FOCUS SESSION 36:

Investment generation, job creation, integration into global supply chains

Speakers/Panelists:

- **Claver Gatete**, Minister of Finance and Economic Planning, Rwanda
- **Helen Hai**, CEO Africa Consulting
- **Justin Lin**, Professor and Honorary Dean, Peking University
- **Anna Palmqvist**, Global Sustainability Manager, H&M
- **Gustavo Pérez Berlanga,** Senior Vice President, Social Responsibility, TOKS
- **Charlotte Petri-Gornitzka**, Director General, Sida
- **Erik Solheim**, Chair, Development Assistance Committee, OECD **(moderator)**

Conclusions and key messages:

The African moment: Sub-Saharan Africa is set to be the world's fastest growing region in the decade ahead. While there are strong domestic dynamics supporting growth, realizing this promise will require the region's economies to connect fully to the global economy, notably through integration into global value chains.

An opportunity presents itself from demographics coupled with the continued profound transformation of the world economy from globalization. Many emerging economies such as China, Brazil and Turkey are moving up the value chain. Large-scale labor mobilization over past decades combined with demographic trends means their pool of labor will stagnate or shrink. As the comparative advantage of individual countries evolves, there is the prospect of several tens of millions of labor intensive manufacturing jobs moving to lower-income countries in the decades ahead. With its young population and low cost of labor, Sub-Saharan Africa in particular has enormous potential to benefit from this dynamic.

Ceasing the opportunity: A growing number of African nations now see manufacturing as a central priority for their national development, by building on their comparative advantage in labor-intensive manufacturing. Foreign direct investment will be crucial for the ability to realize this comparative advantage, as it brings with not just the transfer of know-how, but also the links and networks to global supply chains, and thus an in-built capacity to trade. Similarly, in working with local sub-contractors, major brands like H&M bring their full set of experience from operating in developing countries in terms of sustainability and local impact to any new countries from which they source their products.

Leadership: The panel agreed that leadership by business and the local government is the most important factor for ceasing the opportunity of industrialization. In the host country, strong political leadership is the centerpiece of a credible commitment to provide a stable investment environment. On the business side, entering frontier markets requires leadership both in terms of operational challenges and on a political dimension.

Early signs of success: Early indications are that such leadership pays off. Despite huge bottlenecks, notably in terms of logistics and transport infrastructure, pioneer investments from China and have quickly become profitable, and in doing so created several thousand jobs in Ethiopia, training local staff and building capacities, while raising employees' livelihood incomes enormously.

As real life experience confirms the workability of the basic theory that underpins the case for investment, momentum is gathering. An increasing number of producers, investors and governments are looking to get into the game. Over time, increasing investment and operating experience will be a key factor in driving down risk perceptions of frontier markets, and with that the cost of capital.

The opportunity for a broader development engagement: Realizing the promise of manufacturing in Sub-Saharan Africa will depend essentially on private enterprise and the local government. But there is significant potential for other stakeholders to contribute to a positive dynamic. Development agencies must be careful not to interfere directly in markets, but they continue to have a key role in supporting further improvements in the enabling environment for business. They can also have an informal, yet important, role in helping prospective investors understand the local context. A key part of this is to take a lead in promoting an accurate image of individual developing countries as investment destinations that reflects current performance and potential, against often outdated, poorly informed notions. Moreover, development agencies should speak out clearly, loudly and publicly for businesses that invest responsibly in frontier markets.

Positive 'naming' is also a job for Civil Society, as a counterpart to shaming and their key watchdog function for responsible business conduct. But beyond advocacy, CSOs should be open to working directly with business in finding practical solutions for shared development concerns. Examples in countries such as Mexico, where brands like restaurant chain TOKS have made working with local communities and CSOs an integral part of their business, provide ample examples for this.

Development impact and the Global Partnership: The focus session provided concrete evidence of how foreign investment can create local jobs, improve livelihoods, develop human capital and capacities, and connect to the local economy and business. The Global Partnership can and should be a vehicle to help different stakeholders come together to promote such investment. The central tenor of the panel was a strong call for leadership and more practical action in this regard.