

Chapter 7

Harnessing Trade for Structural Transformation in LDCs

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7.1 Introduction

The Istanbul Programme of Action (IPoA) lists two key goals in the priority area of trade: first, to increase least developed countries' (LDCs) exports significantly with a view to doubling their share of world exports by 2020; and, second, to 'make substantial efforts' to conclude the Doha Round at the earliest point, with an outcome beneficial to LDCs. In pursuit of these goals, the IPoA lists a total of 16 actions to be pursued by LDCs and their development partners.¹ In short, LDCs should mainstream trade into their national development strategies; improve competitiveness and diversify their production base and exports; and also facilitate trade through better institutional processes. Development partners, for their part, should support LDCs through Aid for Trade (AfT) and technical assistance to help them engage more effectively in the trade negotiations; improve their capacity to trade in goods and services; and implement their obligations in the areas of sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT). The international community should also facilitate the transfer of technology and support the process of regional co-operation and integration in LDCs. Joint actions include addressing supply-side constraints and other impediments to LDCs' trade, including trade-distorting measures and non-tariff barriers; and providing enhanced trade preferences through a comprehensive duty-free and quota-free (DFQF) scheme, more favourable rules of origin and effective special and differential treatment, thus facilitating LDCs' accession to the World Trade Organization (WTO). Annex 7.1 provides an overview of actions in the IPoA priority area of trade and comments on their implementation status.

This chapter is a first attempt to monitor the actions by development partners – whether unilaterally or jointly with LDCs. In doing so, the chapter examines recent trends in LDC trade to see if there is any discernible progress towards the IPoA targets; critically reviews a number of multilateral developments of key concern to LDCs; and considers other international co-operation arrangements that could provide new opportunities for LDCs' export growth and diversification. It should be noted, however, that comprehensive monitoring of each and every action listed in the IPoA is well beyond the scope of this chapter. Indeed, the chapter neither intends nor attempts to be all-encompassing. Instead, it focuses on a narrower range of issues, including some of those that are most critical to LDCs, and – inevitably – those that lend themselves effectively to monitoring.

While graduation from LDC status is the ultimate objective of the IPoA, the chapter argues that graduation in itself cannot ensure sustainable development in LDCs.

Evidence from countries that have graduated in the past (e.g. Botswana) or are about to graduate (Equatorial Guinea) suggests that these countries continue to suffer from low levels of human development and remain extremely vulnerable to external shocks due to their heavy concentration on a few export products and markets. Hence, beyond graduation, the long-term structural transformation of LDCs' economies should be a central objective underlying the IPoA monitoring exercise.

The IPoA highlights – but only tangentially – the importance of structural transformation for LDCs' long-term development when it states that the goal of doubling LDCs' share of global trade is to be achieved both through export growth and through export diversification. However, several of the actions called for – by both LDCs and their development partners – make explicit reference to export diversification and related concepts, such as increasing productivity and competitiveness, and boosting capacities for LDC firms to integrate global value chains. In this chapter, the role of trade and trade policy as a critical factor in promoting structural transformation in LDCs will be the guiding theme. Instead of just focusing on the narrow area of export growth, the chapter highlights the implications for structural transformation of recent trends in LDC trade and a number of developments at the multilateral level and beyond. Given the breadth of issues related to LDC trade, the chapter is inevitably selective, focusing on those of key or immediate concern to LDCs, including market access preferences in goods and in services, the case of cotton, AfT and trade facilitation, WTO accession guidelines and South–South co-operation.

7.2 Why structural transformation in LDCs?

LDCs, of which currently there are 48, lie consistently at the bottom of the World Economic Forum's Global Competitiveness and United Nations Industrial Development Organization's Competitive Industrial Performance rankings, and the World Bank's Doing Business league. They typically have very concentrated economic structures; rely heavily on primary production for income and jobs; and face daunting challenges to integrate global markets. LDCs' exports remain small in relative terms – both because their comparative advantages are confined to a narrow set of products, and because their exports are subject to numerous supply-side constraints. While LDCs' share of world exports has increased over the past decade, it has barely crossed the 1 per cent level – a stark testimony to their state of marginalisation in world trade. Moreover, LDCs export to just a few countries, and are consequently vulnerable to external shocks.

Remarkably, however, many LDCs have recorded impressive economic growth rates recently. African LDCs have led the pack, with real gross domestic product (GDP) growth averaging 10.3 per cent in Ethiopia, 8.2 per cent in Rwanda and 7.2 per cent in Chad over the period 2008–10. Stellar performers in Asia include Lao People's Democratic Republic (PDR), Bhutan and Bangladesh, with average growth of 7.9 per cent, 6.2 per cent and 6 per cent respectively over the same period. Moreover, growth prospects in these countries look good in spite of the economic slowdown in the Organisation for Economic Co-operation and Development (OECD) as well as among the emerging economies.

LDCs' growth performance spans beyond Africa's oil exporters. In Ethiopia, Rwanda and Uganda, growth has been boosted by public investments, improved economic governance and increases in both the volume and the prices of key export commodities. In the case of the Asian LDCs, on the other hand, strong growth in manufactured exports underpins the recent growth performance of Bangladesh, Bhutan and Lao PDR. Notwithstanding these developments, LDCs – especially African LDCs – continue to suffer from a 'structural deficit' (Page 2012). UNCTAD (2012) claims that Africa's growth has been accompanied by de-industrialisation – as evidenced by the fact that the share of manufacturing in GDP declined from 15 per cent in 1990 to 10 per cent in 2008 – although, in absolute terms, manufactured exports have more than tripled over the past decade. For African LDCs this share is even lower, and has shown no progress either. One might even argue that the oil-exporting LDCs have seen industrial production take a back seat as their growing engagement with China has pushed them increasingly to concentrate on raw material exports.

While a number of LDCs have performed well recently by carrying on with business as usual – that is by exploiting their traditional exports buoyed by rather exceptional conditions – this strategy may not be sustainable over the long term. As such, there is an urgent need for structural transformation in these economies. Structural transformation can be defined as a process of structural change and economic diversification through which an economy shifts from low-productivity, low-value-added activities and sectors (such as traditional agriculture) to higher-productivity sectors (such as manufacturing and services). The IPoA states that the goal of doubling LDCs' share of global trade is to be achieved both through export growth and a broadening of the export base. Indeed, no lasting structural transformation could be achieved without export diversification.

There are strong arguments why LDCs should diversify their export base. A classic argument is that diversifying out of commodities could help exporters escape a long-term decline of their terms of trade (the so-called Prebisch–Singer hypothesis). This argument, however, does not seem to hold any more since many LDCs have actually seen a steady rise in the prices of the commodities they export. Nevertheless, there is strong evidence that a well-diversified economy is resilient to external shocks and creates enhanced opportunities for inclusive growth through better jobs. Moreover, there is a growing body of evidence that links export diversification to economic growth. The seminal work of Hausmann et al. (2007) suggests that more prosperous countries tend indeed to be more diversified than other countries. It is also clear that countries that produce and export more sophisticated products tend to grow faster (Hidalgo et al. 2007; UNIDO 2009).

7.3 Trends in LDC trade

Structural transformation is a complex process of which export diversification is one of several drivers, albeit one of critical importance. Consistent with the IPoA goals and targets, this section will therefore assess progress towards structural transformation of LDC economies using various quantitative indicators of export diversification. Specifically, the section examines recent data on LDCs' trade in goods and in services to determine whether their exports are increasing rapidly

enough and whether they are exporting a bigger range of products and serving new markets. Two caveats are in order. First, it is probably too early to assess progress on the IPoA targets.

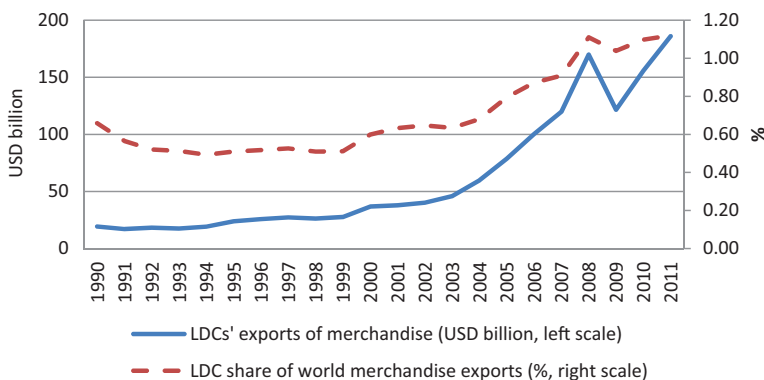
The IPoA does not state clearly which year/s is/are to be used as the base for the purpose of monitoring partners' actions. The same problem applies when the IPoA speaks of 'doubling the share of least developed countries' exports in global exports by 2020'. This objective may be rendered incrementally more difficult to achieve the closer is the base period to 2011, the year in which the Istanbul summit took place. Given the depressing effects of the 2008–09 financial crisis on trade, the LDV IV Monitor has decided that a three-year average over the period 2005–08 be chosen as the baseline. To give due credit to the rapidly increasing share of LDCs' exports in more recent years, this chapter uses the average over 2006–08.

Second, LDCs are generally among the countries with the biggest data gaps, and this is no exception when it comes to the data requirements for the purpose of this monitoring exercise. Lack of data constrains the scope of the study since not all the desirable quantitative indicators could be constructed for all countries. Data problems extend to qualitative variables also. For example, the absence of a comprehensive database on SPS/TBT measures and other non-tariff barriers makes it difficult to assess progress in these areas. The following analysis should therefore be taken with these caveats in mind.

7.3.1 Increasing exports but stagnating share in world trade

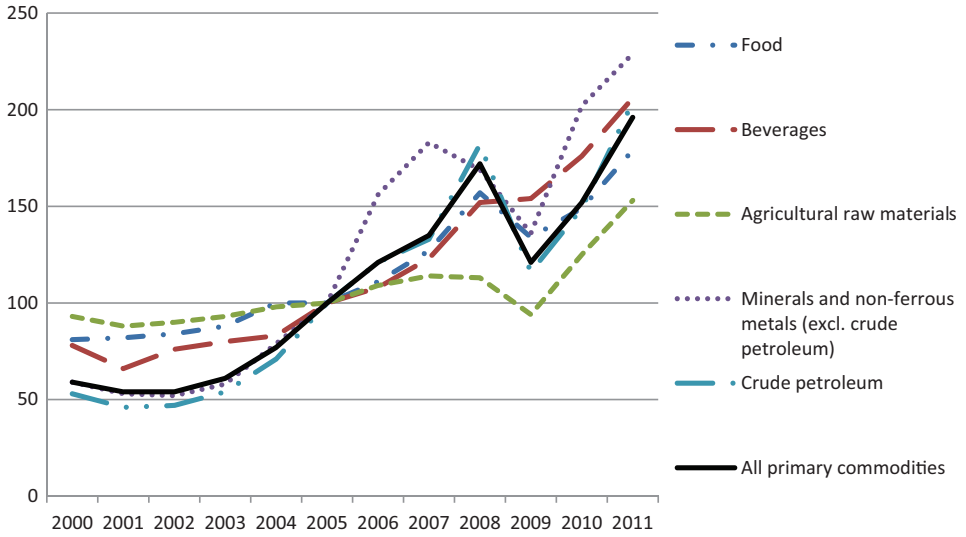
LDC exports have increased sharply – from USD 36.8 billion in 2000 to USD 186 billion in 2011 – but this had a negligible effect on LDCs' share of world merchandise exports. This share crossed the 1 per cent mark in 2008 but fell slightly to 1.02 per cent in 2009. Since then, the share has climbed up 0.1 percentage point, reaching 1.12 per cent in 2011 (Figure 7.1). This is a small but positive development, considering that it occurred at a time of sluggish growth in world trade beset by the global economic crisis. Another positive feature of LDC trade is that, since 2004, exports have expanded more rapidly than imports, thus allowing LDCs to close their historical trade deficit

Figure 7.1 LDCs' merchandise exports, values and shares



Source: Author's computation using data from World Integrated Trade Solution (WITS), available at: http://wits.worldbank.org/about_wits.html (accessed May 2013).

Figure 7.2 Export prices of primary commodities, 2000–11 (2005=100)

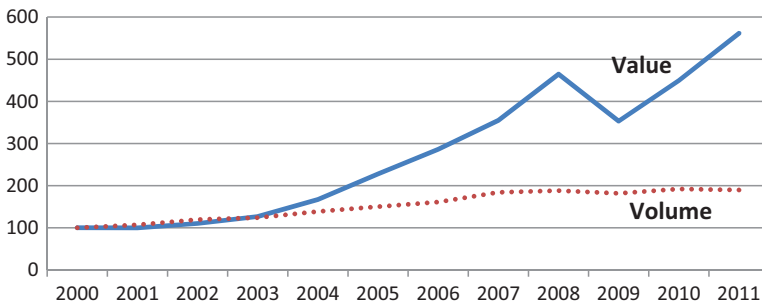


Source: Author’s computation using data from *IMF Commodity Prices*

and enjoy a small aggregate surplus between 2005 and 2008 before the financial crisis took its toll. In 2011, LDC trade was, on average, balanced but this average masks significant variations across LDCs.

Much of the recent growth of LDC exports is likely to have been driven by high and rising prices of primary commodities, which constitute the bulk of LDC exports. The composite index of primary commodity prices increased sharply between 2002 and 2008 and, although it took a dip in 2009, it recovered thereafter and has maintained the upward trend in more recent years (Figure 7.2). These trends are reflected in Figure 7.3, which shows the evolution of value and volume indices of LDC exports. While the value of exports has increased over five-fold between 2000 and 2011, the effect in real terms was a mere doubling of exports over this period. Adjusting for export prices does not alter the global share of LDC exports.² However, the fact remains that LDC exports are not growing as fast as one might expect, and this growth becomes

Figure 7.3 Value and volume indices of LDC exports, 2000–11 (2000=100)



Source: Author’s computation using data from WTO (2012)

even less impressive when we factor out oil and mineral exports and realise that a few agricultural commodities continue to dominate LDC exports (see below).

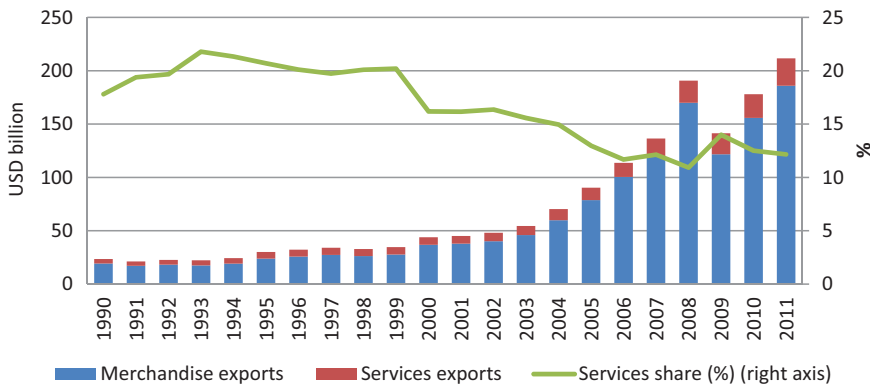
LDCs' share of world exports of goods and services has traditionally been smaller than their share of merchandise exports, echoing the fact that LDCs are negligible players in the global trade in services. Significantly, however, the share of services in LDCs' total exports has declined progressively over the years. In 1993, services' share peaked at 21.8 per cent of LDC exports; this share was down to 12.2 per cent in 2011 (Figure 7.4). The increasing marginalisation of LDCs in services trade has occurred at a time when the global services market was booming. This means that LDCs have failed to take advantage of emerging opportunities to export services.³ Since this trend is likely to continue, it is critical that LDCs prepare themselves to claim a share of the expanding services trade market. Section 7.4 discusses the potential of LDCs to benefit from a possible operationalisation of the proposed services waiver.

Looking beyond aggregates, it is evident that LDCs' merchandise exports are dominated by mineral fuels. UNCTAD (2012) identifies five LDCs – Angola, Chad, Equatorial Guinea, Sudan and Yemen – as fuel exporters. These countries collectively accounted for 63 per cent of LDCs' exports in 2008, although in recent years this share has declined and stabilised at 52 per cent (Figure 7.5). This means that the other 42 LDCs, or about 90 per cent of all LDCs,⁴ represent just under half of the total of LDC exports, pointing to the huge disparity that exists among countries in the LDC group. Regionally, African LDCs account for the bulk of LDC exports. But this is more due to large oil exports from four countries than the disproportionately large number of LDCs – 33 out of the 48 – being African.

7.3.2 Increasing concentration of exports

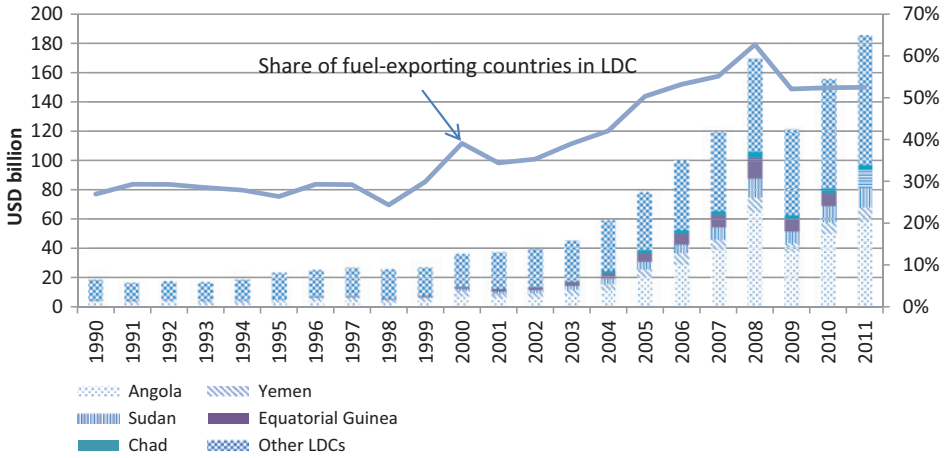
The concentration of LDC exports in a few products is already evident from the large share of fuel exporters in LDC exports. Figure 7.6 provides a breakdown of merchandise exports by product group, further showing the dominance of mineral

Figure 7.4 Share of services in LDCs' total exports



Source: UNCTAD Stat, accessed May 2013

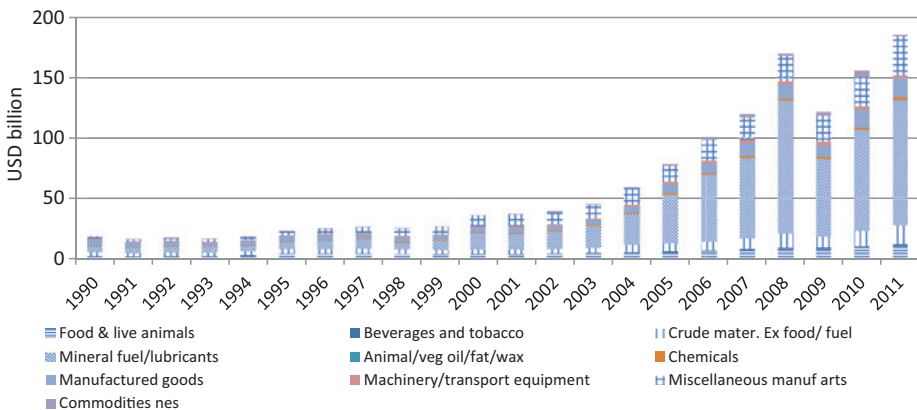
Figure 7.5 Share of fuel in LDCs' exports



Source: WITS, available at: http://wits.worldbank.org/about_wits.html (accessed May 2013).

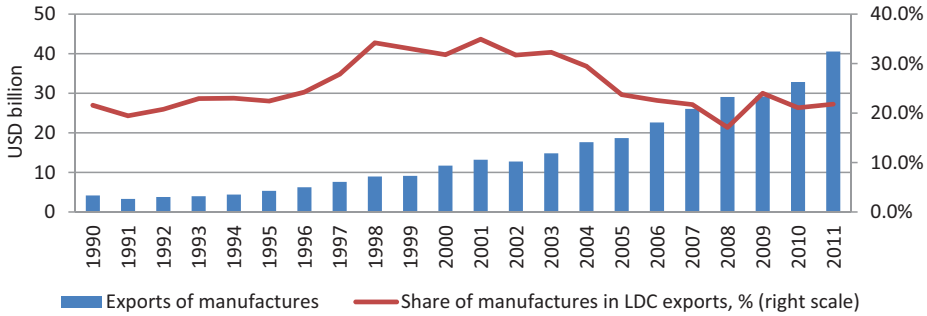
fuels in LDC exports. Mineral fuels represented 24.6 per cent of LDC exports in 1991. This share increased over the years to reach a peak of 64.4 per cent in 2008 before falling off to 55.4 per cent in 2011. Few LDCs export manufactures. Manufactures' share of LDC merchandise exports has declined from a peak of 35 per cent in 2001 to 22 per cent in 2011 (Figure 7.7). Thus, while LDCs have managed to increase their exports significantly over the past decade, they have failed to broaden their export base. It appears that many LDCs have simply ridden the wave of increased demand for the raw materials and commodities they export, benefiting from improved terms of trade. Indeed, much of the increase in LDC exports in recent years is attributable to rising prices rather than to higher export volumes (UNCTAD 2012).

Figure 7.6 LDC exports by major categories



Note: The category 'Miscellaneous manuf arts' includes building fixtures, furniture and furnishings, travel goods, handbags, apparel, clothing and accessories, footwear, scientific instruments, photographic equipment, clocks and miscellaneous manufactures not elsewhere specified.

Source: WITS, available at: http://wits.worldbank.org/about_wits.html (accessed May 2013).

Figure 7.7 LDC exports of manufactures, value and share

Source: WITS, available at: http://wits.worldbank.org/about_wits.html (accessed May 2013).

Export diversification is more than just exporting bigger volumes of manufactures. For a country specialising in manufactures (e.g. Bangladesh), diversification should entail a broadening of the export base (export at the ‘extensive margin’), beyond the products currently being exported. Inevitably, this means that the country produces new products or improved varieties of existing products. For LDCs whose exports are concentrated in oil or raw materials, or a specific agricultural product, diversification will probably mean producing and exporting manufactures. In all cases, export diversification can also manifest itself through expanding shares of services in a country’s total exports.

Even using the narrow definition of diversification – that is changes in the share of manufactures in merchandise exports – it is evident that LDCs as a group have failed to achieve export diversification on a lasting basis since 2000. As noted above, the average LDC share of manufactures in exports has declined from 35 per cent in 2001 to 21.8 per cent in 2011. However, this aggregate trend masks significant achievements in export diversification in several LDCs. Bangladesh, for example, progressively increased its share of manufactures in exports from an already high level of 80 per cent in 1990 to 94 per cent in 2011. In Cambodia, much of the success was achieved in the 1990s; in the past decade, the country has struggled to maintain its share of manufactures around 90 per cent. Outside of Asia, Haiti stands out as a success story in diversification into manufactures. Its share of manufactures in merchandise exports increased from 67.4 per cent in 1995 to over 90 per cent in 2011. Unfortunately, no African LDC can boast a similar performance. Madagascar, one of the largest manufactures exporters in sub-Saharan Africa, saw its share of manufacturing in exports eroded by various episodes of political crisis in recent years. After reaching a peak of 58.3 per cent in 2007, this share has plummeted to 36.6 per cent in 2011. Lesotho, for its part, witnessed a reversal of industrialisation in the run-up to the end of apparel quotas in January 2005 and the expected tidal wave of Chinese clothing exports. Lesotho’s share of manufactures plunged from a peak of 99 per cent in 2003 to 47 per cent in 2011.

Since export diversification need not be limited to shifts into manufactures, especially for those countries that already export a high share of manufactured products, it

is important to consider other, broad-based measures of export concentration or diversification. Here, we examine the Hirschman–Herfindahl index of export concentration and the export diversification index. Data on these indicators are not available consistently for all LDCs. We try to make the most of the available data by looking at the two indicators together to pick out clear trends. Where the absence of data precludes meaningful analysis, or where no discernible trend emerges, we will shy away from making any conclusions.

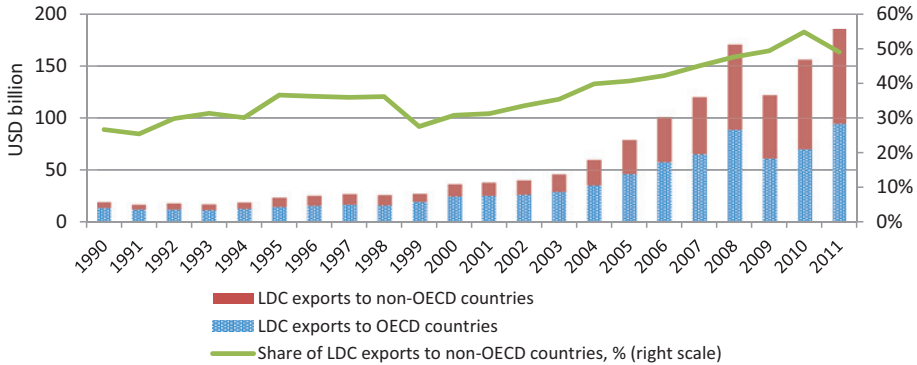
On the whole, it appears that there are relatively few strong cases of export diversification in recent years. Six LDCs, namely Cambodia, Lesotho, Liberia, Madagascar, Nepal and Yemen, show significant decreases in either or both indices since 2000 or in more recent years. Lesotho witnessed its share of manufacturing take a nosedive after 2003, yet the country has registered a sharp reduction in its export concentration since that year. Madagascar's export concentration index has fluctuated cyclically but the general tendency is a long-term decline since 2002. Both Nepal and Yemen exhibit a sharp downward trend in export concentration even though the movement on the export diversification index is milder. It will be important to see whether these encouraging trends are maintained into the future, and to understand the dynamics of export diversification in these countries through more focused case studies.

7.3.3 But more export markets

Product diversification is one side of the bigger diversification story; the other side is market diversification. The current economic crisis has highlighted the importance of entertaining a broad range of export partners. A recent study shows that African countries that export primarily to the European Union (EU) or the USA, or both, are more vulnerable to economic shocks than those exporting to a larger set of countries, including developing economies (African Development Bank 2011). If this was true of LDCs generally, then there is good news: LDCs have significantly reduced their reliance on traditional markets since 2000.

LDCs' merchandise exports to non-OECD countries have increased twice as fast as to OECD countries, driven mainly, but not exclusively, by emerging economies like the BRICS (see below).⁵ Developing countries' share of LDC exports rose from 31 per cent in 2000 to a peak of 55 per cent in 2010 before falling off to 49 per cent in 2011 (Figure 7.8). However, an unwelcome by-product of this trend is that it is accentuating the concentration of LDC exports into low-value-added, unprocessed goods. This is because oil and raw materials make up a significantly bigger share of LDC exports to emerging economies than to traditional partners.⁶ Thus, while LDCs should take full advantage of the new trade dynamics, they should take care to ensure that their engagement with emerging economies does not compromise their efforts to industrialise.

In conclusion, while the year-on-year change in the LDC export share may look insignificant, the change from the base period (2006–08) average to the 2011 level is a notable 0.16 percentage points. What makes this increment even more commendable is that it occurred against the backdrop of sluggish growth in world markets, even though LDC exports were buoyed by emerging economies' continued rapid growth.

Figure 7.8 LDC exports to OECD and non-OECD countries

Source: WITS, available at: http://wits.worldbank.org/about_wits.html (accessed May 2013).

It is difficult to predict whether, at this rate, the IPoA target of doubling LDCs' export share by 2020 is realisable. Much will depend on the state of the world economy and on the ability of emerging partners to maintain their growth momentum.⁷ On the downside, however, except for a few countries that have made serious efforts to diversify their export base, most LDCs' exports continue to remain highly concentrated. Aggravating this tendency is the shifting pattern of trade in favour of emerging countries, which is accentuating dependence on raw materials and minerals in many – in particular, African – LDCs. On the whole, structural transformation has lagged behind economic growth in the majority of LDCs and, in the absence of drastic measures – including several of the actions identified by the IPoA – these LDCs may ultimately graduate but remain extremely vulnerable and fragile economies.

7.4 Multilateral developments

While the Doha Round was officially declared at an impasse at the December 2011 WTO meeting, interest, especially among researchers, in a likely completion of the round, and its implications for development, has always been rife and active. The December 2013 WTO Ministerial Conference in Bali (MC9), which was concluded with the first multilateral trade pact in nearly 20 years of existence of the organisation, has generated hope that the WTO could move away from this impasse. The final outcome of the Bali ministerial was a trade facilitation agreement, along with decisions and declarations on four agricultural issues, and select development-focused provisions – including four that are specific to LDCs. Though many have been quick to note that the package agreed in Bali represents just a fraction of the outstanding issues in the Doha Round negotiations – and has skirted the most difficult ones – trade officials have generally stressed that the achievement in Indonesia may have a much greater systemic value: that of reinstating confidence in the WTO's negotiating abilities.

This section starts by reviewing the evidence to date on the gains to LDCs in a 'successful' Doha Round scenario. It goes on to consider developments achieved in Bali on the so-called 'LDC package'⁸ that could play a critical role in helping LDCs

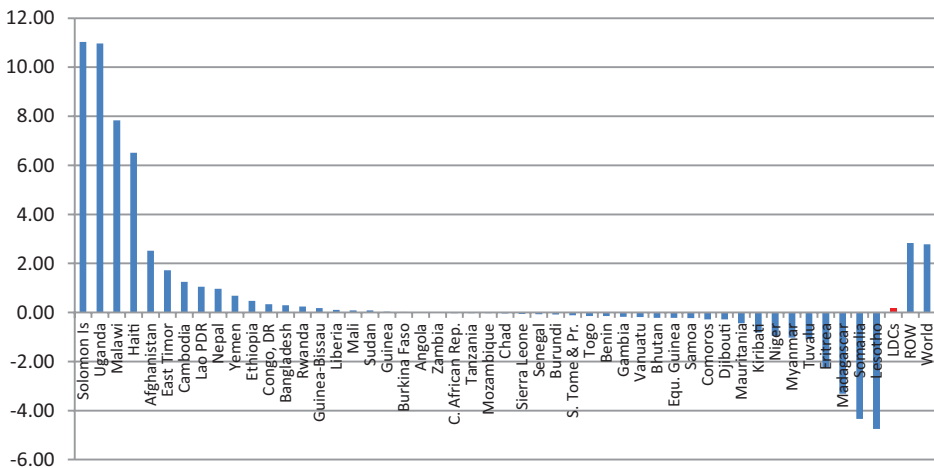
achieve the IPoA target in the area of trade. Two other issues that are not part of the LDC package but are nevertheless of concern to LDCs are also discussed in this section. These are the WTO accession guidelines for LDCs, approved in July, and the Trade Facilitation Agreement reached at MC9.

7.4.1 Doha deadlock: much ado about nothing?

A number of studies have simulated the likely impacts of the Doha Round on economic variables such as trade, GDP and employment in developed and developing countries. However, most of the research has focused on scenarios that can be quantified, such as agricultural trade liberalisation or industrial tariff cuts, or both, leaving out a wide range of development-oriented issues that promise significant gains to most developing countries. These include services, AfT and trade facilitation, technical assistance and technology transfer, special and differential treatment, and more flexible rules of origin and rules relating to TRIPS. For this reason, even the most comprehensive study is at best a partial approximation to gains (or losses) arising from a successful conclusion of the Doha Round. This caveat must be kept in mind while reviewing the results of modelling exercises, including those described below.

Most studies have confirmed that sub-Saharan Africa would invariably lose in any Doha Round scenario.⁹ Welfare losses are estimated to range from USD 197 billion in the Carnegie model to USD 400 billion in the World Bank model. The International Centre for Trade and Sustainable Development’s (ICTSD) recent work,¹⁰ focused on LDCs, shows that the aggregate impact of a successful Doha Round on LDC exports will be a measly 0.16 per cent, with wide dispersion of gains and losses across countries (Figure 7.9). It appears that most of the gains to LDCs from emerging economies

Figure 7.9 Percentage change in LDC exports under a specific NAMA scenario*



* The simulations are based on NAMA proposals, with a Swiss coefficient of 8 for the developed countries and 25 for developing countries.

Source: Author’s calculations based on Laird (2012)

such as China and India, from Korea and, to a lesser extent, from the USA will be offset by losses in the existing preference-granting countries, namely Canada, those in the EU and Japan (Table 7.1).

It is also clear that not all LDCs will benefit from an eventual conclusion of the Doha Round, featuring significant liberalisation in both agriculture and non-agricultural market access (NAMA). Even if overall gains could be assured for the LDC group, the *ex post* distribution of gains and losses, and the absence of a mechanism to compensate losers, could effectively wreck support for a Doha deal.

The issue of preference erosion in the context of the ongoing Doha negotiations is a critical factor holding back consensus in the LDC group. LDCs, especially those from Africa, which enjoy duty-free access to the US market under the African Growth and Opportunity Act (AGOA) will be facing preference erosion, to varying degrees, in view of tariff cuts under the proposed NAMA scenarios. The losses to Lesotho and Madagascar (see Figure 7.7) are precisely due to such preference erosion, but it is also clear that not all countries that will see their preferences eroded in an eventual Doha deal will actually lose in terms of exports. Uganda, Malawi and Haiti are good examples. In any case, a 'successful' Doha Round will need to factor in additional measures to compensate potential losers so as to ensure that it benefits a wide cross-section of the WTO membership. Perhaps an enhanced special and differential treatment (S&D) chapter could do this.

For the majority of LDCs, therefore, the deadlock in the larger Doha talks is much less a concern than the lack of progress on the LDC package issues, for example, on which an 'early harvest' was expected in December 2011 but which largely failed to materialise.

7.4.2 The WTO MC9 decisions on LDCs

The LDC package discussed in Bali included four items of special interest to LDCs: DFQF access for 97 per cent of LDC exports; more favorable rules of origin for their goods; 'a step forward on cotton';¹¹ and a waiver to allow LDCs special access to the services markets of developed countries. It is important to recall that the decision to provide DFQF market access to LDCs and to cut cotton subsidies had already been made at the Hong Kong ministerial meeting six years earlier; only the implementation modalities needed to be worked out.

Table 7.1 Effects of NAMA scenarios on LDCs by selected donors: effects on donors' imports

	Total	Canada	EU	Japan	USA	China	India	Korea
LDCs	0.2	-3.4	-0.9	-2	0.1	0.8	7.7	4.8
Rest of world	2.8	0.4	1	1	0.1	6.5	1	13.1
World	2.8	0.4	0.9	1	1.6	6.4	1	13

Note: The simulations are based on NAMA proposals, with a Swiss coefficient of 8 for the developed countries and 25 for developing countries.

Source: Laird (2012)

Duty-free and quota-free market access scheme

At the 2005 Ministerial Conference, WTO members agreed that: ‘Developed-country Members shall, and developing-country Members declaring themselves in a position to do so should, provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008...’. However, developed-country members added a convenient ‘escape clause’: ‘Members facing difficulties at this time to provide market access... shall provide duty-free and quota-free market access for at least 97 per cent of products originating from LDCs defined at the tariff line level...’ while taking steps to progressively achieve 100 per cent DFQF.

Since then, the debate has focused on the potential gains under a 97 per cent DFQF scheme versus full product coverage and on related rules of origin. Available evidence shows that gains would be rather limited under a 97 per cent DFQF scheme since the 3 per cent of excluded tariff lines could potentially cover between 90 and 98 per cent of all LDC exports (Laborde 2008). LDC negotiators therefore face the difficult task of ensuring that the 3 per cent exception does not exclude products of critical export interest to their countries.

Most developed countries as well as some emerging economies are already implementing DFQF schemes of various levels of ambition (Table 7.2). The USA has since 1976 implemented a generalised system of preferences (GSP) scheme for developing countries that was set to expire in July 2013. It is also implementing two regional duty-free schemes. AGOA provides 40 designated African countries, including 26 LDCs, duty-free treatment on some 1,835 products. The Caribbean

Table 7.2 Existing trade preference schemes for LDCs

Country (year)	Brief description of scheme
Canada (2003)	DFQF excluding over-quota tariff items for dairy, poultry and egg products
China (2010)	Zero-tariff treatment to 4,788 tariff lines (60%) to be extended eventually to 97%
EU (2001)	The Everything But Arms (EBA) initiative provides DFQF access for all products from LDCs (except arms and ammunition)
India (2008)	Duty-free access on 85% of tariff lines at the HS six-digit level
Japan (2007)	DFQF market access on 8,859 tariff lines (or 98% at the tariff line level), covering over 99% in terms of imports value
Korea (2000)	DFQF access extended to 95% of total tariff lines in 2010
US LDBC (1976)	3,451 products admitted duty-free under GSP; an additional 1,430 products for least-developed beneficiary developing countries (LDBDC)
US AGOA (2000)	1,835 products from qualifying African countries available for duty-free treatment in the US market in addition to those under GSP
US CBTPA (2000)	Duty-free market access for most products, including textiles and apparel, for 17 designated beneficiaries in Central America and the Caribbean. Special programs for Haiti

Basin Trade Partnership Act (CBTPA) offers 17 beneficiary countries from Central America and the Caribbean (including one LDC – Haiti) duty-free access to the US market for most products, including textiles and apparel. AGOA is set to expire in 2015, and CBTPA in 2020.

Whereas the DFQF schemes of Canada, Japan and the EU provide duty-free coverage to over 98 per cent of tariff lines and feature few exclusions, it is estimated that, on the whole, US trade preference schemes admit on average only 82.4 per cent of imports duty-free, with exclusions hitting 1,834 national tariff lines (WTO 2012). Excluded products of key export interest to LDCs include dairy products, sugar, cocoa, leather and footwear, cotton, and textiles and clothing. It is therefore clear that any further gains from improvement to existing preference schemes will come from the USA implementing a broad and comprehensive DFQF scheme. However, it is also clear that this is unlikely unless the USA takes bold steps to tackle local, powerful interest groups who fear that opening up the US market in clothing could lead to increased competition from countries such as Bangladesh and Cambodia.¹²

Research confirms that existing DFQF schemes are highly beneficial to LDCs. A recent study employing a computable general equilibrium model estimates that full implementation of DFQF by OECD countries would boost LDC exports by about USD 2 billion (or 17 per cent) without affecting preference-granting countries in any major way (Bouët et al. 2010). Another study – commissioned by the ICTSD – uses a partial equilibrium model to examine the impact of providing 100 per cent duty-free treatment to LDC exports by a selected group of trade partners – including four major developed economies with long-standing trade preference schemes (Canada, the EU, Japan and the USA), one with a fairly recent duty-free scheme (Korea), and two emerging economies (China and India).

The results show that LDC exports would expand by 2.9 per cent, with the biggest impacts coming from India (21.7 per cent increase in imports from LDCs), Korea (12.9 per cent) and USA (11.8 per cent). Impacts on the rest of the world will be negligible (Table 7.3).

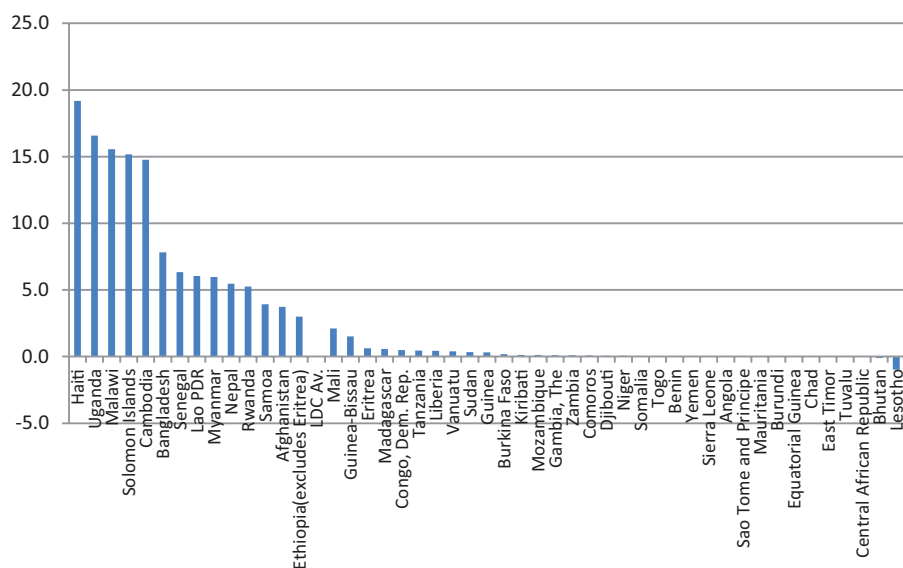
Not surprisingly, the ICTSD study shows that countries with close-to-full duty-free coverage, such as Canada and those of the EU, will register very small increases in exports from LDCs. But China's rather small (1.7 per cent) impact is puzzling. It indicates little potential for LDCs' exports to China to grow even if China extended its duty-free coverage from the current 60 per cent to 100 per cent. One possible explanation is that the bulk of China's imports (90 per cent in 2011) from LDCs consist of raw materials and mineral fuels, which already attract little or no duty.

Country-wise, Haiti, Uganda, Malawi, Cambodia, Bangladesh and Nepal are among the biggest gainers. At the other extreme, Lesotho appears as the only country to lose in a rather significant way (Figure 7.10). Even so, its loss is a mere 1 per cent of imports, or about USD 5 million, and is totally offset by AfT flows in recent years.¹³ The loss derives from the erosion of Lesotho's preference margins, mainly in the USA, to the benefit of other competing LDCs such as Bangladesh and Cambodia.¹⁴ On the whole, however, Lesotho's loss should not be a barrier to negotiations by

Table 7.3 Effects on selected LDCs' exports of full duty-free treatment by selected donors

LDC	Total	Canada	China	EU	Japan	Korea	USA
Angola	0	0	0	0	0	3.6	0
Bangladesh	7.8	0	63.5	0	0	73.8	22.2
Burkina Faso	0.2	0	0	0	0	20.8	27.9
Cambodia	14.8	0	19.3	0	0.1	4.1	27.8
Ethiopia	3	–	0.7	0	0.7	139	–0.1
Haiti	19.2	0	9.5	0	0	13.7	21.4
Lao PDR	6	0	8.3	–0.1	2.4	0.1	15.5
Madagascar	0.6	0	5.6	0	0	10.5	–1.4
Malawi	15.6	–	58.7	0	0	0	109.3
Nepal	5.5	0	66.1	0	0.1	3.2	7.6
Rwanda	5.2	–	0.2	0	0	0.1	0.2
Senegal	6.3	1.2	12	0	5.5	27	1.5
Tanzania	0.5	–	1.3	0	0.2	0.1	0
LDC total	2.9	0	1.7	0.2	0.1	12.9	11.8
Rest of world	0	0	0	0	0	0	–0.1
Total	0	0	0	0	0	0	0.1

Source: Adapted from Laird (2012)

Figure 7.10 Percentage change in imports from LDCs from implementation of a full DFQF scheme


Source: Adapted from Laird (2012)

LDCs for the implementation of a DFQF scheme as agreed at the Hong Kong ministerial meeting in 2005. This loss may be addressed through targeted measures aimed at increasing export competitiveness or through assistance for adjustment, including AfT (Bouët et al. 2010).¹⁵ Alternatively, the USA could extend duty-free access to Asian LDCs while preserving existing preferences to less competitive LDCs like Lesotho by selectively excluding their key export products from the duty-free list (Elliott 2012).

So far, however, tensions among the LDCs themselves around those issues have weakened the group's negotiating position, which largely explains the lack of significant progress in Bali on this particular topic. As a result, the Bali decision on DFQF largely reiterates what had been agreed at the 2005 Hong Kong ministerial meeting with only minor procedural improvements. In particular, ministers decided that 'Developed-country Members that do not yet provide duty-free and quota-free (DFQF) market access for at least 97 per cent of products originating from LDCs, defined at the tariff line level, shall seek to improve their existing DFQF coverage for such products, so as to provide increasingly greater market access to LDCs, prior to the next Ministerial Conference.' Moreover, 'developing-country Members, declaring themselves in a position to do so, shall seek to provide DFQF market access for products originating from LDCs, or shall seek to improve their existing duty-free and quota-free coverage for such products, so as to provide increasingly greater market access to LDCs, prior to the next Ministerial Conference.'

Preferential rules of origin

Rules of origin (RoO) confer an economic nationality on products traded across borders, defining how much processing must take place locally before goods are considered to be the product of the exporting country. In the case of LDCs, preferential RoO are often considered too restrictive and inflexible, making it difficult for the LDCs to take advantage of the intended preference. Furthermore, these are currently designed on a unilateral basis, without any harmonised standard. LDCs have long strived to introduce modalities on preferential RoO on the argument that these could further improve preference utilisation.¹⁶ They ultimately managed to have some language on rules of origin included into the Hong Kong Ministerial Declaration. The decision states, inter alia, that WTO members agreed to 'ensure that preferential rules of origin applicable to imports from LDCs are transparent and simple, and contribute to facilitating market access'. However, the decision does not say specifically what the rules of origin should be and how they would be implemented (UNOHRLLS 2008).

In their submission to the WTO in view of the Bali Ministerial,¹⁷ the LDC group opted for an across-the-board rule of origin based on a percentage value-added criterion to be defined. However, they noted that the choice of a single rule should not preclude preference for product-specific rules where these are in the interest of LDCs, for example in the clothing sector. In this sector, the proposal was for a single transformation rule, modelled on EU RoO. The submission also contained a proposal on calculating substantive transformation, namely using the percentage criterion

based on the value of materials. These choices were based on a careful consideration of the benefits and limitations of alternative methods.

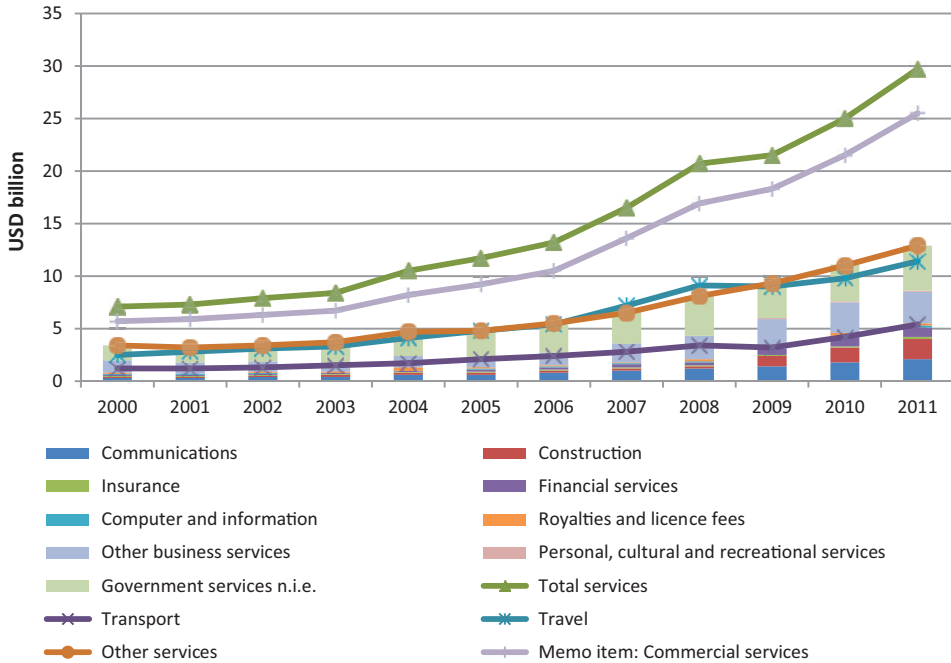
Building on the LDC proposal, the Bali decision on RoO contains a set of multilateral guidelines for the RoO that WTO members apply to their non-reciprocal preference schemes for LDCs. It reiterates some of the principles adopted in Hong Kong and recalls that preferential RoO should be as transparent, simple and objective as possible. It recognises that each country granting trade preferences to LDCs has its own method of determining RoO, and it invites members to draw upon the elements contained in the decision when they develop or build on their individual RoO arrangements applicable for LDCs. The decision then recognises ways in which origin can be conferred – e.g. using the *ad valorem* percentage criterion; change of tariff classification; or specific manufacturing or processing operation – and provides some illustrations in which preferential RoO can be made easier to comply with. In this respect, the decision constitutes a step forward. For the first time, governments have established a set of multilaterally agreed guidelines, which should help make it easier for LDC exports to qualify for preferential market access. The decision is, however, in the form of non-binding guidelines, implying that developed country members are free to choose to adopt these guidelines or not.

The services waiver

LDCs accounted for a negligible 0.5 per cent of world trade in services between 2009 and 2011. Travel services are the single largest category of service exports from LDCs and have shown a marked upward trend, especially since 2003 (Figure 7.11). In 2011, travel services represented 44.7 per cent of LDC exports of commercial services, and transport services another 21 per cent. Beyond these sectors, LDCs are virtually absent in non-traditional services. Exports of communication and other business services, for example, have more than tripled in value since 2000 but their combined share has stagnated around 20 per cent in recent years, lower than in 2000.

The quasi-absence of LDCs in the global services market, worth USD 4.2 trillion in 2011, suggests that the potential for these countries to tap this market is huge. While several studies have documented the state of services liberalisation in LDCs, few have actually explored their potential to expand services exports. Inevitably, the assumption has been that LDCs will remain marginal players in services trade because they lack the infrastructure and skills to make a dent in the rapidly growing segment of commercial services. This assumption, however, is not justified. A number of LDCs are already important players in specific sectors of services; many have good information technology (IT) infrastructure and a critical mass of skills; and, perhaps more importantly, most LDCs realise that services trade provides a unique opportunity for structural transformation by bypassing the elusive manufacturing phase.

ITC (2013) has documented some success stories of LDCs diversifying into tradable services and witnessing a rapid increase in their service exports as a result. Rwanda and Senegal, for example, have developed a fledgling outsourcing industry based on back-office operations (BPOs) and call centres respectively. Furthermore, Rwanda's

Figure 7.11 LDC services export by sector, 2000–11

Source: UNCTAD Stat, accessed August 2013

Vision 2020 charts out a strategy to move from an agriculture-based to a knowledge-based economy, which would boost its service exports. Bangladesh has moved up the BPO value chain by specialising in services such as software design and data access solutions. Cambodia's financial services sector is taking off, aided by high growth rates in the region.

Despite the role of services in global value chains of goods as well as that of services in their own right, little is known about strategies by LDCs to integrate world service markets by specialising in specific service-related tasks. Even the IPoA is silent on services while speaking more eloquently of the need for merchandise export diversification. Accordingly, it would be useful to inform LDCs where their potential to engage in services trade lies while they negotiate the services waiver.

At the eighth WTO Ministerial Conference in December 2011, trade ministers adopted a waiver to enable developing- and developed-country members to provide preferential treatment to services and service suppliers of LDCs. The waiver, which will last initially for 15 years from the date of adoption, releases WTO members from their legal obligation to provide non-discriminatory treatment to all trading partners (General Agreement on Trade in Services (GATS) Article II) when granting trade preferences to LDCs. It effectively operates as a new LDC-specific 'enabling clause' for trade in services. As such, the waiver is meant to promote LDCs' service trade in sectors and modes of supply that are of particular export interest to them. It allows members to automatically grant preferential market access to the services and service suppliers

of LDCs on the quota-type measures listed in GATS Article XVI. More favourable treatment with respect to other measures, such as those relating to national treatment, domestic regulations defined in Article VI:4 and other obligations under the GATS, requires prior approval by the WTO Council on Trade in Services (WTO 2013).

While representing a significant win for LDCs, the waiver itself does not confer any direct economic benefit. In order to operationalise it, it is important to identify preferences – by mode and sector – that could provide significant economic benefits to LDCs. At the very least, this requires reliable economic data on services trade and information on applied regimes of preference-granting countries. Existing data, however, is neither sufficiently available nor detailed enough to allow a meaningful analysis of LDCs' service export potential. Published data are limited to modes 1 and 2 and does not adequately cover LDCs. Data on mode 4 – which is of special interest to LDCs – are generally not available. Furthermore, no consistent database on applied regimes exists to date, and members' schedules of commitments are of little use since they are likely to diverge from applied measures. Finally, where information on applied regimes is available, care must be exercised in analysing it since a number of domestic regulations may appear neither as market access limitations under Article XVI nor as national treatment limitations under Article XVII but which may nevertheless be burdensome and have a depressing effect on LDCs' service exports.¹⁸

A number of studies have tried to assess the economic benefits of expanded services trade.¹⁹ The evidence suggests that the greatest potential gains from trade (goods and services combined) are associated with the liberalisation of mode 4 – temporary movement of service suppliers – a sensitive area in the negotiations where efforts so far have largely fallen behind commitments or declarations of intent. Jansen and Piermartini (2005) show that the temporary movement of persons, by reducing transaction costs for merchandise trade between home and the host country, causes bilateral trade to expand in a statistically significant way. Walmsley and Winters (2005) have focused on the direct welfare effects of liberalising trade in mode 4 in a general equilibrium framework. They show that if OECD countries allowed temporary migration of workers to increase by the equivalent of 3 per cent of their labour force, the resulting global gains would be greater than those under full liberalisation of merchandise trade. Moreover, both developed and developing countries would share in the gains, which would be largest if migration of both professionals and unskilled workers were permitted. These results broadly suggest that operationalising the services waiver could be win-win for both the LDCs and the preference-giving countries.

As a step forward in the operationalisation of the waiver, ministers agreed in Bali that the Council for Trade in Services (CTS) should initiate a process aimed at promoting the expeditious and effective operationalisation of the LDC services waiver. Moreover, 'with a view to accelerating the process of securing meaningful preferences for LDCs' services and service suppliers, the Council for Trade in Services shall convene a High-level meeting six months after the submission of an LDC collective request identifying the sectors and modes of supply of particular export interest to them. At that meeting, developed and developing Members, in a position to do so, shall indicate

sectors and modes of supply where they intend to provide preferential treatment to LDC services and service suppliers.' Finally, the decision highlights the importance of enhanced technical assistance and capacity building to help LDCs benefit from the operationalisation of the waiver.

Cotton

In many ways, cotton is the one issue that singularly brought to attention the trade-related development challenges facing LDCs and formed the basis for their explicit inclusion in the multilateral trade negotiations through, inter alia, the LDC package. The battle on trade-distorting cotton subsidies led by Africa's four biggest cotton producers (Burkina Faso, Chad, Mali and Benin – collectively known as the C4) has fallen short of a victory but has chalked up a number of smaller successes. However, since negotiations on agriculture have stalled, and in spite of the commitment by ministers in Hong Kong to 'address cotton ambitiously, quickly, and specifically', no deal on cotton has come. In Bali WTO ministers adopted a decision that recognised that the organisation is yet to deliver on the trade-related components of the 2005 Hong Kong Ministerial Declaration, but agreed on the importance of pursuing progress in this area. Members will meet twice each year to study the latest information and to discuss the latest developments on market access, domestic support and export subsidies for cotton, particularly from LDCs.

Although the issue of cotton concerns many WTO members, the largest and most trade-distorting payments have historically come from the USA. A change in US policy, at the bilateral level, would therefore go a long way in addressing LDCs' grievances over cotton. The USA has been under pressure to reform its Farm Bill since 2002 when the WTO ruled in favour of Brazil that US cotton subsidies were excessive and unfair. The USA refused to cut the subsidies but, when faced with the threat of retaliation by Brazil, agreed to pay a compensation of USD 147 million annually until the Farm Bill was reformed.

The 2014 Agricultural Act was finally signed into law by the president of the United States on 7 February 2014. The Farm Bill had proved divisive for several reasons – mostly over disagreement on the areas of spending cuts – leading to protracted talks over a period of two years. The compromise reached by lawmakers involves slashing direct payments and instituting new crop insurance subsidies, which altogether will trim the agricultural budget by USD 16 billion over the next 10 years. Several farm subsidy programmes that were seen as WTO-illegal – such as the Countercyclical Payment Program and the Average Crop Revenue Program – have been either scrapped or modified. Conversely, the bill introduces five new crop subsidy programmes and replenishes four disaster programmes, set up in 2008 and only partially funded through to 2011, for the next five years.

Whereas disaster aid programmes have been structured in ways that broadly comply with WTO law, the new subsidy programmes have been introduced 'with the specific intent of providing farmers substantial subsidy payments rather than moderate risk management protection' and so are ostensibly trade-distorting (Smith 2014). Of

these programmes, of particular relevance to the cotton issue is the Stacked Income Protection (STAX) programme, a supplemental insurance plan proposed to address the cotton dispute with Brazil. The programme is an area-based insurance product where payments are triggered whenever actual average revenues at the area level fall below 10 per cent of their expected levels.

Under the STAX insurance programme, indemnity payments are more likely and subsidies are larger on a *per-unit basis*. These subsidies are ‘amber box’ payments that count towards the United States’ Aggregate Measure of Support (AMS). It is therefore unlikely that the programme itself could address the policy problem raised by Brazil’s complaint to the WTO – for, although the STAX is a domestic production subsidy (and not an export subsidy), in practice, it is trade-distorting.

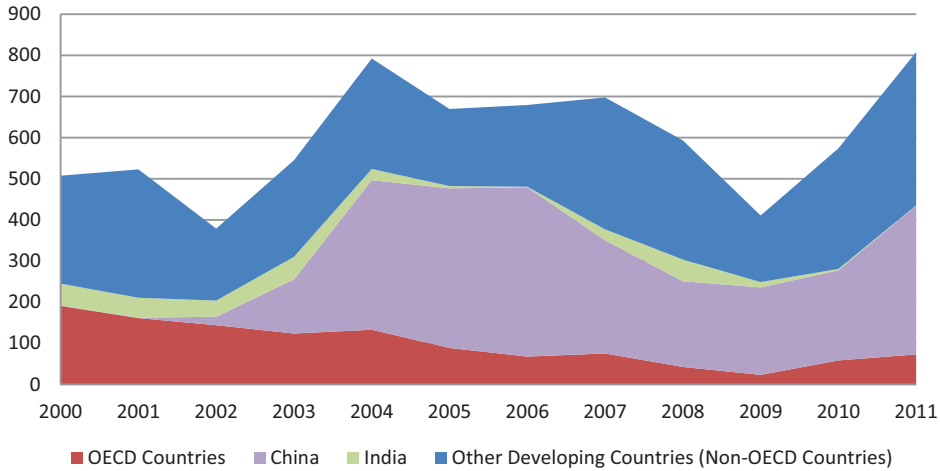
Earlier in the debate, there was a fear that the Farm Bill would retain a proposal by the House of Representatives involving a minimum price on cotton, which would have resulted in significant trade and production distortions. Fortunately, neither version of the Farm Bill, passed independently by the House and the Senate in 2013, makes any reference to minimum prices. On the downside, there are concerns that the increase in amber box subsidies that the new programmes entail will further dampen the United States’ willingness to support effective reductions in AMS caps under a future WTO agreement. Furthermore, since all five insurance schemes (but perhaps less so the STAX programme) are designed to give US farmers large subsidies when the prices of the commodities they produce fall, they potentially open the gates to trade disputes, including in the case of cotton.

In the meantime, a series of recent developments has reduced the pressure on West African cotton producers. First, cotton prices – even after crashing down from an all-time peak in mid-2011 – remain high by historical standards, and subsidies as a share of farm revenue have declined over the years.²⁰ This means that a cotton deal will have limited impact on the world price. Simulations indicate that the highest price increase – occurring under the scenario of full implementation of the December 2008 Revised Draft Modalities – will be no more than 10 per cent. In most other scenarios, the projected increase in world cotton price will be considerably smaller (Jales 2010).

Second, higher prices for alternative crops, such as corn and wheat in the USA, together with declining yields and rising production costs, on the one hand, and expectations of long-overdue farm reforms that would substantially reduce subsidy pay-outs, on the other, are pushing farmers away from cotton production.

Third, world prices of cotton are set more by China’s trade policy than by US or EU subsidies. China has emerged as a major cotton importer, absorbing an increasing share of the C4 exports – 45 per cent in 2011 (Figure 7.12). Indeed, the hike in cotton price in 2011/12 is largely attributed to massive purchases by China to rebuild its national reserves even as global stocks increased and demand dwindled.

These developments have also eased the political challenge in reforming trade-distorting cotton subsidies. Along with budgetary pressures in the USA and elsewhere, they suggest that the time for cotton reform has never been better.

Figure 7.12 C4 Cotton exports by destination, 1990–2011 (USD million)

7.4.3 Other issues

LDC accession to WTO

The IPoA states that one of the joint actions to be taken by LDCs and their development partners should be to ‘Facilitate and accelerate negotiations with acceding least developed countries based on the accession guidelines adopted by the World Trade Organization General Council in December 2002’ (IPoA 2011: 20). Becoming a member of the WTO is not an easy task. Usually, the full scale of the numerous politically challenging reforms that applicants are required to undertake as part of the accession process becomes clear only after the process has started. The process itself can be long drawn, tedious, complex and demanding on the resources and capacity of LDCs.

LDCs have long complained that WTO members routinely ask them to take on commitments beyond their capacities during the bidding process. These commitments also tend to exceed those required of LDCs and other developing countries that joined the organisation in its early years (Table 7.4). On average, bound agricultural tariffs are

Table 7.4 Market access conditions in agriculture and NAMA

	Market access conditions	30 original LDC members (%)	5 recently acceded LDCs (%)
Agriculture	Average bound tariffs	78.8	31.6
	Average applied tariffs	15.3	17.9
	Binding coverage	100	100
NAMA	Average bound tariffs	44.4	23
	Average applied tariffs	11.9	12.3
	Binding coverage	48.4	100

Source: Author’s computation, using data from the WTO

47.2 percentage points lower in the case of the five recently acceded countries, whereas for NAMA products they are 21.4 percentage points lower. Similar differences between original LDC members and recently acceded LDCs exist in the level of binding coverage, i.e. the percentage of tariff lines that members agree to bind at a certain level upon joining the organisation. While the WTO Agreement on Agriculture requires all members to bind all agricultural tariff lines, the level of binding coverage in industrial goods varies considerably among the LDCs. Among recently acceded LDCs, Nepal has bound 99.3 per cent of its NAMA tariff lines, whereas the other four agreed to a 100 per cent binding coverage. In contrast, only eight of the original LDC members have bound all their industrial tariffs, with several LDCs leaving the vast majority of their NAMA lines unbound.²¹

In 2002, WTO members agreed on guidelines that aimed at facilitating the negotiations for the accession of LDCs to the WTO through simplified and streamlined accession procedures in the areas of market access, WTO rules, process, trade-related technical assistance and capacity building.²² Despite these guidelines, only seven LDCs – Cambodia (2004), Nepal (2004), Cape Verde (2008), Samoa (2012), Vanuatu (2012), Laos (2013) and Yemen (2013) – have acceded to the WTO since its establishment in 1995. Most LDCs (30) entered the global trade body as part of the Uruguay round, nine are currently negotiating their accession and five are still outside the legal system (see Annex 7.2).

At the 2011 Ministerial Conference, it was decided to ‘further strengthen, streamline, and operationalize the 2002 LDC accession guidelines,’ with the inclusion of benchmarks, particularly in the area of goods, that take into account the level of commitments undertaken by existing LDC members.²³ Members were also urged to explore possible benchmarks in the area of services. After intense negotiations in the WTO LDC Sub-Committee, the General Council formally approved new guidelines in July 2012. The decision establishes benchmarks on goods and services, as well as elements on special and differential treatment, transition periods, transparency and technical assistance. The main difference between the two sets of guidelines is that the new ones include quantitative benchmarks in the area of goods, which comprise the main bulk of LDC trade.

The negotiations on goods benchmarks focused on defining an appropriate overall level of average bound rates for both agricultural and NAMA products, as well as an agreed level of binding coverage for NAMA. Importantly, the text states that establishing benchmarks on average bound rates does not prejudice the right of members to negotiate the level of bound rates in individual lines of interest to them. In this respect, the agreed benchmarks do not establish a minimum or maximum bound tariff but rather a set of multilaterally agreed reference points that should guide bilateral market access negotiations between acceding LDCs and their trading partners. The LDC group initially proposed an average bound rate of 70 per cent in agriculture and 40 per cent in NAMA, with 55 per cent binding coverage of NAMA lines. At the other end of the spectrum, the European Commission proposed a 40 per cent and 30 per cent benchmark respectively for agriculture and NAMA, along with

100 per cent binding coverage of NAMA lines in order to ensure predictability. The final agreed text is a compromise between the two approaches. It aims to ensure an appropriate balance between predictability of tariff concessions – a key element of the multilateral trading system – and the need to address the specific constraints or difficulties of LDCs and reflect their ‘legitimate development objectives’.

According to the text, acceding LDCs shall bind all agricultural tariff lines at an overall average rate of 50 per cent. This level is about 28 percentage points lower than the average of the 30 LDCs that joined the organisation in its early years, but 18 percentage points higher than the five recently acceded LDCs. With regard to non-agricultural products, the decision provides two options: acceding LDCs shall bind 95 per cent of their NAMA lines at an overall average rate of 35 per cent, or they can undertake more comprehensive binding coverage. In the latter case, the acceding country shall be afforded proportionately higher overall average rates, to be agreed with WTO members. The text also specifies that ‘in such cases the acceding LDC shall be entitled to transition periods of up to 10 years for up to 10 per cent of their tariff lines’.

The guidelines will contribute to the bidding process during the bilateral accession negotiations between WTO members and the acceding LDC. However, the accession process itself could be strengthened in a way that it becomes a collective effort of the global community to assist the acceding countries in integrating the world economy in order to enhance trade and sustainable development in the countries.²⁴ This would go beyond the action outlined in the IPoA about facilitating WTO accession for LDCs as well as supporting the goal of substantially increasing LDC trade.

Trade facilitation

The Bali trade facilitation agreement (TFA), reached in December 2013, constitutes without doubt the main outcome of the ninth WTO Ministerial Conference. Paradoxically, despite the fact that LDCs were not the main *demandeurs*, this might be the area of the Bali package which will generate the largest benefits to LDCs. The negotiations basically aimed to simplify customs rules and reduce inefficiencies that create long lag times in cross-border flows of trade by clarifying and improving three articles of the WTO’s General Agreement on Tariffs and Trade (GATT), 1994.²⁵ More specifically, the negotiations involved areas such as improving transparency, standardising documentation requirements and trade-related fees, and streamlining existing border procedures, with specific disciplines designed on issues such as transit of goods, single window clearance, customs co-operation, expedited shipments or the use of customs brokers, to list just a few.

In the run-up to Bali, many developing countries were suspicious about the proposed agreement. Some saw it as a device to dodge more important issues related to the Doha talks. There were also concerns that a TFA may lock LDCs into costly commitments, with little aid from development partners to implement those commitments. From a narrow perspective, many of the above concerns were valid. First, the definition of ‘trade facilitation’ adopted by the WTO is limited to port efficiency and customs

facilitation, and misses out on the larger issue of infrastructure for trade. Second, although trade facilitation is meant to cover both exports and imports, there were fears that a TFA would cause imports to increase first and foremost, and that any increase in exports would be incidental. Since exports in LDCs face formidable supply-side constraints, and are unlikely to receive much of a boost from greater customs efficiency, such fear is probably justified. Third, implementing the TFA could involve important investments in customs modernisation and port logistics (on the 'soft' side), which may be neither a priority for LDCs at this time nor within their financial reach.

Reflecting these concerns, the final text adopted in Bali is divided into two parts: the first involving specific commitments countries will take to improve their customs procedures (Section I); the second involving special and differential treatment for developing countries and LDCs (Section II). Achieving this balance between firm commitments in Section I with developing countries' respective needs for technical assistance and capacity-building to implement them, as outlined in Section II, has long been a major stumbling block. In this respect, the final agreement contains a set of landmark provisions allowing for flexibility in the scheduling and sequencing of implementation, and linking commitments to acquired capacity resulting from technical assistance. More specifically, commitments for the developing countries and LDCs can fall under three potential categories. Category A includes those provisions that will be implemented immediately upon the agreement's entry into force; category B includes those commitments that will require a transition period; and category C involves those commitments that will require both a transition period and technical assistance.

Beyond short-term implementation concerns, LDCs should see the long-term benefits of the agreement in a world characterised by global value chains (GVCs). The rise of GVCs has underlined the need to source inputs competitively in order to remain internationally competitive. High tariffs on imported goods – especially capital goods, raw materials and intermediates – may result in negative effective protection to an export industry, further constraining its insertion into the GVC. By allowing imports to flow more easily, the TFA could provide the potential benefits of import liberalisation without having to incur all of its political costs.

Trade facilitation is aimed at reducing the transaction costs associated with trade. These costs are estimated to range from 1 to 15 per cent of the value of trade transactions (OECD 2005). A study on APEC economies finds that trade formalities are more costly than tariffs (Commonwealth of Australia 2001). Transaction costs are particularly high in African countries because of complex and cumbersome procedures, inefficient customs, obsolete machinery and corrupt practices among customs officials. Hummels (2001) finds that inefficiencies at African ports add a cost of 8.1 per cent to the value of transactions.

Many studies have demonstrated substantial gains from trade facilitation. For example, Cali and te Velde (2011) find that AfT facilitation and AfT disbursements on economic infrastructure tend to reduce trading costs and boost exports in a

significant manner. More efficient customs procedures are found to cause trade flows to increase by as much as 30 per cent in developing countries (Wilson et al. 2003). Similarly, cutting the number of days required to clear customs in Ethiopia by half could cause total factor productivity to increase by 18 per cent. A study on APEC economies shows that clearing the red tape at borders could generate approximately twice as much gain in GDP terms than trade liberalisation (Asia Pacific Foundation of Canada 2000).²⁶

Non-tariff barriers

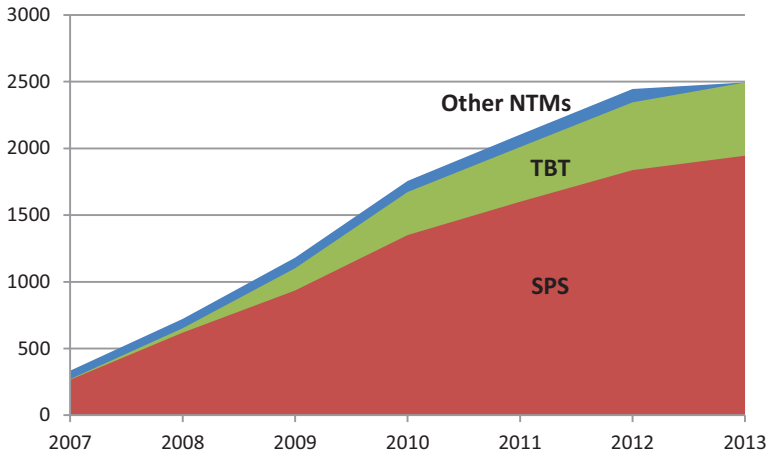
Non-tariff measures (NTMs) have emerged as significant barriers to trade as tariffs have fallen. While most NTMs are meant to address public policy concerns – both economic (such as market failures) and non-economic (e.g. to protect health, animal and plant life) – they may actually serve a protectionist purpose, whether intended or incidental. For example, the WTO registered a sharp increase in the number of countervailing measures and safeguards initiated in 2008 and 2009 as crisis-hit economies took ‘emergency’ measures to limit the spread of systemic damage. Fortunately, the use of NTMs subsided in subsequent years, assuaging fears of a protectionist backlash.

In practice, it has proved difficult to disentangle the legitimate aspect of NTMs from their effect as a disguised restriction on trade. LDCs claim that NTMs such as TBT and SPS measures continue to restrict their exports – even to developed-country markets where they benefit from preferential access. Indeed, the prevalence of TBT/SPS measures on exports of key interest to LDCs is a key reason why many of these countries have not been able to effectively utilise preferences, diversify their exports or move up in the value chain. From the perspective of structural transformation, therefore, addressing burdensome NTMs is critical to enabling LDCs’ integration into the global economy. Even DFQF market access – if achieved – would have little impact on many LDC exports if NTMs, including RoO, are not relaxed, or if LDCs’ capacity to comply with such measures is not substantially improved.

There is now a wealth of evidence on the prevalence of NTMs in developing countries and of their impacts on trade. Business surveys conducted by the International Trade Centre (ITC) in 2010 in 11 developing countries, including three LDCs (Burkina Faso, Madagascar and Rwanda), reveal that TBT/SPS measures – accounting for 48 per cent of NTMs on a trade-weighted basis – are the most burdensome for exporters. More recent surveys of exporting firms in Malawi and Burkina Faso suggest that technical measures, such as technical requirements and conformity assessment, which correspond broadly to TBT/SPS measures, are even more burdensome for LDC exporters: 75 per cent and 62 per cent of all NTMs encountered by Malawian and Burkinabe exporters respectively related to TBT/SPS measures.

Data from the WTO I-TIP database suggests that the number of NTMs applied to LDC exports has increased significantly over the past seven years (to August 2013) (Figure 7.13).²⁷ In particular, there has been an explosion in TBT cases (from 5 in 2007 to 549 at the end of August 2013) notified to the WTO over this period. SPS measures, which accounted for 78 per cent of all NTMs in 2013, have also witnessed

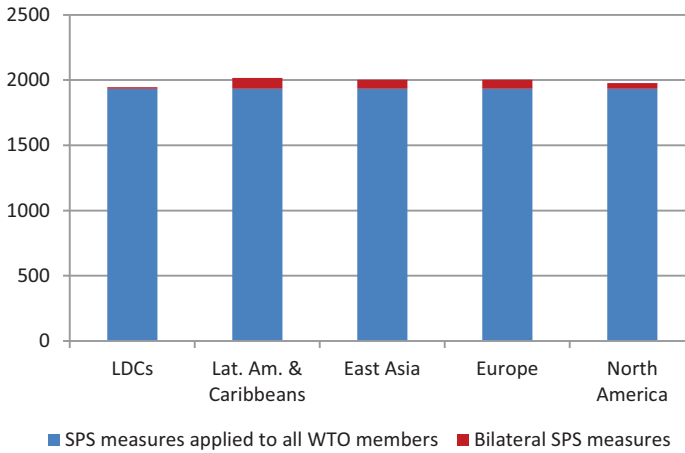
Figure 7.13 Number of non-tariff measures applied to LDC exports (WTO notifications 2007 to August 2013)



rapid growth, increasing at an average rate of 27 per cent per year over the past six years. This, together with further evidence that the bulk of SPS measures (94 per cent according to WTO 2012) affect primarily the agricultural sector while a large number of NTMs apply to apparel (Andriamananjara et al. 2004), and that these measures have a stronger effect on small than on large firms (Reyes 2011), confirms the plight of LDCs, which tend to specialise in these products and whose firms are typically small and face formidable barriers to access credit, among other things.

The debate on NTMs is clouded by several myths that need to be dispelled. First, there is a general presumption that NTMs are targeted at LDCs. This is, however, not borne out by the data. NTMs are generally imposed on an most favoured nation (MFN) basis; however, there exist cases where such measures are applied on selected countries. Focusing on SPS measures, we note from Figure 7.14 that there were 11 cases where these measures were applied bilaterally on LDCs, over and above the 1,934 MFN-type measures as of August 2013. These LDC-specific cases are the smallest among all regional groupings, suggesting that LDCs actually attract a slightly smaller number of NTMs than the average. The second misconception is that NTMs are predominantly a developed-country instrument. This again is a fallacy. Available data shows that Europe and North America – the two regions that represent the majority of developed countries – account for 11 per cent and 25 per cent respectively of SPS measures in force in 2013 (Figure 7.15). Conversely, Latin America and the Caribbean, and East Asia – two developing regions – together account for 49 per cent of all SPS measures, and each applies more such measures than Europe. More generally, NTMs are often perceived as beyond-the-border constraints imposed by the importing country. In reality, a whole range of ‘behind-the-border’ measures, such as pre-shipment export inspection, certification required by local authorities, export licensing (or prohibitions), export taxes and charges, and foreign exchange regulation, tend to constrain LDC exports and raise the cost of exporting. In some

Figure 7.14 Number of SPS measures applied to selected groups of WTO members (WTO notifications as of August 2013)

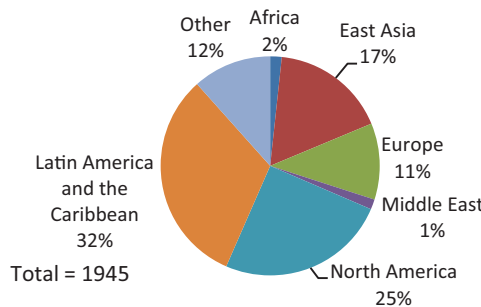


Source: Author's computation using data from WTO I-TIP database

cases, these barriers are more burdensome than NTMs applied by the importing country at the border. For example, the ITC survey of Malawian exporters registered 58 NTM cases applied by the government of Malawi compared with 48 by importing partners (ITC 2012). Indeed, to the extent that domestic NTMs affect exports to *all* countries (perhaps some more than others), they are a more serious concern for exporters than are NTMs applied by importing countries.

Of equal concern to LDC exporters is the rise of private standards, of which social compliance requirements – freedom of association, absence of child labour, conditions of work, respect for the environment – are perhaps the most common form. These standards are present not only on agricultural products, but also in the apparel sector, and so could be a formidable challenge to LDCs' efforts at export diversification through labour-intensive manufacturing. The diversity of private standards and the

Figure 7.15 SPS measures applied on LDCs by regional group, 2013



Source: Author's computation using data from WTO I-TIP database

inadequacy of assistance to comply with them make adjustment particularly difficult for LDCs. Added to the problem of private standards are emerging NTMs in the areas of climate change and the environment. LDC exporters of cut flowers and fresh produce are already facing growing pressure to disclose the carbon footprint of their products through proper eco-labelling. Moreover, in the absence of a global climate deal, countries facing high emissions cuts may resort to border tax adjustments, subsidies and other regulatory measures to protect domestic competitiveness. These measures could have important effects on LDC exports.

In the area of services, where domestic regulation is often cited as a major barrier to LDC service exports, the paucity of data precludes a meaningful analysis of burdensome services measures. WTO members' schedules of commitments provide information on bound policies, but this is of little help since applied regimes tend to be generally more open. Some attempt has recently been made to proxy for domestic regulation using OECD's Product Market Regulation (PMR) indicators, but these fail to capture the sector-specific aspects of domestic regulation. With the spotlight currently on the LDC services waiver, there is a pressing need to take stock of measures restricting LDC services exports beyond those related to market access.

The Doha Declaration mandates that negotiations should aim to reduce or eliminate tariffs as well as non-tariff barriers. With the current stalemate in the Doha Round, it is unlikely that an agreement on NTMs will emerge any time soon. Significantly, NTMs have never been an active area of negotiations, which may reflect both a focus on more pressing issues and a tacit acceptance among trade negotiators of the fact that NTMs are here to stay, and so the best strategy is to adapt to them. In this regard, development partners, through the AfT initiative, are making significant efforts to help LDCs design and implement national quality policies, enhance human capacity through training and build the infrastructure needed for testing, accreditation and certification. UNIDO (2013) has compiled a number of case stories of effective technical assistance in developing countries, including several LDCs. These include improved quality and food safety standards for Burundi's coffee producers and Tanzanian cashew processing plants; helping Cambodian rubber obtain international accreditation; and setting up national quality infrastructure in Malawi, Myanmar, Sierra Leone and Zambia, among others. These are vivid examples of how AfT is helping LDC exporters integrate into GVC or upgrade their products to capture greater value.

Moving forward, it would be desirable to provide scaled-up AfT resources to support initiatives – such as those described above – to build LDCs' compliance capacity. LDCs themselves can do much to tackle export-related barriers at home. Policy actions to streamline administrative procedures and rationalise export taxes could be particularly fruitful. Over the long term, governments can help build a national quality culture aimed at improving product competitiveness. All along, LDCs and development partners should continue to scrutinise NTMs to make sure that they serve legitimate public policy interests rather than specific lobby interests.

7.5 Other international/regional co-operation arrangements

While LDCs should continue to lobby for a timely and effective delivery of the LDC package, they should, in parallel, seek to make the best of other opportunities for structural transformation outside of the WTO negotiation context (WTO 2011). These opportunities include developments such as emerging economies, which are altering the dynamics of LDC trade; and the rise of value chains, which has – arguably – made it easier for LDCs to integrate global markets. There are also two other existing, and perhaps less obvious, ‘opportunities’ that could be further exploited. These are the AfT initiative, which, as discussed below, has delivered tangible development outcomes in a number of countries, and regionalism, which could offer enhanced market access opportunities, especially to landlocked countries, if pursued strategically and with greater policy zeal.

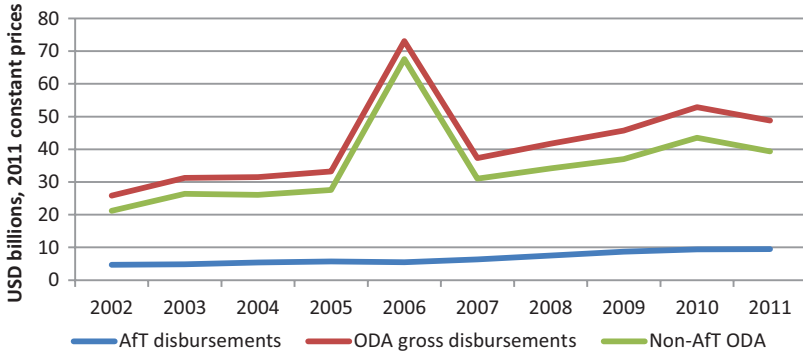
7.5.1 Aid for Trade

AfT can be another important tool for advancing structural transformation in LDCs. The AfT initiative was launched at the Hong Kong Ministerial Conference of December 2005 with the stated objective of helping developing countries build the trade capacity and infrastructure needed to benefit from trade opening. The IPoA explicitly refers to AfT in paragraph 66(2)(e) when it calls on development partners to devote a larger share of AfT resources to ‘implement effective trade-related technical assistance and capacity-building’ in LDCs. However, since this particular category of AfT has traditionally accounted for no more than 3 per cent of total AfT disbursements to LDCs, it is rather surprising that the IPoA did not give due consideration to the other AfT categories, namely economic infrastructure and productive capacity building, that make up the bulk of AfT flows and that show the biggest impacts in practice. Perhaps an implicit reference is made to these areas of AfT in paragraph 62 when the IPoA states that development partners can support LDCs’ efforts to tackle supply-side capacity constraints, including through private sector development, with a view to boosting and diversifying LDC exports. On the whole, the case for AfT in building and enhancing the export competitiveness of LDCs is not made strongly enough, despite the controversy surrounding the initiative.

Trends in AfT flows

AfT commitments and flows to LDCs have increased rapidly since 2005, and have weathered the financial crisis of 2008/09. In general, disbursements have fallen short of, and lagged behind, commitments, and in recent years this gap has widened. On a positive note, Figure 7.16 shows that AfT in LDCs appears to have been additional since both AfT and non-AfT official development assistance (ODA) have generally increased since 2005.²⁸ More worrying, in 2011, total ODA flows declined while AfT slightly increased. Since 2005, LDCs’ share of AfT over global disbursements has hovered at about 25–28 per cent (Figure 7.17). On the other hand, in the period 2002–04, this share fluctuated between 32 per cent and 29 per cent. Given LDCs’ AfT needs, one can only hope that the downward trend in AfT is reversed and that a

Figure 7.16 AfT and non-AfT ODA disbursements in LDCs

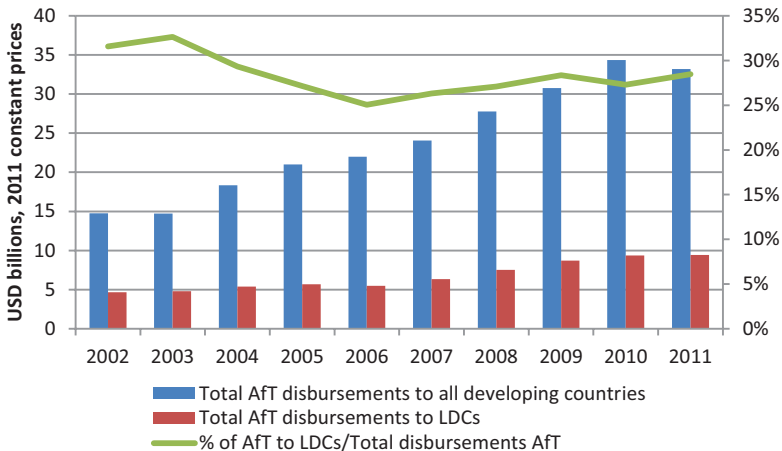


Source: OECD CRS database and OECD StatExtracts, accessed June 2013

bigger share of AfT will flow to LDCs, without diverting resources from other ODA sectors.

The bulk of AfT resources has been targeted at economic infrastructure (roads, telecommunications, etc.) and to building productive capacity (enhancing productivity of key sectors such as agriculture, industry and services). A closer inspection of country-specific data shows that AfT flows vary quite significantly among LDCs. Indeed, 20 out of 49 LDCs have attracted 65 per cent of total disbursements. The smallest amounts of funds have been directed at small islands and small LDCs, which by contrast have usually received more AfT per capita than other countries. Moreover, OECD data reveal that some of the poorest LDCs have received very little in per capita terms – typically less than USD 10 over the period 2006–11.²⁹ While there is no available benchmark to determine the adequacy of AfT funding, these figures indicate that LDCs might not have received a share of AfT resources proportionate to their needs.

Figure 7.17 Share of AfT disbursements to LDCs



Source: OECD CRS database and OECD StatExtracts, accessed June 2013

AfT works...under the right conditions

A growing body of recent evidence, including ICTSD's work on the effectiveness and impact assessment of AfT projects, suggests that in a number of countries, including LDCs, AfT has delivered concrete results on the ground.³⁰ Where AfT has been less successful, this is almost always due to the absence of the basic conditions for aid effectiveness. Cambodia, for example, channelled AfT resources in support of a 'rice export strategy'. In recent years, the country has increased its competitiveness, boosting its rice exports and creating gainful jobs. Conversely, Malawi's experience with recent AfT projects has been rather dismal. The country lacked critical absorptive capacity, trade was not fully mainstreamed into its national development strategy and there was little local ownership of the AfT projects. Some of the shortcomings were exogenous to the country itself and included lack of additionality of AfT funds, poor donor co-ordination and misalignment of donor objectives with the country's priorities.

A surprising finding from the ICTSD case studies is that there is serious lack of awareness about AfT and on AfT projects, even in implementing agencies. This may be partly due to definitional problems and partly the result of poor information flow and lack of co-ordination among line ministries and implementing agencies. The WTO Task Force defined AfT as 'whatever a partner country considers trade-related'. Therefore, no common definition of AfT exists. *Ex post* reporting highlights the potential mismatch between what donors record as AfT and what recipients consider as AfT. Moreover, it is difficult to differentiate AfT projects from the ODA bundle when AfT projects (i) are not presented or implemented as AfT per se, or (ii) span across several sectors. Ambiguity about what constitutes an AfT project can lead to problems in monitoring and impact assessment. At a time when donors are increasingly allocating aid resources based on prior expectations of effectiveness, such problems could potentially lead to reduced AfT commitments, or disbursements only to countries where AfT projects appear to have been successful, rather than to countries that are most in need of aid.

Overall, AfT resources have not been additional in countries analysed in ICTSD studies. Only in two (one of which, Cambodia, is an LDC) of the six countries studied were AfT disbursements found to be additional according to the methodology developed jointly by ICTSD and SAWTEE.³¹ A strong correlation exists both between additionality and predictability of AfT funds and between additionality and overall effectiveness of AfT. Taken together, these results suggest that, for AfT to be effective, AfT flows must be additional. However, additionality is not a sufficient condition for AfT effectiveness. Local ownership, including, crucially, political ownership; donor alignment with local priorities; appropriate institutional and absorptive capacities; and mainstreaming of trade, is essential conditions for AfT to make the desired impact.

Going forward, it would be desirable to draw lessons from these experiences to improve both the design and implementation of AfT. In particular, AfT projects must address local capacity constraints and institutional weaknesses in their very design, and, more generally, the initiative should tackle problems related to additionality and misalignment. In addition, other efforts, such as the Diagnostic Trade Integration

Studies (DTIS) undertaken by the Enhanced Integrated Framework (EIF), should not only identify the obstacles that LDCs are facing to integrate world markets, but also link these obstacles to AfT options in the respective countries, keeping in mind the lessons learned on the design and implementation of AfT programmes.

7.5.2 Regional trade/co-operation

For a variety of reasons – economic as well as political – regional trade is as important for LDCs, if not more so, as trade with emerging partners. For many landlocked countries, regional markets offer a rare outlet for their exports and regional co-operation in infrastructure; a unique chance to connect to the world.³² Regional integration allows small countries to reap economies of scale and conflict-prone neighbouring countries to maintain peace and security. It can also reduce member countries' dependence on traditional trading partners, increase their global competitiveness and raise their resilience against external shocks. For these reasons, LDCs participate in a number of regional integration initiatives (see Annex 7.3). Multiple membership raises various technical issues, but LDCs do not seem to be bothered about these as they are focused on maximising gains from regional trade and co-operation.

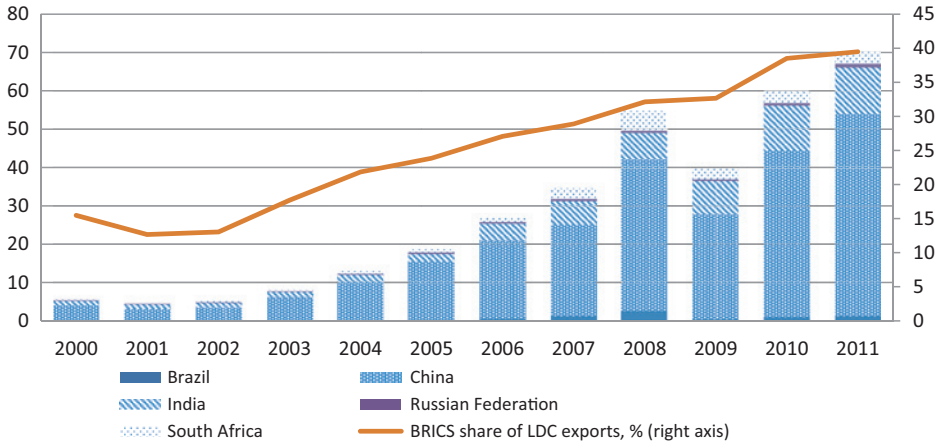
Evidence, however, shows that regional integration initiatives are more likely to succeed when they are driven by strong economic considerations rather than mere political motives. For this reason, Asian regional groupings, with their overt emphasis on market access, have proved more effective than their African counterparts, where the focus has historically been on regional co-operation rather than trade. Intra-Africa trade has remained below 10 per cent (compared with about 48 per cent in developing Asia) primarily because of a lack of trade complementarity, compounded by an array of structural constraints. Political rhetoric has typically fallen short of commitment to implement tariff liberalisation schedules and to tackle non-tariff barriers.

However, a number of positive developments are under way. Intra-Africa trade is expanding rapidly, and it is more diversified than Africa's exports to the rest of the world, which are concentrated in oil and minerals. There is also renewed effort – reiterated by political leaders at the African Union Summit in 2011 – to promote a tripartite free trade agreement (FTA) comprising the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC), which collectively would represent 16 of the 34 African LDCs. Development partners have traditionally supported regional integration in Africa through a number of successful projects – both hard (transport corridors, one-stop border posts, customs systems) and soft (technical assistance, regional trade agreements trade facilitation). They should provide greater AfT resources to support deeper integration initiatives involving LDCs.

7.5.3 Emerging economies

The rise of countries such as China, India and, to a lesser extent, Brazil, South Africa and the Russian Federation (BRICS) has fundamentally altered the dynamics of trade and international co-operation. OECD (2010) speaks of a shift of the centre of gravity towards the East since these economies are set to become major players on the global

Figure 7.18 LDCs' exports to BRICS (values in USD billion and share, %)

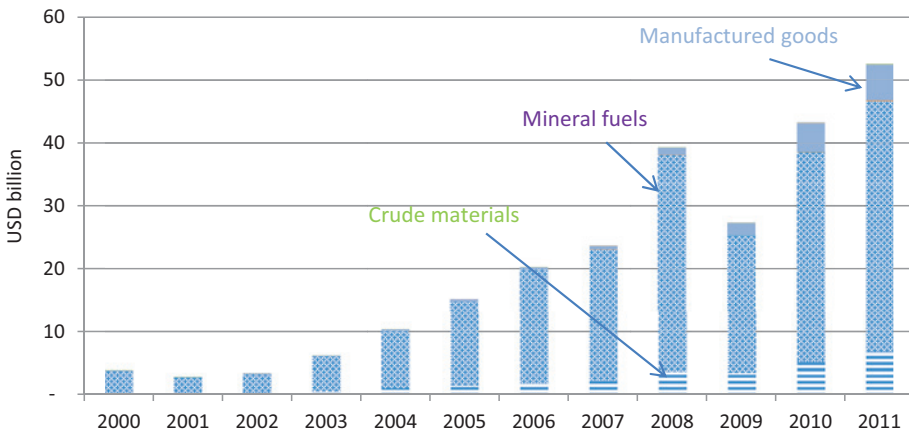


Source: WITS, available at: http://wits.worldbank.org/about_wits.html (accessed May 2013).

platform. China’s GDP is projected to stay flat in 2014 at 7.7 per cent, slowing to 7.5 per cent for the next two years, reflecting deleveraging and less reliance on policy-induced investment. India’s growth is projected to rise to over 6 per cent in FY 2014–15, increasing to 7.1 per cent by FY 2016–17 (World Bank 2014).

These growth trends will entail a deepening of the emerging economies’ engagement with LDCs while traditional partners will see their role eroded. LDC exports to the BRICS increased five-fold between 2000 and 2011, raising LDCs’ share of world exports from 15.5 per cent to 39.5 per cent over this period (Figure 7.18). China alone accounts for three-quarters of the 2011 share. Unfortunately, the bulk of LDC exports to China has been limited to oil and minerals, mainly from Africa (Figure 7.19). Mineral fuels represented 67 per cent of Africa’s exports to India in 2011, and chemicals, crude materials and commodities made up a further 27 per cent. Africa’s

Figure 7.19 LDC exports to China by product group, USD



Source: WITS, available at: http://wits.worldbank.org/about_wits.html (accessed May 2013).

LDCs accounted for 21.5 per cent of Africa's exports to India in 2011, but excluding Angola – a major oil exporter – this share was a meagre 6.4 per cent. Beyond oil, and a few other commodities, African (and other) LDCs' exports are very limited.

While the onus of maximising gains from South–South relationships lies with the LDCs themselves, emerging partners can greatly facilitate this process if they support capacity-building efforts in LDCs, share relevant policy lessons and provide alternative sources of finance (UNCTAD 2011). Technology transfer between LDCs and their Southern partners has assumed significant proportions as emerging economies have themselves become major technological leaders and as their investment activities in LDCs have expanded. While much of this process has, to date, been government led, the private sector is now showing an active interest in technical capacity building in, and knowledge transfer to, LDCs (Box 7.1 provides an example from India).

Emerging economies have become important providers of aid in developing countries, including LDCs. While DAC donors have traditionally focused on the social sectors, Southern partners have been directing aid³³ to productive sectors (including agriculture) and infrastructure (including transport and energy). Evidence from the ground suggests that emerging partners have also provided significant amounts of AfT, although this goes largely unrecorded. In the future, there might therefore be a greater need to monitor more effectively Southern partners' AfT activities in LDCs to capture more fully their impact on host economies.

Finally, if trade can be a vehicle for growth and structural change in LDCs, then the trade preference schemes that some emerging economies have recently launched in favour of LDCs can be an important step in that direction. China launched a duty-free scheme for LDCs' exports in 2010. While it is too early to meaningfully assess the impact of the scheme, available evidence seems to suggest that it has not stimulated non-oil exports from LDCs. India's duty-free scheme, effective since August 2008, has similarly had little impact on LDC exports to India. Brazil is now expected to propose a trade preference scheme for LDCs of its own. There is considerable scope to improve these initiatives so that they have the desired impact on LDC exports. If properly designed and implemented, they could be a real agent of structural transformation in LDCs.

7.6 Global value chains – a boon for LDCs?

The pattern of world trade has witnessed remarkable changes over the past 25 years, not least because of reductions in transport costs, the information technology revolution and more open economic policies. Today, companies divide their operations across the world – from the design of the product and manufacturing of components to assembly and marketing – creating international production chains. While the concept of GVCs is not new, there has been a recent explosion of research into value chains against the backdrop of a sharp increase in intermediates trade. Indeed, trade in components now represents more than half of the goods imported by OECD economies, and close to three-quarters of the imports of large developing economies such as China and Brazil (Ali and Dadush 2011). Similarly, services, including transport, communications and other business services, have

Box 7.1 India's technology transfer to African LDCs

There is a dearth of evidence on Indian technology transfer to African countries, and evidence from elsewhere is not very encouraging (Kathuria 2011). It appears that the transfer of technology could be undermined by a lack of technological capability in the host country to adapt and diffuse the technology. African LDCs are notoriously deficient in such capacity. Hence, a prior step in technology transfer should be to build the beneficiary's capacity to adopt and adapt the technology being transferred.

India's endeavour in this regard is commendable. The India Technical Economic Cooperation (ITEC) programme has provided training, technical assistance and project co-operation to a number of Commonwealth member countries since 1964. Training of African researchers and co-operation for institutional strengthening are key components of the more recent India–Africa Science and Technology (S&T) Initiative, and several countries are already benefiting from these activities. However, of the nine African countries that have bilateral S&T co-operation agreements with India, only three – Mozambique, Sudan and Zambia – are LDCs, and none is an East African country. Thus, there is a need for scaling up and expanding the coverage of the S&T initiative.

Technological collaboration between the Indian and African governments in the area of renewable energy technologies (RETs) is also very significant. The Lighting a Billion Lives (LaBL) initiative is a fitting example for such technological collaboration. Launched in 2008, the initiative has allowed some 35,000 rural households in India to replace their kerosene lamps with solar lanterns. The initiative is currently being piloted in Uganda in partnership with local, private distribution networks. There is significant scope for such initiatives to be implemented on a larger scale and in other African LDCs facing acute energy poverty.

Real and durable technology transfer can happen only with the active participation of the private sector. This is because the ultimate test of technological learning is the development of new products or processes, which is in the domain of the private sector of receiving countries. In this regard, the transfer of technology from India is likely to be the most appropriate since it is led by Indian private firms and is suitable for the African context, since India faces many of the same development challenges as Africa, including, in particular, job creation and social inclusiveness. A number of Indian companies – such as Cipla (pharmaceuticals), Tata (automobiles, IT), Mahindra Group (automobiles, IT), Ashok Leyland (automobiles), Essar Group (power, steel, mining, telecommunications, construction), Bharti Telecommunications (Airtel), Karuturi Global (commercial agriculture), Godrej (consumer products) – are seizing emerging business opportunities in Africa and, in the process, transferring state-of-the-art technology to host African countries.

become key components of global production networks. As a result, specialisation in international trade is no longer based on the balance of comparative advantage of countries in producing a final good, but on the comparative advantage of ‘tasks’ that these countries complete at a specific step along the GVC.

From an LDC perspective, global production networks offer significant integration opportunities through specialisation in specific tasks. Page (2012) argues, for example, that trade in tasks provides a window of opportunity for African countries to industrialise, provided they can create the right set of conditions including infrastructure, skills and a sound policy environment. Beyond goods, services – whether embedded in goods supply chains or constituting GVCs of their own – are equally, if not more, important for some LDCs in view of the fact that distance and physical infrastructure play a less important role for certain services (e.g. IT-enabled BPO) than for goods. In this respect, they offer a promising avenue for small firms to enter world markets and a unique opportunity to leapfrog to a superior stage of development.

But GVCs also come with challenges. First, GVCs are more regional than truly global in nature. They are essentially concentrated in the USA, the EU and East Asia, but remain largely underdeveloped in other regions of the world. Some authors have argued that the geography of production networks might change in the future; some value chains might even relocate to lower-income economies if the right conditions are in place. While this might be true, not all LDCs will be in a position to turn themselves into trade hubs in the next 15–20 years even if they do all the right things. In this respect, small landlocked economies might face more difficult challenges than large coastal economies. Second, while the emergence of GVCs might make it easier for LDCs to industrialise and integrate into world markets, it also makes LDCs more vulnerable to the intrinsically ‘volatile’ nature of modern production networks.

The recent WTO Global Review on AfT, which focused on ‘Connecting to value chains’, showcased several cases of LDCs successfully harnessing GVCs as a vehicle for development. Ethiopia, for example, was able to break into the EU horticulture market with assistance from the Dutch, who provided critical technology and investment, set up appropriate quality systems, trained workers and provided an end-market for the product (Keane 2013). However, the evidence generally suggests that most LDCs that managed to integrate a given value chain have remained at the low end of it. Therefore, further research is needed to understand how LDCs could use GVCs not only to enter export markets but also to promote economic transformation through export diversification and product upgrading, and hence capture sustainable gains from their participation in GVCs.

7.7 Conclusion and the way forward

Achieving the ambitious IPoA goal of doubling the share of LDCs’ trade by 2020 requires urgent and bold actions by both LDCs themselves and their development partners. However, this goal should not be seen as the end, and it should not be viewed merely in the narrow context of LDCs graduating out of the LDC status. This chapter argues that structural transformation through trade should be the ultimate

goal of LDCs. However, the IPoA only implicitly refers to this objective when it calls for a doubling of LDCs' share of trade.

Structural transformation is critical to LDCs' long-term development since many of them are extremely vulnerable to trade shocks due to their very concentrated export structures. This remains true even of LDCs that have graduated and moved up on many dimensions of human development. If entering export markets can be a challenge for LDCs, diversifying the export base would be no less of a Herculean task. Thus, helping LDCs better integrate into world markets, and achieving structural change, will require not only that outstanding international commitments be implemented fully and urgently but also that donors provide scaled-up aid, enhanced trade preferences and more flexible RoO beyond the actions outlined in the IPoA.

The Bali package that was agreed at the ninth WTO Ministerial Conference in December 2013 has been broadly welcomed as a 'historic' achievement (see WTO 2013a–f). In addition to the economic benefits that such a deal could provide, the news has also sparked renewed interest and debate over what 2014 may bring for the international organisation. The next step will therefore consist of capitalising on the Bali success to move forward and ultimately address the unfinished business under the LDC package and the Doha Round. However, notwithstanding the Bali success, in the absence of a significant change in the border policy environment a 'business as usual' approach is unlikely to yield results that are radically different from what WTO members have achieved so far. Mindful of this reality, several members are exploring new ways of conducting negotiations, as already hinted at by ministers at the December 2011 Ministerial Conference. Under this scenario, the single undertaking principle is likely to be further questioned and pushes for plurilateral approaches will probably intensify. The proposed plurilateral on services – the so-called TISA – is symptomatic of this trend, but plurilaterals might also be initiated in areas such as environmental goods and services or IT.

From the perspective of LDCs that essentially remain 'deal takers' in multilateral negotiations, the prospect of plurilaterals outside of the WTO realm is of particular concern. This is both because such agreements tend to be exclusive, and because removing certain elements from the Doha equation would result in fewer trade-off opportunities for LDCs to advance their priorities in areas such as food security or market access. Under such a scenario, the risk is therefore high that LDCs' specific concern will retain less attention and become increasingly marginalised, as larger trading powers focus their attention on their own priority issues. While the LDCs are not in a position to stop plurilaterals from happening, they should use their limited influence to ensure that such agreements remain as much as possible under the purview of the WTO, while devising strategies to advance their priorities under the new negotiating configuration.

With this in mind, the following agenda is proposed in support of structural transformation in LDCs through increased exports and export diversification:

1. AfT has worked when the right conditions were present. While donors are now focused on impact evaluations to justify their aid policy at a time of fiscal austerity,

it is important that they understand that, where AfT fails, they are sometimes as much to blame as local impediments, such as lack of ownership, low absorptive capacity and weak alignment with recipients' priorities. Hence, it is critical that donors share responsibility for ensuring that their AfT involvement is internally effective. Beyond ensuring that AfT flows are additional to ODA, donors must devote adequate AfT resources to build the governance structures critical to the success of AfT projects.

2. In a world increasingly dominated by GVCs, the gains occurring from trade facilitation, including simplified customs procedures and lower transaction costs, are well established. Besides GVCs, significant gains are likely to arise from a possible boost in intra-regional trade where a considerable growth potential remains untapped. Granted, some countries will have real difficulties in implementing certain elements of the agreement in the absence of technical assistance and capacity building. However, the final deal contains a set of landmark provisions allowing for flexibility in the scheduling and sequencing of implementation, and linking commitments to acquired capacity resulting from technical assistance. Beyond the short-term costs, LDCs should see in the TFA an opportunity for export development and structural transformation. The agreement could also help LDCs to lock in politically challenging customs reforms. As we move towards implementation, LDCs should focus on assessing their particular technical assistance and capacity-building needs to fully take advantage of the agreement in a way that supports structural transformation objectives.
3. This chapter shows that gains to LDCs from implementing a comprehensive DFQF scheme are significant. On the other hand, since LDCs account for a mere 1 per cent of developed countries' imports, adverse effects on preference-granting countries should be small, if any. This fact should provide the impetus to the USA – the largest industrial country not to be implementing a comprehensive trade preference scheme for LDCs – to reassess its historical position on this matter. It should also encourage other countries – including emerging economies – to improve their preferential regimes by proposing more flexible RoO and shorter exclusion lists.
4. Theoretically, LDCs' current share (0.5 per cent) of the global services market presents enormous potential to export to the rapidly growing market³⁴ and, in principle, the services waiver can help LDCs' exports of services to flourish in some sectors. However, little is known about LDCs' potential to export services and, too often, it is simply assumed that LDCs cannot export services just because they have not done so in a significant way until now. However, the LDC group has stepped up efforts to develop a set of commercially meaningful requests in view of operationalising the services waiver. It should continue to do so and focus on presenting such a request to potential preference-granting countries as a first step in the preparation for the high-level meeting envisaged by ministers in the Bali decision. While the focus is likely to be on further exploiting their comparative advantage in mode 4, some LDCs have recently made significant strides in exporting non-traditional services, such as IT-enabled BPO. These LDCs could see in the waiver an opportunity to tackle perceived constraints to emerging service

exports. For the waiver to be effective at all, it is critical that preferences go beyond the narrow confines of market access measures to embrace national regulations as well. This is where some of the most severe constraints to LDCs' service exports lie.

5. On cotton subsidies, LDCs should, in the short term, lobby for the adoption of the US Senate version of the Farm Bill, which does not feature a minimum price and, so, will limit payments in times of low prices. However, they should continue to press for a comprehensive deal on cotton, taking advantage of opportunities, such as the historically high prices of cotton, which have eroded the significance of subsidies, and budgetary pressures in the USA and the EU.

Given the uncertainty surrounding the Doha Round, LDCs should not pin all their hopes for economic growth and structural transformation on preferences that may not come soon, or whose impact may be diluted by weaknesses such as critical exclusions. While the focus of this chapter has been on what the international community could do to help LDCs to engage more effectively in global trade, it is important to emphasise that LDCs can do much to help themselves. LDC governments should continue with policy reforms, improve their absorptive capacity through appropriate human resource and institutional development, address a range of supply-side constraints and provide the right incentives, through judicious use of industrial policy instruments, to steer the economy in the direction of higher value-added industrial diversification.

Concurrently, LDCs should make better use of the opportunities presented by emerging economies. These developments also bring with them certain challenges that LDCs should address. A major risk facing African LDCs, for example, is that South–South trade, dominated by emerging economies, can push them into the raw materials corner and inhibit, rather than help, structural change in their economies. To avoid such a predicament, it is imperative that LDCs manage their natural resource rents prudently and use them to diversify into other activities according to their comparative advantage. They should also engage strategically with both traditional and emerging partners in ways that maximise the development benefits that each has to offer.

Emerging economies can bring to LDCs aid, technology and management practices which, if effectively tapped, could help spur industrial development in their economies. Southern partners can also provide better market access for LDC exports. While China and India already have duty-free schemes in place, they (especially India's DFQF scheme) could be improved in terms of product coverage and RoO while addressing potential non-tariff barriers to LDC exports. Existing schemes should also consider extending preferential market access to services. Other emerging economies (for example Brazil) should consider setting up their own DFQF scheme. On the other hand, greater AfT resources should be directed at support efforts at deepen regional integration or co-operation, especially in Africa.

The rise of value chains and the rapid proliferation of trade in tasks present new opportunities for LDCs to enter export markets. Development partners should support research into LDCs' ability to plug themselves into value chains. It is time to ask what products LDCs can export and whether GVCs also offer LDCs the potential to export services.

Annex 7.1 Monitoring IPoA in the priority area of trade: methodology and status

Goals and targets	Interpretation	Status	Information in chapter	Source
a) Significantly increase the share of least developed countries' (LDCs) trade in global trade with the aim of doubling the share of LDCs exports in global exports by 2020, including by broadening LDCs export base;	Within the time period of the IPoA, the share of LDC exports in global exports will be doubled, at the latest by 2020	<ul style="list-style-type: none"> • LDCs' exports increased five-fold – from USD 36.8 billion in 2000 to USD 186 billion in 2011 • This had a small, but positive, effect, on LDCs' share of world merchandise trade. This share increased from 1.04 per cent in 2008 to 1.12 per cent in 2011 	Provided analysis on trends of LDC exports	<ul style="list-style-type: none"> • WITS/UN Comtrade for merchandise trade and UNCTADstat for services trade • Benchmark is the average of 2005/06 to 2007/08. In the future, when further data becomes available, the benchmark of 2010 will be used
b) Make substantial efforts for an early and successful conclusion of the Doha Round of trade negotiations with an ambitious, comprehensive, balanced and development-oriented outcome	Substantial efforts = efforts which are directed towards an early and successful conclusion of the Doha Round Development-oriented outcome = outcome that promotes development in LDCs	<ul style="list-style-type: none"> • The Bali package agreed at the ninth World Trade Organization (WTO) Ministerial Conference contains several decisions in favour of LDCs, notably in the area of duty-free and quota-free (DFQF) market access, cotton subsidies, more favourable rules of origin, a services waiver for LDCs and an agreement on trade facilitation 	Provided analysis of efforts made until December 2013	<ul style="list-style-type: none"> • News on trade negotiations • Official WTO documentation

(continued)

Annex 7.1 Monitoring IPoA in the priority area of trade: methodology and status (continued)

Goals and targets	Interpretation	Status	Information in chapter	Source
<p>Joint actions</p> <p>a) Resist protectionist tendencies and rectify trade-distorting measures, including in agriculture, that are inconsistent with multilateral obligations;</p> <p>b) Address non-tariff measures and reduce or eliminate arbitrary or unjustified non-tariff barriers, that is those that are not in conformity with WTO rules; standards and technical regulations must be developed transparently and applied in a non-discriminatory manner, and should be technically justified and not constitute a disguised restriction on international trade;</p>	N/A	N/A	N/A	N/A
		<ul style="list-style-type: none"> • Non-tariff measures (NTMs) have emerged as significant barriers to trade as tariffs have fallen • Significant increase in NTMs applied to LDC exports – from 334 in 2007 to 2,494 as of August 2013 • SPS measures, representing 78% of all NTMs, and technical barriers (22%) are the most burdensome for LDC exporters • Domestic NTMs, which affect exports to all countries, are a more serious concern for exporters than NTMs applied by importing countries • With the current stalemate in the Doha round, it is unlikely that an agreement on NTMs will emerge any time soon • However, development partners, through the Aid for Trade (AFT) initiative, are making significant efforts to help LDCs build compliance capacity 	<p>Provided analysis on NTM developments by LDCs and development partners (non-exhaustive, as it is beyond the scope of this paper)</p>	<ul style="list-style-type: none"> • WTO ITIP database • Literature on NTMs several sources, United Nations Industrial Development Organization International Trade Centre

(continued)

Annex 7.1 Monitoring IPoA in the priority area of trade: methodology and status (continued)

Goals and targets	Interpretation	Status	Information in chapter	Source
<p>c) Realise timely implementation of DFQF market access, on a lasting basis, for all LDC consistent with the Hong Kong Ministerial Declaration adopted by the WTO in 2005;</p>	<p><i>Timely implementation</i> = within the time period of the IPoA, that is 2011 to 2020, 'Developed-country members shall, and developing-country Members declaring themselves in a position to do so should, provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008...' and 'Members facing difficulties at this time to provide market access... shall provide duty-free and quota-free market access for at least 97% of products originating from LDCs defined at the tariff line level...' while taking steps to progressively achieve 100% DFQF</p>	<ul style="list-style-type: none"> • The onus to tackle domestic NTMs lie with LDC governments themselves • Little progress on DFQF • Available evidence shows that gains would be rather limited under a 97% DFQF scheme since the 3% of excluded tariff lines could potentially cover between 90% and 98% of all LDC exports (Laborde 2008) • LDC negotiators therefore face the difficult task of ensuring that the 3% exception does not exclude products of critical export interest to their countries • Implementation of a 100% DFQF could hurt some (the African Growth and Opportunity Act beneficiary) LDC <p>However, these losses could be addressed through targeted measures, including AFT</p>	<p>Provided assessment of DFQF schemes of major markets and emerging economies</p>	<ul style="list-style-type: none"> • Official WTO documentation • WTO market access reports • Studies on DFQF implementation such as Laird (2012); Bouet et al. (2010); Carrère and de Melo (2009)

(continued)

Annex 7.1 Monitoring IPoA in the priority area of trade: methodology and status (continued)

Goals and targets	Interpretation	Status	Information in chapter	Source
d) Reaffirm the provision of special and differential treatment for LDCs in the WTO agreements;	Reaffirm = officially reaffirm the provision of special and differential treatment for LDCs in the WTO agreements	<ul style="list-style-type: none"> Some progress made on the monitoring of S&D; establishment of a mechanism agreed in Bali The six Agreement-specific Cancun proposals have been postponed until after Bali Discussion on the remaining Cancun proposals is on going. However, interest on these proposals seems to have waned – on both sides. 	Not discussed in the chapter	<ul style="list-style-type: none"> Official WTO documentation WT/COMTD/W/196 WT/MIN(11)/11
e) Facilitate and accelerate negotiations with acceding LDCs based on the accession guidelines adopted by the WTO General Council in December 2002	Facilitate and accelerate negotiations with acceding LDCs = more LDCs become WTO members, at least 6 by 2020 (out of 48 LDCs, 34 are members of the WTO (including Laos, Vanuatu, Samoa), nine are in the accession process (observer) and five are still outside the legal framework)	<ul style="list-style-type: none"> Laos, Vanuatu and Samoa became WTO members WTO Members validated their decision to streamline and facilitate the accession process for LDCs New WTO accession guidelines for LDCs were agreed by the WTO General Council in July to facilitate the process 	<p>Provided analysis on recently acceded countries, and on the difficulty for LDCs to accede to the WTO. Reported on developments regarding the MC8 decision on establishing new guidelines for the LDC accession to WTO</p>	<ul style="list-style-type: none"> Official WTO documentation LDC accession guidelines (WT/COMTD/LDC/21) ICTSD (2012a, b)

(continued)

Annex 7.1 Monitoring IPoA in the priority area of trade: methodology and status (continued)

Goals and targets	Interpretation	Status	Information in chapter	Source
Actions by LDCs				
a) Integrate trade and trade capacity-building policies into national development strategies;		N/A		
b) Improve productivity and competitiveness and diversify production bases into dynamic new products and services;		N/A		
c) Diversify export products and markets to non-traditional destinations;	<p><i>Diversify export products</i> = changes in the share of manufactures in merchandise exports</p> <p><i>Diversify export markets</i> = LDCs trade with a broader range of export partners</p>	<ul style="list-style-type: none"> • LDC exports continue to be dominated by mineral fuels exports from a few oil-rich African LDCs • 42 LDCs, or about 90% of all LDCs represented just under half of total LDC exports in 2011 • Manufactures' share of LDC merchandise exports has declined from a peak of 35% in 2001 to 22% in 2011 • The share of services in LDC total exports has also declined over the years to 12.2% in 2011 	<p>Provided analysis on LDC exports by product and markets</p>	<ul style="list-style-type: none"> • WITS/UN Comtrade data • Official WTO documentation • AfDB (2011)

(continued)

Annex 7.1 Monitoring IPoA in the priority area of trade: methodology and status (continued)

Goals and targets	Interpretation	Status	Information in chapter	Source
d) Improve efficiency, efficacy and transparency of institutions and processes to better facilitate trade and improve standards and quality control		N/A		
Actions by development partners				
a) Support LCDs' efforts to strengthen their human, institutional and regulatory capacities in trade policy and trade negotiations in areas such as market entry and access, tariffs, customs, competition, investment and technology, and regional integration;		N/A		

(continued)

Annex 7.1 Monitoring IPoA in the priority area of trade: methodology and status (continued)

Goals and targets	Interpretation	Status	Information in chapter	Source
<p>b) Provide technical and financial support to national and regional projects that are aimed at increasing the productivity, competitiveness and diversification of LDCs' economies, including through strengthening the capacity of their trade in goods and services and of least developed countries' firms to integrate into international value chains;</p>		N/A		

(continued)

Annex 7.1 Monitoring IPoA in the priority area of trade: methodology and status (continued)

Goals and targets	Interpretation	Status	Information in chapter	Source
<p>c) Provide financial and technical support aimed at the diversification of LDCs' economies, while providing financial and technical assistance through appropriate delivery mechanisms to meet their implementation obligations, including fulfilling Sanitary and Phyto-sanitary Agreement and Agreement on Technical Barriers to Trade requirements, and to assist them in managing their</p>		N/A		

(continued)

Annex 7.1 Monitoring IPoA in the priority area of trade: methodology and status (continued)

Goals and targets	Interpretation	Status	Information in chapter	Source
<p>adjustment processes, including those necessary to face the results of most favoured nation multilateral trade liberalisation;</p>				
<p>d) Ensure that preferential rules of origin applicable to imports from LDCs are simple, transparent and predictable and contribute to facilitating market access;</p>	<p><i>Ensure</i> = improve rules of origin in such a way that they are simple, transparent and predictable and contribute to facilitating market access</p>	<ul style="list-style-type: none"> Multilateral non-binding guidelines adopted at the Bali ministerial meeting providing guidance in the design of preferential rules of origin that are easier to comply with 	<p>Provide information on discussion of rules of origin between developing countries and LDCs</p>	<ul style="list-style-type: none"> UNOHRLLS (2008) TN/CTD/W/30 Cadot and de Melo (2008)
<p>e) Implement effective trade-related technical assistance and capacity-building to LDCs on a priority basis, including by enhancing the share of assistance to LDCs for AFT and support for the Enhanced Integrated Framework (EIF), as appropriate.</p>	<p>Share of AFT to LDCs is increasing AFT is effective in the countries</p>	<ul style="list-style-type: none"> AFT commitments and flows to LDCs have increased rapidly after 2005 Disbursements have fallen short of, and lagged behind, commitments, and in recent years, this gap has widened AFT in LDCs appears to have been additional since both AFT and non-AFT official development assistance have generally increased since 2005 	<p>Provided assessment of AFT flows to LDCs</p>	<ul style="list-style-type: none"> OECD CRS database ICTSD (2012a) OECD (2011)

(continued)

Annex 7.1 Monitoring IPoA in the priority area of trade: methodology and status (continued)

Goals and targets	Interpretation	Status	Information in chapter	Source
<p>and strengthening their capacity to access available resources, in support of the needs and demands of LDCs expressed through their national development strategies;</p>		<ul style="list-style-type: none"> On the effectiveness and impact assessment of AFT projects, in a number of countries, including LDCs, AFT has delivered concrete results on the ground During Global Review on AFT 2013, heads of agencies of EIF recommitted to helping the world's poorest communities get more from global trading networks 		
<p>f) Provide, in accordance with article 66.2 of the TRIPS Agreement, incentives to enterprises and institutions in developed country member territories for the purpose of promoting and encouraging technology transfer to LDCs in order to enable them to create a sound and viable technological base;</p>		N/A		

(continued)

Annex 7.1 Monitoring IPoA in the priority area of trade: methodology and status (continued)

Goals and targets	Interpretation	Status	Information in chapter	Source
g) Support LDCs' efforts in promoting sub-regional and regional co-operation, including export promotion and improving regional connectivity through trade-facilitating measures, such as joint projects on customs and border procedures, and insofar as is possible transport infrastructure and linkages, telecommunications facilities and energy	Achievement of Trade Facilitation Agreement (TFA) within the time period of the IPoA, at the latest by 2020	<ul style="list-style-type: none"> • Agreement on Trade Facilitation reached in Bali • The agreement contains a set of landmark provisions allowing for flexibility in the scheduling and sequencing of implementation, and links implementation commitments to acquired capacity resulting from technical assistance • Commitments for developing and LDCs can fall under three potential categories: category A includes provisions that will be implemented immediately; category B includes commitments that will require a transition period; and category C involves commitments that will require both a transition period and technical assistance 	Provided information on the discussions and final agreement on trade facilitation	<ul style="list-style-type: none"> • OECD (2005) • Hummels (2001) • Cali and te Velde (2011) • Wilson et al. (2003) • Asia Pacific Foundation of Canada (2000) • Cadot et al. (2011)

N/A denotes = beyond the scope of this paper.

Annex 7.2 LCDs and the WTO

LDC WTO Members (status February 2013) (34)

Angola, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Democratic Republic of the Congo, Djibouti, Gambia, Guinea, Guinea Bissau, Haiti, Laos, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Senegal, Sierra Leone, Solomon Islands, Tanzania, Togo, Uganda, Vanuatu, Zambia

LDCs negotiating to join WTO – observer status (9)

Afghanistan, Bhutan, Comoros, Equatorial Guinea, Ethiopia, Liberia, São Tomé and Príncipe, Sudan, Yemen

LDCs outside the WTO accession negotiations (5)

Eritrea, Kiribati, Somalia, Timor Leste, Tuvalu

Annex 7.3 LDCs in regional groupings

Africa		Asia	
Angola	SADC	Afghanistan	
Benin	ECOWAS, WAEMU	Bangladesh	APTA, SAFTA, SAPTA, BIMSTEC
Burkina Faso	ECOWAS, WAEMU	Bhutan	India-Bhutan, SAFTA, SAPTA, BIMSTEC
Burundi	COMESA, EAC	Cambodia	ASEAN, ASEAN FTA
Central African Republic	CEMAC	Lao	ASEAN, ASEAN FTA, APTA
Chad	CEMAC	Myanmar	ASEAN, ASEAN FTA, BIMSTEC
Comoros	COMESA	Nepal	India-Nepal, SAFTA, SAPTA, BIMSTEC
Democratic Republic of the Congo	SADC	Timor-Leste	
Djibouti	COMESA	Yemen	PAFTA
Equatorial Guinea	CEMAC		
Eritrea	COMESA	Americas	
Ethiopia	COMESA	Haiti	CARICOM
Gambia	ECOWAS		
Guinea	ECOWAS	Pacific	
Guinea-Bissau	ECOWAS, WAEMU	Kiribati	PICTA, SPARTECA
Lesotho	SADC	Samoa	PICTA, SPARTECA, Melanesian Spearhead Group
Liberia	ECOWAS	Solomon Islands	PICTA, SPARTECA
Madagascar	SADC	Tuvalu	PICTA, SPARTECA
Malawi	SADC	Vanuatu	PICTA, SPARTECA, Melanesian Spearhead Group
Mali	ECOWAS		
Mauritania	WAEMU		

(continued)

Annex 7.3 LDCs in regional groupings (continued)

Africa	Asia
Mozambique	SADC
Niger	ECOWAS, WAEMU
Rwanda	COMESA, EAC
São Tomé and Príncipe	...
Senegal	ECOWAS, WAEMU
Sierra Leone	ECOWAS
Somalia	...
Sudan	COMESA, PAFTA
South Sudan	...
Togo	ECOWAS, WAEMU
Uganda	COMESA, EAC
Tanzania	SADC
Zambia	SADC

APTA = Asia-Pacific Trade Agreement

ASEAN = Association of Southeast Asian Nations

BIMSTEC = Bay of Bengal Initiative on Multi-Sectoral Technical and Economic Cooperation

CARICOM = Caribbean Community and Common Market

CEMAC = Central African Economic and Monetary Community

ECOWAS = Economic Community of West African States

PAFTA = Pan-Arab FTA

PICTA = Pacific Island Countries Trade Agreement

SAFTA = South Asian FTA

SAPTA = South Asian Preferential Trade Agreement

SPARTECA = South Pacific Regional Trade and Economic Cooperation Agreement

WAEMU = West African Economic and Monetary Union

... = No data

Notes

- 1 IPoA, pp. 20, 21.
- 2 This share stands at 1.15 per cent (WTO 2012).
- 3 Poor infrastructure, limited skills and lack of financial resources – among other factors – continue to hinder LDC export performance in services trade.
- 4 South Sudan, which joined the LDC group recently and on which no data are available as yet, is not included in this analysis.
- 5 Whereas exports to the OECD increased less than four-fold between 2000 and 2011, exports to developing countries grew eight-fold over the same period.
- 6 Mineral fuels and crude materials represented 77 per cent of LDCs' exports to non-OECD countries in 2011, compared with 51 per cent for OECD countries.
- 7 The IPoA targets an average GDP growth rate of 7 per cent per annum in LDCs in furtherance of its broad objectives. But after reaching a high of 8 per cent in 2007, LDCs' growth has tapered off, hovering around 5 per cent in recent years. Growth in industrialised countries has been sluggish since 2008 and is expected to remain so at least until the end of 2013. These trends do not augur well for LDC exports.
- 8 The 'LDC package' refers to a set of LDC-specific issues – duty-free and quota-free market access, rules of origin, LDC services waiver and cotton subsidies – that were slated for an early harvest at the WTO Ministerial Conference (MC8) in December 2011 (South Centre 2011). However, other than a decision on the services waiver that remains to be operationalised, MC8 did not deliver

on the LDC package. The various elements contained in the package were discussed again in the run-up to the ninth WTO Ministerial Conference held in Bali in December 2013, and incremental progress was achieved on a number of elements as described in the following sections.

- 9 See Laird (2012) for a summary and the references cited therein for further details on the studies.
- 10 Based on Laird (2012). The study simulates the impact of a non-agricultural market access tariff cut, assuming a Swiss formula with a coefficient of 8 for developed countries and 25 for developing countries. Since 90 per cent of world trade is in industrial products, this scenario provides a good estimate of Doha's overall impact.
- 11 From Pascal Lamy's statement to an informal Trade Negotiations Committee meeting on 31 May 2011.
- 12 According to emerging research, this fear seems, however, largely exaggerated. For example, computable general equilibrium (CGE) estimates suggest that the potential impacts on welfare, exports and domestic production of the USA providing full DFQF market access to LDCs will be very close to zero (Bouët et al. 2010).
- 13 In 2010, for example, Lesotho received USD 194 million in AfT (at 2000 prices), and the amount has consistently increased since 2005.
- 14 The gains to the other countries are the result of a combination of specific products and market access conditions. For example, Haiti would gain from improved market access to Korea and better product coverage under a US scheme over and above the current LDBDC scheme. Similarly, Malawi would register a 109 per cent increase of its exports to the USA since a 100 per cent DFQF scheme would allow greater access for its agricultural exports, including tobacco, than under AGOA. Uganda's gain derives largely from a sharp boost to its exports to the Indian market, especially of coffee, which is currently excluded from the DFQF scheme (not shown in Table 7.3).
- 15 Other studies concentrating on DFQF market access for LDCs find rather small gains. For example, Carrère and de Melo (2009) estimate that, once the erosion from preferential access into the EU to non-LDCs is taken into account, LDCs have a mere 3 per cent preferential margin in the EU market. In the US market, in spite of preferences under AGOA, on a trade-weighted basis, LDCs are discriminated against (since exports from some larger LDCs are excluded). Moreover, under various 'Swiss formulas' for industrial tariff cuts, the effective preference margin for LDCs' exports into the EU will average 1.4 per cent while being negative but close to zero in the USA. If the USA implemented a 97 per cent DFQF scheme, LDCs' exports could increase by 10 per cent or about USD 1 billion annually.
- 16 WTO's World Trade Report (2011) suggests that preference utilisation rates, by all countries and not just LDCs, for the EU and US regimes are rather high – at 87 per cent and 92 per cent respectively.
- 17 See WTO/TN/C/W/63.
- 18 An example of such domestic regulations is the very exacting qualification requirements and procedures that LDC natural persons must satisfy under mode 4 (WTO 2013).
- 19 See Hoekman (2006) for a review of some of these studies.
- 20 Cotton subsidies as a percentage of total farm revenue peaked at over 100 per cent in 2001. In 2012, this share was below 20 per cent.
- 21 For further information on the benchmark decision see ICTSD (2012b).
- 22 WT/L/508.
- 23 WT/COMTD/LDC/W/55/Rev.2.
- 24 For more on this, see Imboden (2012).
- 25 Article V, involving freedom of transit; Article VIII, which deals with limiting border fees and formalities; and Article X, regarding publication and administration of regulations.
- 26 See Cadot et al. (2011) for an up-to-date survey of the evidence.
- 27 Some caution is warranted when interpreting the NTM data. Since this is compiled on the basis of notifications, it could be that the rising numbers reflect better reporting of NTMs that have been in force for some time rather than an actual increase in new NTMs.
- 28 The spike in gross ODA (and non-AfT ODA) disbursements is related to the implementation of the Multilateral Debt Relief Initiative by multilateral donors (especially the African Development Fund) in 2006. The trend of ODA for Development Assistance Committee (DAC) donors only (not shown) remains rather smooth throughout the period under analysis.
- 29 Angola, Bangladesh, Central African Republic, Comoros, Chad, Democratic Republic of the Congo, Eritrea, Equatorial Guinea, Ethiopia, Yemen, Guinea, Lesotho, Malawi, Myanmar, Nepal, Niger,

Somalia, Sudan and Togo have received less than USD 10 per capita in the period 2006–11. Some of them received less than USD 5 per capita.

30 See, for example ICTSD (2012a) and OECD (2010).

31 South Asian Watch on Trade, Economics and the Environment. See Adhikari (2011). The methodology proposes a range of qualitative and quantitative indicators to measure critical aspects of AfT, including ownership and mainstreaming, additionality and predictability, alignment with recipients' strategies, donor co-ordination and environmental sustainability and South–South co-operation. AfT flows over a given period of time are defined as being additional under the following necessary conditions: (i) AfT must have increased between the two years, and (ii) non-AfT ODA (i.e. ODA excluding AfT) must not have decreased.

32 Of the 49 LDCs, 16–12 in Africa and 4 in Asia – are landlocked.

33 The term 'aid' may be misleading when applied to emerging donors since it may not meet the grant threshold set by the OECD.

34 Global services exports grew faster than merchandise exports during the period 2000–11.

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