

Facilitating landlocked and least developed country SMEs participation in trade

by the

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Introduction

- **Landlocked developing countries (LLDCs) are widely dispersed around the globe**
 - **15 in Africa**
 - **12 in Asia**
 - **2 in South America**
 - **2 in Europe**
- **All share common problems**
 - **Geographical remoteness**
 - **Dependence on trade and transport systems in neighbouring and coastal countries**
- **Most are far from reaching the Millennium Development Goals (MDGs)**
- **Promoting SME development in LLDCs means**
 - **Finding ways to make domestic enterprises more competitive**
 - **Facilitating development and growth in a globalizing world.**

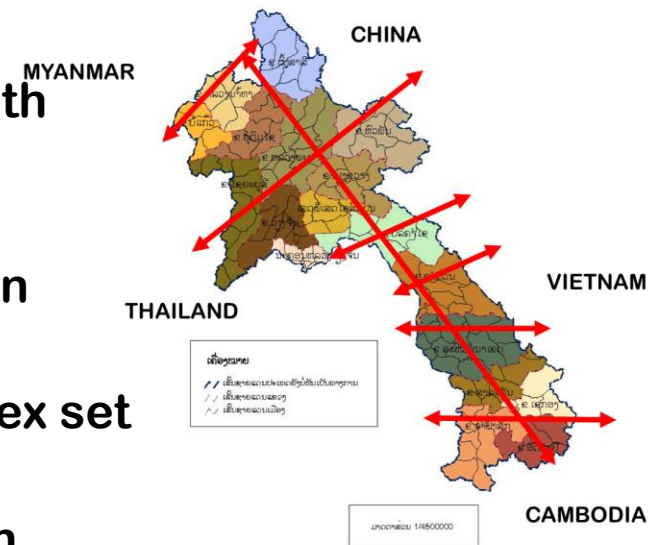
Lao People's Democratic Republic (Lao PDR)

- Landlocked country with an area: 236,800 km² (Water 2%)
- Estimated population of 5,800,000 (2007) & density of 24/km²
 - 75% of people live in rural areas
- Religion: Buddhism
- Economy dominated by agriculture
 - Labour force of 2,900,000
 - Employs over 70% of the population
 - Manufacturing employs approximately 11%
- Mostly small business dominated manufacturing sector
 - Produces 56% of industrial output
- Wealth of natural resources
 - Mineral reserves: Gold, copper, bauxite and tin
 - Enormous water reserves: The “battery of southeast Asia”



“Landlocked” to “Landlinked”

- Cannot be blamed for all economic, social and political development problems
- Important to get basic macroeconomic and trade policies right
- Careful balancing of environmental concerns with traffic and transport requirements
- Need to build efficient trade and transport infrastructure and services to reduce transaction costs
- Landlocked status is closely linked with a complex set of challenges and problems
- Cannot be tackled as isolated problems although generic solutions can be applied
- Developed countries can support SMEs in LLDCs participation in trade by
 - Reductions in tariffs and other barriers to trade



Role of SME's in Economic Development and their Situation in Lao PDR

- **Strong and vibrant SME sector contributes to economic development in LLDCs in a number of ways**
 - **SMEs tend to employ more labour-intensive technologies than larger enterprises generating a large share of any developing country's productive employment**
 - **Many SMEs are located outside of urban areas and employ a large proportion of women**
 - **More equitable distribution of incomes (in rural areas and for women)**
 - **SME development leads to lower regional disparities**
 - **Reducing urban drift**
 - **SMEs in developing countries form a large part of the private sector, which forms the basis for private sector-lead growth**
- **GoL has emphasized the importance of**
 - **Private sector development in the economy to facilitate SME development**
 - **Attraction of FDI to promote sustainable development of the natural resource base**
- **GoL recognizes**
 - **SMEs high potential to create jobs and reduce poverty**
 - **FDIs high potential to mobilize investment, improve human resource skills development, and access technology and export markets**

Facilitating LLDCs SMEs participation in trade by enhancing FDI/SME Linkages

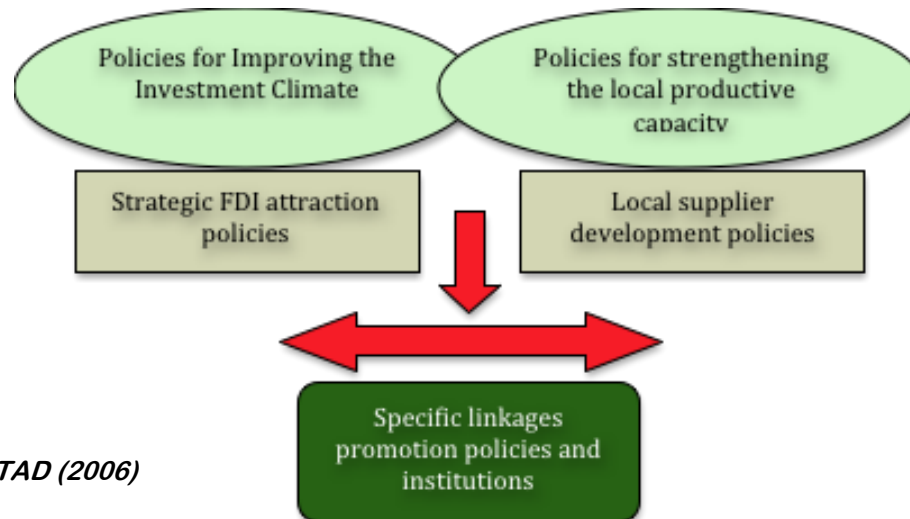
- **Foreign Direct Investment (FDI) accelerates economic growth and income beyond available domestic resources**
- **Linking FDI and the domestic economy through strengthening business linkages between FDI and SMEs is one of the most effective ways of**
 - **upgrading domestic enterprises**
 - **facilitating the transfer of technology, knowledge and skills**
 - **improving business and management practices**
 - **facilitating access to finance and markets**
- **Policies to promote business linkages can be considered an essential part of industrial policies**
- **The type of policy depends on the overall economic and political objectives and the general level of economic development of the country**

- Four major policy areas can be distinguished that are especially relevant for building linkages between FDI and SMEs

On the FDI side	On the SME side
1. Improving the investment climate	3. Strengthening the local absorptive capacity
2. Attracting FDI strategically	4. Developing domestic SME suppliers

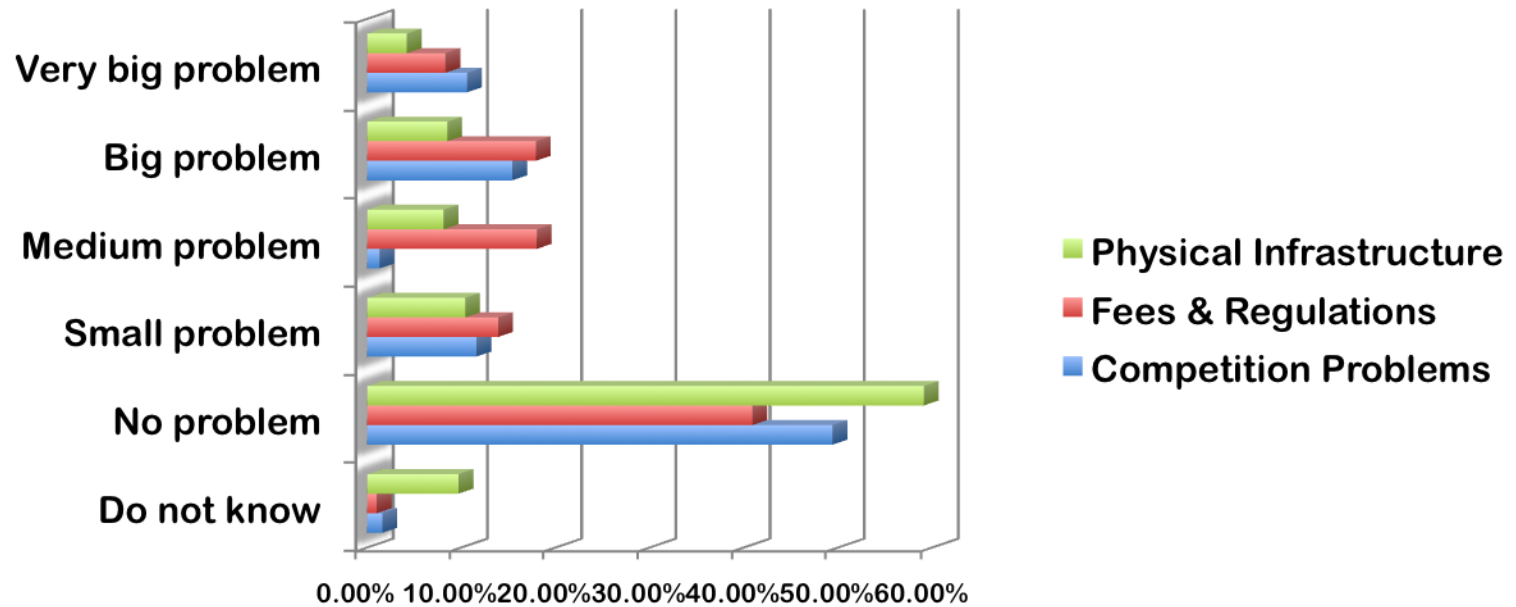
- The promotion of business linkages is likely to be successful only if a systematic policy approach is adopted where all factors influencing the linkages are targeted.

Framework for Policy for SME – FDI Linkage Building



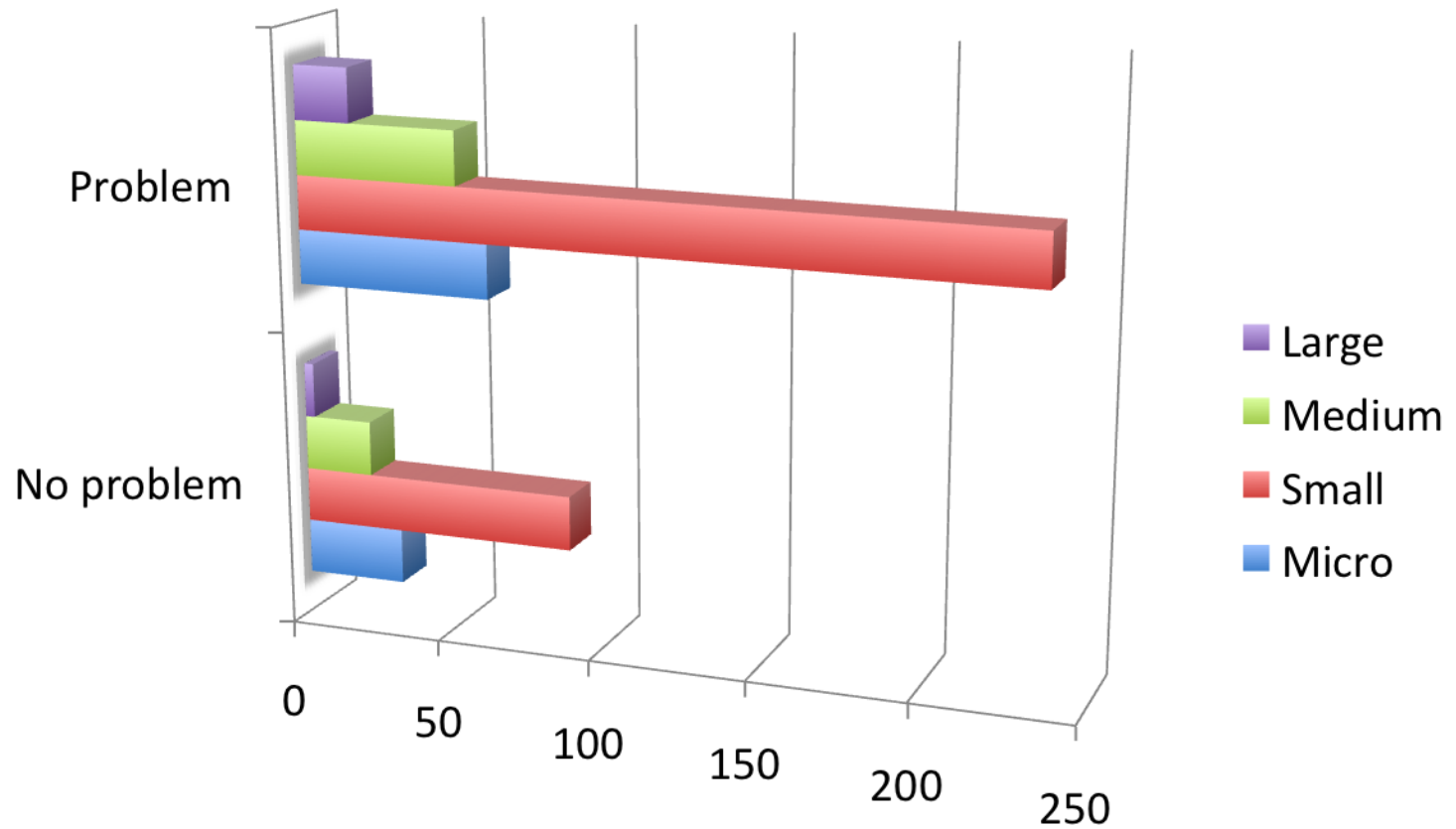
Source: UNCTAD (2006)

Enterprise-external problems and constrains



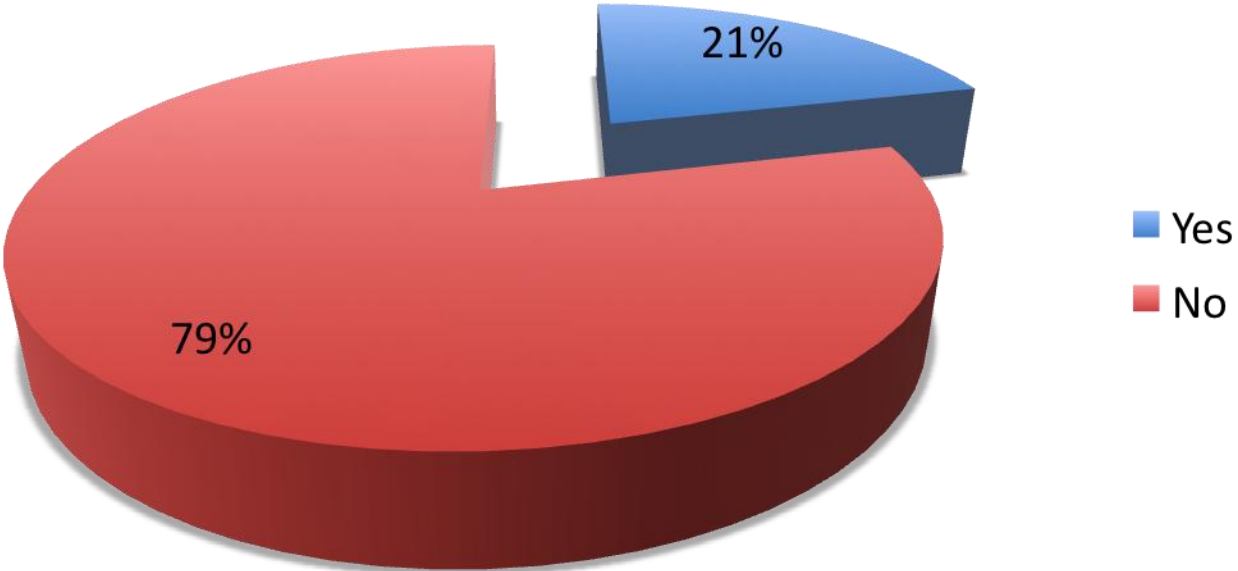
Source: Enterprise Survey 2007, Lao-German Resource Development for Market Economy Programme

Enterprises with competition problems, by size



Source: Enterprise Survey 2007, Lao-German Resource Development for Market Economy Programme

Awareness of AFTA amongst Lao enterprises



Source: Enterprise Survey 2007, Lao-German Resource Development for Market Economy Programme

Further challenges for Lao businesses:

- The lagging performance of SMEs compared to large enterprises
- As well as inadequate innovation (improvement of the quality, increase in the level of output and productivity in order to lower unit costs of their products or services) compared to regional and international market dynamics and
- for the Government, the reduction of ‘transaction costs and risks’ posed by too cumbersome administrative procedures and discriminatory practices in applying existing laws, rules and regulations.

The future of LLDCs SMEs participation in trade

- The problems of SME's participation in trade in LLDCs can be overcome in the long run, with the right mix of many, often rather country or region-specific, programmes and policies
- Greater Mekong Subregion (GMS), launched in 1992 has focused on
 - transport and trade facilitation initiatives
- GMS Cross-Border Transport Agreement (GMS Agreement) is a multilateral instrument for the facilitation of cross-border transport of goods and people
- Compact and comprehensive multilateral instrument in one document covering
 - single-stop/single-window customs inspection
 - cross-border movement of persons (i.e., visas for persons engaged in transport operations)
 - transit traffic regimes, including exemptions from physical customs inspection, bond deposit, escort, and phytosanitary and veterinary inspection
 - requirements that road vehicles will have to meet to be eligible for cross-border traffic
 - exchange of commercial traffic rights
 - infrastructure, including road and bridge design standards, road signs and signals
- Banking System
 - Bank access needs to be improved (interest rates 20-25%)

Conclusions

- **Trade facilitation can use very simple, basic measures to make a huge impact on the way trade and transport function for SMEs in LLDCs, including**
 - Adequate opening hours at border stations
 - Joint customs posts with neighbouring countries
 - Publishing of applicable rules, laws, procedures or security measures
 - SME support, promotion and development
- **Trade facilitation measures require realistic timeframes**
- **Estimated potential benefits resulting from trade facilitation measures can range from between 2 to 3 % of the total trade value**
- **Long-term effects on growth can only be achieved when an open and liberal trade policy is combined with trade and transport facilitation measures**

- **An integrated, holistic approach to the problems of SMEs in LLDCs is recommended for tangible results. An integrated strategy should encompass reforms in the areas of**
 - **trade facilitation with a realistic, comprehensive and targeted agenda**
 - **transport and transit facilitation including the physical infrastructure, economic implications and capacity building**
 - **an enabling environment with institutional reforms and institution building, legal and regulatory reforms as well as their implementation and enforcement, as the quality of institutions and the lack of a conducive growth-promoting and investment climate have a decisive impact on the economic situation of a country**
 - **a regional approach with a coherent regional cooperation framework to negotiate solutions and linkages between all related issues. In addition, given the close dependency between landlocked and coastal countries, particular attention should also be given to the positive impact of regional cooperation on good neighbourly relations**
 - **development of banking services**
- **An integrated trade facilitation framework that includes all these different aspects and adapts them to each country's or region's particular situation can have the potential to reduce the economic distance that separates SMEs in LLDCs from their markets.**