

**Committee on Trade and Development  
Dedicated Session**

**WORK PROGRAMME ON SMALL ECONOMIES**

Issues relating to the Trade of Small Economies

*Communication from Barbados, Belize, Bolivia, Cuba, Dominican Republic, El Salvador, Fiji, Guatemala, Haiti, Honduras, Jamaica, Mauritius, Nicaragua, Papua New Guinea, Paraguay, Solomon Islands, Sri Lanka, Trinidad and Tobago*

This paper identifies trade-related issues of vital concern to its sponsors which are developing countries with small economies. They reserve the right to supplement it as the work programme proceeds. Responses to these trade-related issues shall have to be framed by WTO as the work programme advances.

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1. Paragraph 35 of the Declaration adopted at the 4<sup>th</sup> Ministerial Conference in Doha 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. The General Council shall review the work programme and make recommendations for action to the Fifth Session of the Ministerial Conference."

2. Issues relating to the trade of small economies have been examined at least since the 1960's both in academia and in other intergovernmental fora, including the United Nations, World Bank, UNCTAD, FAO, the Commonwealth Secretariat, the Free Trade Area of the America's Consultative Group on Small Economies, and its Tripartite Commission of OAS, ECLAC and IDB. Advanced modelling work has permitted the construction of indices of vulnerability. There is a general consensus in these studies that small economies are particularly vulnerable. There is also agreement on the characteristics and the parameters that severely constrain their trade and development and lead to their marginalisation.

3. Issues relating to the trade of small economies have been discussed in WTO for some time now. At their 2<sup>nd</sup> WTO Ministerial Conference, the Ministers stated that they "remain deeply concerned over the marginalisation of Least-Developed Countries and certain small economies and recognise the urgent need to address this issue which has been compounded by the chronic foreign debt problem facing many of them...". Since then, WTO has held a seminar on Small Economies. The WTO agreements do contain a few provisions which relate to specific characteristics of Members' economies, but so far WTO has not yet responded to the needs of the small vulnerable economies.

4. While small developing economies share many of the problems of other developing countries they have unique problems of their own as well as face certain stringent non-trade barriers. The small economies share most or all of the following characteristics which make them particularly vulnerable:

- (a) Insignificant trade share in the multilateral trading system.
- (b) Many of them are small island or land-locked countries.
- (c) Small populations which place severe constraints on the capacity of these economies to produce quality manpower resources commensurate with their development needs.
- (d) Limited availability of economically exploitable land.
- (e) A limited resource base leading to high reliance on imports and exports. Export concentration on a very few export products (especially primary commodities) and services compounded by dependence on one or two export markets.
- (f) A prevalence of natural disasters whose impact on a small economy is often much more devastating than it is in a large economy.
- (g) In many cases, physical isolation, geographical dispersion and remoteness from main markets.
- (h) Small and sometimes fragmented markets which lead to market structures characterised by substantial imperfections; small firms, with one or a few firms effectively dominating the small domestic market.
- (i) Inability to support many types of production and a heavy reliance on external trade.

5. The above characteristics have a number of implications for small vulnerable developing economies which adversely affect their trade and development:

- (a) Highly open economies.
- (b) Acute dependence on a few export products and services and a few markets mean that small developing countries have traditionally experienced economic volatility.
- (c) While all economies are vulnerable to exogenous shocks, small developing economies have a lesser degree of resilience than larger economies. All vulnerability indices show a relationship between vulnerability and size, with the smallest economies being the most vulnerable.
- (d) Small markets are highly imperfect, reducing the efficiency with which resources are allocated, leading to inefficiency and higher unit cost of both procurement and infrastructure.
- (e) Small domestic markets and resource constraints also make it very difficult to attract investment.
- (f) Firms in small economies are microfirms by global standards. As a consequence, they are at a major disadvantage, have higher costs, cannot attain economies of scale and are relatively inefficient. Small domestic firms are "price takers" and have no

influence on world prices. They have higher transportation costs. Firms in countries that are physically isolated and fragmented such as small island and land-locked countries are especially disadvantaged.

- (g) Lack of market access opportunities.
- (h) Trade distortive policies of some countries have a severe negative effect on small developing economies.
- (i) Lack of a critical mass makes it very difficult to apply new technologies.
- (j) The inherent rigidity of small vulnerable economies makes the adjustment process very difficult and costly.

6. These economies are heavily trade-dependent. They have evolved on the basis of reliance on trade in a very narrow range of goods and services. Preferential Trade which also includes commodities exported under special arrangements that take account of their inherent disadvantages, plays a critical role in their overall socio economic development. The erosion of trade preferences jeopardizes the future of these countries in critical areas such as agriculture, manufacturing and services. Despite their limited options, these countries have undertaken sustained efforts at structural adjustment, export diversification and enhanced international competitiveness. They have striven to move away from monoculture exports by developing tourism and other services and by diversifying into export-oriented manufacturing through the use of fiscal incentives which have to be phased out under current WTO Rules.

7. Even when some of these small developing economies have implemented best international practices to attract foreign investment, the results have been disappointing because, for instance, the international financial markets assign them a higher risk factor due to their inherent characteristics.

8. Some of the rules of the multilateral trading system have hampered these efforts and threatened the viability of the economic base of these countries and their political and social stability. These rules, which impose binding obligations on Members irrespective of the size of their economies and particular circumstances, do not respond to the specific development and trade needs of countries with small developing economies.

9. The fact that small developing economies have small administrations also has implications for their integration into the multilateral trading system. The problems confronting these economies are compounded by their inability to participate actively in the multifaceted WTO processes and to implement and administer WTO agreements effectively. These small countries have very limited capacity in capitals to formulate and administer trade policy. Most of them either have no mission in Geneva or have very small ones. These countries have therefore not been able to participate effectively in the rule-making process and in securing market access concessions and have not had the capacity to promote and defend their interests in the WTO in accordance with their national policy objectives. It is therefore hardly surprising that the present multilateral trading system, which has evolved through negotiations among its Members, does not adequately take into account their specific development needs. We look to this work programme under the Doha Development Agenda to frame responses to the trade-related issues outlined in the present document.

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