COMPETITIVENESS AND THE PRIVATE SECTOR IN SMALL STATES

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Anabel Gonzalez
Senior Director
Trade and Competitiveness
Global Practice
World Bank Group
SMALL STATES ARE A VERY HETEROGENEOUS GROUPING: THIS HAS SUBSTANTIAL IMPLICATIONS FOR GROWTH STRATEGIES

- **Competitiveness (Doing Business 2014 Rankings):**
  - Iceland: 13
  - Guinea-Bissau: 180

- **GDP per capita:**
  - Iceland: $54,570
  - The Gambia: $455

- **Population:**
  - Namibia: 23 million
  - Palau: 21K

- **Size (Area sq km):**
  - Papua New Guinea: 462,840
  - St Kitts & Nevis: 260

- **GDP Weighted Distance:**
  - Average Pacific Island is 11500 km away from rest of world, versus 8100 km for average Caribbean island

Source: WB Open Data, UNOHRLLS Factsheet 2013, Doing Business 2014
DYSFUNCTIONAL EQUILIBRIA? SMALL STATES FACE SEVERAL COMMON ECONOMIC CHALLENGES

Small states with debt in excess of 60% of GDP in 2010

- Antigua & Barbuda: 120.5%
- Barbados: 123%
- Belize: 75.6%
- Cape Verde: 69.3%
- Dominica: 83.1%
- Grenada: 119.1%
- Guinea-Bissau: 149%
- Guyana: 103%
- Jamaica: 123.3%
- Maldives: 96%
- St Kitts and Nevis: 79.1%
- St Lucia: 80.5%
- St Vincent & the Grenadines: 192.1%

Source: WBI (2010), Santos-Paulino (2010)

High trade volatility in small island states (1978 – 2008)

Source: ESCAP and DESA Vulnerability Index 2010

Youth unemployment in small states is an urgent concern

Source: UN MDG Indicators 2010

Small states show more economic vulnerability than average LDCs

Source: ESCAP and DESA Vulnerability Index 2010
EMERGING OPPORTUNITIES THAT COULD BE FURTHER EXPLOITED BY SMALL STATES

• Emergence of Global Value Chains
• Advancements in physical connectivity (from airlines to telecommunications)
• Advancements in “soft” connectivity (including emergence of regional institutions)
• Emergence of new production technologies (e.g. micro technologies)

**Brain Drain in Small States: Challenge or opportunity?**

- Emigration rates in small island states far exceed developing countries:
  - low-skilled workers (15.6%), 13 percentage points higher than LDCs
  - college graduates (50.8%), 37 percentage points higher than LDCs
- Flip side is successful diasporas, but its not a clearly positive picture:
  - In 2007, remittances to several small states accounted for 20% of GDP (Guyana 23.5%, Jamaica 19.4%)
  - Positive impact: external income spurs business investments and improves human capital through schooling
  - Unfavorable impact: Real exchange rate appreciates, erode export competitiveness in international markets; creates work disincentives and remittance inflows drop following an increase in foreign aid.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Small Island States</th>
<th>Developing Countries</th>
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<tbody>
<tr>
<td>Remittances (% of GDP)</td>
<td>9.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Aid as % of GDP</td>
<td>13.2</td>
<td>6</td>
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<tr>
<td>Correlation Coefficient</td>
<td><strong>0.18</strong></td>
<td><strong>-0.33</strong></td>
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THE SEARCH FOR NEW SOURCES AND APPROACHES FOR GROWTH CONTINUES …

- **Washington Consensus** showed major results in a favorable external environment (e.g. Seychelles and, in the early days, Mauritius) but not in others (e.g. due to debt trap)

- Legacy **trade preferences** (e.g. EU–Caribbean) dis-incentivized and led to loss of productivity and competitiveness

- Some new ways of identifying and capturing market opportunities emerging, often with accent on **regional approaches** in the case of collective action problems (e.g. connectivity in Caribbean) or **local competitiveness** (as opposed to GVCs)

- Can competitiveness challenges be (partly) resolved through appropriate competitiveness strategies that could lead to **increased trade, a better investment climate, competitive industries, entrepreneurship and innovation**?
ACTIVE AND GROWING WORLD BANK GROUP TRADE AND COMPETITIVENESS PORTFOLIO IN SMALL STATES

**Africa (Multiple):** Fisheries in Comoros; Tourism Competitiveness in Cape Verde, Seychelles, Mauritius; Innovation in Botswana; Business Registration in Cape Verde

**Montenegro:** Regulatory Reforms and Industrial Competitiveness

**Trinidad & Tobago:** Investment Promotion

**OECS:** Tourism Competitiveness

**Bhutan:** ICT

**Maldives:** Tourism & Fisheries

**Timor-Leste:** Agriculture Competitiveness

**Fiji:** ICT & Telecommunications

**Solomon Islands:** Fisheries

**Samoa:** Agriculture Competitiveness

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**OECS:** Tourism Competitiveness
INTRODUCING THE WORLD BANK GROUP’S TRADE AND COMPETITIVENESS GLOBAL PRACTICE

**Vision**

“Sustained economic growth, productivity gains, job creation, and rising incomes for developing countries to eradicate poverty and boost shared prosperity.”

**Mission**

“T&C is the partner of choice for countries that seek to develop dynamic and resilient economies, expand market opportunities, and enable private initiative. It helps boost trade, enhance the investment climate, promote competitiveness, and foster entrepreneurship and innovation.”
WHAT CAN TRADE AND COMPETITIVENESS BRING TO THE TABLE?

**Client demand (illustrative)**
- Low private investment
- High costs to trade
- Low export competitiveness
- Competing in low value-added sectors
- Low productivity growth
- Dependence on natural resources
- High youth unemployment
- Low business entry, growth, innovation
- Institutional failures

**Integrated solutions (illustrative)**

**T&C offering**
- Trade
- Investment climate
- Competitiveness
- Entrepreneurship
- Innovation
- Lending and guarantees
- Analytical and advisory
Project title
- Increasing Linkages for Pro-poor Tourism Development in Cape Verde (P126666)
- Increasing Linkages through Institutions (P132395) - under preparation

Objectives
- Strengthen legislation to address linkages and leakages in tourism (hotels and restaurants) value chain
- Identify investment opportunities in fisheries and agriculture to supply the tourism sector more competitively
- Develop new tourism markets that safeguard the biodiversity of Cape Verde

Description of activities
- Detailed review of current legislation along the tourism value chain
- Mapping of tourism receipts to job creation in tourism, agriculture and fisheries
- South-south learning from Seychelles on sustainable tourism, labelling and standards

Project deliverables
- Establish a Tourism Board
- Develop Ecotourism legislation and strategy
- Improve inter-island transportation
- Create “Export Inside” internal certification for local fisheries including registration and licensing of ships and issuance of sanitary licenses
- Incentivize development of high-end all-inclusive resorts as well as bed-and-breakfast hotels

Impact
- Increased direct job creation in local tourism sector
- Improved tourism legislation and enforcement that helps maximize local economic benefits while minimizing environmental impacts

Value-add of T&C approach
- Integration of tourism, fisheries, agriculture sectors
- End-to-end upgrade of tourism value chain: policy, markets, infrastructure, sustainability, SME support
- Focus on key private sector outcomes: exports and investments leading to more jobs and productivity

Project Nos. P126666 and P132935; More details and sources available on request
T&C IN SMALL STATES EXAMPLE 2: ZONES 3.0 PROJECT IN TRINIDAD AND TOBAGO

**Project location and title**
*Trinidad and Tobago Investment Promotion*

**Objective**
Strategic guidance to improve quality and effectiveness of investment promotion and special economic zones (SEZs).

**Description**
- Assessment of policies and strategies for supporting special economic zones
- Support in design and implementation of Project Implementation Unit
- Modernizing policy and legal frameworks
- Development of detailed SEZ strategy and implementation plan
- Conduct evaluation of all estates, due diligence of undeveloped public lands in preparation for PPPs
- Help build the capacity of Monitoring & Evaluation department in government

**Focus Areas within Trade and Competitiveness Practice:**
Special Economic Zones

**Project Deliverables**
- Development of a pilot multi-project SEZ program
- Development and management of existing IT Park
- Support to Policy and Program Implementation
- Investment Promotion Support
- Capacity building workshops for public and private sector stakeholders

**Impact**
- Enhanced FDI
- Accelerated exports
- Increased implementation capacity

**Value-add of T&C approach**
- Integrated support through spatial approaches
- Support to link to global value chains
- Focus on key private sector outcomes: to increase inward private investment and set the stage for PPPs

Project No P123745; More details and sources available on request
Discussion

Hon. Kenny D. Anthony, Prime Minister, Governor and Min. of Finance, Economic Affairs, Planning, Information and Social Security, St. Lucia

Hon. Cristina Isabel Lopes da Silva Monteiro Duarte, Minister of Finance and Planning, Cabo Verde