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EXAMINING DISCRIMINATORY PROCUREMENT PRACTICES IN DEVELOPING COUNTRIES

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ABSTRACT. Developing countries face a problem of making a decision of opening up public procurement markets to all suppliers irrespective of their country of origin. The perceived benefit of opening up procurement markets (non-discriminatory practices) is that it enhances competitiveness, leading to efficient public resources utilisation. Governments discriminating against foreign firms in favour of local suppliers are motivated by the desire to achieve benefits such as, stimulating infant industries, fostering underdeveloped regions and creating employment. This paper examines both arguments and makes recommendations as to how developing countries could open up procurement markets without losing their social and economic objectives.

INTRODUCTION

In all countries, governments are significant buyers of goods and services. Quoting an OECD report, Odhiambo and Kamau (2003) estimated the value of contestable government procurement the world over to have been $2,000 billion in 1998. This is equivalent to 7% of the world GDP and 30% of the world merchandise (Odhiambo & Kamau, 2003). Such a wide market represents high opportunities for international trade. However while recognising the importance of a clear procurement process, guided by public tendering, publication of winning bidder and mechanism for appeal for aggrieved parties, various countries insert in their law provisions intended to protect their national "sovereignty." Such provisions usually take into account the country's industrial policy (e.g., protection of the country's local

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industries), social policy (e.g., protecting the role of women or the physically disabled) or protection of a country's strategic economic objectives such as regional integration.

These provisions although deemed desirable, especially for developing countries, have serious connotations in as far as promoting free trade is concerned. These discriminatory tendencies constitute a subtle protectionism to trade (Arrowsmith, Linarelli & Wallace, 2000).

Discrimination refers to a government's tendency to favour its own domestic industry's supplies and disregard foreign firm supplies. There are two classical forms of discrimination against foreign bidders in public procurement; explicit and implicit. Explicit forms of discrimination can take various forms, two of which are the "preferential price margin" and "domestic content requirement." Under "preferential price margin", purchasing entities accept bids of domestic suppliers over foreign suppliers as long as the difference in price does not exceed a specific margin of preference. The price preference margin can result from an explicit "buy local policy," e.g., "Buy America Act." The United States government offered a 6% preference for domestic suppliers. The preference can be raised to 12% in case of small business and firms in regions of high unemployment and 50% of military equipment. Explicit domestic preferences have also been applied in Canada, Australia, New Zealand and Turkey (Naegelen & Mougeot, 1998). Under the "domestic content requirement," government purchases from foreign sources only if the latter commit to purchase some components from domestic firms.

Even without provisions in the domestic law, countries usually have biases that are not formal. This is the implicit form of discrimination. Outright exclusion is rarely explicit, but it is never the less one of the most widely used de facto. Formal respect of the tendering procedures is no guarantee of fair treatment to foreign firms, as the discrimination behaviour is usually tacit (Trionfetti, 2000). In the European Community, according to Vagstad (1995) less than 2% of government contracts were awarded to non-national bidders despite a law that does not allow favouritism towards domestic suppliers. This figure does not compare well with a 22% import penetration at the economy level.

Even without discrimination, developing countries are at a disadvantage. While developed nations have the capacity to compete for and be awarded contracts in developing countries, the reverse may not be true. Potential suppliers in developing countries lack the capacity to compete favourably in international procurement markets due mainly to high costs of production arising out of poor production techniques and lack of expertise. This leads to products from developing countries to become uncompetitive in terms of quality and price compared to those from developed nations. The fundamental questions that this paper wants to address are: would removal of discriminatory practices in public procurement markets benefit developing nations given their inadequate capacity to compete internationally? Secondly, how would developing countries cater for both their economic and social interests and at the same time open up their public procurement markets?

GLOBAL EFFORT TOWARDS OPENING UP PUBLIC PROCUREMENT MARKETS

Global effort towards opening up public procurement markets is not a new phenomenon. The GATT negotiations of 1947 rejected subjecting government procurement to GATT guidelines. The arguments were mainly based on “nationalistic” tendencies. The Tokyo Round of 1979 was not successful either. Only a Code on government Procurement was achieved with few countries agreeing to be bound. In the mid-1980s discriminatory public purchasing was identified as one of the obstacles to the completion of a single European market (Martin, Hartley & Cox, 1997). The recognition of discriminatory procurement policies as a protectionist tool led to the World Trade Organization (WTO) to gather support for a multilateral agreement intended to eliminate preferential treatment to national suppliers in procurement deals (Garcia-Alonso & Levine, 2004). The problem of favouritism or discrimination in public procurement deserved attention because government is an important part of modern economies and because favouring domestic suppliers either explicitly or implicitly is widespread (Vagstad, 1995). It is this importance that is widely attributed to non-discrimination, which has led to various countries and regional block to enact laws that explicitly debar discrimination of foreign suppliers in public procurement contracts.

After several years of discussion the Uruguay Round, which gave birth to the Agreement on Government Procurement (GPA), is so far the most successful as far as efforts towards opening up government procurement markets are concerned. Assented to by various parties in 1996, the GPA is a plurilateral agreement, requiring its member states to abide by the obligations set out in its framework. The obligations set out in GPA have two dimensions: substantial and procedural. Under the substantial obligations, member countries are required to impress upon the covered purchasing agencies not to give price and other preferences to domestic producers and also not to discriminate against foreign suppliers. That is, transactions that are based on other criteria rather than best value for money should be avoided. Under the procedural obligations member countries are required to put in place a procurement system that is transparent and encourages open competition. The GPA hopes to achieve greater liberalisation and expansion of world trade, improve the international framework for the conduct of world trade, avoid protection of domestic products, services or supplies and avoid discrimination against foreign providers of products, services or supplies (Fenster, 2003).The current membership of GPA is 28 (Zanamwe, 2003) most of them developed countries and none from Africa.

Alongside free trade initiatives taken in the context of multilateral trade negotiations, different global blocs developed regional integration Agreements. These agreements have generally prohibited discrimination based on local interests in public procurement. These include; North American Free Trade Agreement (NAFTA), Asian-Pacific Economic Co-operation Forum (APEC), European Union plus a number of bilateral agreements. The underlying issue in all these regional and bilateral agreements is the establishment of rules and discipline aimed at ensuring the principle of national treatment and non-discrimination.

Procurement practices also evolved in the context of international financial institutions. The World Bank, the Inter-American Development Bank and other regional development banks have played an important role in shaping generally accepted principles for public procurement. These Banks have established detailed policies and procedures for procurement in connection with the projects funded by them, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations (Arrowsmith, Linarelli & Wallace, 2000)

With the encouragement of leading international financial institutions, and with the interests of developing countries in mind, the United Nations Commission on International Trade Law (UNCITRAL) decided in 1986 to undertake work in the area of procurement. The work resulted in the adoption by the Commission of Model Law on Procurement of Goods, Construction and Services. The decision taken by UNCITRAL to formulate model legislation on procurement was taken in response to the fact that in a number of countries, the existing legislation was inadequate or outdated. The Model Law has the dual purpose of assisting countries in the need for improved public procurement legislation and of helping remove unnecessary obstacles to international trade.

DISCRIMINATORY PRACTICES AND INTERNATIONAL TRADE

Governments are conspicuous actors in the modern economy. It follows that by their choice between purchasing overseas and favouring domestic suppliers, governments can have a marked impact on international trade patterns (McAfee & McMillan, 1989). Discrimination against foreign suppliers was based on the Keynesian macroeconomic orthodoxy emphasizing less government expenditure on imports. It was also based on the “nationalism” argument claiming that “our money” should be spent on “our goods” to “keep jobs at home” (Evenett & Hoekman, 2004).

Several models for public sector procurement interventions, based largely on country specific procurement regimes and requirements, have evolved (Watermeyer, 2004). These can be broadly categorised as falling into one of four generic schemes indicated in Table 1, which are in turn subdivided into nine implementation methods to promote non-commercial objectives.

However, discriminatory procurement does not necessarily constitute a barrier to trade nor does it necessarily affect international specialisation. Indeed it is possible that discriminatory practices applied to different sectors of the economy produce different results. For instance the same discriminatory procurement may result in an increase of domestic output and in a reduction of

TABLE 1
Generic Schemes for Public Procurement Interventions

Scheme Type	Methods	Actions associated with the method
Reservation	#1 Set asides	Allow only enterprises that have prescribed characteristics to compete for the contracts or portions thereof, which have been reserved for their exclusive execution.
	#2 Qualification criteria	Exclude firms that cannot meet a specified requirement, or norm, relating to the policy objective from participation in contracts other than those provided for in the law.
	#3 Contractual conditions	Make policy objectives a contractual condition, e.g. a fixed percentage of work must be subcontracted out to enterprises that have prescribed characteristics or a joint venture must be entered into.
	#4 Offering back	Offer tenderers that satisfy criteria relating to policy objectives an opportunity to undertake the whole or part of the contract if that tenderer is prepared to match the price and quality of the best tender received.
Preferencing	#5 Preferences at the short listing stage	Limit the number of suppliers/service providers who are invited to tender on the basis of qualifications and give a weighting to policy objectives along with the usual commercial criteria, such as quality, at the short listing stage.
	#6 Award criteria (tender evaluation criteria)	Give a weighting to policy objectives along with the usual commercial criteria, such as price and quality, at the award stage.
Indirect	#7 Product/service specification	State requirements in product or service specifications, e.g. by specifying labour-based construction methods.
	#8 Design of specifications, contract conditions and procurement processes to benefit particular contractors	Design specifications and/or set contract terms to facilitate participation by targeted groups of suppliers.
Supply Side	#9 General assistance	Provide support for targeted groups to compete for business, without giving these parties any favourable treatment in the actual procurement.

Source: Watermeyer (2004).

imports from some sectors of the economy and at the same time be completely inconsequential on trade and specialisation (Trionfetti, 2000). The potential for reducing imports through discriminatory government practices is inconsequential because the private sector tends to buy additional imports when their prices decline and as government demand for imports reduces. Once allowance is made for the entry of new firms, a procurement ban may not have any long-term effect.

The second side considers discriminatory public procurement as a stumbling block to free trade and efficient utilisation of resources. These are the same feelings echoed by the Agreement on Government Procurement (GPA). One of the fundamental principles of GPA is non-discrimination. It is based on the general presumption that discriminatory procurement adversely affects trade and that the prohibition to preferences in procurement creates welfare benefits analogous to those arising from trade liberalisation (Mattoo, 1996).

Many other authors are up in arms against the inconsequential nature of discriminatory practices in public procurement. They, for example, uphold GPA as a major step forward in the process of liberalisation and are particularly dissatisfied that the adhesion of developing countries to it is extremely limited (Trionfetti, 2000). According to Trionfetti, one element crucial in determining whether or not the policy will affect international specialisation is the market structure of the economic sector in question. Battling with this view, Trionfetti uses the Heckscher-Ohlin and New trade Theory models to justify his argument. In a Constant Returns to Scale, Perfect Competitive (CRS-PC) market structure, a discriminatory procurement policy will only affect international specialisation if the size of government demand is sufficiently large. Under the Increasing Return to Scale Monopolistic Competitive (IRS-MC) market structure, regardless of the size of government demand, discriminatory procurement will increase domestic output and reduce imports.

It has also been argued that non discriminatory procurement practices have a major impact on exports through shaping the minds of potential foreign consumers' view on the quality levels of a product. The argument here is that potential consumers especially in the rest of the world do not have direct information about quality levels of an advertised bid. However, they use the outcome of the advertised bid to update their beliefs about the quality levels of advertised products. If this argument is to be sustained, it implies that discrimination may have a significant impact on potential exports. If a government does not award a contract to its own domestic companies but instead awards it to foreign suppliers, potential foreign buyers would be restrained from accepting bids from the unsuccessful domestic companies thinking that their quality is low compared to products elsewhere.

ARE DISCRIMINATORY PUBLIC PROCUREMENT PRACTICES NECESSARY?

Governments have tended to discriminate in their purchasing policies in favour of their own industry because of the desire to achieve one or more benefits that go beyond the immediate aim of purchasing goods and services at the best possible terms (Discherdorfer, 2000). Governments have adopted protectionist procurement policies in pursuit of a variety of policy objectives such as maintaining independence in defense production, supporting employment in declining industries, supporting high technology sectors and more general political considerations e.g. domestic lobbying for protection (Uttley & Hartley, 1994).

Indeed some preferential procurement policies are sometimes directed at promoting the development of certain groups of people like the women and physically handicapped within the economy. The basis for this discrimination is to empower these groups of people to improve their economic welfare. Subjecting them to foreign competition is damaging to their effort. The United States sometimes sets aside some contracts to be given to those firms that operate in "labour surplus areas." Public procurement has been used as a tool to promote the government's economic, social or environmental objectives. The industrial, social and environmental objectives are sometimes referred to as secondary or collateral objectives as opposed to the primary concerns of procuring goods and services on the best possible terms (Arrowsmith, Linarelli & Wallace, 2000). Arrowsmith therefore points out the need to relate these secondary concerns with other objectives of the procurement process like value for money and the procedure for attaining them.

When making procurement decisions, many cities and states give preference to local business as a means to nurture small businesses and local economies. Some of these jurisdictions give a local preference only in the case of tie bids, but others give preference if a bid from a local business is within a certain percentage of the lowest non-local bid. The underlying rationale is that in many countries SMEs are an engine for economic development. Small firms are a significant component of economic strategies for employment and a vehicle through which jobs are created.

In Europe often, the only reason why individual member countries experienced employment growth in the mid to late 1980s was because growth in SMEs employment more than offset losses in the large enterprise sector (Fee, Erridge & Hennigan, 2002). There is need to protect these firms so that they can grow but more so because they continue providing employment. There is therefore a symbiotic relationship between government and SMEs. Government offers attractive, stable contracts and accreditation to small firms while the small firms offer the best potential job growth and innovation. Protection of government procurement against bigger and most cost effective foreign firms would go a long way in ensuring SMEs growth leading to economic development.

It is further argued that a policy that gives preferences to domestic firms reduces the effective competition they face from foreign firms and so induce domestic firms to raise their bids. However foreign firms respond by lowering their pre-preference-inflated bids. If the probability of a low cost foreign firm winning a contract is large enough, this can result in a reduction in government's expected procurement costs. In this case price preference shifts profits towards domestic firms while potentially reducing government outlays (Evenett & Hoekman, 2002). So while procurement preferences are commonly interpreted as protectionist devices, they can serve by increasing bidding competition and lower the expected price paid by government for the item. Thus procurement preferences have unexpected and sometimes beneficial side effects (McAfee & McMillan, 1989).

However, continual favouritism of domestic suppliers constitutes non-tariff barriers to international trade. Elimination of these barriers will lead to a more efficient allocation of resources through increased competition, higher quality procurement and budgetary savings to government. If domestic firms were encouraged to become competitive, they would not only supply to government at competitive prices but also export to foreign markets. This would lead to their expansion which would translate into increased employment and improved quality of life to the people. Thus rather than arguing that opening up domestic markets leads to job losses as domestic firms are out competed and lose business, the argument should support the removal of barriers leading to business expansion and job creation in the long run.

In America as a result of “buy national” legislation and other informal policies, government tended to give large contracts not only on the basis of price and quality but on grounds of nationality as well. This resulted in inefficiency and ineffectiveness in the procurement process, patterns of abuse and failure of the public purchase to obtain adequate value in return for the expenditure for public funds (Maza & Camblor, 1999). If government and government agencies are compelled to pay an extra $50,000 for its fleet of police cars because some buy-American law requires it to purchase autos manufactured in America, the taxpayers ultimately have to pick the tab (Block & McGee, 1997). They would have to part collectively with $50,0000 more. This uncalled for excess expenditure, will no doubt affect the welfare of the country. Advocates of increased access to public procurement markets consequently argue that non-discriminatory practices enhance competitiveness and reduce the cost of procurement by government leading to efficient public resources utilisation. In addition efforts in this direction translate into reduced opportunities for trade conflicts and better commercial relations among countries

In Sub-Saharan Africa (SSA), the problem of faltering socio-economic progress is especially acute. Poverty is widespread and severe, with more than half of the population living on less than $1 a day. The region also confronts serious public health challenges, such as HIV/AIDS pandemic, malaria, and tuberculosis. The capacity to generate knowledge and to participate in the knowledge society is declining. Environmental degradation is rapid and severe (Musila, 2004). With such endemic problems, would it be fair for any country to buy products at sub-optimal level? Why would a country engrossed in such a quagmire of problems decide to discriminate against foreign suppliers yet it would provide the much needed budgetary saving for use in solving these inherent social problems?

The arguments for protection based on social consideration among developing countries needs further review. Not much information is available as to whether protection of public procurement markets will enhance the social welfare other than incapacitating it. The argument here is that if the government had not given preference to domestic industries to promote social causes like unemployment, would it not have made substantial saving through buying cost effectively? If so, would not these savings be translated into the badly needed resources to fight disease, hunger and other healthy related problems that threaten developing countries like the case of SSA? Discherdorfer (2000) quotes a study estimating 8-19ECU (European Currency Unit) billions being saved from five European countries, which would flow from introducing competition in the supply side of the demand market. One would only guess the impact this could have on the welfare of a population especially in developing countries if it was saved and spent on the social welfare.

Emphasizing the need for competition, Madu (1997) argues that developing economies have a purpose to satisfy the social utility function of their people. This cannot be achieved if their social welfare and quality of life cannot be maximised. Unemployment is high, productivity is low and technologies are antiquated. The lack of competitiveness has created so much misery. These economies need to develop. There is need to improve the quality of their products and services, improve productivity and generate more revenue to be able to provide social services. By placing tight controls as a way of developing local industries and protecting them from overseas competition developing countries tend to reduce local competition and customer expectations. As a result, firms are either unable to achieve high levels of quality or else view quality improvements as unnecessary. In doing so, local industries have tended to develop devoid of a focus on quality (Gosen, Babbar & Prasad, 2004). This inevitably impacts negatively on the well-being of people as they pay more for less quality goods.

Both the global and national economic welfare of nations will improve if nations are free to trade their specialised skills in the market place. If a government restricts trade, resources are wasted in the production of goods that could be imported more cheaply than they can be produced domestically (Frankel, 2000). Competition in procurement is liable to generate benefits akin to the opening up other areas of trade. Benefits would emanate from savings for private sector buyers as spin-off effects from reduced prices in the public sector and the wider effects of greater competition on innovation, investment and growth of the economy (Discherdorfer, 2000). In the absence of foreign competition, there has been little incentive for domestic firms supplying the public sector to invest in new technology and thus keep costs down. Moreover, firms in protected markets have been characterised by low product specialization resulting in uneconomical product ranges and short product runs. The outcome has been artificially high prices as the public sector pays more than it should for goods it needs (Uttley & Hartley, 1994)

The policy of discrimination by government causes distortions the way tariffs do. They can be considered as part of the whole gamut of economic policies such as tariffs, subsidies, exchange restrictions and quota that tend to create a wedge between the domestic price and the world prices of internationally traded goods. Domestic content laws require products to contain percentages of homegrown parts in order to avoid tariff or quota restriction. In some cases manufacturers must alter the composition of the products they make in order to meet domestic content requirements. The fact that they must do so logically implies that domestic content restrictions raise prices and/or reduce quality since manufacturers would have to make different choices in the absence of restrictions (Block & McGee, 1997). This implies that government would now pay more for poor quality goods affecting both the budgetary allocation and the welfare of the people who would have benefited from increased provision of social services if efficient allocation of resources had been adhered to.

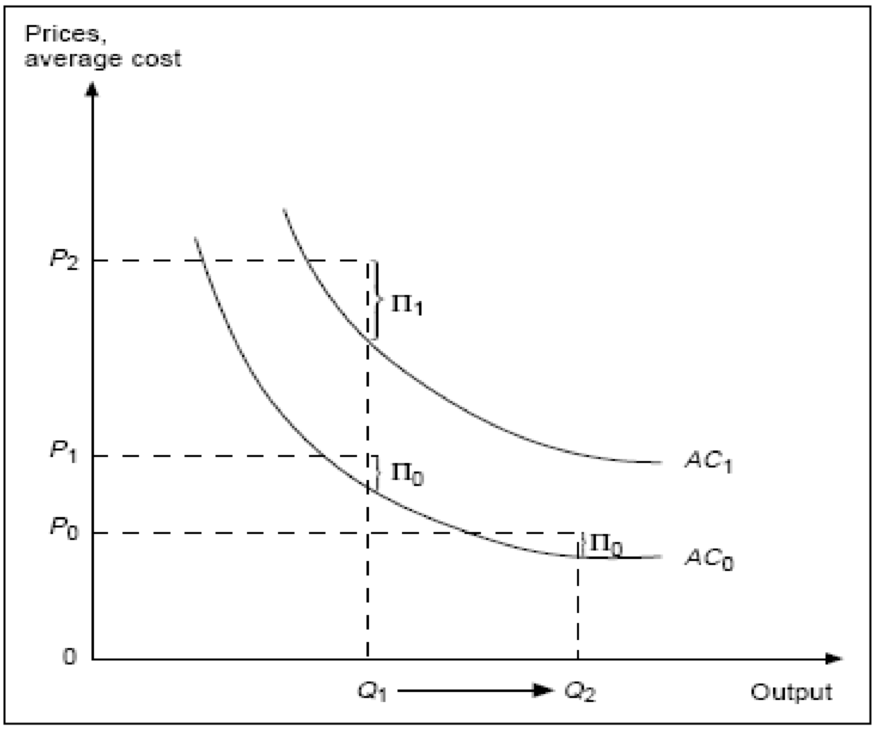
Arguing for a single market within the European Commission, Cecchini (1988) points out that government protectionism in procurement markets is a shot in the foot. He indicates that in 1986, the total purchases controlled by the public sector (Central and local governments, their agencies and enterprise within monopoly-type concessions) was Ecu 530 billion, amounting to 15% of the community GDP. A working paper by the Directorate of Trade in the OECD (2003) estimates each country's government expenditure of being between 14%-20%. The report indicates that open access to procurement markets is an issue of increasing importance in international economic relations due to the commercial significance as well as the implications of procurement policies on government's attitude towards the economy. It is because of the volume and value that public sector procurement represents a vital segment of the economy (Maza & Camblor, 1999). By rejecting intra-EC competition, the public sector paid more than it should, for goods it needs and in so doing, supported sub-optimal enterprises within the community. Hence by creating differences between domestic and foreign prices for goods and services, procurement practices affect market access and are a stumbling block to free trade. Openness allows firms to keep in touch with global markets. A high rate of economic interaction with the rest of the world speeds the absorption of frontier technologies and global management best practices, spurs innovation and cost cutting, and competes away monopoly (Frankel, 2000).

Research conducted in the 1980s within the European Community indicates that procurement policies favouring national suppliers were resulting in excessive costs and inefficiencies (Uttley & Hartley 1994). Criticising the rejection of intra EC trade, despite the spirit and conduct of government leaders within the EC, Cecchini highlights three major areas of cost saving;

- The Static effect- meaning that public authorities are able to buy from the cheapest (foreign) suppliers.
- The competition effect- leading to downward pressure on prices charged by domestic firms in previously closed sectors as they strive to compete with foreign companies entering the market.
- The restructuring effect or the long run effect of economies of scale as the industry re-organises under pressure of new competitive conditions.

Using price and average cost curve, Uttley and Hartley (1994) explain that the static trade effect will occur as public authorities buy from the lowest cost, possibly foreign source. (Figure 1) This would represent a reduction in unit costs from AC_1 to AC_0 for output Q_1. The competition effect is obtained as domestic firms in previously protected markets are forced to compete with foreign companies entering the market. The competition results in reduced profit margins and thus lower prices. As a result of the combined trade and competition effects, prices fall from P_2 to P_1 and profit margins from Π_1 to Π_0. The longer-run restructuring effect will be achieved as industries reorganize to achieve economies of scale. This is indicated by further reductions in unit costs and prices as output increases from Q_1 to Q_2 on the long-run cost curve AC_0.

FIGURE 1
The Static, Competition and Restructuring Cost Saving Effects



INTEGRATING DEVELOPING COUNTRIES INTO THE GLOBAL PROCUMENT FRAMEWORK

Challenges of Opening up Public Procurement Markets

Integration of developing countries into the global economy can be a powerful force for economic growth and poverty reduction and indeed empirical studies indicate that countries, which have integrated into the global economy, have enjoyed increased growth and their per capita income has improved. During the 1990s, developing countries that successfully integrated into the global economy enjoyed a per capita income increase averaging 5% annually. Countries that limited their participation in the global economy saw their economies decline (US Agency for International Development, 2003). There is therefore a strong case for opening up government procurement markets.

However, free trade between countries with very different endowments and capabilities, presumably with large asymmetrical commercial power, is illusory. The removal of barriers to trade, whatever they are, would be easier, if the adjustments demanded by the problem of asymmetrical power between countries were more seriously taken into consideration for practical purposes (Silva, 1999).Trade among non-equals/producers in developing vis a vis developed countries can lead to such adverse outcomes such as the decimination of entire industries in some developing countries. Similarly simply expanding the realms of free trade has, in many cases, resulted in an actual increase in poverty and environmental degradation and has had an adverse impact on women and food security across the developing world (Mendoza & Bahadur, 2002). A cautious approach therefore needs to be undertaken that takes into account divergences in the level of development between countries.

Commercial transactions in the real world, even in the absence of formal barriers, are not exchanged between countries in the same circumstances, incidentally not with the same degree of power. Close scrutiny and consideration, bearing in mind the existing situation, could lead to an effective level playing field between the most diverse trading partners, and contribute to the emergence of internationally fair competition, as well as to the establishment of a likely equality of opportunities for a wide and varied range of countries (Silva, 1999). Freeing public procurement markets without creating structural changes within the economies of developing countries in order to improve competitiveness will create very little economic gain.

Due to the unequal commercial powers of the world, developed nations have the capacity to compete for and be awarded contracts in developing countries. Conversely the reverse may not be true. Furthermore, developing countries are frequently characterised by large procurement markets such that in agreeing to an open procurement market, they would be generally liberalising larger than an industrialised country would (Davies, 1998). Potential suppliers in developing countries lack the capacity to compete favourably in international procurement markets mainly due to high costs of production arising out of poor production and lack of expertise. This leads to products coming from developing countries to become uncompetitive in terms of quality and price compared to those from developed nations. This lack of reciprocity has led developing countries to grow cold feet as to whether there are economic gains that would arise if a multilateral framework on procurement was to be developed.

Therefore, the unfettered advocacy of global market integration that has become so passionately pursued by major industrialised countries may thus be injudicious. Through its policy aims, market integration undermines the multilateral principle of reciprocity and gives insufficient attention to the immense diversity among countries in political, economic and social conditions. Each country has deep roots in its individual social norms and want to decide how it wants to adjust its domestic laws and practices in order to accommodate its trading partners and to gain a comparative adjustment from them (Brown & Stern, 2004). Cross-border economic integration, for example, and national political sovereignty have increasingly come into conflict leading to a growing mismatch between economic and political structures of the world.

Developing countries may indeed benefit from freer procurement markets, but the negotiations on global non-discriminatory procurement framework so far suggests that sovereign nations are only willing to accept foreign competition in procurement markets if they are convinced that the benefits of gaining access to foreign markets out weighs the loss of power to employ public procurement as a mean to promote domestic policies (Discherdorfer, 2000). All countries have a purpose to satisfy the social utility function of their people. There is therefore need to consider an integrated and holistic approach towards linking up public procurement and social obligations of a country.

There is little doubt that free trade objectives could be better achieved. However, the most important although difficult set of policies developing countries have to decide lies in the interface between domestic policies and the world economy. Whether, how, when, to what extent, in which sectors and in which sequence to integrate the domestic economy and society with the international economy and society remain difficult questions that face developing countries. There is no consensus but rather controversy on the definition nature and consequence of integration (Khor, 2003).

Achieving improved non-discriminatory procurement practices is necessary but it is by no means sufficient to bolster growth prospects in developing countries. Domestic markets in Sub-Saharan Africa for example are too small to permit economies of scale that allow a country to be competitive and to integrate into the global economy (Musila, 2004). Emphasis should therefore be on developing strategies that could enhance social and economic objectives of countries.

Sector-Specific Approach

Developing countries need to reassess their development prospects as they become more and more integrated into a multilateral trade regime. The social policy and free procurement markets should be incorporated as prime objectives of the system. Appropriate balance between the two should be seen as a normal activity that takes place within the system itself. There seems to be inadequate attention given to whether and to what extent the trade regimes have overall coherence and consistence with the development goals of the countries it is intended to benefit, despite repeated policy statements by all countries of WTO to construct a regime that promotes development (Mendoza & Bahadur, 2002). Simply opening up economies without a thought through programme may become catastrophic.

There is a need for developing countries to take a pragmatic approach to liberalisation and to be selective in choosing how, when and in which sectors and to what extent to integrate their domestic economies with the global economy in all crucial areas. The interaction with global economy can benefit a developing country significantly. However, the terms of interaction are crucial if the potential benefits are to be realised and if the cost and damage is to be avoided. The approach of selective integration done carefully and appropriately suited to the conditions of a country is therefore of utmost importance. It should replace the still dominant approach of “big bang” carried out inappropriately in a one-size fits all manner (Khor, 2003). Integration should pay much attention to the peculiarities of different countries if they are to become sustainable.

Developing countries need to adopt a sector-specific approach while integrating into the global procurement framework. This would provide an opportunity for developing countries to adjust their level of openness of government procurement markets to the development needs and national policy objectives. Countries should carry out a sector by sector analysis, focusing first on those sectors where government procurement is significant.

There is an increasing paradigm shift from manufacturing to services as engines of economic development. The relative importance of manufacturing and services to economies, and the inter-relationship between the two have been the subject of much discussion through the years. Some have argued that the decline in manufacturing and the corresponding shift to services is unsupportable in the long run, since services depend critically on manufacturing for their existence. In the absence of manufacturing, service sectors are seen as collapsing (OECD, 1999). On the other hand, services have been seen as a major driving force in economic growth. Most developing countries are labour intensive; hence the need to focus on the sectors of the economy that enhance increased employment.

The argument is therefore increasingly turning to the services market as an engine for social development within various economies. Sectors that could be looked at could include, for instance, computer and related services, construction services, engineering and architectural services, environmental services, catering services, building-cleaning services and travel agencies (WTO, 2002). The construction services market in developing countries for example is a fundamental economic activity. In fact the construction services sector is used in developing countries to address rural poverty and provide opportunities for women because it is labour-intensive.

Although the distinction between goods and services is blurred, by 1990 a number of OECD countries had caught up with USA in having a service-based economy and it is no longer uncommon that some 70% of a country's GDP originates from the service sector employing a nearly equal share of the working force (Aarnio, 1999). As Table 2 indicates, employment in the service sector increased tremendously within a period of 10 years from 1987 to 1997. Apart from Poland and Turkey all countries have service sector employment of over 50% with remarkable increase between 1987 and 1997.

TABLE 2
Services: Civil Employment in Services as a Share of Total Civilian Employment, 1987 and 1997 (in Percentage)

Country	1987	1997	Change
Australia	68.1	72.7	4.6
Austria	53.7	63.8	10.1
Belgium	68.2	71.4	3.2
Canada	70.0	73.0	3.0
Czech Republic	40.5	52.5	12.0
Denmark	66.0	69.5	3.5
Finland	58.4	65.5	7.1
France	62.2	69.9	7.7
Germany *	55.4	60.2	4.8
Greece	45.0	58.9	11.9
Hungary	NA	57.0	NA
Iceland	57.6	65.5	7.9
Ireland	57.0	61.7	4.7
Italy	56.8	61.2	4.4
Japan	57.9	61.6	3.7
Korea	45.5	57.7	12.2
Luxembourg	62.7	71.8	9.1
Mexico	NA	54.1	NA
Netherlands	68.3	74.1	5.8
New Zealand	62.2	67.6	5.4
Norway	66.3	71.6	5.3
Poland	NA	47.5	NA
Portugal	42.9	54.8	11.9
Spain	52.5	61.7	9.2
Sweden	66.3	71.3	5.0
Switzerland	57.5	68.6	11.1
Turkey	31.0	34.7	3.7
United Kingdom	64.8	71.3	6.5
United states	69.9	73.4	3.5
G7**	63.9	68.2	4.3
EU-15**	59.0	65.2	6.2
OECD Total**	NA	64.1	NA

Notes: NA = Not Available; * Former Federal Republic of Germany only; ** Only data shown in the table are included in these totals.

Source: OECD (1999).

Striking and well-documented evidence shows the growing importance of services as the largest contributor to GDP and employment, as well as the great export potential in all developing countries regardless of the level of development. During the last decade up to 1995 the services balance showed a declining deficits trend, shifting since then to an increasing surplus position of over US$ 17 billion during 2000 as a result of the growing dynamism of the services export (Butkeviciene, Benavides & Tortora, 2002). Elaborating on the figure, Butkeviciene et al indicate that developing countries' services exports doubled during the 1990-1999 period shifting from US$ 147 billion to 347 billion, growing at a faster pace than developed economies: 16 percent during 1990-95 and 8 percent during 1995-1999. During the last decade, services exports were among the top five sources of foreign currency in 90 developing countries meanwhile in 38 countries including 19 developing countries were top export revenue.

So if developing countries are to use discriminatory procurement policies to fulfill their social obligation of reducing unemployment levels within their countries, then government should critically look at the service sector. In as much as the service sector is crucial, there is need to assess each type of service's contribution to the employment levels of the country. Those services that are critical should be protected from foreign competition so that they continue to provide employment and improve the welfare of the population. A blanket overall service sector protection will not enhance its productivity, hence the need to set up a mechanism to spell out exactly which service sector to protect and the mechanism for protection.

The mechanism for protection is important. As earlier indicated, free markets create competitiveness leading to increased innovation. Completely shutting out foreign competition from various sectors of the services industry will stifle innovation. The margin of preference for example should not be set at a level that completely shuts out foreign competition. It should become possible for a foreign firm that bids at favourably low prices to win a government contract. This will create an acceptable level of competition between domestic and foreign firms and will eliminate any possible complacency that would arise if no competition were allowed at all.

An acute shortage of skilled workers however exists in especially developing countries and is a major problem for some of these countries. In recognition of this situation, governments are exploring a number of ways to support the up-skilling of the workforce. These include educational reforms and incentives for firms as well as individuals to invest in continuous learning.

Creating Competitiveness on the Supply Side of the Market

Although positive economic growth returned to many developing countries in the 1990s - a phenomenon that was frequently associated with export dynamism - in most cases it did not result in generalised improvements of welfare or relevant changes in poverty and employment. Developing countries economies are made up of very small to medium firms without sufficient capacity to compete in world markets. Stabilization and liberalization can remove the constraints to growth caused by poor management, inefficient public enterprises and high entry costs for private enterprises. Nonetheless, they can not by themselves allow the economy to build more advanced capabilities to escape the so-called "low-level equilibrium trap." After an initial spur of growth, economies with static capabilities slow down as their inherited advantages are exhausted.

Developing countries are characterised by limited diversity in economic activity, export-concentration of a few products, significant dependency on trade taxes and small size firms. These small firms cannot attain either internal or external economies of scale. Due to lack of resources, skills and technologies, these firms are unable to create new products for export. To derive greater benefit from increased market access, countries need competitive enterprises that are able to produce products at a reasonable cost. They also need an efficient mechanism in place to ensure that these products can reach international markets within the time and cost required to stay competitive.

The SMEs that dominate developing country's economies face obstacles at every stage of the procurement procedure. SMEs must surmount many problems, such as lack of information about potential contracts, inability to draw up business plans, mismatch between the size of the enterprise and the large size of many contracts, anxiety about currency fluctuations, and the need to meet standards, certification and qualification requirements. Other problems, such as delays in payment, may arise in the post award stage. How then would these SMEs overcome such obstacles?

An emerging paradigm stresses the need to tailor the rate of import liberalisation to the increase in the supply capacity of local firms in order to realise the country's export potential. Increasing the supply capacity of local firms entails significant government interventions. Trade liberalisation and macroeconomic stability have not been able to solve the supply-side constraints of developing economies nor promote the changes they need in their productive structures, which are essential if developing countries are to compete successfully in markets of value-added goods and services, thus sustaining productivity growth and creating more and better jobs Governments in developing countries can more effectively help enhance local capability by being more efficient themselves, providing financial and technological support, and making industrial development an important priority.

Arguments have arisen as to whether it is necessary to put up barriers to protect domestic industries. The infant industry argument maintains that during the temporary period when domestic costs in an industry are above the product's import price, a tariff is a socially desirable method of financing the investment in human resources needed to compete successfully with foreign producers (Baldwin, 2000). However, the argument of protecting infant industries so as to enable them to acquire knowledge about local production techniques needed to compete effectively with foreign producers is flawed. One, there is no guarantee that given temporally protection, owners of local industries will invest in human capital in order to build skills for competition with foreign suppliers. Two, there is no guarantee these infant industries will generate the necessary jobs in order to fight unemployment levels within countries. So instead of arguing for temporary protection, the argument should be on how we should improve the supply-side capacity of these firms in order to make them competitive in the world market

Exposure to global competition requires small firms to invest heavily just in their national market and more so in order to export (Bernal, 2001). Developing nations have to up-skill and raise their productivity very quickly to "play the game" (Shurchuluu, 2002). There is need to ask how other developed nations become world players. There is need to benchmark and become competitive. Shurchuluu further argues that competitiveness is desired only because it holds the key to sustain economic prosperity, jobs and a higher standard of living. Quoting the OECD, he gives the definition of national competitiveness as the degree to which a country can under free and fair market conditions, produce goods and services which meet the rest of the international markets while simultaneously maintaining and expanding the real incomes of its people over a long time. This should be the desired goal for all countries including developing economies. The question then becomes how can this competitiveness be attained?

For countries seeking to enhance their international competitiveness, there is little debate about the importance of the role of government in this process (Wint, 1998). Making sustainable and effective integration of the developing countries into the processes of liberalization of the world economy rests upon creating a supportive domestic and international policy and regulatory environments. Fair trade will not be achieved in the imperfect markets, where information will not be equally available to all, where dominant players will impose their own terms of doing business and where the rest will have no tools to address the anti-competitive practices.

Market failures that bedevil developing countries need to be corrected in order to obtain both static and dynamic efficiencies. Developing countries have an inadequate output of internationally competitive firms capable of exporting their products in international markets (Wint, 1998). Without enabling support from the government, domestic firms from developing countries find it difficult to bridge the gap between their skills, technologies and capabilities and those needed for international competitiveness. Wint argues for the development of an international entrepreneur who is capable of meeting the challenges of international competitiveness. Given the deficiency of such caliber of people in especially developing nations, he advocated for selective government interventions by optimizing the trade between market and government failure.

Policy makers in developing economies should realize that their economies operate in a global economy and that the survival and the growth of their economy are influenced by market forces. They should provide a conducive environment to give their economies a chance of competing effectively in the global market. Governments from developing economies need to continuously dialogue with their international counterparts in order to share experiences and get the necessary technical advice to spur local economies towards development.

The other measures can be found in building capacity for investment. There is need to enable developing countries to enhance their producers' ability to compete in the world market through increasing their productive capacity. Increased access to finance, business development services, managerial and technical skills and access to global supply chains are critical. New capital is needed to continue to invest in technology, train employees and provide ongoing on-the-job training and invest in quality management programmes. Furthermore, research and development efforts will be required to ensure that current technologies and quality programmes are updated.

Firms within developing nations need to recognise quality as a focal competitive strategy. This calls for cultural transformation. There is a difference in perception of quality and of what it takes for a product to be able to effectively compete in global markets between people in developing countries and those in the industrialized world (Madu, 1997). The economies of many developing countries have historically been protected through government regulations and significant import duties. As such, people constituting the workforce remain unexposed to the kinds of choices available to consumers in industrialised countries and thus fail to comprehend the level of quality it takes to satisfy demanding consumers in open and intensely competitive world markets.

Additionally in many developing countries the local supply base is poorly developed or non-existent. The use of sub-standard parts from local suppliers invariably results in the firm's inability to produce high-quality products (Gosen, Babbar & Prasad, 2004). If quality management practices become established in the developing world, a number of positive outcomes should become apparent. With the capability to produce world-class products, firms based in these countries will effectively be able to compete in global markets and bring wealth and prosperity to developing countries. One goal of quality management is the reduction of waste in the system. Poor countries with minimal resources stand to gain the most from such quality management practices.

Recognizing the limitations of skills and resources to exploit growing technology and sustain competitive advantage, firms are engaging in intra and inter-industry alliances both at the national and international level. The goals of strategic alliances are to leverage critical capabilities, increase the flow of innovation, and improve the flexibility in responding to market and technological changes (Malhotra, Agarwal & Baalbaki, 1998).

In the case of developing countries which are dominated by SMEs, The forging of linkages between these SMEs and large enterprises is one of the most efficient ways of integrating SMEs into the global supply chain and thereby increasing their competitiveness. As suppliers to transnational corporations, SMEs not only gain better access to international markets but are exposed to new technologies and management methods thus increasing technology transfer and resource development. As such, enhanced access to global supply chain can act as a strong catalyst in the development of the capacity of local enterprises (United Nations Economic and Social Council 2004). Small entrepreneurial firms develop relationships which assist their internationalisation across multiple markets by giving access to new foreign market opportunities and capabilities and resources required to implement marketing initiatives.

Strategic alliances are more than simple instrumental means for achieving collective goals directly benefiting the collaborators. They constitute each partner firms' corporate social capital, providing potential access to various assets controlled by other strategic alliance network members. Alliances provide opportunities for participants to tap into the resources, knowledge, and skills of their immediate partners in a portfolio of inter-firm agreements (Toveda & Knoke, 2005). The development of relationships which support internationalisation may therefore permit small firms to expand outside the boundaries of their domestic markets and lessen the risks associated with new markets development (Marcela, Bernal, Burr & Johnsen, 2002). Quoting Coviello and Munro (1997), Marcela, Bernal, Burr and Johnsen conclude that having an in-depth knowledge of foreign markets and right connections in these markets is an important impetus to the internalisation of small firms.

The cross-fertilisation of global and local features can be exemplified in what has come to be called "brand affiliation." Affiliation with the standards and icons belonging to global culture are increasingly becoming irresistible for locally bound small enterprises, which are hampered by their "smallness" and by their limited ability to tap into global markets single handedly, and to compete with their larger, globally omnipresent competitors. Attributes of the global culture my function as an "endorser" for small and medium enterprises (SMEs) and ingress to a global clientele without compromising their local identity and without relinquishing operational control (Yakhlef & Maubourguet, 2004). Quoting Eroglu and Machleit (1988), Ahmed et al (2001) argue that a brand name can affect quality ratings such that a highly regarded brand can overcome a negative Country of Origin (CO) effect of country of manufacture and/or final assembly. Thus a Japanese Toyota car assembled in Brazil might be viewed as a reliable brand. This implies therefore, that if developing countries could hold on the affiliations to international brands, their product ratings would go up and penetration into international markets will be achieved.

Phased Approach through Regionalisation

Many authors however have stuck to the issue of power asymmetry across the globe to advocate for regional integration instead of a multilateral framework on public procurement. The advanced argument is that if countries at the same level of development formed regional blocks, they would not be disadvantaged when they open up their markets. The issue of lack of reciprocity would not arise given that if they opened up, each country's suppliers would be able to supply in the other country's market leading to increased competition between both countries.

Preference trading arrangements are nothing new in international relations and have complimented each other ever since, the WTO has reported about 250 regional trade agreements and the number could have risen by the end of 2005 to 300 (Brown & Stern, 2004). However, Brown and Stern are optimistic that the degree of commercial and economic interdependency today militates strongly against any possibility that trading blocks might raise barriers against each other in order to form more exclusive trade barriers within their free trade areas. Further they infer that the lowering of trade barriers within the Free Trade Areas (FTAs) is contributing positively to global trade liberalization. That some of the very large developing countries have joined in forming an FTA, only adds to positive momentum especially given that it is in trade among developing countries themselves that high trade barriers are encountered.

Indeed when developing countries join FTAs they will develop internal competitiveness. Once competitiveness has been achieved within the FTAs they would want to expand and merge with other FTAs. The eventual result would be a global market. The advocates for a regional bloc first before a global market argue for a phased approach to integration and might have a key to internationalisation of the public procurement market. Firms at almost the same level of development would first have to share and compete with each other and then develop the capacity to compete before moving global. This would be a welcome alternative rather than blanket opening up of procurement markets where small firms from developing countries would be put up with mega multinationals while competing for government tenders with catastrophic consequences.

CONCLUSION

This paper has brought out critical issues on opening up public procurement markets. First it has argued that opening up public procurement markets plays a crucial role in enabling public authorities to purchase goods and services at the lowest cost hence giving taxpayers value for money, improving the quality of government service delivery and permitting better allocation of resources. Opening up competition to foreign providers can also stimulate domestic industry, promote innovation and contribute to good governance. Conversely, policies that favour national or local providers over those which are foreign have effects similar to other protectionist measures, introduce distortions that limit choice, increase prices and discourage economic efficiency. On balance, discriminatory policies shift profits to domestic firms, but these benefits are ultimately offset by increasing procurement costs.

Secondly this paper has grappled with how developing countries could be integrated into a global procurement framework. Three issues came up:

- Sector-specific approach: This one argues that the sectors that offer employment to a larger number of a country's citizens should be protected from foreign competition. The social utility function of government should be achieved through protecting some sectors of the economy so as to promote employment. The service sector being crucial in employing a large number of people in a particular country, it was argued, should be protected over the manufacturing sector. It was argued that critical assessment of the service sector be made and those that are critical to social functions of government be protected.

- Creating competitiveness on the supply side of the market: This approach argues that, for especially the manufacturing sector, instead of advocating for discrimination, the argument should be how to improve their competitiveness. The competitiveness can not be improved through locking out foreign competition but through structural adjustments within the firms themselves. Various issues were suggested on how to achieve improved competitiveness so as to achieve a global thrust.
- Phased approach: This approach has argued that well-as a global procurement framework is necessary the move to achieve it should be gradual. It argues for regional trading blocks first before eventually expanding into a multilateral framework. The phased approach would enable countries to compete with those at the same level of development, build the competitiveness and then become global.

This paper has not been able to recommend which of these approaches is better since much more research is needed in this area. However developing countries have to realise that discriminating foreign supplier in favour of domestic suppliers is not a long term approach in achieving their social and economic objectives. They should find a critical balance between opening public procurement markets and achieving their social-economic objectives because both of them are crucial.

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