

WORK PROGRAMME ON SMALL ECONOMIES

An Approach to Framing Responses
to the Trade-Related Problems of Small Economies

Revision

Communication from Antigua and Barbuda, Barbados, Bolivia, Cuba, Dominica, Dominican Republic, El Salvador, Fiji, Grenada, Guatemala, Honduras, Jamaica, Mauritius, Mongolia, Nicaragua, Papua New Guinea, Paraguay, Solomon Islands, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago

The following communication, dated 20 May 2005, is being circulated at the request of the above delegations.

Introduction

Paragraph 35 of the Doha Declaration reads as follows: "We agree to a work programme, under the auspices of the General Council, to examine issues relating to the trade of small economies. The objective of this work is to frame responses to the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, and not to create a sub-category of WTO Members."

In addressing the trade-related issues, Members have adopted an approach that seeks to avoid forming any new category. The Dedicated Session has reported to the General Council accordingly at its meeting of 15 February 2005.

In this regard, Members will recall that decisions based on the needs and concerns of certain developing countries have been taken into account in the GATT/WTO at the Ministerial Conferences and at the General Council. Members will recall the following:

- (i) In the Uruguay Round the characteristics of net food importing developing countries were taken into consideration.
- (ii) In Paragraph 11 of Annex A of the July 2004 Decision, Members recognized that "developing countries that allocate almost all *de minimis* support for subsistence and resource poor farmers will be exempt".
- (iii) In Paragraph 1(d) of the July 2004 Decision provides, under the rubric of Other Development Issues, there is mention that "special attention shall be given to the specific trade and development related needs and concerns of

developing countries,..... (T)he trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, *should also be addressed,*"

Background

Document WT/COMTD/SE/W/12 contains an indicative list of characteristics and trade-related problems specific to small, vulnerable economies.

Members have agreed to explore a characteristics-based approach whereby characteristics capable of identifying small, vulnerable economies have been discussed. Members have also discussed some problems which could reasonably result from the combination of characteristics. Members also understand that none of these characteristics and problems by itself can be assumed to be unique to small, vulnerable economies. However, the proponents have argued that it is the combination and intensity of several characteristics, and the combination and intensity of several of these problems that give rise to vulnerability in small economies. Small, vulnerable economies also suffer from a lack of resilience and exhibit difficulty in adjusting when faced with these problems.

The Way Forward

The determination of Ministers at Doha and Members in the July 2004 Decision to achieve results from this work programme is clear. Members are now seeking to make progress in the negotiations in all areas in an attempt to arrive at a July 2005 "First Approximation" of the Hong Kong China Ministerial Conference results in December 2005.

Being aware that Paragraph 35 of the Doha Declaration states, in part, that "(T)he General Council shall review the work programme and make recommendations for action to the Fifth Session of the Ministerial Conference," the proponents are presenting this paper as a basis for discussion and in preparation of a report to the General Council as part of the process in the lead up to the next Ministerial Conference in Hong Kong.

Taking into account document W/12, as well as the debates around it, and recalling the specific proposals tabled in the Committee on Trade and Development Dedicated Session by the proponents in W/3, W/10 and W/11 within the context of the mandated work programme, it is intended to pursue our work as follows:

- (i) Consider this paper as providing a basis for a CTD report to the General Council;
- (ii) Pursue examination in the CTD of more concrete responses to the trade-related problems of small, vulnerable economies with a view to also providing more detailed inputs to the relevant negotiating bodies after July 2005 as directed by the General Council;
- (iii) Continue examination of the responses in the CTD as well as their progress in the negotiating bodies where relevant and inform the General Council accordingly.

On the basis of the progress made in the Committee on Trade and Development and recommendations from the General Council, the Sixth WTO Ministerial Conference shall adopt decisions for the meaningful implementation of concrete measures designed to address the problems

of small, vulnerable economies and to ensure their fuller integration into the multilateral trading system.

Considerations for Responses to Trade-Related Problems

The following indicative list of considerations has been identified as bearing heavily on the insignificant share of small, vulnerable economies in international trade as well as their limited capacity to participate in the WTO negotiations:

1. In the Uruguay Round small, vulnerable economies undertook commitments, some of which have resulted in severe difficulties.
2. In general small, vulnerable economies do not apply trade-distorting domestic support policies or subsidies. Even where there are legitimate possibilities to apply support policies, *de minimis*, or green box measures, these economies do not have the necessary financial resources and capabilities to do so.
3. Small economies have simple and transparent tariff structures.
4. Tariff peaks and tariff escalation affect small, vulnerable economies as they impede the diversification and exportation of products with high value added.
5. The agricultural and fisheries sectors in small, vulnerable economies play key roles in the attainment of their economic development goals, in particular with regard to food security, rural development, exports and employment. The volatility of international prices for products exported by small, vulnerable economies constitutes an important factor of high vulnerability. The very limited participation of the small, vulnerable economies in international markets for agricultural and fisheries products is itself an indication that they cannot create distortions in the market and therefore concessions within the rules cannot affect the multilateral system. In addition, the special safeguard in agriculture (Art. 5 of the Agreement on Agriculture) does not sufficiently respond to the realities of the small, vulnerable economies.
6. The very limited participation of small, vulnerable economies in international trade prevents them also from effectively defending their export interests in cases of modification of schedules under Art. XXVIII of GATT 1994 and in the renegotiation of tariff concessions, which under current arrangements recognize only substantial interest defined narrowly.
7. The high transaction costs, the isolation of island countries and the environment surrounding land-locked countries, are basic problems for small developing economies. Thus, the potential of the industrial sector to provide new development options for small and medium enterprises, for employment generation and higher exports, and for the integration of women to the productive sectors cannot be achieved.
8. The size of small and medium sized enterprises (SMEs) varies significantly across Members' jurisdictions. In the case of small economies, their SMEs principally comprise 'micro' or very small enterprises which face particular challenges in terms of human resources, market development and financial constraints.
9. Small, vulnerable economies have a specific and urgent need for technical assistance and capacity building. It is recalled that paragraph 38 of the Doha Ministerial Declaration provides for priority to be accorded to small, vulnerable economies in the delivery of WTO technical assistance.

10. The WTO Agreement on Subsidies and Countervailing Measures contains provisions resulting in the low cost incentives granted by the small, vulnerable economies, which are essential for the development of export oriented industries, being unfairly treated as prohibited subsidies.
11. In small, vulnerable economies, employment options are few and hence in general, they face high levels of unemployment. Small, vulnerable economies have an interest in developing their services sector as a means of enhancing employment both on-shore as well as off-shore.

Elements of Responses

In view of the above considerations, Members are asked to examine the following non-exhaustive elements proposed as components of a holistic response to the trade-related problems of the small, vulnerable economies. Concrete responses along these lines will facilitate the enhanced participation by small, vulnerable economies in the multilateral trading system. These elements will be further elaborated at a later stage:

1. Small, vulnerable economies have issues of substantial interest in the agriculture and NAMA negotiations in terms of market access, including special flexibilities and economic development broadly. These issues should be addressed satisfactorily so that small, vulnerable economies can participate meaningfully in the multilateral trading system in accordance with their level of development.
2. Special priority will be accorded to the services and products of export interest to the small, vulnerable economies, especially to those that show a real potential to increase their exports.
3. Market access for service suppliers of sectors and modes of interest to small, vulnerable economies will be ensured in order to promote the development of their services sector so that they can contribute more substantially to employment creation, revenue generation and overall growth.
4. It is important that special efforts be made to facilitate the full range of services exports of small, vulnerable economies which can assist in compensating for their size and geographical disadvantages.
5. With regards to subsidies and countervailing measures, decisions should be taken in order to allow small, vulnerable economies to better respond to the needs of their small business sector, and further their trade and economic development objectives in the multilateral system.
6. With regard to the mandated work on rules governing regional integration schemes, the special problems and characteristics of small, vulnerable economies should be taken into account.
7. The specific needs of the small, vulnerable economies should be addressed in the trade facilitation negotiations bearing in mind that small ports will always have inherently high operating costs relative to the volume of goods processed. Special consideration should be given to the provision of technical assistance and capacity building for small, vulnerable economies. The specific elements of the trade facilitation mandate regarding financing and costs should also be meaningfully addressed.

8. The specific needs of the small, vulnerable, landlocked economies should be addressed in the trade facilitation negotiations bearing in mind that these small economies have no seaports and will therefore always have inherently high transit and other costs relative to the volume of goods processed.
9. In both the multilateral negotiations on rules and in the bilateral negotiations on market access commitments, acceding small economies will not be required to undertake commitments greater than those of WTO Members at a similar level of development. Guidelines for the accession of small economies will be proposed, taking into consideration existing guidelines and further proposals from the small economies delegations.
10. Special attention should be given to addressing the outstanding implementation issues of interest to small, vulnerable economies including the issue of the redistribution of negotiating rights in favour of these small exporting members in the trade negotiations.
11. The limited administrative capacity of small, vulnerable economies makes it difficult for them to comply with all the detailed and complex WTO rules. For example, they are unable to effectively (a) use the provisions of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) and (b) to enforce the decisions of the DSB. Special attention should be given to these matters.
12. In accordance with Paragraph 38 of the Doha Ministerial Mandate and given the limitations in the human and institutional capacities of small, vulnerable economies, priority shall be accorded to the provision of supply side capacity building and human resource institutional development in particular.

Conclusion

The elements of responses outlined in this paper take into consideration the unique circumstances of small economies in regard to their market share and participation in the multilateral trading system as well as their lack of resilience. These responses do not attempt to minimize the flow of special and differential treatment to developing countries, but merely to build on them. These responses are also not intended to, and cannot in any way, undermine the special treatment being extended to LDCs.

Recognizing that trade is not a zero-sum game, the paragraph 35 mandate should only be interpreted as offering an opportunity for Members to recognize the particular circumstances of the small, vulnerable economies and to frame responses accordingly.

This opportunity should also facilitate south-south trade in a manner that creates new and complementary trade rather than diverting or in any way disrupting north-south trade.

Keeping in view that the fundamental objective of the Work Programme is to integrate small, vulnerable economies into the multilateral trading system, the implementation, compliance and transparency of this exercise will be reviewed under the auspices of the General Council.

Members are therefore invited to consider these elements of responses to the problems of small, vulnerable economies in the Work Programme as well as within the overall balance of the outcome of the Doha Development Agenda.
