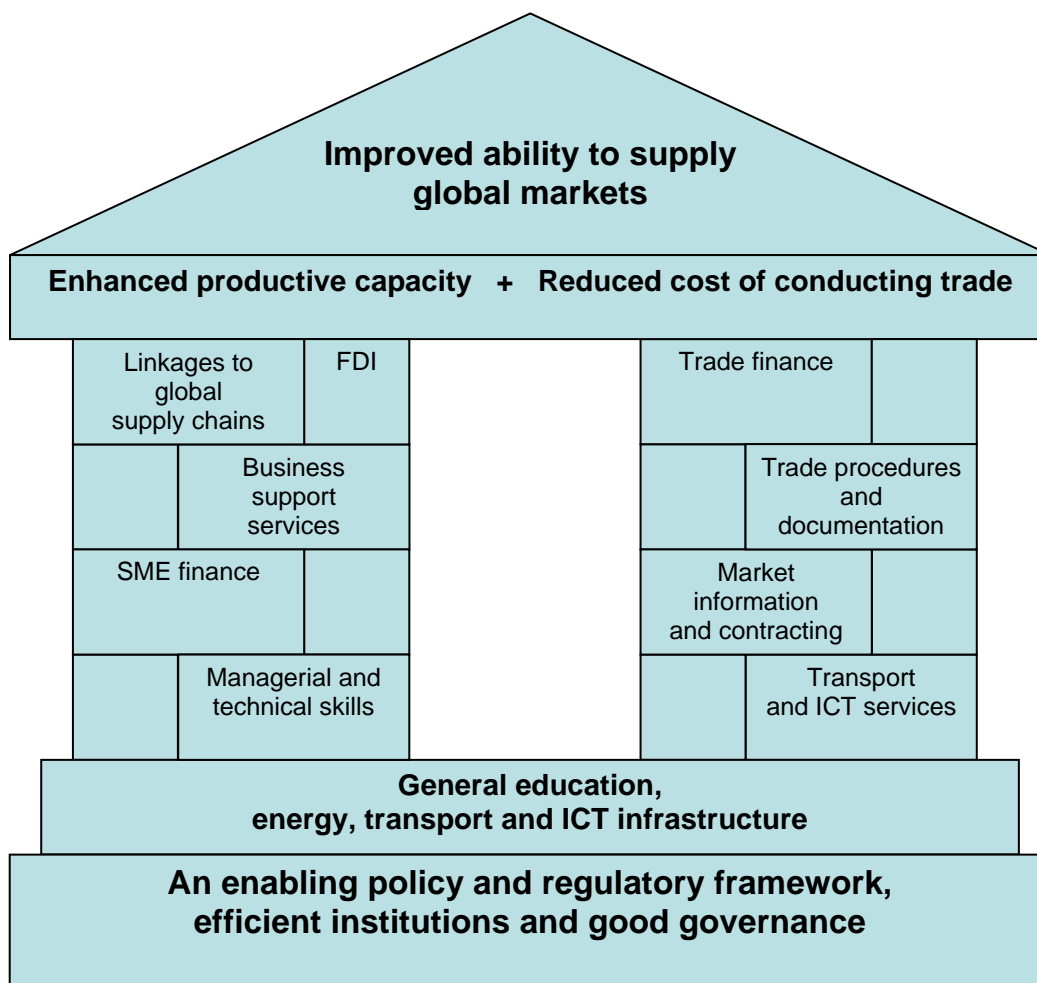
6. The Monterrey Consensus of the International Conference on Financing for Development, signed by Governments in March 2002, recognizes the importance of private international capital flows, including FDI, as well as international financial stability, as vital complements to national and international development efforts, and provides policy directions for enhancing inflows of productive capital. Furthermore, it invites multilateral and bilateral financial and development institutions, including the United Nations, to increase resources for gradually removing supply-side constraints, improve trade infrastructure, diversify export capacity and support and strengthen institutional development to enhance overall productivity and competitiveness.

7. The Committee on Managing Globalization at its first session, held in Bangkok from 19 to 21 November 2003, reviewed cross-cutting issues and sectoral developments and provided guidance to the four relevant subcommittees on their future work. The report of the Committee acknowledges the importance of FDI in the development process, as well as that of trade facilitation and supply-side capacity-building in ensuring that market access opportunities can be utilized efficiently. It requested the secretariat to accord high priority to those issues.

8. In line with this, the ESCAP secretariat has developed a two-pronged strategy for its work in the trade and investment area, focusing on (a) enhancing market access and (b) improving supply-side capacities.

9. This paper outlines the major supply-side constraints encountered by developing countries and provides a number of optional priority areas for ESCAP's future work to assist member countries in removing such constraints through supply-side capacity-building. The figure below provides a schematic overview of some of the major building blocks for enhancing supply-side capacities. The structure of the paper follows that of the figure by first discussing the importance of ensuring stable foundations in terms of an enabling policy and regulatory framework, efficient institutions and good governance, adequate energy, transport and information and communication technology (ICT) infrastructure as well as a good level of general education. It then moves on to describing the two pillars which support the two mutually reinforcing objectives of (a) enhancing productive capacity and (b) reducing the cost of conducting trade.

Building blocks for enhancing supply-side capacities



I. SUPPLY-SIDE CONSTRAINTS: THE FOUNDATIONS

A. An enabling policy and regulatory framework

10. The quality of the overall policy and regulatory framework forms the foundation of the figure and supports both pillars, as it is one of the most fundamental determinants for trade, investment and economic growth. Stable macroeconomic policies are a crucial part of the enabling policy framework, since they contribute to lowering the risk of doing business by providing a predictable overall climate for business in making investment decisions. Regulatory policies that enhance competition, support contract enforcement, protect property rights and reduce regulatory costs are other important measures to increase efficiency and innovation.

11. The Monterrey Consensus also emphasizes the importance of efficient, coherent and consistent macroeconomic policies, along with the establishment of an enabling domestic environment, good governance, responsive institutions, fighting corruption and investments in basic economic and social infrastructure.

12. At the same time, it is important to note that more regulation is often not the answer. In order to enable an efficient and competitive enterprise sector to grow, the number of laws and regulations should be kept to the minimum necessary and cumbersome regulatory procedures should be simplified or abolished. Transparency can help to ensure that laws and regulations are applied in a coherent and fair manner. Studies by the World Bank show that heavier regulation is often associated with more inefficiency in public institutions, as well as more unemployed people, corruption and less productivity and investment.² As much regulation and inspection occurs at the local level, both national and local governments play an important role in creating a good or bad policy and regulatory climate for investments, both domestic and foreign.

13. Stakeholder dialogues offer one of the most important mechanisms for improving the policy and regulatory framework.³ By increasing communication between the private and public sectors, bottlenecks can be more easily identified and joint solutions found. Stakeholder dialogues are also useful mechanisms in the process of drafting laws and regulations, in order to ensure that they are conducive to a good business climate.

14. Stakeholder dialogues should ideally be held at the regional, national and local levels. Several countries in the ESCAP region are already actively engaging in dialogues with the business sector and civil society. With its regional convening power, ESCAP could contribute to further increasing stakeholder dialogues at the Asia-Pacific level. The Asia-Pacific Business Forum, which was started as a side event to the sixtieth session of the Commission, can be an important vehicle in this respect.

B. Efficient institutions and good governance

15. Just as the quality of laws and regulations is important, the efficiency and governance of the institutions that enforce them are equally important. World Bank research has shown that countries that regulate the most have the least enforcement capacity. They also often have fewer checks and balances in government to ensure that regulations are properly enforced and adhered to.⁴

16. The existence of efficient, transparent and accountable institutions is of great importance for the growth and development of the private sector in general and SMEs in particular. In order to ensure good governance, institutions need to have clearly defined roles, operate in a transparent and accessible way and be held accountable for their actions. Different stakeholders need to be involved in formulating and implementing policies and regulations. Policies should, furthermore, be formulated in such a way that they are effective in delivering what is needed and that there is policy coherence between different policies as well as between policies and actions.

² World Bank, *Doing Business in 2004*, p. xiv (World Bank, Washington, 2004).

³ UNCTAD, "Policy options for strengthening SME competitiveness" (TD/B/COM.3/58 and Corr.1).

⁴ World Bank, *Doing Business in 2004*.

C. Adequate physical infrastructure and good general education

17. An adequate supply of power, good roads, railways and ports and proper information and communication networks provides the basis for the provision of efficient transport and communication services. It is therefore of crucial importance in building the foundations for an internationally competitive enterprise sector.

18. The level of education is of fundamental importance, not only for the development of society in general, but also for the development of enterprises. A higher educational level increases the possibility of further building capacities in managerial and technical skills, which is of crucial importance for the creation of competitive enterprises as well as for the possibility of attracting FDI.

19. Notwithstanding the importance of both infrastructure and the general level of education, further discussion of these topics lies beyond the scope of this paper.

II. ENHANCING PRODUCTIVE CAPACITY

20. The left-hand pillar in the figure relates to measures to enhance the productive capacity of companies. The measures include increasing access to SME finance, business support services, managerial and technical skills and increased linkages to global supply chains.

A. Access to SME finance

21. When asked to identify their major obstacle to growth and investment, SMEs frequently mention the lack of financing. Owing to lack of funds, many small enterprises do not have the means to expand above a certain level and thus are not able to grow at their full potential. In some instances, available loans are limited to a very short period, thus ruling out larger investments.

22. One of the main reasons for SMEs' difficulties in securing funds from the formal banking system is the high perceived risk of loans to SMEs. Among other things, this is due to their lack of collateral, vulnerability to market fluctuations and high mortality rates. The high perceived risk, in conjunction with high administrative costs for SME lending, either makes loans unavailable or pushes up interest rates for SME lending, thus making available loans too costly for SMEs. The problem is further exacerbated where business services such as accounting, auditing, financial management, legal counsel and credit information are lacking. This further increases the information gap and thereby the risk and cost of SME lending. Another problem in a number of developing economies is that banks prefer to lend to Governments, since they offer higher returns and less risk, thus crowding out the resources available for private sector lending.

23. In order to enhance SMEs' access to finance, countries need to ensure an environment where contracts are easily enforceable, issues of collateral and security are managed effectively and financial institutions function efficiently and are able to offer a range of financial instruments for different

segments of SMEs.⁵ Another important measure is to improve the reliability of financial information provided by SMEs by adopting user-friendly accounting and reporting requirements. Encouraging the establishment of credit bureaux and other information-sharing solutions can also reduce the information gap. Owing to the higher risk and specialized nature of technology-based enterprises, it can be difficult for commercial banks to finance that market. Some government funding for schemes to increase finance for technology-intensive SMEs and start-ups can therefore be appropriate in order to correct for market failures in this field. However, the risks of creating market distortions should be closely examined before setting up such schemes.

B. Access to business support services

24. As mentioned above, the existence of business services in sectors such as accounting, auditing, financial management, legal counsel and credit information is important for the efficient management and transparency of companies, and thereby for their possibilities of accessing funding.

25. In addition to this, the existence of other business support services such as training, consultancy and advisory services, marketing assistance, information, technology development and transfer and business linkage promotion is crucial to the development of a competitive business sector.

26. These types of services, often labelled business development services, have traditionally been provided by or directly subsidized by Governments and donors in many developing countries. However, this approach creates a problem with outreach, since the number of SMEs served is limited by the available funds. Moreover, it has sometimes created a problem with the sustainability of services over time when funds are exhausted. It also risks crowding out existing or potential commercial providers of services.⁶

27. In order to ensure a supply of business development services that is commercially sustainable and does not crowd out private service providers, the international donor community has lately advocated that the supply of these types of services should be market-based. Instead of directly supplying these services to SMEs, Governments or donors should focus on facilitating the development of a sustainable market for supply of these services. This could be combined with measures to stimulate demand for these services among SMEs and, if necessary, targeted and time-bound subsidies.⁷

⁵ OECD, *Promoting SMEs for Development* (Paris, OECD, 2004) and UNCTAD, "Report of the Expert Meeting on Improving the Competitiveness of SMEs in Developing Countries: The role of Finance, including E-Finance, to Enhance Enterprise Development" (TD/B/COM.3/39).

⁶ Committee of Donor Agencies for Small Enterprise Development, "Business development services for small enterprises: guidelines for donor intervention" (2001).

⁷ Ibid.

28. Furthermore, by combining business development services with financial services, SMEs' access to finance can be increased. One reason for this is that business development service providers are sometimes better placed to ascertain the creditworthiness and managerial capacity of companies, thereby reducing risks and related costs of SME lending.

C. Access to managerial and technical skills

29. The existence of a skilled and trained workforce is a prerequisite for the competitiveness of companies. However, many developing countries lack the necessary human capital to ensure growth and development of domestic enterprises and attract FDI. This relates to both the lack of managerial skills and skills in other specialized areas.

30. Business development service providers can act as a vehicle to provide for short-term professional and vocational training to enhance the capacity of SME staff. Moreover, FDI can be a very important source of strengthening the skills of the workforce through exposure to new technologies and management methods. However, none of these can totally substitute for deficiencies in the educational and training system of an economy.

31. In this respect, consultations with members of the private sector regarding their educational needs when developing educational and training curricula are one way to start a process to overcome this obstacle. The early exposure of students to entrepreneurship as a possible and attractive alternative to employment is another element in the development of the entrepreneurial sector, particularly in countries with economies in transition.

D. Access to global supply chains, FDI and intra-firm networks

32. The forging of linkages between small and large enterprises, in particular transnational corporations (TNCs), is one of the most efficient ways of integrating SMEs into global supply chains and thereby increasing their competitiveness. As suppliers to TNCs, SMEs not only gain better access to international markets, but are also exposed to new technologies and management methods, thus increasing technology transfer and human resources development. As such, enhanced access to global supply chains can act as a strong catalyst in the development of the capacity of local enterprises. However, the vast majority of SMEs in developing countries still remain de-linked from the supply chains of TNCs.

33. Although linkages to TNCs could potentially be formed with companies located anywhere, the initial linkages are most often formed with investors that are present in the country in question. FDI can play a crucial role in this respect. Not only can FDI contribute to expanding the capital base and generating employment opportunities, but it can also be a major driver of technology transfer and development of managerial and technical skills, and act as one of the most important vehicles for linking SMEs to global markets. The promotion and facilitation of FDI has therefore become an important part of the strategies of many developing countries to enhance supply-side capacities.

34. Intra-firm networking is another powerful source of enhanced competitiveness. The formation of clusters can contribute to strengthening the innovative capacity and thereby competitiveness of SMEs. Although clusters are formed spontaneously by companies locating close to each other, countries can promote the development of clusters by creating research centres and establishing science parks and incubators. By locating these close to universities or research institutes, start-ups in these locations can benefit from the interchange with researchers and other entrepreneurs in similar fields, while at the same time enjoying the practical administrative support services that incubators offer.

III. REDUCING THE COST OF CONDUCTING TRADE

35. The right-hand pillar of the figure relates to measures to reduce the cost of conducting trade. A firm's competitiveness is determined not only by its capacity to competitively produce products and services, but also by its ability to bring these goods or services to markets at the lowest possible cost and within the required time. As such, the costs involved in conducting international trade, also referred to as transaction costs, are a key determinant of a firm's ability to import and export products and services.

36. There is no agreed definition of transaction costs and what they do or do not include. However, for the sake of clarity, these costs can be broken down as follow:

- Information and contracting costs (including control and enforcement costs)
- Financing costs
- Transport costs
- Administrative and procedural costs

37. It is not uncommon that these costs taken together could exceed the costs of production. As a result, they will have a direct and very significant impact on the competitiveness of products and services in global markets. This section provides a short overview of the different transaction costs and suggests steps that can be taken at the national level to reduce those costs.

A. Information and contracting costs

38. Information costs are incurred during the early phase of the transaction process. Supply-side information costs (of exporting) include market research and marketing expenditures, such as identifying potential markets and customers and contacting them. These activities entail significant risk as the firm has to invest in these activities without a guaranteed pay-off.

39. Contracting costs include the costs of reaching an agreement and closing the contract. These may entail significant communication costs (e.g., international telephone calls and faxes) as well as legal costs for drafting the contract and ensuring it complies with existing laws and regulations. These costs can be very high when dealing with first-time customers.

40. Reducing information and contracting costs typically requires policies that ensure a healthy level of competition in the telecommunication sector and improve access to ICT. The development of trade promotion organizations in collaboration with chambers of commerce and other private sector associations can also help to reduce the costs associated with identifying and reaching foreign markets. Reviewing contract laws and regulations may also be required.

B. Trade financing costs

41. International trade transactions can take weeks or months. As a result, most traders, particularly SMEs, will rely on some form of short-term financing to support their trading activities and continue to process and manufacture products before receiving payment. Many importers will insist on open accounts, or at least a delayed payment arrangement. The ability of an exporter to provide attractive payment terms can be a very effective competitive tool in the global market.⁸

42. In addition to traditional financing costs, traders may incur additional cost to insure themselves (and their customers) against the risk associated with a particular transaction. Indeed, risks of non-payment or payment delays associated with an international transaction are often much higher than with domestic transactions. Therefore, risk management instruments such as export credit insurance and guarantees can provide the protection needed for firms to engage in international trade.

43. Reducing export and import financing costs requires the development of a national trade finance infrastructure able to provide access to a wide array of specialized trade finance and risk management services such as export credit insurance, hedging and forfeiting. As mentioned before, a stable macroeconomic and legal environment and effective and trusted monetary and financial sector regulatory authorities are prerequisites to the development of a comprehensive private sector banking system and the emergence of non-bank financial institutions. The establishment of specialized trade finance institutions such as export-import banks and export credit agencies can then be considered to further enhance access to trade finance tools and instruments.⁹

C. Transport costs

44. The literature offers substantial evidence that improvement in transport and logistics can greatly increase export performance. For example, it has been reported that exporters could gain 5-8 per cent market share if they could lower their shipping costs by only 1 per cent.¹⁰

⁸ ESCAP, *Trade Facilitation Handbook for the Greater Mekong Subregion* (United Nations publication, Sales No. E.03.II.F.5).

⁹ See Y. Duval and U. Sengupta, "Trade finance institutions for trade and small and medium-sized enterprise development in South Caucasus and Central Asia", *Current Issues on Industry, Trade and Investment*, No. 2, pp. 21-39 (United Nations publication, Sales No. E.04.II.F.6).

¹⁰ Robin Carruthers, Jitendra N. Bajpai and David Hummels, "Trade and logistics in East Asia: a development agenda", World Bank EASTR Working Paper No. 3.

45. Improvement of the transport infrastructure may help to reduce transport costs by up to 60 per cent, while policies regulating market power in shipping and liberalizing port services may also lead to a reduction in transport costs by up to 30 per cent.¹¹

D. Administrative and procedural costs

46. Most Governments in Asia and the Pacific have established procedures and regulations to control the movement of goods, transfer of services and related financial flows. While this is made necessary by the need to collect relevant information for operational and statistical purposes, and to control the cross-border movement of illegal drugs, arms, protected species, hazardous waste and other controlled products (as well as to collect tariff revenue and for national security), trade procedures and documentation can become major impediments to trade. Most estimates show that the costs of complying with various customs procedures and other requirements amount to between 5 and 10 per cent of the value of global trade. In some countries, these costs can amount to over 20 per cent of the value of the products and services traded.

47. Governments have now realized that the potential gains from trade liberalization can never be realized if their own administrative and procedural costs are so high that they render their exporters uncompetitive in global markets. Administrative and procedural costs are therefore increasingly being dealt with in regional and multilateral trade negotiations. In this regard, trade facilitation is the only “Singapore issue” on which the WTO General Council decided to commence negotiations (Decision WT/L/579 of 1 August 2004).

48. The different areas for reducing administrative and procedural costs are outlined in the newly published *ESCAP Trade Facilitation Framework: A Guiding Tool*.¹² The *Framework* is a practical step-by-step guide to identifying issues and remedies in five specific areas: (a) trade and customs legislation, (b) trade documentation and procedures, (c) customs clearance procedures, (d) trade and customs enforcement practices and (e) the use of ICT.

IV. POLICY RECOMMENDATIONS

A. Improving the foundations

49. The overarching importance of a good investment climate was discussed above. Although a good investment climate has many components, taking into account the constraint of limited governmental resources, it is important to consider the cost-effectiveness of proposed initiatives. In this respect, measures to simplify laws and regulations, especially as regards SMEs, and ensure the transparency and accountability of institutions involved in their application, can be a very cost-effective way of working to improve the overall business climate.

¹¹ Simon J. Evenett and Anthony J. Venables, “The geographic spread of trade: evidence from twenty-four developing countries”, European Research Workshop in International Trade, 14 June 2002.

¹² ESCAP, *ESCAP Trade Facilitation Framework: A Guiding Tool* (ST/ESCAP/2327).

50. It is also recommended that the use of public-private sector dialogues be increased to ensure that laws and regulations are conducive to a good business climate. Input from the private sector can also be sought when laws and regulations are drafted, as well as on the need for changes in the existing regulatory environment. These dialogues should ideally be held at different levels: regional, national and local.

B. Enhancing productive capacity

51. There are a multitude of measures Governments can take to improve the competitiveness of their enterprise sectors. The following is a non-exhaustive list of some of the measures discussed:

- Promote private sector provision of business services. If the market for business services is small, Governments should instead concentrate on promoting the demand for these services by SMEs.
- Adopt user-friendly accounting and reporting requirements. Encourage and follow upon lending by commercial banks to SMEs and encourage the establishment of credit bureaux as well as partnerships between business development services providers and financial services providers. Set up mechanisms to ensure good corporate governance.
- Actively promote and facilitate FDI. Set up mechanisms to enhance backward and forward linkages between foreign and domestic enterprises, as well as between large and small domestic enterprises, including clusters and incubators.
- Ensure private sector input in the development of curricula and the early exposure of students to entrepreneurship as a possible alternative to employment.

C. Reducing the cost of conducting trade

52. Very large and detailed lists of recommendations on how to reduce transactions costs and facilitate trade have been drawn up by ESCAP and a number of international organizations, including the United Nations Centre for Trade Facilitation and Electronic Business, the World Customs Organization, the International Chamber of Commerce and Asia-Pacific Economic Cooperation. Many of these recommendations form the basis of the *ESCAP Trade Facilitation Handbook* and *Trade Facilitation Framework*.

53. A non-exhaustive list of recommendations includes:

- Establishment of a national trade facilitation advisory committee composed of representatives of public and private organizations to identify trade facilitation bottlenecks and recommend changes. This advisory committee would be chaired or co-chaired by the government agency responsible for trade facilitation.

- Adoption of relevant international conventions and agreements (e.g., the World Customs Organization's revised Kyoto Convention).
- Streamlining of trade and customs legislation and procedures taking into account the needs of all stakeholders in trade.
- Simplification and harmonization of trade documentation based on international standards, such as the United Nations Layout Key for trade documents.
- Systematic periodic review of regulations and procedures; ensuring that regulatory and procedural changes are drawn up after consultation with stakeholders and publicly communicated well in advance of their application.
- Computerization and automation for trade and customs procedures.
- Development of a trade finance infrastructure to allow SMEs to competitively finance trade transactions and manage the risks involved.

54. It is further recommended that countries use the *ESCAP Trade Facilitation Framework* as a tool to assess their specific needs and priorities in the area of trade facilitation.

V. ESCAP'S RECENT WORK IN SUPPLY-SIDE CAPACITY-BUILDING

A. Investment and enterprise development

55. Over the last few years, ESCAP's work in investment and enterprise development has primarily focused on developing human resources capacities for enterprise development, export promotion and the attraction of FDI. ESCAP has provided a range of training courses to promote the development of the private sector, in particular SMEs.

56. One major project has been the development of the private sector in the Greater Mekong Subregion. The main focus of the project has been on developing the human resources capacity of the private sector in the subregion through training courses on different aspects of SME management, including women's entrepreneurship development, project appraisal and management and investment promotion and facilitation at the national and provincial levels. The aim was to build the capacity of public and private sector institutions and entities to improve the competitiveness of enterprises. In carrying out the programme, ESCAP has cooperated with a number of both public and private institutions, including the Asian Development Bank, the United Nations Industrial Development Organization, national chambers of commerce and universities.

57. In 2003, ESCAP launched a project to develop the capacity of the economies of Central Asia to promote and facilitate investment. The project, which is being conducted under the United Nations Development Account, includes round-table discussions, country analyses and technical advisory services to enhance the capacity of the countries in investment promotion and facilitation.

58. In addition, ESCAP has been conducting projects on the promotion of business and technology incubators. In 2004, it has initiated a project to create a network of business incubators. Development of clusters in agro-based enterprises is also envisaged in collaboration with the Asian and Pacific Centre for Agricultural Engineering and Machinery, an ESCAP regional institution set up in Beijing in 2003.

B. Trade facilitation

59. In recent years, ESCAP has contributed to raising government awareness of trade facilitation issues through national and subregional workshops and advisory missions. The aim has been to assist countries in strengthening institutional frameworks for trade facilitation and simplifying and harmonizing trade documents based on the United Nations Layout Key.

60. Over the past two years, ESCAP's trade facilitation activities have increasingly focused on using information technology for trade facilitation and trade financing. Major activities have included the ESCAP/UNCTAD Asia-Pacific Regional Conference on E-commerce for Development in November 2002, a series of advisory missions on trade facilitation and electronic trade documentation systems as well as national workshops on trade finance infrastructure development in Central Asia and the South Caucasus and a Regional Expert Conference on Harmonized Development of E-commerce Legal and Regulatory Systems in 2004.

61. As part of its ongoing work in trade facilitation, ESCAP has also worked to enhance the dissemination of timely and relevant trade and investment information in the region, in particular through a monthly compilation and dissemination of trade and investment news and online information sources (e-TISNET and TIS Gateway) as well as a *Regional Rapid Response Trade Bulletin* providing analysis of current events in the trade and investment area. Moreover, ESCAP's Trade Information Service assists countries on an ongoing basis in responding to requests for trade-related information.

VI. ADDRESSING SUPPLY-SIDE CONSTRAINTS IN ASIA AND THE PACIFIC: POSSIBLE ESCAP RESPONSES

A. Guiding principles for ESCAP's work

62. In accordance with ESCAP's draft strategic framework for the period 2006-2007, as endorsed by the Commission, the objectives of ESCAP's work in trade and investment are to (a) increase national capacities to negotiate, conclude and implement multilateral and regional trade and investment agreements and (b) increase national capacities to develop and implement trade and investment policies and programmes designed to enhance supply-side capacities and the international competitiveness of exports.

63. ESCAP's regional intergovernmental position allows it to facilitate the adoption of regional approaches to address cross-boundary or multicountry issues. In line with this, ESCAP's technical cooperation strategy outlines three main mechanisms for ESCAP in performing its work: (a) policy advocacy and dialogue on global and regional commitments and critical emerging issues that need the urgent attention of its members, (b) regional knowledge networking to enable its members and associate members to share and discuss information and experiences on good and innovative practices and (c) training, advisory services and other technical assistance aimed at strengthening the abilities of its members and associate members to formulate and implement effective policies and programmes.

B. Priority areas for consideration

64. The secretariat envisages contributing to supply-side capacity-building through four different tracks: enterprise development; investment promotion and facilitation; trade facilitation; and trade information services.

65. In line with the ESCAP technical cooperation strategy, it is proposed that the work in supply-side capacity-building build on a combination of the following strategies: providing a forum for analyses, documentation, discussion and exchange of best practices and multi-stakeholder dialogues on a regional basis; public-private partnerships; and networking and capacity-building of investment and enterprise development institutions.

66. Within this overall strategy, in order to have a real and measurable impact, ESCAP's work will need to focus on a more limited number of topics. A number of options for areas within supply-side capacity-building have thus been included below. The Subcommittee is invited to guide the secretariat as to the priorities in its work on supply-side capacity-building, so as to ensure that it best responds to the needs of member countries. Based on the guidance of the Subcommittee, the secretariat will work jointly with member countries to further define specific actions to be taken within the selected priority areas, where possible in close cooperation with other multilateral institutions.

Optional areas for ESCAP work in supply-side capacity-building

Enabling environment for SME development, investment and trade facilitation	
<input type="checkbox"/>	More effective, efficient and coherent SME policies
<input type="checkbox"/>	More effective, efficient and coherent FDI policies
<input type="checkbox"/>	More effective, efficient and coherent trade and customs policies
<input type="checkbox"/>	Harmonization of e-commerce legal and regulatory systems
<input type="checkbox"/>	Good practices in multi-stakeholder dialogues

Efficient trade institutions and good governance	
<input type="checkbox"/>	Capacity-building of institutions for investment promotion and facilitation
<input type="checkbox"/>	Monitoring and evaluation for improved design of SME support programmes
<input type="checkbox"/>	Capacity-building of customs institutions
<input type="checkbox"/>	Capacity-building of business associations and chambers of commerce
<input type="checkbox"/>	Corporate governance, corporate social responsibility and sustainable enterprise development
SME and trade finance	
<input type="checkbox"/>	Best practices in microfinance and SME finance
<input type="checkbox"/>	Capacity-building of banks for increased SME finance
<input type="checkbox"/>	Trade finance for export competitiveness
Business support services, human resources development	
<input type="checkbox"/>	Capacity-building of national SME support organizations/business development service providers for the provision of business advisory services, training, etc.
<input type="checkbox"/>	Agro-based and rural enterprise development
<input type="checkbox"/>	Women's entrepreneurship development
<input type="checkbox"/>	Youth entrepreneurship development
Access to global supply chains	
<input type="checkbox"/>	Increasing access to global supply chains through linkages to TNCs and participation in regional production networking
<input type="checkbox"/>	Good practices in business incubation and cluster development
<input type="checkbox"/>	Promotion and facilitation of e-business
<input type="checkbox"/>	Improvement of standards and certification procedures
<input type="checkbox"/>	Implications of multilateral trade liberalization for enterprise competitiveness (e.g., textiles, services, outsourcing)

VII. CONCLUSION

67. The existence of a competitive private sector is important for growth and poverty reduction. To improve enterprise competitiveness, countries need to create a business climate that allows companies to produce products and services that are competitive in terms of quality and price. They

also need to ensure the establishment of a policy and regulatory environment that allows for the delivery of products and services to markets at a competitive cost.

68. This paper has pointed out areas of overarching importance for the development of a competitive private sector, through improving the regulatory framework, building efficient institutions, enhancing productive capacities and reducing the costs of conducting trade.

69. The Subcommittee is invited to give guidance on action to be taken at the regional and national levels, and by the secretariat, in further enhancing the implementation of the work programme in supply-side capacity-building and ensure that it reflects the most pressing needs of member countries. Furthermore, the Subcommittee is welcome to make suggestions as to good and innovative practices in the region that may be shared, upscaled or replicated in other member countries. These practices may address issues on which the secretariat is currently focusing, or others that the Subcommittee considers to be relevant and important.

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