WORLD TRADE ORGANIZATION

WT/COMTD/SE/W/35

2 May 2017

(17-2390)

Committee on Trade and Development
Dedicated Session

Original: English

OUTCOMES FROM DISCUSSIONS ON THE "CHALLENGES AND OPPORTUNITIES EXPERIENCED BY SMALL ECONOMIES WHEN LINKING INTO GLOBAL VALUE CHAINS IN TRADE IN GOODS AND SERVICES"

The following communication, dated 25 April 2017, is being circulated at the request of the delegation of Guatemala on behalf of the Group of the Small, Vulnerable Economies (SVEs).

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1 INTRODUCTION

At the Ninth Ministerial Conference in Bali, Ministers reaffirmed their commitment to the Work Programme on Small Economies and instructed the WTO Secretariat to provide relevant information and factual analysis for discussion among Members in the CTD's Dedicated Session on "The challenges and opportunities experienced by small economies when linking into global value chains in trade in goods and services".

At the Tenth Ministerial Conference in Nairobi, Kenya, Ministers instructed the WTO Secretariat to continue its work on this subject.

In accordance with this mandate, the Secretariat prepared the Background Note contained in document WT/COMTD/SE/W/31. The Committee of Trade and Development agreed to discuss the background document in different sessions that would deal with the different sectors discussed in the paper, mainly: agrifood, seafood, textiles and apparel in the goods value chains; and Tourism, IT, business process outsourcing and trade logistics in the services value chains.

Five meetings were organized throughout years 2015 and 2016, to discuss these topics. International organizations, such as UNCTAD and ITC, participated in the discussions. SVE representatives also made several presentations on the topics and substantial discussions and exchange of experiences took place during the meetings.

As a result of these fruitful discussions, the SVEs where able to identify specific challenges they face when linking into Global Value Chains in Trade in Goods and Services, and where able to gather some recommendations on how to mitigate such challenges. The following is a document that presents a summary of the outcomes of the discussions. With this basis, the group will continue its work and present proposals or support existing initiatives in the different committees in WTO, in order to facilitate the implementation of some of the recommendations contained in the document.

2 OUTCOMES OF DISCUSSIONS

In this section, the SVEs group presents the results of the discussions during the CTD Dedicated Session on Small Economies, emphasizing the challenges that SVEs face when linking into global value chains, and making some recommendations that the group sees as necessary to overcome such challenges.

2.1 Agrifood and Seafood value chains

Challenges

- The implementation of measures for the control, inspection and approval procedures may disrupt trade more than necessary.
- Small Economies or small islands with unique bio-diversity systems are now being affected by invasive alien species and the spread of pests.
- One of the main challenges of joining a value chain is to meet the required sustainability standards. This is particularly when there has been a proliferation of these standards with their increasing number resulting in a degree of confusion amongst exporters.
- There are many challenges in identifying the gaps towards integration and moving up the value chains.
- The main obstacles for SVE exporters were the increasing number of public and private standards.
- The lack of institutional capacity and technical know-how in small economies to integrate in GVCs.
- The difficulty in accessing funds for investment and technology in GVCs. The underdeveloped and inappropriate technology for product development and packaging.
- External fluctuations in supply and demand.
- Poor Research and Development capacity.
- Disorganized production chains-i.e. increase in fragmentation of production.
- Lack of Transparency on NTMs.
- Access to transportation.
- Low economies of scale.
- Lack of competitiveness.

Recommendations

- In developing SPS measures, governments should ensure that SPS measures are non-discriminatory and based on scientific risk assessment to ensure that the measure is not more trade restrictive than necessary, and they should be transparent.
- In implementing the Trade Facilitation Agreement, Members should facilitate the control, inspection and approval procedures, so that they may be undertaken without delay. The information should be limited to what is necessary and the fees should reflect the actual costs of the services provided.
- There are measures to cut costs in the agricultural area, such as streamlining and simplifying regulations, by implementing a risk-based approach with inspections at the borders.
- The coordination has to be improved between SPS agencies and customs officials.
- Strengthen capacity building programmes for SVEs, with an increased focus on the use of non-tariff measures.
- Long-term investment is needed to control plant pests and animal diseases such as avian influenza, foot and mouth disease and fruit fly pests.
- There should be a focus on increasing the institutional capacity of countries by international and regional organizations, bilateral donors and development banks. Partnership with relevant institutions such as the ITC and UNIDO to improve standards and conformity is also important.
- Harmonization of NTMs at a regional level is advisable in order to facilitate trade among actors.
- Consideration of harmonization of standards in relation to products of export interest.
- More focus shall be given to work on international trade and invasive alien species, which is a critical area of work, especially for small economies and small islands with unique bio-diversity systems.
- Funding assistance for hard infrastructure that improves transportation and logistics in small economies.

- Better coordination between suppliers at the national level in SVEs (farm to market).

2.2 Textiles and Apparel value chains

Challenges

- Most of the foreign investment to SVEs was attracted by labour-intensive activities and low wages. When these wages increased over a period of time because sectors sought to add more value, foreign investors would relocate.
- The industry is capital intensive and this makes it difficult for vertical integration, since the production is concentrated in a few countries, given that not all countries are capable of making significant investments.
- Working conditions are often overlooked by companies trying to be competitive by reducing costs.
- Challenges of preference erosion and relocation of investors to cheaper markets.

Recommendations

- In spite of relocation due to increases in costs related to labour, the best way to stay competitive is by enhancing productivity, updating equipment, improving the business environment and upgrading product quality.
- In reference to the challenges related to vertical integration, it is recommended to shift to other high value-added sectors, rather than trying to integrate in the upward value chain.
- From a development perspective, some recommended that SVEs should diversify away from the assembly stage, by moving up in the "smiley curve" to the left towards purchasing and research and design, or to the right, towards distribution and marketing. Case stories showed that some SVEs were successful in trying to diversify to the finishing stages of clothing production such as washing and painting and aspects of logistics operations. Some SVEs have been able to enter into niche markets by diversifying their production in design, such as traditional customs and carnival clothes.
- In terms of regional integration, small companies should partner with other companies at a national or regional level.
- Attention should be paid to the development of partnerships along the value chain, either by partnering with major buyers in the target markets or with multinationals established in the domestic market.

2.3 Tourism Value Chains

Challenges

The following challenges were identified in the Secretariat's report and by presenters:

- Low labour skills and limited training opportunities.
- Complicated or difficult regulatory business environment.
- Problems with access to finance.
- Poor or inadequate airport or port capacity and infrastructure.
- The inability to meet international hospitality standards.
- The lack of dialogue with authorities.
- Lack of skills in the private sector.
- Accessibility.

The following additional challenges were identified by Member States:

- Small population base and small local markets.
- Lack of competitiveness
- High transportation costs and limited connectivity.
- Low levels of critical mass and limited economies of scale.
- Economic and currency fluctuations.
- Rising input prices.
- Distortion effects of government taxation and other regulations.

- Limited domestic capital for investment.
- High costs of infrastructure and services.
- Complex land tenure systems.
- Other socio-economic considerations such as economic volatility and epidemics and even terrorism.
- Frequent natural disasters and specific challenges posed by climate change.
- Lack of ecommerce policy, infrastructure and skill.
- "A disconnect" between trade and tourism. Poor institutional links between the ministries of trade and ministries of tourism.

Recommendations

- FDI to help upgrade the size and quality of infrastructure.
- Conservation of the natural resources.
- An engaged and active private sector through tourism associations or working groups.
- Harnessing IT technology, ecommerce and social media to allow internet-based marketing and online reservation systems.
- Putting in place necessary ecommerce infrastructure and appropriate regulatory frameworks.
- Deepening or expanding tourism products as well as diversifying to new markets.
- Strengthening the specific institutions dealing with the tourism sector.
- Invest in staff training.
- A transparent and predictable FDI regime to attract investors to develop tourism infrastructure.
- Upgrading of tour operator's services from being local guides and excursion operators to becoming local or national organizers for incoming agents.
- Deepening or expanding tourism products as well as diversifying to new markets.
- Strengthening the specific institutions dealing with the tourism sector.

Possible Multilateral Solutions

- A transparent and predictable FDI regime to attract investors to develop tourism infrastructure.
- More statistics and better data including undertaking tourism satellite accounts to measure export diversification, employment creation, rural development and the participation of micro- and medium sized enterprises.
- Strong and coordinated action towards developing tourism export strategies and sustainable tourism programmes.
- Proper coordination of tourism policy and aid for trade across different ministries and implementing agencies.
- Establishing secure access to markets.

2.4 Trade Logistics and Business Processing Outsourcing Services

Challenges

Regarding logistics services, some challenges were identified such as:

- The volume of goods in transit due to connectivity issues:
    - This is a difficult area for many small economies which lack the necessary economies of scale.
    - Other factors involved: geography, port efficiency and trade facilitation.
- Freight costs due to:
    - Distances.
    - Low shipping volumes.
- The size of the containers:
    - Container ships becoming larger this implies more investments to acquire additional equipment and port infrastructure in order to service such ships.
- Difficulties to link into Global Value Chains:
    - The presence of transnational corporations which account for 80% of global trade.
    - Challenges to compete against them due to their sophisticated and high technology.
    - Difficulties in meeting standards or rules concerning quantity, quality, speed of delivery and intellectual property protection.

    - Lack of basic infrastructure and limited connection between the production chain which causes inefficiencies, high costs and loss in competitiveness.
- Vulnerability to external factors:
    - Loss of market access due to external factors such as trade measures, preference erosion or non-diversified markets.
- Absence or scattered legal framework over various institutions.
- Lack of external investors and little investment from the private sector.
- Shortage of human resources at a technical level.
- Lack of Information Communication Technologies (ICT) services to support the business sector.
- Lack of financial institutions and access to capital flows.
- Inefficient customs systems.

Recommendations

- SVEs should concentrate their efforts to be better integrated into global value chains.
- Provide incentives and legal security for investors to attract FDI.
- Business promotion - develop business process outsourcing industry (call centers and back-office processing of transactions).
- Develop highly skilled human resources.
- Use technological advances and transparent business processes to promote and increase global distribution.
- Upgrade educational and skills levels.
- Offer diverse financial instruments.
- Privatizing port operations could help lower transportation costs and enhance connectivity.
- Diversify industries with strategies that could involve the creation of special economic zones.
- Modernization of custom in order to speed up export transactions.
- Private, public co-operation.
- Increase large-scale production through partnerships and proper logistics.
- Elaborating plans to improve potential of export products.
- Increase regular market data to optimize product marketing.
- Establishment of policies encouraging decentralization to avoid the concentration of development of the sector only in the cities.
- Promote innovation.