Transcript of the statement by Mr. Gary Litman, Vice President for Europe & Eurasia at the Chamber of Commerce of the United States (USCC)

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First I want to thank the chairman and all the panelists for including us in this discussion a rare exposure for the US Chamber of Commerce, which works with the private sector in the U.S, in the important deliberations that take place within these walls. Frankly, it is very impressive work I am hearing here, in terms of the level of analysis of the issues that many countries face around the world.

The best contribution we can make to these discussions is to share a little bit from our experience on how these issues are perceived by American companies, our members. We talk to them everyday and we have probably a better sense on how decisions are made about investing in landlocked or other countries. Obviously the thriving motivation for investment is profit. Companies look for places where they can maximize their profits because that is how the management is rewarded particularly under publicly held companies. If you don’t show growth, your share prices are not expected to appreciate and therefore you won’t get the bonuses. It is a very simple calculation but why I’m starting with that is that if you think of attracting FDI, and the right kind of FDI, to landlocked economies, it is important to understand what drives decision makers. And usually it is the board, it’s the management and if it is a publicly held company indeed they are driven by growth. More frequently they are driven by fear; fear of competition and they look at other markets where competition might come from and where they would make an investment from a defensive point of view or not make an investment and just try to protect their image. When you look at the FDI the majority of them I would argue is coming from publicly held companies. They have the right motives: they have access to the capital, they need growth to make sure that their share value is constantly growing.

These days we are entering a period where publicly held company, particularly American companies, are entering a very slow to negative growth, so they will be much more careful in where they invest, if at all. They will be more defensive. They will be thinking of the least risky markets to go into, to hold their positions, to cut their costs; and, I’m afraid, we will face this for at least some months to come if not years. It does not mean that companies will not invest; it means that it will be much more difficult to persuade them to invest in something that they don’t know well. And that’s one of the challenges that UNCTAD is studying and others need to address. When large and mid size companies make the decisions about investment, the issue of whether a country is landlocked or not barely rises. Companies look for clusters of consumers, and clusters of factors of production. That means that the corporate management that makes that decision has to be familiar with a particular market, has to have confidence and the necessary information and has to have the support of the rest of the organization. Only after the initial threshold has been overcome, when the company has decided that their path to growth is through overseas investment, only then will they actually take a closer look at infrastructure and logistics and try to solve it. That is a secondary question. The first is: is there a consumer for our product somewhere that we have not captured? The
fact that you are landlocked does not mean that you have a closed mind; you have to look at the world, you have to think how the other side sees you rather than what your needs are, and study the decision making process about overseas investment.

I was very interested by the presentation made by Mr Zakhilwal. Afghanisan is targeting individual investors. That is the way to go, based on the deeper understanding of decision making procedures in major companies.

Once the company has made the initial determination they want to grow and have found the cluster of customers -- by the way this may mean a specific country, but also a region or subregion -- then they will calculate the profits, the size of the investment, the investment horizon and that is when they look at the factors that the UNCTAD report has identified.

I think there has been a change over the last several years in major corporations at least in American corporations. We have gotten rid of prejudices about the quality of human capital around the world. We no longer believe that the best and the brightest all live on this island of Manhattan and that has been a very rewarding realization. Companies now expect to see in any country, however small, however poor, smart people, aggressive entrepreneurs and very capable government officials. That is the expectation today. There is human capital in every place to tap into. Only the combination of human capital, some resources, purchasing power and predictable government policy, drives companies to take a second look at the foreign market.

Another change that has taken place over the last five to six years at least in our members is a much higher value that companies place on security considerations. That is security of investment, security of people, goods in transit, security from a variety of threats. Obviously the concerns about terrorism have heightened that appreciation of corporate boards but also the fact that our supply chains are now so stretched around the world and seem so vulnerable. Companies do pay much more attention to how that particular risk is being addressed by the foreign government in considering investment by competitors in the same market, by their suppliers and it is an area where public policy is extremely important because only the government can ultimately give the companies, the investors, some level of additional confidence in security.

We have done a number of studies; we actually worked with various transportation association agencies to see how security issues affect business between Europe and China, in Eurasia, and it was fascinating to see that this is the paramount concern for legitimate business. Illicit business is thriving: guns, drugs, human trafficking happens through all those customs on the same infrastructure. They can do it. Only the legitimate operators are suffering from the lack of security. Illicit operators are enjoying the cover of insecure situations. My point is that we perceived a growing threat to the global infrastructure from illicit operators. I frequently hear that there is no reason to really welcome the investment in highways and bridges and ports if they would be primarily used, for example, by traffickers in counterfeit drugs, or you name your illegal product. They tend to be frequently in places where there are weak government policies and enforcement. This drives away legitimate investment, and it is an important issue. One way of addressing that is by strengthening legitimate operators, companies that provide tracking fleets or rail road, whoever the legitimate operators, making sure that they have some sort of advantage, some sort of privilege, some sort of additional ease for trusted economic operators in crossing the many boundaries.
The UNCTAD report mentioned the variety of regional agreements, which are very important. No CEO is aware of that. Companies don’t invest in regional trade agreements, companies invest in people resources. It is important but it is consideration number 75.

So I suggest that while it is important to create this framework of regional agreements and economic integration, that is not how you start attracting international investors. It is how you make sure that they stay and they are profitable and they are happy, once they have made the decision to come.

And ultimately about landlocked countries: landlockedness is a geographic destiny but it does not have to determine how the country is evolving. And there are places around the U.S., there are parts of Washington D.C where I come from that you will think as landlocked and impoverished places. It is really a combination of history, geography, lack of political will, lack of investment and human resources that close the minds of people and turn them away from thinking about the opportunities the world is offering. If you are landlocked country, that just means you have more neighbors than an island. Working with your neighbors, making sure that regional economic integration is a reality that infrastructure projects are comprehensive and address infrastructure needs of more than one jurisdiction, there are ways of doing it and political will is needed to make it happen.

The last point I want to make is, since we deal with decision making process, at least American companies a lot, we ourselves need a lot of capacity building, a lot of decision making is not based on real facts, on real appreciation. It is based on perceptions that are frequently wrong; it is based on just snippets of facts. We need, in a way, capacity building for major corporations to begin to understand the real world is not flat, it is granular, countries are different, and opportunities are different. Our toughest constraint is time. If you are running a mid size or large company you don’t have time to stop and reflect. And that is where investment agencies and your work are crucial, and this conference and the materials that come out, if they can help executives to shorten the time that they have for realizing that they need to grow and invest somewhere, to understanding the market, that will be tremendously helpful and that will allow countries to compete for investment dollars.

And the last point, I think you will see next year, the U.S will be competing for FDI in the U.S.

You will now have a very large competitor into the same market. We have been the largest destination for foreign investment for the last century, but we have never competed for it deliberately; we will start now. Some states started it and with the financial difficulties I assure you there will be consolidated efforts to make sure that we also compete. And we think competition is good, and we can learn from each other.