
Briefing Paper 5

# TRADE

**Traditionally an engine for economic advancement, the potential of international trade for the world's 48 least developed countries has so far exceeded its performance, despite substantial progress in the first decade of the century.**

Some indicators of this progress:

- LDC exports have been growing at a faster rate than the worldwide average during 2000-2009, according to the World Trade Organization (WTO).
- There has been market diversification away from rich countries, with the UN Conference on Trade and Development (UNCTAD) reporting that in 2007-2008, developing countries were the source of 62 per cent of LDC merchandise imports and the destination of slightly more than half of their merchandise exports [*LDC Report 2010*].
- LDCs' total volume of exports nearly doubled between 2001 and 2008, and their combined trade increased from little more than half of their total gross domestic product in 2000-2002 to about 70 per cent in 2006-2007, making them much more globalized and better integrated in the world, according to a report of the UN Secretary-General.

Even though the share of LDC exports in world merchandise trade is twice as high as a decade ago, exports from these countries, which are home to 12 per cent of the global population, still comprise only about 1 per cent of the global total.

Moreover, there is a concentration of export success among a small number of LDCs (just seven of them – Angola, Bangladesh, Cambodia, Chad, Equatorial Guinea, Sudan and Yemen – accounted for 74 per cent of all LDC exports in 2008, according to the Secretary-General's report), as well as in primary commodities. UNCTAD finds that the share of fuel and minerals in combined LDC merchandise exports grew from 43 per cent in 2000 to 67 per cent in 2007, and the UN Secretary-General reports that LDC oil exports by themselves accounted for 62 per cent of 2008 total LDC exports.

Current constraints on export success include the following:

- While tariffs on LDC exports have come down steeply during this century, other barriers such as quality standards remain or have been raised higher.
- Ability to place goods competitively in global markets is hampered by the lack of diversification and of productive capacities in LDC economies. Productivity per worker in the countries of the Organisation for Economic Cooperation and Development (OECD), for example, is more than 20 times greater than in the least developed countries, according to UNCTAD.
- Governments in LDCs are generally poorly equipped to manage complex and time-consuming negotiations to improve their trade prospects.

## GLOBAL NEGOTIATIONS

Despite their small share of international trade, the least developed countries have staked out an important position in global trade negotiations. Many consider preferential or supportive arrangements in the trade arena to have been the most successful of international support measures for these nations.

In 2000, 147 Heads of State and Government at a UN summit approved the Millennium Declaration, which called for duty-free and quota-free (DFQF) access for all LDC exports save arms and oil. This call was picked up at the Third UN Conference on the Least Developed Countries (Brussels, 2001), where the European Union committed to DFQF market access for "Everything But Arms" from the least developed countries.

Later that year, a development round of trade negotiations was launched in Doha, Qatar, in the context of the WTO, with the promise of substantial benefits for the LDCs. While talks on the Doha development agenda have failed to produce a new global accord, they have opened up some key areas for LDC advancement.

Port facilities in Mozambique | Photo: The World Bank/Eric Miller

**DFQF:** At the 2005 WTO ministerial meeting in Hong Kong, it was agreed that all developed country members, and all developing country members declaring themselves in a position to do so, should eliminate duties and quotas on LDC exports, with the proviso that those encountering difficulties in doing so should aim for at least 97 per cent DFQF access. The latter proviso, unfortunately, can be exploited by importing countries to exclude the few products of greatest importance to an exporting LDC.

Nevertheless, nearly all developed country and many developing country trading partners have made substantial progress in eliminating duties and quotas, according to the WTO. The LDC Group within the WTO has tabled a call for determined progress on achieving full, 100 per cent DFQF coverage.

**Preferential Rules of Origin:** Commitment 5 of the 2001 Brussels Programme of Action calls on developed partners to simplify rules of origin to provide transparency and predictability in allowing market access for LDC products, and the call was reiterated in 2005 in Hong Kong. While several countries have introduced reforms to their quality control rules and standards, the LDC Group has remained dissatisfied and is pushing for an across-the-board rules of origin framework that would apply to all WTO members.

**Agriculture:** Agriculture is at the heart of most LDC economies, and is the sector with "the greatest growth potential and the most direct route for reducing poverty," the WTO says [*Implementation of the Brussels Programme of Action*, 2010]. "A successful conclusion of the Doha Development Agenda will lead to the elimination of export subsidies as well as reductions in domestic support [of developing countries' markets] and thus represent the most promising avenue for substantive trade gains for the LDCs."

According to the OECD, its member states subsidized agricultural enterprises with $250 billion in producer support in 2009. These subsidies, which dwarf the combined value of ODA and FDI received by LDCs, heighten the hill that poor-country smallholders must climb if they are to compete with agri-businesses already favoured with more advanced mechanization and farm inputs and greater acreage per holding.

**Accession:** Commitment 5 in the Brussels Programme called for streamlining WTO accession requirements to facilitate more LDC members. Since then, the only current LDCs to have joined the trade body are Cambodia and Nepal. (Cape Verde successfully concluded WTO accession in 2008, but later that year graduated from LDC status). Twelve more LDCs are in various stages of the accession process – but 34 still remain outside the protection of WTO regulations.

**Aid for Trade:** Assistance in strengthening and diversifying production and building export capacity was provided by donors to the LDCs in the amount of $4.4 billion in 2002, with the annual allocation rising to $7.4 billion in 2008, according to UNCTAD's LDC report. Such assistance is considered to have strong potential for bolstering export growth and diversification, but impact is limited considering that funding is divided among 48 national recipients.

In summary, UNCTAD advises that across-the-board liberalization of trade and capital flows does not automatically result in greater economic diversification. Stronger focus on domestic productive capacities in the LDCs is crucial, and "investment-led growth policies" are required.

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