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BUSINESS SURVIVAL AND DEVELOPMENT

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SUMMARY

The business sector in the Asian and Pacific region is currently facing complex challenges as the overall business environment has deteriorated rapidly in most countries. Thus, an emphasis must be placed on enhancing national policies and strategies to improve the competitiveness of businesses in Asia and the Pacific in the midst of the global economic downturn and to support their survival, recovery and further development as the global economy improves.

The present document reviews trends and issues related to business sector development and the challenges and opportunities, including the role of corporate social responsibility, surrounding the competitiveness of businesses. It elaborates on options for maintaining and enhancing the competitiveness of the business sector in response to the current global economic crisis, with a special emphasis on the development of small and medium-sized enterprises and the role of global and regional value chains. The present document also discusses the role of ESCAP in addressing these issues and promoting inclusive and sustainable development in the region.

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Introduction

1. The present document is based on chapter 5 of the *Asia-Pacific Trade and Investment Report 2009*.¹ It reviews trends and issues that are related to business sector development and discusses challenges and opportunities, including the role of corporate social responsibility (CSR), surrounding the competitiveness of businesses. It also elaborates on options for maintaining and enhancing business competitiveness in response to the current global economic crisis, with a special emphasis on the development of small and medium-sized enterprises (SMEs) and the role of global and regional value chains. For a more detailed overview and analysis of the issues, see the *Report*.

I. DETERMINANTS OF BUSINESS COMPETITIVENESS

2. Business competitiveness can be measured by relative market shares, as well as levels of growth, profitability and innovation. It reflects the ability of enterprises to sustain superior market positions and profitability under different circumstances by producing goods and/or services competitively at the national, regional or global levels. According to *The Global Competitiveness Report 2008-2009*, only 20 per cent of the 10 most competitive countries are from the ESCAP region, compared with 60 per cent and 20 per cent from Europe and North America, respectively.²

3. Many interacting factors influence the competitive performance of enterprises. These include both external and internal determinants for each enterprise: market access, access to resources, a regulatory framework, supporting services, contestable market power, the capacity to respond effectively to competitors, the capability and flexibility to respond to changing circumstances, and the capability to create new market niches. In addition to these factors, other general conditions, such as the natural resource endowment, macroeconomic conditions and microeconomic factors, affect the competitive performance of enterprises. Growing public awareness and pressure from civil society and consumers with regard to CSR-led business activities make CSR an increasingly crucial determinant for business survival and competitiveness.

4. Governments play the key roles of creating enabling business environments, facilitating better market and resource access, and providing pro-business regulatory frameworks and business support services. In addition, by promoting CSR, governments could support enterprises working to improve their contribution to inclusive and sustainable development.

II. BUSINESS SECTOR DEVELOPMENT: TRENDS AND ISSUES

5. Over the past decade, enterprises in the Asian and Pacific region, especially from the region's developing countries, have made tremendous strides in global markets. Of the world's top 2,000 firms of 2009 ranked by Forbes Global 2000,³ 722 were from the region (36.1 per cent), a substantial increase from 2005 (599 enterprises). This jump made the region the home to the largest number of the world's

¹ United Nations publication, Sales No. E.09.II.F19. Printed copies of the *Report* will be distributed at the Committee session. It will also be available online at www.unescap.org/tid/aptir.asp as of 10 October 2009.

² Michael E. Porter and Klaus Schwab, *The Global Competitiveness Report 2008-2009* (Geneva, World Economic Forum, 2008).

³ The Forbes Global 2000 is an annual ranking of the top 2,000 public companies in the world by Forbes. The ranking is based on a mix of the four most recently available indices, namely sales, profits, assets and current market value.

top enterprises. These top Asian and Pacific enterprises were from five business sectors: banking, finance, materials, transportation and oil/gas operations. However, the region still has the lowest number of companies with strong consumer brands, except in a few sectors, such as automobiles, electronics and high-tech.

6. Although enterprises from developing countries in the Asian and Pacific region have recently increased their presence in world markets, they still make up only a small part of the elite business community: only 54 enterprises from Asian and Pacific developing countries were listed in the Fortune Global 500⁴ in 2009 (10.8 per cent).

7. One significant development for the Asian and Pacific business sector has been the emergence of global and regional value chains. Value chains are normally coordinated by a leading enterprise, typically a transnational corporation, which gains power through the control of business factors such as brand recognition, indigenous knowledge and technology, production assets, distribution channels and critical inputs. Global value chains have grown as a result of developments accompanying the globalization process since the 1980s. Such developments include trade and investment liberalization and the development of inexpensive and fast logistics systems and information and communications technology (ICT) applications, which enable products and services to move across the world quickly and efficiently. Global value chains have spread to the automotive, electronics, food and apparel/garment sectors in the region.⁵

8. Many regional enterprises, including a number of SMEs, have participated in global value chains by providing products and services based on their specific competencies, often collaborating with foreign investors through joint ventures, strategic alliances and other partnerships. Indeed, global value chains have changed the traditional mode of competition among enterprises, which had been based on low costs and prices. The new competition is no longer taking place among individual enterprises, but rather among regional or global value chains, based on the efficiency of their entire production and distribution networks. Competition now depends on a wider range of determinants in both export and domestic markets, such as brand power, the capacity to meet a variety of stringent global product and process standards, the level of flexibility and the rate of innovation, the speed of design and the extent of differentiation, the degree of reliability and the level of timeliness, and the extent and quality of networks with both horizontally and vertically linked enterprises.⁶ The adoption of CSR provides a new opportunity for value creation and competitive advantage.

9. The initial findings of an ongoing ESCAP review of the top 100 non-financial transnational corporations from developing countries listed in the *World Investment Report 2008* suggest that only a few enterprises in the region have developed globally recognizable brands and fully control their own value chains.⁷ Many enterprises have struggled to develop global brands, but have generally chosen to expand their roles in the global value chains through strategic business actions, such as vertical integration, diversification, and mergers and acquisitions, including the acquisition of foreign brands. Only a very few large Asian and Pacific enterprises operate globally; most focus on their home and regional markets. Another

⁴ The Fortune Global 500 is an annual global corporate ranking conducted by *Fortune* magazine and is based on total revenues.

⁵ ESCAP, *Linking Greater Mekong Subregion Enterprises to International Markets: The Role of Global Value Chains, International Production Networks and Enterprise Clusters*, Studies in Trade and Investment No. 59 (United Nations publication, Sales No. E.07.II.F2).

⁶ Ibid.

⁷ United Nations Conference on Trade and Development, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge* (United Nations publication, Sales No. E.08.II.D.23).

development in the 2000s has been several Asian and Pacific enterprises, facing pressures from high commodity prices, aggressively acquiring foreign enterprises that control access to natural resources and other strategic commodities.

10. There remains considerable scope for the regulatory environments of many countries in the region to become more business-friendly, both to maintain and improve business competitiveness as well as to attract foreign investment. In addition to weak overall business environments, enterprises in the region face serious disadvantages compared with their counterparts in traditional economic powerhouses in terms of size, governance, sector characteristics, the level of control and the level of technology. Most product innovations (including ICT applications and hardware) continue to originate in developed countries. Finally, the business sector itself is still underdeveloped in many countries in Asia and the Pacific. In particular, the SME sector remains relatively small and weak in Asian and Pacific developing countries, especially in the least developed countries.

III. BUSINESS COMPETITIVENESS: CHALLENGES AND OPPORTUNITIES

11. The present economic crisis has brought new challenges to enterprises, especially SMEs, in Asia and the Pacific. Five major external shocks, among others, have particularly impacted business performance in the region: (a) slumped exports; (b) the credit crunch; (c) foreign exchange volatility; (d) falling capital inflows; and (e) the bursting of the commodity bubble.

12. In order to address these challenges, developing countries in Asia and the Pacific should facilitate the growth of SMEs and enhance their role in socio-economic development. SMEs, which typically account for over 95 per cent of domestic companies and provide over 60 per cent of national employment in the region, have not fully realized their potential as the backbone of the business sector. They are often more flexible and innovative in making changes than large firms, which is needed in the current uncertain environment.

13. While a number of Asian and Pacific enterprises have advanced their positions in regional and global markets, few have established their own value chains in the region and assumed the role of a leading enterprise. Government intervention in value chains can foster leading enterprises that supervise and control members and aspects of entire value chains, using the strengths embodied in their own specific assets, knowledge, technology, distribution channels and brands.

14. Regional integration can be further promoted to increase market access and trade and investment flows within Asia and the Pacific by creating an expanded and coherent market with stable financial and efficient logistics systems. The regional integration process requires bold and decisive South-South cooperation among all countries in the region.

15. The above policy options may require further analytical work and technical assistance activities at both the national and regional levels. This could include: (a) the preparation of feasibility studies on the development of value chains led by Asian and Pacific enterprises; (b) the implementation of project(s) to foster and support the development of cross-border partnerships between enterprises; (c) raising awareness and knowledge among Asian and Pacific SMEs on standards and certification as increasingly crucial prerequisites to entering global value chains; (d) the development of national business environments that are more conducive to entrepreneurship and business innovation; and (e) the promotion of sustainable business practices in SMEs, covering CSR principles, within the context of value chains.

16. Opportunities can come from the current crisis as well. Increasingly, the interest of business in CSR is shifting from mere value protection through risk and reputation management to viewing CSR as an opportunity for new value creation and a competitive advantage. Product features such as “environmentally friendly” and “fair trade” play an increasingly important role in global competition. In order to remain competitive, large corporations, as well as SMEs, have to address the issues of such socially responsible practices. While multinational corporations are looking to consolidate suppliers in their global value chains that are dedicated to responsible business conduct, SMEs can gain a competitive advantage by incorporating social and environmental standards. The actions corporations take today to assimilate CSR throughout their businesses represent a real point of differentiation and competitive market advantage on which future success can hinge.

17. For CSR to make a more significant contribution to inclusive and sustainable development, to business competitiveness and to the region as a whole, governments could be assisted in integrating CSR into their national strategy to promote competitiveness, with the overall purpose of inclusive and sustainable development. Besides encouraging and enabling business with regard to CSR strategies, putting CSR on the public policy agenda of countries in Asia and the Pacific increases the attractiveness of the individual countries and the region as a whole with regard to foreign direct investment. The promotion of CSR may as such be seen as an investment attraction strategy.

IV. ACTIVITIES OF ESCAP

18. ESCAP has been working closely with countries in the Greater Mekong Subregion in implementing a series of technical assistance activities in the field of private sector development. Between 1994 and 2007, over 5,000 people from both the public and private sectors were trained in such activities. The activities were conducted under the Forum for the Comprehensive Development of Indochina, in collaboration with the Asian Development Bank and the Greater Mekong Subregion Business Forum, and included supply-side capacity-building, SME development, women’s entrepreneurship development and e-business applications. For a new phase of the Forum, ESCAP has been preparing activities on the capacity-building of SMEs in the Greater Mekong Subregion in support of their effective access to regional and global markets, and will seek further collaboration with participating countries for its implementation.

19. Building on the knowledge and experience gained from its regional and global value chain initiative in the Greater Mekong Subregion, ESCAP is

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