



Issues Note for Theme 4

Enhancing international trade of LDCs and regional integration

Issues Note

International trade can play a critical role in accelerating economic growth, employment generation, poverty alleviation, and more inclusive future for all. Least developed countries (LDCs) can derive significant benefit from an open, fair, rule-based, predictable, and non-discriminatory trading system. Special and differential treatment and capacity building support are critical to the promotion of a fair-trading system. The Istanbul Programme of Action (IPoA) calls for significantly increasing the share of LDCs in global trade with the aim of doubling the share of LDCs in global exports by 2020, including by broadening LDCs' export base.

Progress and recent trend

LDC total goods and services exports increased by 35 per cent to reach USD 234 billion over the course of the past decade (2010-2019). This performance was mainly driven by LDCs' services exports, which more-than-doubled over this period, albeit from a low base (USD 20.9 billion). Merchandise exports, on the other hand, have increased more slowly – by 25 per cent – to USD 190.3 billion in 2019.¹LDCs' share in global exports stood at 0.91 per cent in 2019, representing a fall from more than 1 per cent in 2011.

LDCs have achieved a fair degree of export diversification since 2010, marked by a shift away from commodity dependence to manufactured products and services. The share of oil in LDC exports has declined steadily from 54.5 per cent in 2010 to 32.3 per cent in 2019 while the share of manufactured exports has increased from 18.2 per cent to 31.5 per cent over the same period, including a considerable increase in the share of clothing products. Imports of total goods and commercial services of LDCs grew by 3.6 per cent in 2019 compared to 2011. Imports exceeded exports by USD 77.0 billion in the case

¹ State of the least developed countries 2021, OHRLLS (forthcoming).

of goods, and by USD 23.0 billion in the case of commercial services in 2019. LDCs' 2019 trade deficit was US\$ 100 billion, more than two times higher than in 2011 (USD 40.5 billion), when the trade balance of goods was slightly positive.²

South-South trade

Once LDCs' main export markets, the EU and North America, especially the US, have seen a steady erosion of their share over the years. In 2000, for example, North America and the EU including the UK absorbed 55 percent of LDC exports. This share was down to 33 percent in 2019. China's share has more than doubled in the past two decades, rising from 12 percent to 25.7 percent in 2019, and much of its imports has come from African LDCs, such as Angola and Sudan (for oil) and Zambia (for copper).

Impacts of COVID-19

Due to COVID-19, the value of trade has plunged for LDCs, owing to the limited range of products exported to a few markets that were themselves affected by the pandemic.³ There is evidence that LDCs that are more fully integrated into global value chains, are more deeply affected by the COVID-19 pandemic fallout on global trade.⁴

In 2020, merchandise exports of LDCs fell by 10.3 per cent against the global average of 7.7 per cent. Commodity prices fell by 30 per cent in the first half of 2020 and the downward spiral in commodity prices is increasingly being felt by LDCs that are heavily reliant on commodity exports. In 2020, merchandise imports of LDCs also decreased by 10.3 percent against the global average of 7.7 percent at the same time. LDC merchandise trade balance was negative 13 billion in 2011 which has increased to negative 75 billion in 2020. The value of LDCs' services exports experienced a sharp decline in the first half of 2020.

In LDCs travel/ tourism accounted for 47.9% of the group's services exports in 2019 vs. less than 24% for the rest of the world. According to preliminary estimates (based on data for 20 LDCs accounting for 83% of services exports in 2019), the implementation of strict lockdowns and travel restrictions worldwide have resulted in a drop of LDCs' services exports of 39% year-on-year in the first nine months of 2020. These declines are sharper than in the rest of the world where services trade dropped by 19% on average in the first 9 months of 2020.⁵

Duty-free and quota-free market access

There have been progressive improvements soon after the adoption of the Hong Kong (2005) and Bali (2013) Ministerial Decisions on providing duty-free and quota-free (DFQF) market access to LDCs.⁶ In recent years, progress has been

² Market access for products and services of expert interest to LDCs, WT/COMTD/LDC/W/68, WTO, 23 October 2020

³ LDC graduation and the WTO: assisting LDCs to address the trade-related implications of graduation from LDC status – the COVID-19 pandemic and trade trends in graduation LDCs.

⁴ Trade impacts of the COVID-19 pandemic on graduating LDCs. Report prepared under the auspices of the Enhanced Integrated Framework-WTO project on LDC graduation, 1 December.

⁵ Update of WT/COMTD/LDC/W/68, WTO, 19 April 2021.

⁶ Ninth WTO Ministerial Conference, Bali, 3-6 December 2013 (WT/MIN(13)/44, WT/L/919); Annex F, Hong Kong Ministerial Declaration, 22 December 2005 (WT/MIN(05)/DEC).

somewhat limited. Most of the developed Members grant either full or nearly full DFQF market access, with gaps remaining in a limited number of markets and a few sectors. A number of developing Members have significantly expanded their DFQF coverage. Most of them grant a significant degree of DFQF market access to LDC products, and a number of them have reached nearly full DFQF coverage.⁷ The predominant share of LDC exports enter developed markets duty free. For example, Canada's imports statistics reveal that in the year 2018, 90% of imports from LDCs entered the Canadian market duty free. The utilization of preferential market access by LDCs is similar for other developed markets. Measures need to be adopted for full utilization of DFQF market access by LDCs.

Preferential rules of origin and non-tariff barriers

Considerable progress has been made towards ensuring that preferential rules of origin are simple and transparent and contribute to facilitating market access of imports from LDCs. WTO Members adopted two Decisions on preferential rules of origin for LDCs at the Ministerial Conferences in Bali in 2013 and in Nairobi in 2015.⁸ Building on the Bali Decision, the Nairobi Decision provides detailed guidance for rules of origin with regard to the assessment of substantial transformation, cumulation possibilities and documentary requirements. Almost all preference-granting Members (20 out of 22) have submitted notifications of their preferential rules of origin requirements. It is important to have continued technical and focused discussion on the implementation of the Ministerial Decisions on preferential rules of origin for LDCs. Various non-tariff barriers and sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) measures, including private standards, are of great concern for market access of LDC exports. LDCs need financial and technical assistance to comply with various standards and measures.

LDC Services Waiver

At the Ministerial Conference in Geneva in 2011, the LDC Services Waiver was adopted, which allows Members to provide preferential treatment to services and service suppliers from LDCs. The 2015 Nairobi Decision extended the Waiver until 2030 and set up a review process to monitor the operation of preferences notified to the WTO. Pursuant to these decisions, 51 Members (including individual EU member states) accounting for around 86% of global services trade, have notified their preferences under the LDC Services Waiver between May 2015 and May 2017.⁹ LDCs need building their supply capacity to increase their participation in services trade.

Aid for trade and Capacity Building

Between 2011 and 2018, the last year for which figures are available, USD 73.8 billion of aid for trade have been disbursed to support LDCs in strengthening their economic infrastructure (57%), building productive capacity (41%) and enhancing trade policy and regulations (2%). Since 2011, the LDCs benefitted from more than a quarter of overall aid-for-trade

⁷ Six developing Members, namely Chile, China, India, Republic of Korea, Chinese Taipei and Thailand have notified their respective DFQF schemes for LDCs to the WTO.

⁸ "Preferential Rules of Origin for Least Developed Countries", Ninth WTO Ministerial Conference, Bali, 3-6 December 2013 (WT/L/917). Nairobi Decision: "Preferential Rules of Origin for Least Developed Countries", Tenth WTO Ministerial Conference, Nairobi, 15-18 December 2015 (WT/L/917/Add.1).

⁹ Twenty-four (24) notifications have been received.

disbursements (27%) and close to a third (31%) of country specific disbursements.¹⁰ In 2018, aid-for-trade flows to LDCs, in real terms, were 37% higher than at the start of the IPoA in 2011. Although Aid-for-Trade funding to LDCs has grown 13% annually since 2006, reaching \$13.5 billion in 2018, the pandemic threatens to slow or reverse this trend.¹¹ Given their serious capacity constraints, LDCs need more support through aid for trade, including the Enhanced Integrated Framework (EIF).

Accessions

More than three quarters, that is, 36 out of 46 LDCs are Members of the WTO. Since 2011, six LDCs have successfully completed the accession process and joined the WTO.¹² Currently, eight LDCs are at different stages of the WTO accession process. The WTO General Council adopted a set of strengthened LDC accession guidelines in 2012.¹³ Full implementation of the 2002 LDC Accession Guidelines and 2012 General Council Decision "Addendum I" is vitally important for LDCs.

Issues related to the TRIPS Agreement

Work has continued pursuant to Article 66.2 of the TRIPS Agreement, which calls upon developed Members to provide incentives to enterprises and institutions for technology transfer to LDCs. Pursuant to the decision on the implementation of Article 66.2,¹⁴ developed Members have provided annual reports on actions taken or planned under Article 66.2.¹⁵ In 2013, the duration of the general transition period under Article 66.1 was extended until 1 July 2021.¹⁶ In 2015, the specific transition period to implement patent protection for pharmaceutical products was extended until 1 January 2033.¹⁷ To overcome the difficulties confronting LDCs in getting access to vaccines and essential medicines, magnified manifold by the COVID-19 crisis, LDCs need maximum policy space to access various technologies, educational resources, and other tools necessary for the development of vaccines and other essential medicines and to curb the spread of COVID-19 pandemic.

Export subsidies in agriculture and cotton

WTO Members agreed to the elimination of agricultural export subsidies as part of the Decision on Export Competition adopted at the Nairobi Ministerial Conference in 2015.¹⁸ This Decision constitutes an important contribution towards levelling the playing field in agricultural markets to the benefit of farmers and exporters in LDCs as well as other developing countries. Special flexibilities have been provided to the LDCs which, *inter alia*, are allowed to provide export subsidies with regard to marketing costs as well as internal transport and freight charges until the end of 2030 (as compared to 2023 for other developing Members). On cotton trade, it is important to eliminate domestic support to cotton production, as this

¹⁰ Not all aid-for-trade flows can be allocated to countries.

¹¹ 6 takeaways from WTO's Aid-for-Trade Stocktaking Event for least developed countries, EIF, April 20, 2021

¹² Samoa graduated on 1 January 2014; Vanuatu graduated on 4 December 2020.

¹³ Accession of Least Developed Countries, General Council Decision, 30 July 2012 (WT/L/508/Add.1).

¹⁴ "Implementation of Article 66.2 of the TRIPS Agreement", Decision of the Council for TRIPS of 19 February 2003 (IP/C/28).

¹⁵ The 2020 reports by developed Members on the implementation of Art. 66.2 can be found in documents IP/C/R/TTI/*1 (e.g. IP/C/R/TTI/CHE/1).

¹⁶ WTO, 12 June 2013 (IP/C/64).

¹⁷ WTO, 6 November 2015 (IP/C/73).

¹⁸ Ministerial Decision on Export Competition, Tenth WTO Ministerial Conference, Nairobi, 15-18 December 2015 (WT/MIN(15)/45, WT/L/980, G/AG/5/Rev.10).

activity represents a vital source for the economies of LDCs and serves as a real instrument to combat poverty in these countries.

WTO Trade Facilitation Agreement

The WTO Trade Facilitation Agreement (TFA), came into force on 22 February 2017, is aimed at expediting the movement, release and clearance of goods, including goods in transit. The TFA will make customs procedures more efficient and thereby help developing countries including LDCs to reduce their trade costs and increase their participation in global trade. The TFA takes a novel approach regarding S&D treatment providing developing countries and LDCs the flexibility in determining the timing of the implementation of the provisions as well as to identify provision for which they will need technical assistance. As of 24 November 2020, 29 out of 36 LDC Members have ratified the TFA. Currently, LDCs have implemented 34.3% of all trade facilitation measures contained in the TFA.¹⁹ It is import that all LDCs join the TFA and enjoy full support and flexibility under TFA.

Support to graduation

In 2018, the WTO LDC Group proposed that graduated LDCs with a per capita income below USD 1000 in constant 1990 dollars would remain eligible for providing non-agricultural export subsidies under Article 27.²⁰ In negotiations on an agreement on fisheries subsidies, the LDC Group proposed that if an LDC graduates during any transition period for LDCs, it should remain entitled to utilize the remaining period of delay provided for LDCs.²¹ In November 2020, the LDC Group submitted a proposal for a smooth transition mechanism, which requested that support measures available to LDCs would be extended to a LDC Member for a period of 12 years after graduation.²² The LDC Group submitted another proposal for an extension of the transitional period under TRIPS Article 66.1 for a period of twelve years after graduation.²³

E-commerce

The global value of e-commerce is estimated to have reached almost \$26 trillion in 2018, equivalent to about 30 per cent of world gross product. Despite huge potentials, LDCs are not been able to benefit from the huge opportunities offered by the e-commerce. Digitalization is one factor that enables participation in value chains, as demonstrated by several LDCs that have created e-commerce platforms, which helped to stabilize demand during the pandemic.²⁴ The successful development and utilization of e-commerce in the LDCs require a set of fundamental reforms to take place, such as improving the infrastructure of information and communications technology services, establishing secure online payment systems and adopting a sound regulatory framework. It is also essential to improve access to reliable and affordable ICT, make available the hardware and software necessary to develop electronically sellable services at reasonable prices, implement effective communications regulations and ensure access to reliable power; strengthening the logistical and transport infrastructure

¹⁹ Trade Facilitation Agreement Database: <https://www.tfadatabase.org/>.

²⁰ WTO, 19 April 2018 (WT/GC/W/742, G/C/W/752).

²¹ Document WT/MIN (17)/40.

²² WTO, 16 November 2020 (WT/GC/W/807).

²³ WTO IP/C/W/668, 1 October 2020.

²⁴ World Economic Situation and Prospects 2021

and services. Promoting skills development including building e-commerce skills among small businesses, exploring the scope for women entrepreneurs to engage in e-commerce and leveraging entrepreneurship through business incubators.²⁵

Regional integration

Regional cooperation, including trade integration, and transit cooperation, can facilitate LDCs integration into the global trading system by, inter alia, increasing the size of markets, improving their competitiveness, and enhancing regional connectivity and intra-regional trade. It is important to foster more harmonized and effective regional and sub-regional integration. LDCs need support in promoting subregional and regional cooperation, including export promotion and improving regional connectivity through trade-facilitating measures.

The way forward

The limited progress against the IPoA targets also warrants an overhaul of existing international support measures (ISMs) in favour of LDCs.²⁶ LDCs need stronger support through the Aid for Trade initiative with a view to helping countries to build infrastructure and diversify exports. Broad capacity development efforts are also necessary to improve the quality of LDC institutions and their ability to harness existing ISMs, particularly in areas related to non-tariff measures (NTMs), digital trade and trade in services. Adequate policy space continues to be vital for LDCs. This calls for a strengthening of special and differential treatment. Stronger mechanisms to foster meaningful technology transfer by private firms are critically needed for LDCs. There is also an ample scope to strengthen regional and South-South mechanisms for technological cooperation, notably in areas such as green technologies, industrial and digital cooperation.

Guiding questions

- What kind of priority policy options and concrete steps could be adopted at national and global levels to maximize the benefits of trade in LDCs and to overcome the impacts of COVID-19 in the area of trade?
- How to address tariff and non-tariff barriers and other standards to seize the full potentials of international trade?
- What kind of policies LDCs and their development partners need to adopt to leverage the potentials under trade in services?
- What are the drivers of e-commerce at the national level, and what kind of measures and policy frameworks should be put in place to support LDCs to build up their competitiveness in goods and services through e-commerce?
- How can the support of donors and partners, especially through aid for trade, play a role in fostering trade capacity building including e-commerce development?
- How to mobilize additional funding including innovative funding for trade capacity building and export diversification of LDCs?
- How to leverage the flexibility that LDCs enjoy under WTO rules to build their pharmaceutical capacities for producing vaccines and other essential medicines?

²⁵ Leveraging e-commerce for graduation of least developed countries, UN-ESCAP, 2018.

²⁶ The Least Developed Countries Report 2020, UNCTAD