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COMMUNICATION FROM MAURITIUS

Small Economies as Small Suppliers of Services

The following communication has been received from the delegation of Mauritius, with the request that it be circulated to the Members of the Council for Trade in Services.

1. The small economies, given their poor natural resource endowments and low inter industry linkages, have the logical tendency to diversify their economies by developing the services sector. However, the small economies are constrained, by the size of their economies and markets, in both these development and full participation in trade in services.
2. Para. 3 of the Guidelines and Procedures for the Negotiations on Trade in Services stipulates that "The process of liberalization shall take place with due respect for national policy objectives, the level of development and the size of economies of individual Members, both overall and in individual sectors".
3. The smaller the size of an economy, the higher the risk of exposure to external economic shocks and marginalization. The small economies, because of their small domestic market and their limited diversification possibilities must necessarily rely heavily on exports in order to meet their import bills. While the small economies remain highly dependent on international trade, their participation in world trade in services happens to be very low. This is due to a combination of factors, *inter alia*, essentially capacity-constraints and supply-side constraints on the one hand, and overseas market access barriers, on the other hand.
4. Article IV of GATS imposes an obligation on developed country Members to undertake specific commitments to facilitate the increasing participation of developing country Members in world trade. Para. 15 of the Negotiating Guidelines, while calling for the effective implementation of Article IV, provides that consideration shall also be given to the needs of small service suppliers of developing countries.
5. Small service suppliers of the small economies are, by all standards, the smallest of all the small and medium-sized service suppliers world-wide. They are genuinely small in terms of number of employees, capital and market share. In view of their limited size and limited resources, these small service suppliers do not have the capacity to set up commercial presence abroad, nor do they have full access to distribution channels information networks to enable them to take advantage of mode 4 supply. Indeed, the small service suppliers in small economies face greater challenges with

respect to market access, all the more so because the liberalization in sectors and modes of supply of export interest to them has not been meaningfully implemented by developed partners.

6. Most of the small economies are Small Island Developing States (SIDS), hence they have geared their strategy towards the services sector which is, generally, very much biased toward the tourism services. The prospects for further expansion of the tourism sector in small economies are constrained by the considerations to preserve the ecological balance and prevent environmental degradation. On the other hand, the ability of small economies to strengthen their domestic services' capacity, efficiency and competitiveness and to participate increasingly in world trade depends upon the development of and access to competitive core services, namely transport services, financial services and telecommunications services. Once again, the small economies, on account of their size, are at comparative disadvantage in these areas of services.

7. The service suppliers of small economies cannot compete with the large and mega suppliers of the larger countries. Handicapped by their small size and lack of access in markets of trading partners, the domestic firms do not have the capacity to inject necessary investment in these key sectors. In spite of the generous incentives given to and efforts made by the small economies at creating conducive investment environments, FDI generally shy away from the small economies mainly because of their small markets.

PROPOSAL

8. In the context of the ongoing negotiations, the small economics consider that a one size-fits-all approach does not provide the best solution to the particular needs of their small service suppliers. The WTO Members should effectively recognize the unique circumstances of the small economies and their need for special consideration in order to overcome their vulnerabilities and difficulties. In this connection, the small economies propose that:

- (a) Article IV of GATS must be effectively operationalized so that the progressive liberalization process integrates the small economies into the multilateral trading system by allowing them to derive the full benefits of market openings.
 - (b) The small economies are expected to take commitments that are commensurate with their capacities, levels of development, and size of their economies.
 - (c) Their participation in world trade should be facilitated and they should be helped to strengthen the supply capacity of their domestic services in general and in particular of their small services suppliers capacity. They should also be provided with market access in sectors and modes of supply of specific interest to them.
 - (d) The monitoring mechanism that would be established for the follow-up of the operationalisation of Article IV of GATS should also report at three monthly intervals to the Special Session of the Council for Trade in Services and the General Council on the implementation of these provisions for the benefit of the small service suppliers of the small economies.
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