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LDCs IN WTO

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From the Director's Desk

Prabir Sengupta

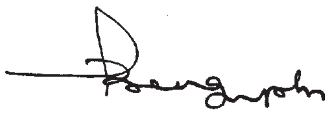
Least Developed Countries (LDCs) have realized the significance of international trade as a powerful mechanism for attaining economic development and reducing poverty. Their increasing participation in the form of G-33, G-90 and G-110 in the ongoing Doha round of negotiations indicates that they are keen to advance the objective of Doha Development Agenda, which for the first time had put the development concerns of these countries at the heart of the work programme. In half a decade of negotiations since 2001, such concerns of LDCs haven't been adequately addressed to secure a share of world trade commensurate with their needs of economic development.

LDCs' current share of world trade is miniscule, hovering around 0.54 per cent. They are unable to benefit from the global trading system, apart from it being asymmetrical in nature (due to subsidies), as they seriously lack market access and productive capacities, the two key components for attaining trade growth.

Hong Kong Ministerial conference in 2005 somewhat struck a deal whereby developed and developing countries agreed to provide duty-free-quota-free market (DFQF) access to all products originating from LDCs. But subsequent restriction by developed countries in the Final Declaration to allow DFQF to 97 per cent of products jeopardized further the growth aspirations of these countries. LDCs are of the opinion that with three per cent exclusion, products of their export interest such as textiles for Bangladesh and Cambodia will be seriously affected hence, chances of increasing their world share get reduced.

In addition, global markets today are characterized by the increasing share of services and high technology products, for which LDCs are virtually ill equipped. Their exports are dominated by primary products. As a result, export prospects are further shrinking.

The issue, therefore, is not of market access alone, rather it is the LDCs' inability to produce marketable goods and services. This lack of capability and capacity needs to be addressed in a significant way through various measures such as investments, technology transfer, capacity building, skilled training and education.



Situating Least Developed Countries in World Trade

Anil K. Kanungo*

Last Hong Kong Ministerial and subsequent WTO meetings have noticed increasing participation of LDCs on issues of critical importance. The formation of groupings like G-33, G-90 and G-110 only indicate that these countries are today conscious of their trading rights and want to have a fair share of world trade for their economic development which would help them in advancing their goal of poverty reduction. Though some studies indicate that in 2004 LDCs as a group registered a better growth rate compared to eighties and nineties, yet their share of world trade is quite miniscule, hovering around 0.54 per cent. The paper analyzes and assesses about their present share of world trade and what hinders them from attaining a larger world share. It deals with two key issues, namely market access and productive capacities, which the paper suggests, proving to be the major determinants in raising their economic development and present status in world trade specially in the context of the WTO. Lastly, it talks about policy options which may prove useful in attaining their immediate and long-term goals.

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Introduction

THE formation of alliances such as G-33, G-90 and G-110 signifies the emergence of least developed countries (LDCs) in the horizon of trade negotiations. In the current WTO negotiations, their voices are adequately heard as they actively participate with other developing countries like G-20 in finalizing the modalities on key issues like market access and developing productive capacities for themselves. Today, LDCs visualize 'market access' a key instrument to promote one's exports and consider 'developing productive capacities' a tool to integrate oneself with the global economy and to attain their fair share of world trade which they have been seriously lacking historically.

Nearly 50 different countries today have been designated as LDCs by the UN. Of which, 34 are from sub-Saharan Africa, nine are located in the Asian region and six belong to Caribbean and Pacific Ocean areas.[1] In terms of population, Bangladesh is the largest LDC, whose over 140 million inhabitants account for about one-fifth of the entire LDC population and for approximately one quarter of the GDP of the group. The smallest LDC is the island of Tuvalu with a population of less than 11,000, lower than even the number of people who live in certain residential colonies of any Indian metro. Bangladesh is one of the key negotiators of this group on the WTO issues.

Many of these LDCs are tiny and abysmally hold low share of world trade. Over 18 have fewer than five million inhabitants, and many smaller islands in the Pacific Ocean, fewer than even one million. Altogether over 700 million people or 9 per cent of the earth's population live in LDCs. Further, their share of world per capita GDP in 2004 dollar terms is in contrast less than one per cent.[2]

Classification

The very concept – LDCs – was first time mooted by the United Nations (UN). The initiative of classifying certain countries as LDCs began by the UN in 1971. Initially 24 countries were identified as LDCs with very low per capita income. Yet, certain criteria are followed to identify LDCs such as human assets (measured in terms of life expectancy, calorie consumption per inhabitant and literacy), economic vulnerability (small countries having very little economic diversity), countries regularly hit by natural disasters (having major climate risks and insecure food supply), and low income (based on GNI per capita with thresholds of $750).[3] Another criterion or more of a restriction which was introduced some time ago was having a population of less than

75 million. In fact this criterion was not in force when Bangladesh gained the LDC status in 1975 having population of more than 75 million.

Advantages/Disadvantages

However, in practice, classifying a country as LDC is a matter of negotiation. Countries identified as LDCs would like to retain their position even if they have attained the graduation level. Some of the examples are Samoa Island and Vanuatu. The reasons why many countries would like to retain or seek membership of the LDC group is the potential economic and trade advantages associated with it. The benefits include increased levels of assistance that are reserved for LDCs only. Getting preferential treatment, having duty free quota free (DFQF) market access to EU markets, access to debt relief and enjoying aid for trade are some of the distinctive advantages that they have over other developing countries who are in real terms may not be even marginally much better off. Those who are members of the WTO enjoy these immensely. More importantly, for the developed world the LDC concept sounds politically so correct that at least industrialized nations have expressed their concerns towards a cause that they believe in providing a special support to the poorest countries in the world.

Similarly, there can be also disadvantages associated with the LDC status. One of these is the 'image' that the country projects which can perhaps give a wrong signal that the system is not in place which can attract foreign investment and trading partners. Political instability mostly seen among African nations – poor infrastructure, lack of transparency and judicial law – all threaten to discourage the investors. But these demerits, however, have not found strong base in the realm of trade policy. Clear-cut benefits have been noticed by the countries who are LDCs. Sometimes trade reform can lead to conflict between countries having same level or very low level of income. For example, the right to exemption of import duties and the rules of origin when the two neighbouring countries produce almost similar products and more or less have similar level of income. The country having LDC status gains, the other doesn't. Over the years the number has risen to almost 50. Botswana is the only country to have graduated from this LDC status.

LDCs and WTO

Traditionally, it is observed that LDCs have shown little interest in trade policy or the WTO. Today about 18 are not members of the WTO.[4] During GATT and Uruguay Round of negotiations, the participation of LDCs remained at low key. The aspirations and ambitions of

TABLE 1

REAL GDP AND REAL GDP PER CAPITA GROWTH RATES OF LDCs AND OTHER DEVELOPING COUNTRIES, 1999-2000, 2000-2002 AND 2002-2004

(Annual average, percentage)

	Real GDP growth					*Real GDP per capita growth*				
	1999-2000	*2000-2002*	*2002-2004*	*2003*	*2004*	*1999-2000*	*2000-2002*	*2002-2004*	*2003*	*2004*
LDCs	3.9	4.9	5.2	4.6	5.9	1.1	2.6	3.0	2.3	3.6
of which:										
Bangladesh	4.8	4.8	5.4	5.3	5.5	3.0	3.0	3.6	3.4	3.7
Other LDCs	3.5	4.9	5.2	4.4	6.0	0.5	2.4	2.8	1.9	3.7
African LDCs	2.7	5.2	5.5	4.5	6.5	0.0	2.7	3.1	2.1	4.2
Asian LDCs	5.7	4.6	4.9	4.8	5.0	2.8	2.6	2.9	2.8	3.0
Island LDCs[a]	...	2.2	4.2	3.4	5.0	...	-0.4	1.0	0.2	1.8
Other developing countries	4.9	3.0	5.9	5.1	6.7	3.2	1.7	4.6	3.8	5.4

[a] During the 1990s no data were available for Maldives and Timor-Leste.

Notes: (1) Real GDP is measured in constant 2000 dollars.

(2) No data were available for Afghanistan, Myanmar, Somalia or Tuvalu.

(3) The group of other developing countries is composed of 69 countries for which real GDP data were available.

Source: UNCTAD Secretariat estimates based on World Bank, *World Development Indicators*, online data, December 2005.

these countries were mostly represented by middle income group countries like Brazil, China, Mexico or India, who always maintained powerful representation in global trade forum like the WTO. However of late, especially after Doha Round of negotiations in 2001, LDCs have shown active interest in trade policy issues and increasing their level of participation.

Today Bangladesh is a key advocate of LDC issues in the WTO. But its export interests and national priorities are so vast and diverse that it doesn't represent the real concerns of the majority of the LDCs. Besides, its capacity to participate in international trade is much higher than other group members. On many issues, national interests are in alignment with other developing countries.

Another major reason which has insulated them from actively participating in international trade is their incapacitated national economic development. This fundamental development problem arises for two important issues, namely poor market access and poor productive capacities. Almost all LDCs are acutely suffering from these serious constraints and these constriants in fact reinforce each other. Because lack of productive capacities doesn't allow the LDCs to produce quality products as a result their market access to industrialized countries is curtailed. This may be largely true, but in practice, certain other forms of protectionist measures imposed by developed countries also play a role in limiting LDCs market access.

LDCs in World Trade

LDCs have realized the growing significance of world trade and understand the crucial role it plays in their economic development. Their increasing participation in the form of G-33 and G-90 in the WTO negotiations adequately signifies their commitments towards trade liberalization and trade integration. Currently, they are voicing their concerns along with other developing countries for removal of asymmetries existing in world trade and expanding their market access to developed countries' markets.

Their share of world trade has steadily declined from 2 per cent in the sixties onwards to about half a per cent in 2000 and registering around 0.54 per cent in 2003.[5] However, in 2004 the real GDP of the LDCs as a group grew by 5.9 per cent, which is the highest growth performance that they have achieved over the last two decades. This represents an acceleration of the growth rate by 1.6 percentage points compared with the 2003 level. As a result, in 2002-04 the GDP performance of the LDC group went up to reach an average of 5.2 per annum in real terms compared with 4.9 per cent in 2000-2002 and 4.4 per cent in 1998-2000.[6]

A regional analysis of Table 1, however, suggests that the Asian LDCs and the African LDCs almost experience comparable real average GDP growth rates in 2002 and 2003. It's only during 2004 that the African LDCs performed better compared to their Asian counterparts. This became possible because most of the African LDCs are oil exporting countries and in this year particularly these countries benefited substantially from higher oil prices.

Data mentioned in Table 2 show that merchandise exports amounted to $57.8 billion in 2004. Compared with the 2002 and 2003 levels, this registers an additional $18.4 billion and $11.9 billion respectively. In spite of this high growth, LDCs generated only 0.6 per cent of world merchandise exports. The four traditional oil-exporting LDCs, namely Angola, Equatorial Guinea, Sudan and Yemen accounted for an increase of 52.7 and 55.6 per cent in 2003 and 2004 respectively. The percentage of total LDC merchandise exports from those four economies grew steadily from 36.3 in 2001 to 43.8 per cent in 2004. Due to their lower rate of growth of total merchandise imports, the LDC trade deficit improved from -$10.5 billion in 2003 to -$6.6 billion in 2004. This marked improve-ment is, however, attributable almost exclusively to oil-exporting LDCs. If these oil-exporting LDCs are excluded, the LDC trade deficit worsened further, from -18.2 billion in 2003 to -18.6 billion in 2004. In fact, with the exception of Sudan, all oil-exporting LDCs have consistently displayed a trade surplus since 1999. Moreover, Chad, which started exporting oil in the last quarter of 2003, first displayed a merchandise trade surplus in 2004. The merchandise trade balance worsened in 28, 35 and 33 LDCs in 2002, 2003 and 2004 respectively.[7]

TABLE 2

LDCs' EXPORTS, IMPORTS AND BALANCE IN MERCHANDISE TRADE, BY GROUP, 2000-2004

	$ million				% change[a]			
	2001	2002	2003	2004	2000-2004	2001-2002	2002-2003	2003-2004
Merchandise Exports								
LDCs	36,056	39,397	45,929	57,838	60.7	9.3	16.6	25.9
Oil-exporting LDCs	13,075	15,625	18,727	25,345	70.1	19.5	19.9	35.3
Non-oil-exporting LDCs	22,981	23,772	27,202	32,494	54.0	3.4	14.4	19.5
African LDCs	21,313	23,724	28,991	37,170	78.6	11.3	22.2	28.2
excluding oil-exportting LDCs	11,453	11,557	14,024	16,934	69.5	0.9	21.3	20.8
Asian LDCs	14,521	15,423	16,638	20,312	35.9	6.2	7.9	22.1
Island LDCs	223	252	301	357	48.8	13.0	19.4	18.6
Merchandise Imports								
LDCs	46,308	47,867	56,474	64,435	49.8	3.4	18.0	14.1
Oil-exporting LDCs	8,564	9,290	11,068	13,267	80.1	8.5	19.1	19.9
Non-oil-exporting LDCs	37,744	38,577	45,406	51,168	43.5	2.2	17.7	12.7
African LDCs	26,831	28,546	34,251	40,929	69.9	6.4	20.0	19.5
excluding oil-exportting LDCs	34,193	34,757	41,082	45,487	38.4	1.6	18.2	10.7
Asian LDCs	18,373	18,167	20,875	21,896	22.4	-1.1	14.9	4.9
Island LDCs	1,105	1,154	1,346	1,610	53.2	4.4	16.6	19.6
Net trade								
LDCs	-10,252	-8,470	-10,545	-6,596	-6.1	-17.4	24.5	-37.4
Oil-exporting LDCs	4 ,511	6,335	7,659	12,078	60.3	40.4	20.9	57.7
Non-oil-exporting LDCs	-14,763	-14,805	-18,204	-18,674	28.3	0.3	23.0	2.6
African LDCs	-5,518	-4,822	-5,260	-3,759	14.9	-12.6	9.1	-28.5
excluding oil-exportting LDCs	-22,740	-23,200	-27,058	-28,553	24.9	2.0	16.6	5.5
Asian LDCs	-3,852	-2,744	-4,237	-1,584	-46.1	-28.8	54.4	-62.6
Island LDCs	-882	-902	-1,045	-1,253	54.5	2.3	15.9	19.9

[a] Percentage change in trade values between initial year and end year.

Notes: (1) Estimates are based on a group of 49 LDCs for which data are available. No data are available for Timor-Leste.

(2) Chad is not included as an oil-exporting LDC in this table.

Source: UNCTAD Secretariat estimates based on UNCTAD, *Handbook of Statistics 2005*.

Composition of Merchandise Trade

During the period 2000–2003, primary commodities dominated the composition of the merchandise trade in LDCs. They registered two-thirds of the merchandise exports of the LDCs as a group and over one-third of their total merchandise imports. As shown in Table 3, fuel exports were the leading source of total LDC export revenues in 2002-2003 and it surpassed the bulk of export manufactures, the second biggest source of merchandise exports in the LDCs. In that period, fuel exports represented 40 per cent of the LDCs' total merchandise export receipts, while exports of manufactured goods averaged 33 per cent. Food items were in third position (14% of total LDC merchandise exports), followed by agricultural raw materials (6%) and minerals, metals and ores (5%).

During the same period, the LDCs as a group had a trade surplus in fuels, agricultural raw materials and minerals, metals and ores. But the LDCs' trade surplus in fuels was driven by the few oil-exporting LDCs. The majority of the LDCs are likely to have been quite adversely affected by the recent surge in the price of oil. Petroleum products imports accounted for 10.7 per cent of the LDCs' total merchandise imports bill in 2000–2003, compared with 8.9 per cent in the group of other developing countries.

Table 3 also demonstrates that if fuels are not included in the trade basket of LDCs, then all these countries become net importers of primary commodities in 2002-2003. This trend, i.e, non-fuel net primary import position has been apparent since 1998 and is explained by the growing deficit in food trade of the LDCs. This deficit has curtailed the advantage of the LDCs' traditional trade surplus position in agricultural raw materials and in minerals, metals and ores. In contrast, the other developing countries (excluding China) remained net primary commodity exporters throughout the whole of the 1990–2003 period, even when fuel products are excluded.

The food items though secured around 13.6 per cent of the total exports of the LDCs in 2002-2003, the majority of the LDCs during that period had also become the net importers of the same item, their food imports had already on average touched one fifth of their total imports (Table 3). It is noted that the food import capacity of the LDCs deteriorated drastically over the 1997-2003 period as a result of a substantial reduction of a food import bill. Since most of them were net food importers, they are extremely vulnerable to swings in international prices to food items and to the financial terms attached to such food imports.

A number of studies still highlight the overall trade performance of the LDCs in terms of their world share continues to be low, bordering still at 0.58 per cent in 2004.[8] Though export growth for the LDCs as a group in 2004 was significant, amounting to 34 per cent, compared to 21 per cent for world exports. This has happened precisely because a number of oil exporting LDCs have contributed to this growth, whereas many LDCs have hit the rock bottom in terms of their export growth. In fact, about eight of them have experienced negative export growth rates.[9]

The export composition of the LDCs is quite varied in nature. Its diversity in that way is quite startling. A significant share of all LDC exports in 2004 was experienced by only two LDCs, namely Angola, a major oil exporter and Bangladesh, a vital clothing exporter of the world. To a great extent, the performance of these two countries determine the overall export performance of the LDCs as a group. In contrast, 13 low ranked LDCs in terms of export value account for less than one per cent of total LDC exports.[10]

The major export markets for the LDCs have been largely the EU, USA, Japan and some developing countries like China over the last decade. In terms of majority of exports share, the EU and USA topped the list. In 1995, their share was almost 60 per cent. By 2004, their share dropped to 52 per cent. Interestingly, China has emerged as the third major destination for LDCs exports, registering a share of 3.5 per cent in 1995 it has shot up to 17.8 per cent in 2004 (Table 4). A look at the Table 4 also gives the impression that China is not the

TABLE 3

MERCHANDISE TRADE STRUCTURE IN LDCs, 2000-2003

(SECTORS AS PER CENT OF EXPORTS, IMPORTS AND NET TRADE)

	% of total LDC exports	*% of total LDC imports*	*% of LDC net trade*
All Food Items	13.6	19.6	-38.6
Agricultural raw materials	6.0	2.5	8.6
Fuels	39.7	11.1	79.5
Metals and ores	5.3	1.2	11.5
Manufactured goods:	32.8	62.7	-157.5
Chemical products	1.6	9.3	-33.7
Other manufactured goods	29.6	27.6	-21.4
Machinery and transport equipment	1.6	25.8	-102.4
Unallocated	2.7	2.9	-3.6
Primary commodities	64.6	34.4	61.1
Non-fuel primary commodities	24.8	23.3	-18.5

Notes: (1) No data are available for Timor-Leste.

(2) Products have been classified by sector according to the SITC Revision 2 group (3-digit level). All food items include codes 0+1+22+4; agricultural raw materials include codes 2 less (22+27+28); fuels include codes 3; ores and metals include codes 27+28+68; manufactured goods include codes 5 to 8 less 68; chemical products include code 5 products; other manufactured goods include code 6+8 less 68 products; machinery and transport equipment include code 7 products.

Primary commodities are the sum of all sectors with the exception of manufactured goods and unallocated goods.

(3) Non-fuel primary commodities are primary commodities excluding fuels.

(4) Negative value means a deficit in the sector.

Source: UNCTAD Secretariat estimates based on UN COMTRADE.

TABLE 4

SHARE OF MAJOR MARKETS IN LDCs MERCHANDISE EXPORTS, 1995-2004

Rank		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	EU (15)	39.6	36.9	34.9	37.3	34.6	31.1	33.4	32.8	30.6	29.2
2	United States	20.5	21.5	22.8	23.5	24.7	26.4	25.6	23.8	24.8	22.7
3	China	3.5	4.2	6.1	3.5	4.9	10.7	7.7	8.7	13.5	17.8
4	Thailand	3.9	3.5	3.8	3.1	3.8	3.7	4.9	4.9	5.1	5.0
5	Japan	6.5	6.4	4.7	4.0	3.6	3.3	2.9	4.0	3.4	4.2
6	India	2.7	2.6	2.7	3.0	4.1	2.5	3.4	3.3	3.1	2.9
7	Chinese Taipei	1.7	2.4	1.5	2.2	2.0	1.8	1.9	2.2	2.2	2.9
8	Korea, Rep. of	2.8	2.5	3.8	2.0	4.8	4.9	2.6	2.5	1.9	1.8
9	Canada	0.9	1.2	1.0	1.0	0.8	0.8	0.9	1.0	1.7	1.5
10	Singapore	2.8	2.2	1.5	2.7	2.0	1.6	1.9	1.4	1.1	1.2

Note: India's trade returns do not provide a full breakdown of oil imports by origin which leads to an under-reporting of its imports from LDCs.

Source: UNSD, Comtrade, data base and WTO.

only developing country to have grown in importance. Thailand and Chinese Taipei also have increased their marginal importance. India has almost maintained its share. The importance of developing countries as significant market destinations for LDCs is soon realized by the fact that account for more than 50 per cent of the exports of 17 LDCs. Lack of trade data on LDCs sometimes become a constraint for arriving at a thorough analysis of trade relations between these two sets of countries. However, looking at the composition of trade between them suggest that oil exports have dominated the entire export revenue. Major importers of oil from these LDCs are China, Thailand and India, again the three largest developing country members.

Shrinking of World Share

Today in most LDCs absolute poverty is all pervasive. Almost 60 years of participation in world trade since the establishment of the GATT, the LDCs have not been able to reduce their poverty as initially it was conceived that resorting to trade would be an important mechanism to reduce poverty and foster national economic development. Besides to a great extent, nature has played severe damaging role as all these countries have suffered immensely by experiencing natural disasters regularly in the past and continue to face so. Remaining land locked and naturally underdeveloped have also added to their disadvantage. But with the passage of time they have come of age. Over the last two decades the growth rates of the LDCs as a group especially in the 1990s have shown impressive performance. Many of them have initiated trade reforms and undergone extensive liberalization processes in alignment with the opening up of the WTO in anticipation that they would be able to realize enough trade gains for their national development. The failure of trade expansion to allow poverty reduction has been related to weak linkages between trade and economic growth. Moreover, there is a tendency for export expansion in economies with mass poverty and major financial gaps to generate exclusionary rather than socially equitable economic growth. Civil conflicts, in some LDCs, have been closely associated with impoverishing trade.[11] It is sometimes argued that trade liberalization plus enhanced market access alone does not necessarily equal poverty reduction. Many LDCs are in great need of a free and fair multilateral trading system. In the absence of meaningful special treatment besides adopting the general principles of liberalization, they are unable to derive much benefit from this system.

As their current share of world trade remains too tiny, two major constraints as explained earlier, namely the inadequate market access and lack of productive capacities seem to be the major reasons for this. Here, the paper makes an attempt to analyze these two issues in detail.

Market Access

Though the significance of market access was realized much before, yet the issue of market access for the LDCs became more pronounced during the Doha Ministerial conference in 2001. This particular conference wholeheartedly acknowledged the need to manage the international trade for consideration of building up of the LDCs' economic development and poverty reduction. It had set out a mandate which accorded priority of integrating them into the multilateral trading system. Nothing concrete has come out of such an effort as subsequent Cancun Ministerial in 2003 failed without advancing the commitments of Doha Development Agenda (DDA). Only during the last Hong Kong Ministerial in 2005 that the issue was somehow bounced back with an understanding of an important concessional package of providing duty-free-quota-free (DFQF) access to LDCs' products to developed countries' markets. The Hong Kong Ministerial Final Declaration says, "We reaffirm our commitment to effectively and meaningfully integrate LDCs into the multilateral trading system and shall continue to implement the WTO Work Programme for LDCs adopted in February 2002. We acknowledge the seriousness of the concerns and interests of the LDCs in the negotiations as expressed in the Livingstone Declaration, adopted by their Ministers in June 2005. We take note that issues of interest to LDCs are being addressed in all areas of negotiations and we welcome the progress made since the Doha Ministerial Declaration as reflected in the Decision adopted by the General Council on 1 August 2004. Building upon the commitment in the Doha Ministerial Declaration, developed-country Members, and developing-country Members declaring themselves in a position to do so, agree to implement duty-free and quota-free market access for products originating from LDCs as provided for in Annex F to this document."[12]

The proposal for providing DFQF to LDCs' products to enter developed markets came up for the first time during Eighth Session of United Nations Conference on Trade and Development (UNCTAD VIII) held at Cartagena in 1992.[13] In fact, LDCs have been receiving tariff preferences from the developed countries under the scheme GSP and recently under EBA for many years and have largely relied on them for their exports. But there has been no significant gain or progress made. In fact a study of the EBA (W. Yu and T.V. Jensen, 2005) concludes that the EBA initiative would generate sizeable welfare gains for the LDCs. LDCs may have gained market access in terms of lowering down of tariffs in developed country markets, but their products haven't been able to penetrate their markets for some reasons. It's not the tariff alone that can provide the market penetration. If a developed country wants to protect its market, it can always bring in protections, which are in the WTO's parlance known as the non-tariff barriers. Domestic industries of developed markets may have put up strong resistance against these imports. However, recent commitment by the WTO members at Hong Kong Ministerial has only reignited the hope and giving the impression that developed and developing markets are serious in terms of providing enhanced market access to LDCs in the form of DFQF.

In post Doha scenario, turning to developing countries as a major destination for exports for products originating from LDCs is an important development in trade policy options. LDCs have been traditionally dependent on preferential market access to developed countries. In contrast, developing countries do not have extensive non-reciprocal preferential arrangements for the LDCs. Having no progress at the multilateral trading negotiations many LDC have obtained reciprocal market access through trade agreements with developing countries. ASEAN is an example of such an arrangement. Immediately after Cancun Ministerial in 2003, many developing countries and LDCs have entered into preferential trading arrangement amongst themselves.

Around 27.6 per cent of the total LDCs' exports remained dutiable according to 2003 data.[14] Developed countries accounted for 61 per cent of this total and the rest belonged to developing countries. The figure for duty-free access into developed countries is 72 per cent, which is almost identical to the figure for duty-free access into developing countries.[15]

LDCs were always dependent on the developed country markets for their exports. However, their aspiration was further heightened with the Doha Declaration, which pledged to provide DFQF market access to all products originating from LDCs to developed markets. "We commit ourselves to the objective of duty-free, quota-free market access for products originating from LDCs."[16] Till date, this objective is to be achieved, in spite of UN initiative of Millennium Development Goals (MDG) in which this objective is prominently figured and the importance it has received from various quarters. Table 5 provides the status quo in terms of duty-free imports in major developed country markets.

Japan and USA maintain positive duties on a significant share of LDC exports compared to other developed countries (Table 5).

Among developing country markets China dominated the scene (Table 4). Based on 2003 data, 93.3 per cent LDC exports entered China duty free. If oil imports are deducted, the duty free figure becomes 48.4 per cent. In September 2005, China announced new measures to allow more imports from the LDCs.[17] The motive is to increase the total duty-free figure from 93.3 per cent to something higher.

In the Sixth WTO Hong Kong Ministerial Conference in 2005 majority of LDCs asserted their rights for enhanced market access to developed and developing country markets. The final Declaration on December 18, 2005 accorded a special priority to the LDCs. LDC issues formed a core part of the Declaration. During the intense negotiations it was finally brought out in the Declaration that "developed country Members shall provide duty-free-quota-free market access for all products originating from the LDCs by 2008."[18] Had this proposal been bound, 100 per cent duty-free-quota-free access would have implemented for LDCs in developed country markets. EU and USA were quick enough to realize the serious impact of this proposal as their domestic industries would have suffered tremendously from the intense competition that would have set in with duty-free-quota-free access of LDC products. Sensing such an impact, the final declaration had the proposal which says,"Members facing difficulties at this time to provide market access as set out above 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, by 2008."[19] The adoption of this proposal created loophole for LDCs and gave the breathing space to developed country members as this would restrict the entry of very products in which LDCs have significant export interest from duty-free-quota-free market access. For example, LDC such as Bangladesh, whose clothing sector earns it huge amount of export revenue will find it difficult to enter into US markets. Three per cent tariff line restriction will curtail its future export prospects in today's integrated global trading regime. Similarly Cambodia, another LDC, whose exports of clothing hold a significant share of its foreign trade, amounting to 72 per cent of its total exports and majority of its clothing exports is directed towards the US will now find its duty-free-quota-free market access curtailed because

TABLE 5

DUTY FREE IMPORTS ORIGINATING FROM LDCs IN DEVELOPED MARKETS, 2003

	Number of tariff lines					Imports (million dollars)		
	MFN		LDCs				LDCs	
Market	Total	With imports	Dutiable	With imports	Dutiable imports	World	Total	Per cent duty-free
Australia	6,102	5,686	0	655	0	84,366	123	100.0
Canada	8,497	8,292	97	1,569	1	234,984	739	100.0
EU (15)	10,404	10,115	67	3,517	19	992,010	13,705	99.2
Japan	9,296	8,204	1,350	776	89	376,941	1,563	50.9
New Zealand	7,414	6,559	59	521	3	18,439	31	99.9
Norway	7,165	6,517	0	509	0	39,765	81	100.0
Switzerland	8,477	7,809	1,167	818	47	96,177	121	96.7
United States	10,496	10,123	1,911	1,421	581	1,196,833	10,489	61.6

Source: WTO.

of the 3 per cent tariff line restrictions. At a time when integration of economies with the global economy under the aegis of the WTO is the core principle of free trade, such kind of restriction stymies the growth of a country. Cambodia today is basically dependent on export trade for its economic development.

Another important initiative towards enhancing the market access of the LDCs shown by the EU is known as Everything But Arms (EBA). EBA extends duty-free-quota-free access to all products originating in LDCs, except arms and ammunition. This currently includes all agricultural products by adding such sensitive products as beef and other meat; dairy products; fruit and vegetables from apples to asparagus and from cucumbers to courgettes but also processed fruit and vegetables; maize and other cereals; starch; oils; processed sugar products; cocoa products; pasta; and alcoholic beverages. Three most sensitive products were not immediately subjected to liberalization in 2001, namely fresh bananas, rice and sugar. Fresh bananas came under liberalization between 1 January 2002 and 1 January 2006 by reducing the full EU tariff by 20 per cent every year. [20]

In respect of rice, full liberalization will be phased in between 1 September 2006 and 1 September 2009 by gradually reducing the full EU tariff to zero. In the meantime, in order to provide effective market access, LDC rice can come in duty free within the limits of a tariff quota. The initial quantities of this quota shall be based on best LDC export levels to the EU in the recent past, plus 15 per cent. The quota will grow by 15 per cent every year, from 2517 tons (husked-rice equivalent) in 2001-2002 to 6696 tons in 2008-2009. [21]

Liberalization on sugar will be phased in between 1 July 2006 and 1 July 2009 by gradually reducing the full EU tariff to zero. In the meantime, as for rice, LDC raw sugar can come in duty free within the limits of a tariff quota, which will grow from 74,185 tons (white-sugar equivalent) in 2001-2002 to 197,355 tons in 2008-2009. Imports of sugar under the ACP-EC Sugar Protocol shall be excluded from the above calculations so as to uphold the viability of this protocol.

The benefits of EBA should reach to LDCs for whom it is intended. The EBA also adheres to certain strict rules such as the rules of origin and administrative cooperation.

In addition, the other important scheme – the Generalized System of Preferences (GSP) which is the Cotonou Agreement runs in parallel to this and completely independent of EBA. Unlike the EBA which covers all the 50 LDCs, the GSP is confined to only LDCs of African, Caribbean and Pacific countries. This could be partly the reason why LDCs of Asia were seen to have benefited from the EBA.[22] In spite of this difference, so far the LDCs of ACP have confined themselves to the Cotonou Agreement because they realize that it provides them same kind of market access as the EBA would have given. That is again due to the EU's restriction on three major sensitive products – fresh bananas, sugar and rice, and in these products only a few LDCs of ACP have real advantage. Now that 2006 onwards these major tariff restriction will go, the LDCs of ACP may be interested to sign the EBA to reap the optimal benefits. The total imports of EU in 2003 stood at about US$992 billion, of which US$13.7 billion originated from LDCs, registering nearly 1 per cent of EU market for import. US$120 million of these imports were dutiable (*WTO Report on LDCs 2006*).

Above analysis only suggests that LDCs have not really gained from the issue of market access. Lowering of tariffs may have occurred, but imposition of protectionist measures in some form or the other like NTBs continue to derail the economic development of LDCs. As part of the commitment agreed by developing countries in the Doha and Hong Kong Ministerial Declaration, India is currently contemplating of extending duty-free-quota-free access to LDCs. This must be partly due to the principled stand India has taken on important WTO issues. But the idea is also to win the support of these countries as it would likely help India to strike a deal on critical issues at crucial WTO negotiations. Yet, at a time when Indian industry is still critical of many WTO negotiations, such a development may cause irritation among a few sections of the industry, especially for small and medium range players. This section may put up stiff resistance because their survival will be in jeopardy as domestic competition will be toughened with the easy import of the LDCs' products.

As a part of true solidarity, it seems that Indian Government is in the midst of working out a proposal to open up its market to the LDCs and it will be soon taken up by the Cabinet Committee on Economic Affairs (CCEA). The customs duty concessions would be rolled out from 2007, eliminating all tariffs in five years. More importantly, it emphasizes that this extension of market access to the LDCs is not based on any reciprocity, rather it would be all voluntary.[23] By extending such an important gesture, India is only advancing the cause of needy and poor which all the developing countries had agreed upon at the Hong Kong Ministerial in 2005. India could have opted out of offering such concessions since it is a developing country. Offering concessions in such large measure could help India to foster better political ties with other country. If this offer is implemented, India for the first time would be extending such preferential market access to poor nations.

Productive Capacities

LDCs continue to suffer from the scourge of poverty. Sound economic growth and development are still alien to them. The majority of the population is living below income levels which are barely enough to meet their daily needs. It is estimated that at the end of the 1990s about 50 per cent of the population living in the LDCs were living on a less than a dollar a day, if the trend continues number of people living on a less than a dollar may be expected to rise from 334 million in 2000 to 471 million in 2010 (UNCTAD, 2004). Many international institutions and allied organizations have shown deep concerns towards this unmitigated social malaise. They are constantly engaged in efforts that would bring about some change.

One of the options which can be employed is to earmark or divert huge amount of international aid to LDCs for direct cash transfers and which can be provided to the affected lot. But this kind of international welfarism, it is believed, will not provide a lasting solution. What instead is suggested is that let those people of LDCs get involved in the process of economic activities with their work and creativity by not surrendering their freedom. This will take place only when the productive employment opportunities are expanded in LDCs.

The working age population within LDCs is also growing very rapidly. Between 2001 and 2010 it will increase by about 30 per cent (UNCTAD, 2004).These people sometimes venture out to other places in search of employment. As they are mostly unskilled, other countries are reluctant to utilize their services. Without some kind of change in the regime governing international migration and more opportunities of productive employment in the LDCs, the younger generation will face more social malaise.

The viable way of reducing poverty and attaining economic development is through the development of productive capacities of LDCs and the concomitant expansion of productive employment opportunities within them.[24]

The term "productive capacities" is often used in international development policy circles, yet there is no straight-jacket definition of it. A broad definition of productive capacities tends to focus on structural and supply side constraints of an economy, encompasses physical infrastructure, role of technology, enterprise development, as well as specific sectoral challenges to agriculture, manufacturing, rural development and food security. However, in the scheme of the WTO, the productive capacities of a country are directly dependent on its level of supply-side capabilities. The weak productive capacities of an economy suffer from immense supply-side constraints. Supply-side constraints essentially act as impediments to the development of capacity to produce goods and services competitively and the ability to get them to the market at reasonable cost. Such a broad definition covers the range of issues such as physical infrastructure, customs, trade services support, the provision of public utilities and macro-economic frameworks which are impeding currently participation of LDCs in international trade. What is common among these supply-side issues is that raise the cost of transaction for exporters to engage in trade. This cost comes in addition to other market barriers such as tariff at the border, thereby reduces the competitiveness of LDCs' exports in foreign markets. Thus supply-side constraints come as a barrier to product diversification of LDCs. Since dependence on a few products is a typical profile of LDCs' export basket, to raise their export trade becomes all the more difficult.[25] So the key issue becomes how to develop the productive capacities of LDCs. As trade integration becomes crucial in attaining economic development and global competitiveness of LDCs especially at time when they are deeply in transition, challenges are daunting for them to develop their productive capacities largely regarded as a viable alternative strategy.

Challenges

First, the shift in the pattern of employment in LDCs. As more and more people are seeking work outside agriculture urbanization is on the rise. LDCs lack seriously physical infrastructure and technological assistance to match up with those standards of skills. Secondly, as most of them are experiencing transition, managing the transition in an open-economy context is causing huge difficulty. Present production and trade structures of LDCs are offering limited opportunities in a rapidly globalizing world driven by knowledge-intensive products with demanding conditions of market entry. Benefiting from recent technological advances demands advancement towards and crossing various thresholds in human capital, R&D and management practice which most LDC economies lack the wherewithal to do. It is reported that to put productive capacities at the heart of development and poverty reduction policies means focusing on promoting capital accumulation, technological progress and structural change in the LDCs (LDCs Report 2006, UNCTAD).

While concerted efforts are being undertaken to integrate LDCs with the world economy, one of the prominent provisions prescribed in the WTO agreements called special and differential treatment needs special attention. Though discussions are taking place on the overall issue of making special and differential provisions more meaningful, in the negotiations on specific subjects these provisions are already being applied. It is gaining momentum on the issue of agriculture. It is understandable because the trade distortions that are taking place in this sector with large amount of subsidies given to developed countries are the biggest hurdle for meaningful integration of developing and LDCs in world trade. The issue cannot remain confined to agriculture even if these countries are predominantly agricultural based. In a fast integrated world, other sectors such as NAMA, services, trade facilitation, TRIPs assume critical importance. The overall significance of these special and differential treatments should be geared towards developing the trade capabilities of these countries and address their immediate need based concerns. They need all kind of resources to develop their technical assistance and capacity building (TACB) especially at the time of transition. LDCs are seriously asking for their implementation. It is still elusive, though the promise was made at Doha Ministerial Conference, which says, "We recognize that the integration of the LDCs into the multilateral trading system requires meaningful market access, support for the diversification of their production and export base, and trade-related technical assistance and capacity building. We agree that the meaningful integration of LDCs into the trading system and the global economy will involve efforts by all WTO members."[26]

The other significant initiative established to support LDC governments in trade capacity building and integrating trade issues into overall national development strategies is called Integrated Framework (IF). The IF is an international initiative jointly taken up by the IMF, ITC, UNCTAD, UNDP, the World Bank and WTO to coordinate their efforts with those of least developed countries and donors to respond to the trade development needs of LDCs. This integrated approach was launched in October 1997 at the High-Level Meeting on LDCs' Trade Development organized by the WTO in recognition of the supply-side constraints facing LDCs.[27] The IF is a coherent mechanism that is intended to ensure optimal use of scarce resources in support of enabling LDCs to be full and active players and beneficiaries of the multilateral trading system.

Policy Options: What Needs to be Done

Economic development and increase in world share are the biggest challenges before LDCs. Both reinforce each other. The policies determining these objectives need to be carried out in a holistic manner.

First, the issue of market access needs to be enhanced in a sufficient manner so as to allow the rise in exports for products originating from LDCs. Allowing duty-free-quota-free on 97 per cent of products in a way seriously constricting the export potential of LDCs because, exclusion of 3 per cent of products will completely curtail the export trade of LDCs. LDCs should try to negotiate with developed country trade partners to remove such kind of a trade strategy, when their imports alone cover 60 per cent of LDCs' products and when it is one of the exclusive concerns of the WTO to promote free trade, of which they are an integral part. In such context, the role and responsibility of the WTO as an impartial and facilitating global institution assume critical proportion.

Secondly, today global markets are characterized by the increasing share of services and high technology products, for which LDCs are virtually ill equipped. Their exports are dominated by primary products. Hence, they are unable to capitalize on these opportunities thrown open by increasing globalization. In addition, competitiveness in global market is determined by quality not simply by low labour costs always. All these factors can be strengthened only when LDCs have policy options of following international trade policy reforms according to their capability, requirement and strength. It needs technical assistance, capacity building, sound macro economic policy, technology transfer, state-of-the-art technology, proper training and education.

Thirdly, the role of multilateral assistance is to be strengthened. It is to assist LDCs to generate the macro-economic and trade policy framework and create conditions to access international markets and attract foreign direct investment. This would allow the private sector to develop and become the driving force of national development.

Fourthly, for LDCs to develop competitiveness in global markets, in addition to macro-economic and trade policies, specific programmes and measure are required to strengthen industrial capacities and institutional structures. This is where active participation of international organizations like UNIDO has a crucial role to play. It is essentially meant to develop and diversify the manufacturing sector as a dynamic force to push export of products originating from LDCs.

Fifthly, bridging the physical infrastructure divide between LDCs and other developing countries is a priority area. This needs to be developed as it hugely contributes to the development of productive capacities. LDCs have the poorest transport, tele-communications and energy infrastructure in the world.

Sixthly, successful medium size domestic businesses need to be developed as they have the capacity to increase rural employment. But most LDCs today suffer from a "missing middle"[28] syndrome which essentially means there is a shortage of successful mid sized enterprises existing in the enterprise structure. Many of the existing ones are weak. Domestic financial and knowledge systems are critical to improving their productive capacities. Foreign aid should also be reoriented towards these mid-sized productive sectors.

Seventhly, as most LDCs are prone to natural disaster or civil and ethnic strife, innovative thinking or strategies may be conceived to create employment in post disaster or conflict situations.

Conclusion

The LDCs are in transition. Though some like Bangladesh and Angola have experienced higher growth in recent years, for majority the situation is not very different. All these countries over the last 50 years have reposed strong faith in international trade as a powerful mechanism that has the capacity to enhance their economic growth. Experts are of the opinion that it can do this best when it is combined with the right macro-economic, international trade policies and poverty reduction strategies.

It is a widely held view that a rule-based multilateral trading regime has necessary wherewithal for consolidating the gains that the countries had in the international markets. Numerous studies (UNCTAD, LDC Reports, 2004, 2005, 2006 and WTO, WTR Report 2005, 2006) indicate that LDCs seriously lack these necessary wherewithal to convert the trade opportunities to major gains. Besides, world trade is asymmetrical in nature, anomalies present in major issues like agriculture, NAMA further stymie their growth prospects. WTO negotiations are presently caught up in correcting these anomalies. Hardly any forward movement is in sight though last Hong Kong Ministerial promised to provide duty-free-quota-free market access to LDCs as a measure to promote their export trade. Loop hole created in the bargain of not providing 100 per cent duty-free-quota-free access to developed markets has again damaged the level of aspirations of LDCs.

In regard to duty-free-quota-free, developing countries are expected to do their bit. China has already agreed to unilaterally allow duty-free imports of some goods from 39 LDCs with which it has bilateral relations. India's decision to allow duty-free-quota-free market access to the 50 LDCs from Africa and Asia is seen as a welcome gesture, though it has reserved the right to stymie any significant import from these countries.

The core issues for LDCs economic development are enhanced market access and developing productive capacities. To achieve these objectives, all parties involved are to share larger responsibility. WTO being at the forefront has to take a lead by combining the efforts of other international institutions like World Bank, IMF, UNCTAD, UNIDO and ITC to develop their productive capacities-the fulcrum on which LDCs' economic development rests. LDCs must do their bit by reassessing and implementing their domestic reforms to align them with international trade policies and maintaining political and social stability.

NOTES

[1] UNCTAD, *The Least Developed Countries Report 2006*.

[2] World Bank, World Development Indicators 2005, online data.

[3] UNCTAD, *The Least Developed Countries Report 2006*, p. 48.

[4] www.wto.org.

[5] UNCTAD secretariat calculations, based on data from the United Nations Statistics Division.

[6] UNCTAD, *The Least Developed Countries Report 2006*, pp. 3-4.

[7] *Ibid*, p. 9.

[8] UNCTAD, *Least Developed Countries Report* Series. The series can be accessed at www.unctad.org.

[9] WTO, *World Trade Report 2006*.

[10] *Ibid*, p. 26.

[11] UNCTAD, *The Least Developed Countries Report, 2004*, p. 6.

[12] Hong Kong Ministerial Declaration, para 47, 18 December, 2005 (available on www.wto.org).

[13] Tabari, John (2006), "Market Access for Least Developed countries: The Hong Kong Effect", CUTS International, Jaipur, Briefing Paper, p. 1.

[14] WTO, *World Trade Report 2006*, p. 27.

[15] *Ibid*, p. 27.

[16] Paragraph 42 of 4th WTO Doha Ministerial Declaration, 2001.

[17] WTO, *World Trade Report 2006*, p. 28.

[18] Hong Kong Ministerial Declaration, Annex F, para 36(a)(i), 18 December, 2005.

[19] *Ibid.*

[20] http://ec.europa.eu/trade/issues/global/gsp/eba4_sum.htm, 1 March, 2001.

[21] *Ibid.*

[22] Tabari, John (2006), "Market Access for Least Developed countries: The Hong Kong Effect", CUTS International, Jaipur, Briefing Paper, p. 2.

[23] Subramaniam, Ganapati G. and Sikarwar, Deepshikha (2006), "India to Lower Tariff Barriers for 50 LDCs",*The Economic Times*, New Delhi, 10 October, p-1.

[24] UNCTAD, *The Lease Developed Countries Report 2006*, Chapter 1, p. 59.

[25] World Trade Organization (2004), Assistance to Address Supply-Side Constraints. Subcommittee on Least Developed Countries (WT/COMTD/LDC/W/33, pp. 1-3.

[26] Doha Ministerial Declaration, para 42, 14 November 2001.

[27] http://www.wto.org/English/tratop_e/devel_e/teccop_e/if_e.htm.

[28] *The Least Developed Countries Report 2006*, p. 275.

ANNEX 1

MAIN MARKETS FOR EXPORTS OF LDCs: PERCENTAGE SHARE IN 2004 (OR LATEST YEAR AVAILABLE)

Country	Developed economies					South East Europe and CIS	Developing economies			Un-allocated
	Total	EU 25	Japan Canada	USA and	Others		Total	OPEC	Others	
Afghanistan	34.4	20.3	0.6	12.9	0.6	5.0	60.7	3.9	56.8	0.0
Angola	50.7	10.4	0.1	40.2	0.0	0.0	49.3	1.1	48.2	0.0
Bangladesh	78.3	50.0	1.0	26.5	0.9	0.1	8.7	1.2	7.5	12.9
Benin	11.3	11.0	0.0	0.3	..	0.1	88.4	8.5	79.9	0.2
Bhutan	..	..	..	..	..	..	..	..	..	..
Burkina Faso	16.3	13.4	2.6	0.1	0.2	..	81.0	1.9	79.2	..
Burundi	59.0	27.3	0.6	5.6	..	0.8	14.7	0.0	14.7	25.6
Cambodia	90.9	25.6	3.5	60.8	0.9	0.1	9.1	0.1	9.0	0.0
Cape Verde	96.1	78.3	0.5	17.7	..	..	3.4	2.0	1.5	
Central African Republic	77.3	69.2	1.6	6.4	0.1	0.1	22.7	8.7	14.0	-0.1
Chad	83.9	7.9	0.0	76.0	0.0	0.0	16.1	0.1	16.0	0.0
Comoros	72.9	28.8	1.4	42.5	0.3	0.0	26.0	0.0	26.0	1.1
Dem. Rep. of the Congo	76.1	65.6	0.7	9.5	0.2	0.0	23.5	0.0	23.5	0.3
Djibouti	3.8	3.3	0.0	0.4	0.0	0.0	96.2	0.1	96.1	0.0
Equatorial Guinea	74.7	28.6	1.4	44.3	0.5	0.0	25.3	0.0	25.3	0.0
Eritrea	..	..	..	..	..	..	..	..	..	..
Ethiopia	47.5	28.9	8.7	6.0	3.8	0.6	35.7	8.1	27.6	16.2
Gambia	57.0	53.2	2.2	1.3	0.0	0.8	42.2	0.0	42.2	0.0
Guinea	50.1	40.4	0.1	9.5	0.1	23.3	26.6	3.2	23.4	0.0
Guinea-Bissau	28.6	4.9	0.4	23.3	..	..	71.4	13.9	57.5	..
Haiti	90.3	3.4	0.2	85.9	0.8	0.0	9.5	0.7	8.8	0.2
Kiribati	87.9	48.3	28.7	9.2	2.3	..	12.1	..	..	..
Lao People's Dem. Rep.	31.8	27.7	1.3	1.8	1.0	0.1	39.1	0.8	38.3	29.0
Lesotho	..	..	..	..	..	..	..	..	..	..
Liberia	88.8	72.7	0.0	12.7	3.4	0.2	11.0	0.2	10.8	0.0
Madagascar	87.5	47.5	2.3	37.2	0.6	0.1	10.8	0.2	10.6	1.7
Malawi	52.8	35.7	2.5	12.5	2.1	6.4	39.7	0.9	38.8	1.0
Maldives	63.4	14.8	8.6	39.9	0.1	0.0	36.6	6.8	29.8	0.0
Mali	23.7	21.9	0.1	1.2	0.5	0.1	72.9	1.9	71.0	3.3
Mauritania	67.5	52.8	12.9	0.9	0.9	5.4	25.5	2.8	22.7	1.6
Mozambique	75.6	73.4	1.2	0.8	0.1	0.6	17.7	0.5	17.1	6.1
Myanmar	21.9	15.6	5.1	0.6	0.6	0.1	76.4	0.7	75.7	1.7
Nepal	43.0	17.5	1.1	23.4	1.1	0.0	54.0	0.0	54.0	3.0
Niger	66.4	48.8	8.0	9.7	0.0	..	33.5	24.4	9.1	..
Rwanda	13.3	10.7	0.0	2.5	0.1	0.9	53.6	37.6	16.0	32.2
Samoa	70.3	3.8	1.0	5.1	60.5	0.0	24.8	19.0	5.8	4.9
Sao Tome and Principe	64.4	62.4	..	1.0	1.0	..	35.6	2.0	33.7	..
Senegal	28.1	26.0	1.2	0.3	0.7	0.0	57.0	0.5	56.5	14.8
Sierra Leone	88.9	81.5	0.1	7.2	0.1	0.2	10.5	0.5	10.0	0.4
Solomon Islands	20.8	6.9	9.5	1.8	2.5	..	76.8	0.5	76.3	..
Somalia	2.0	1.0	0.6	0.4	0.1	0.0	97.9	29.9	68.0	0.1
Sudan	19.0	5.0	13.7	0.4	0.0	0.1	80.1	7.6	72.4	0.8
Timor-Leste	..	..	..	..	..	..	..	..	..	..
Togo	19.2	13.9	0.1	0.4	4.9	0.3	79.8	3.4	76.4	0.7
Tuvalu	68.4	68.4	..	..	0.0	0.0	26.3	..	..	5.3
Uganda	54.3	37.0	1.1	4.1	12.1	0.7	38.8	2.3	36.5	6.2
United Rep. of Tanzania	44.6	33.3	5.5	2.7	3.1	1.4	47.1	4.9	42.2	7.0
Vanuatu	22.0	12.1	7.3	1.1	1.5	0.0	77.7	6.0	71.7	0.2
Yemen	6.3	1.6	1.4	1.3	2.0	0.0	93.5	9.8	83.7	0.1
Zambia	35.4	17.4	7.7	2.5	7.8	0.1	64.5	0.9	63.6	0.0
LDCs	50.2	26.0	2.7	20.3	1.2	0.7	42.8	2.6	40.2	6.3
Total Developing	53.1	18.0	8.7	24.0	2.4	1.2	43.4	3.8	39.7	2.2

Source: UNCTAD, *Handbook of Statistics 2005*, based on data from IMF, *Direction of Trade Statistics*, CD-ROM.

ANNEX 2

MAIN SOURCES OF IMPORTS OF LDCs: PERCENTAGE SHARES IN 2004 (OR LATEST YEAR AVAILABLE)

	Developed economies						Developing economies			
Country	*Total*	*EU 25*	*Japan*	*USA and Canada*	*Others*	*South East Europe and CIS*	*Total*	*OPEC*	*Others*	*Un-allocated*
Afghanistan	27.2	14.9	3.4	8.4	0.6	14.9	57.9	1.5	56.4	0.0
Angola	64.7	43.8	6.7	13.2	1.0	0.9	34.3	0.4	33.9	0.0
Bangladesh	20.8	8.7	5.6	3.2	3.3	2.0	66.3	10.3	56.0	10.9
Benin	33.6	29.0	0.7	2.7	1.3	0.1	65.8	3.2	62.6	0.5
Bhutan	..	..	..	..	..	..	..	..	..	..
Burkina Faso	48.3	44.3	0.4	3.1	0.5	3.9	44.1	3.0	41.2	3.7
Burundi	46.8	32.7	4.4	8.7	1.1	0.3	49.2	0.8	48.3	3.8
Cambodia	9.3	4.1	2.5	1.9	0.8	0.2	90.5	3.3	87.2	0.0
Cape Verde	80.7	68.3	0.2	12.1	0.2	0.4	15.0	3.1	11.9	3.8
Central African Republic	46.3	29.1	1.0	15.9	0.1	0.2	26.9	0.9	26.0	26.6
Chad	66.7	54.2	0.1	11.6	0.7	2.6	30.7	6.3	24.5	0.0
Comoros	41.4	40.1	0.4	0.8	0.1	1.2	56.1	9.3	46.8	1.4
Dem. Rep. of the Congo	48.4	40.3	0.8	6.2	1.1	0.2	49.0	0.4	48.5	2.4
Djibouti	27.1	18.4	3.5	5.0	0.3	0.2	68.5	24.1	44.4	4.2
Equatorial Guinea	71.3	41.3	1.0	27.3	1.8	0.1	28.5	0.1	28.4	0.0
Eritrea	..	..	..	..	..	..	..	..	..	..
Ethiopia	38.0	18.3	3.1	15.7	0.9	4.9	48.7	26.6	22.1	8.4
Gambia	29.4	24.0	0.6	4.4	0.4	0.5	70.1	3.3	66.8	0.0
Guinea	54.1	42.8	1.4	6.3	3.6	1.9	43.7	3.4	40.3	0.3
Guinea-Bissau	40.7	39.4	0.1	1.0	0.1	0.3	46.7	0.0	46.7	12.2
Haiti	62.2	7.5	2.8	51.2	0.7	0.1	37.5	2.4	35.1	0.1
Kiribati	61.5	7.7	10.3	2.6	40.9	0.0	38.5	0.3	38.1	0.0
Lao People's Dem. Rep.	12.3	8.4	1.4	0.7	1.8	0.6	85.2	0.1	85.1	2.0
Lesotho	..	..	..	..	..	..	..	..	..	..
Liberia	33.0	10.8	19.9	1.3	0.9	5.5	61.6	0.1	61.5	0.0
Madagascar	33.3	28.9	1.6	2.3	0.5	0.3	57.6	10.5	47.1	8.8
Malawi	23.8	18.0	1.5	3.9	0.3	0.1	73.8	0.2	73.5	2.4
Maldives	20.2	12.3	1.2	2.2	4.5	0.0	79.6	9.6	70.0	0.2
Mali	31.1	27.3	0.3	2.9	0.6	1.6	57.3	0.7	56.5	10.0
Mauritania	57.3	44.9	2.7	7.6	2.1	2.9	30.2	3.2	26.9	9.6
Mozambique	25.1	9.9	1.2	3.8	10.2	0.0	48.2	1.9	46.3	26.6
Myanmar	7.3	3.0	3.1	0.4	0.9	1.9	90.6	1.9	88.7	0.1
Nepal	9.8	5.0	1.4	2.1	1.2	0.5	86.8	16.9	69.9	2.9
Niger	47.1	40.4	0.5	5.6	0.6	0.7	50.1	8.8	41.2	2.1
Rwanda	29.9	25.1	0.8	2.9	1.1	1.2	45.3	2.5	42.8	23.7
Samoa	46.5	2.3	7.2	4.6	32.4	0.0	52.7	3.3	49.4	0.8
Sao Tome and Principe	85.3	75.3	3.3	5.7	0.0	0.3	14.6	1.1	13.4	-0.1
Senegal	54.9	49.5	0.8	3.8	0.8	2.7	42.3	13.8	28.5	0.1
Sierra Leone	56.0	47.1	0.7	7.8	0.5	6.4	34.0	1.4	32.6	3.6
Solomon Islands	39.4	3.0	3.6	1.8	30.9	0.0	47.2	1.6	45.6	13.4
Somalia	6.8	4.8	0.0	1.8	0.2	0.0	80.4	6.0	74.4	12.7
Sudan	32.5	20.7	3.8	3.1	4.9	2.2	55.1	19.6	35.5	10.3
Timor-Leste	..	..	..	..	..	..	..	..	..	..
Togo	44.1	39.9	1.5	2.4	0.3	2.8	51.8	2.9	48.9	1.3
Tuvalu	46.2	13.8	17.1	1.2	14.4	0.0	53.8	0.0	53.8	0.0
Uganda	30.5	20.0	4.6	4.9	1.0	0.3	68.5	8.9	59.6	0.7
United Rep. of Tanzania	30.9	19.9	2.8	5.4	2.8	0.2	64.8	11.4	53.4	4.1
Vanuatu	36.2	3.2	9.5	3.7	19.8	0.0	62.2	0.3	61.9	1.6
Yemen	31.3	21.3	2.7	4.9	2.4	3.5	64.4	27.8	36.7	0.8
Zambia	15.5	10.6	1.0	2.5	1.3	0.1	84.4	5.5	79.0	0.0
All LDCs	32.9	20.8	4.1	5.8	2.3	2.2	60.1	8.7	51.3	4.8
Total Developing Countries	50.8	23.6	10.8	13.2	3.3	2.4	43.6	6.5	37.1	3.3

***Source**:* UNCTAD, *Handbook of Statistics 2005*, based on data from IMF, *Direction of Trade Statistics*, CD-ROM.

NEWS
(NATIONAL/INTERNATIONAL)

Symbolic Trade Access

Invest in LDCs' Economic Capacity

INDIA's decision to allow phased duty- and quota-free market access to the 50 least developed countries (LDCs) from Africa and Asia is at best a symbolic gesture. The discretion the government has reserved for itself can be used to effectively stymie any significant import from these countries. After the Hong Kong ministerial, where developed countries agreed to greater market access to LDCs, there has been a lot of pressure on developing countries to do their bit. China has already agreed to unilaterally allow duty-free imports of some goods from 39 LDCs with which it has bilateral relations. India, too, would like to stand up for the poorer nations, more so when it has high imports from LDCs but very little at low duties. But given a large negative list of over 700 items, it is unlikely the concession would amount to anything.

Anyway, even if India's offer were a superior one, it would not make much difference given the LDCs' inability to benefit from such concessions. Preferential arrangements or access has certainly helped LDCs increase their exports – from below world average in the early 1990s, LDC exports are now growing at a faster rate, albeit on a very low base. But the gains have been unevenly distributed – Bangladesh and Angola accounted for over 35 per cent of total LDC exports in 2004. Besides, given that primary products dominated the trade structure of these economies (fuel, farm products, and ores & non-ferrous metals account for about 60% of exports) this growth seems difficult to sustain. The problem, therefore, is not of market access, rather it's the LDCs' inability to produce marketable goods and services. This lack of capability and capacity needs to be addressed through investments before LDCs can benefit from liberal access. That, unfortunately, is not happening. In 2004, for instance, the total FDI into the 50 LDCs was a meagre $11 billion. If India wants to genuinely engage these countries diplomatically then investments-fuelled trade is a better option. It would do well to encourage Indian industry to explore options in these countries.

(*The Economic Times*, 17 October 2006)

Trade-off: Market for Support

India to Lower Tariff Barriers for 50 LDCs

INDIA is set to roll out duty-free, quota-free market access for 50 least developed countries (LDCs) from Africa and Asia. The economic-diplomacy is expected to win not just hearts but also the support of these nations at multilateral fora like the UN and WTO. On the domestic front, the move could face resistance from certain sections of the industry – especially small players – as competition would increase once these countries start tapping the Indian market.

A proposal to open up the Indian market to LDCs would be taken up soon by the Cabinet Committee on Economic Affairs (CCEA), government sources said. The customs duty concessions would be rolled out from 2007, and the tariffs completely eliminated in five years.

The Ministry of Commerce & Industry has submitted a detailed note to CCEA on the basis of inputs provided by the trade and economic relations committee (TERC) headed by Prime Minister Manmohan Singh.

To mute criticism from the local industry and farmers, the Ministry of Commerce & Industry has proposed a negative list of 776 items which would not be covered by the tariff concessions. In effect, agri products and goods produced by small units would be protected.

The move is being accorded great significance within the government as it gels with the Prime Minister's south-south cooperation plank. Also, India would be in a position to muster substantial support for its bid for a permanent berth in the UN's security council.

While enhanced market access for LDCs was agreed upon at the Hong Kong Ministerial of WTO, India had the option of not offering the concessions as it is a developing country. The sops are being offered voluntarily since India believes in supporting LDCs, sources said. Officials said many LDCs have seen erosion in exports after textile quotas were scrapped. India's gesture will give them an alternative market and also cut their dependence on western nations.

(*The Economic Times*, 10 October 2006)

Duty-Free and Quota-Free Market Access for Products

Originating from Least Developed Countries

THE Hong Kong Ministerial Declaration reaffirmed the commitment to effectively integrate the least developed countries (LDCs) into the multilateral trading system. Building on the commitment of the Doha Ministerial Declaration, developed and developing countries agreed to implement duty-free and quota-free market access for products originating from LDCs by 2008. Countries also agreed to take additional measures to provide effective market access, both at the border and otherwise, including simplified and transparent rules of origin, and to give priority to sectors and modes of supply of export interest to LDCs. Least developed countries, for their part, will be required to undertake commitments and concessions only to the extent consistent with their individual development, financial and trade needs and their administrative and institutional capabilities.

To facilitate accession of the LDCs to the WTO, priority will be given to concluding ongoing accession proceedings. To assist these countries in expanding their limited human and institutional trade-related capacities, the Declaration reaffirmed a commitment to enhance effective trade-related technical assistance and capacity-building on a priority basis. To ensure coherency, donors, multilateral agencies and international financial institutions were also requested to coordinate their work so that LDCs are not subjected to conditionalities on loans, grants and official development assistance that are inconsistent with their rights and obligations under the WTO agreements.

(*ESCAP Survey 2006*)

SAFTA & Pak: LDCs may Bolster India's Stand

INDIA is likely to get the support of least developed country (LDC) members of the SAFTA (South Asia Free Trade Agreement) in its fight against Pakistan's refusal to implement the agreement in its letter and spirit.

The implementation of the agreement is yet to take off due to certain technical snags and also due to the dispute raised by India against Pakistan's decision of not extending to India the same tariff benefits as it is doing to other SAARC countries. Officials said LDC members like Bangladesh were increasingly getting impatient with Pakistan for creating conditions resulting in uncertainty for the future of the agreement.

It has been argued that this problem should be resolved through initiation of bilateral consultations as it is a complaint only one country has with another. "This matter does not concern India alone. It is a negation of SAFTA and jeopardizes the implementation of the agreement," officials said.

According to them, Pakistan's policy affects all contracting parties and questions the future direction that the agreement might take, as it threatens to unravel the entire agreement including trade concessions.

(*The Financial Express*, 29 August 2006)

India to Offer Tariff Concessions to Least Developed African Nations

NEW DELHI's allegiance to the LDCs at the WTO fora is not shallow. Notwithstanding the collapse of WTO talks, the Government is set to extend the unilateral trade preference (UTP) scheme to all LDCs in Africa and also to some other such countries, which have no trade agreements with India. The UTP scheme is about unilateral offer of tariff concessions and easing other restrictions on trade to give market access. The aim was to promote South-South economic cooperation, Commerce and Industry Minister, Shri Kamal Nath said.

Shri Nath, however, said that there was no move to offer any more incentives to the LDCs in South Asia, than what are being offered under the SAFTA. Under SAFTA, the schedule for implementation of tariff reduction is 10 years for LDCs—Bangladesh, Bhutan and Nepal—while the same is 5-6 years for other countries.

"India, being a large economy, has to reach out to such countries," Shri Nath said, adding duty concessions to African countries were under consideration.

Having completed consultations with most of the other ministries, the Commerce Ministry will moot the proposal to Cabinet soon for its clearance.

As per the United Nations, the socio-economic development indicators and the human development index of the LDCs are the lowest in the world. Thirty-four of these 50 countries are located in Sub-Saharan Africa, while 10 are in Asia. Bangladesh, Nepal, Bhutan and Maldives are among the LDCs under SAFTA, while India, Pakistan and Sri Lanka are developing countries. Under SAFTA, LDCs are accorded more flexibility than developing countries in tariff reduction commitments. As per the Bangkok Agreement under the Economic and Social Commission for Asia and the Pacific (ESCAP) for expansion of trade through tariff concessions exchange, Bangladesh is the lone LDC India had okayed to forward UTP scheme on 25 items on a non-reciprocity basis.

(*The Financial Express*, 8 August 2006)

What are the Least Developed Countries?

SINCE 1971, the United Nations has denominated "Least Developed Countries" (LDCs) a category of States that are deemed highly disadvantaged in their development process (many of them for geographical reasons), and facing more than other countries the risk of failing to come out of poverty. As such, the LDCs are considered to be in need of the highest degree of attention on the part of the international community.

The following criteria are used in the 2006 review of the list of LDCs undertaken by the UN Economic and Social Council:

(a) A "low-income" criterion, based on the *gross national income (GNI) per capita* (a 3-year average, 2002–2004), with thresholds of $750 for cases of addition to the list, and $900 for cases of graduation from LDC status;

(b) A "human assets" criterion, involving a composite index (the *Human Assets Index*) based on indicators of (i) nutrition (percentage of the population undernourished); (ii) health (child mortality rate); (iii) school enrolment (gross secondary school enrolment rate); and (iv) literacy (adult literacy rate); and

(c) An "economic vulnerability" criterion, involving a composite index (the *Economic Vulnerability Index*) based on indicators of (i) natural shocks (index of instability of agricultural production; share of population displaced by natural disasters); (ii) trade shocks (index of instability of exports of goods and services; (iii) exposure to shocks (share of agriculture, forestry and fisheries in GDP; merchandise export concentration index); (iv) economic smallness (population in logarithm); and (v) economic remoteness (index of remoteness).

Facts about Least Developed Countries (LDCs)*

Aid

- Aid (official development assistance, or ODA) to LDCs doubled between 1999 and 2004, to a record US$24.9 billion
- 30 per cent of this increase went to Afghanistan and the Democratic Republic of the Congo
- Over the same period, net ODA either stagnated or declined in real terms for almost half of LDCs

Debt and Debt Relief

- LDCs' total debt burden increased to a record $158.9 billion in 2003, up $20.8 billion from 2001
- Among LDCs which have reached the "completion point" for debt relief under the

Highly Indebted Poor Countries Initiative (HIPC), 60 per cent of debt relief went to Ethiopia, Mozambique, Tanzania, and Zambia

- Among LDCs which have reached the "decision point" under HIPC, the Democratic Republic of the Congo has received 65 per cent of the debt relief granted

Exports

- LDC merchandise exports reached a record $57.8 billion in 2004, up $11.9 billion from 2003
- But the four largest oil-exporting LDCs — Angola, Equatorial Guinea, Sudan, and Yemen — accounted for 56 per cent of that increase
- Despite increased exports, LDCs generated only 0.6 per cent of world merchandise exports in 2004

Investment

- Foreign direct investment (FDI) in LDCs increased to a record $10.7 billion in 2004 — but that is only 1.6 per cent of world FDI inflows
- 70 per cent of such investment in LDCs in 2004 went to six oil-rich countries: Angola, Chad, Equatorial Guinea, Mauritania, Sudan, and Yemen

Long-term Trend of Economic Growth

- Between 1980 and 2003, LDCs as a group averaged 0.7 per cent growth per year
- Historically, LDC performance has been erratic, with periods of high growth usually followed by collapses. Between 1980 and 2003, seven out of 40 LDCs for which data are available were able to carry out steady growth, while 12 had severe output losses and subsequently staged recoveries, and 21 suffered severe economic collapses

Sectoral Pattern of Economic Growth

- During 2000-2003 agriculture continued to employ about 70 per cent of the labour force, considerably more than in other developing countries (52%) and in developed countries (3%)
- The decade 2000-2010 will be the first, however, in which the population seeking employment outside agriculture in LDCs will grow more quickly than the population seeking employment within agriculture
- Expansion of the services sector of LDCs is largely attributable to an increase in low value-added services (such as retail, wholesale, and gastronomy) rather than advanced commercial services (such as banking and business support). Low value-added services accounted for 60 per cent of total services in LDCs for the period 2000-2003
- Increases in industry value-added in LDCs have reflected an expansion of extractive industries (such as oil and minerals) rather than growth in manufacturing. Of a mild increase in manufacturing value-added between 1990-1993 and 2000-2003, half was attributable to Bangladesh
- Manufacturing value-added actually declined over that period in 19 of 36 LDCs for which data are available

Labour Force and Labour Productivity

- The labour force in the LDCs grew by 71 million between 1990 and 2000. It is expected to grow by another 89 million by 2010 to a total of 401 million.
- Between 1980-1983 and 2000-2003, labour productivity in non-agricultural sectors declined in four-fifths of the LDCs; labour productivity in agriculture increased in two-thirds, but only slightly
- The productivity gap between the poorest and the more advanced countries increased. Between 1980-1983 and 2000-2003, labour productivity in LDCs increased by 12 per cent, while in other developing countries it climbed by 55 per cent

Infrastructure Weaknesses

- In 2002, electricity consumption per capita in LDCs was 7 per cent of the level in other developing countries and 1.6 per cent of the level in OECD countries In 1999, the length of roads per square kilometer and the length of roads per capita in LDCs were about half the level of other developing countries, and one-fifth the level of OECD countries
- In 2003, telephone mainlines and fixed mobile phones per 1,000 people in LDCs were 11 per cent of the level in other developing countries and 3 per cent of the level in OECD countries

Education

- In recent years, only 6 per cent of the population aged 20-24 in LDCs was enrolled in tertiary education, compared with 23 per cent in other developing countries and 57 per cent in OECD countries. The share of engineering enrolment within tertiary enrolment in LDCs is just over half the level of other developing countries
- In 2001, technical and vocational education constituted only 2.6 per cent of total secondary enrolment in the LDCs on average, as against 10.4 per cent in developing countries and 25 per cent in OECD countries
- The average years of schooling of the adult population in LDCs in 2000 was 3 years – less than the level in other developing countries in 1960.

(www.unctad.org/www.wto.org)

FAO Blames Developed Nations for Doha Failure

THE Food and Agriculture Organization (FAO) has criticized the approach of the developed countries in the Doha Round trade talks - that of "free trade rather than fair trade". "The Doha Round of international trade negotiations collapsed mainly because of a fight for advantage in agricultural markets by large and powerful countries, corporations and lobbies," FAO said.

FAO advised WTO member countries to have a more participatory approach in trade talks when the talks resume. The Doha Round should be a true development round and should be approached in a more participatory way, it said, adding that it should address domestic subsidies and market access issues such that they do not undermine development. It should deal seriously with questions related to supply-side capacity and related investment needs for the LDCs to benefit from market opportunities resulting from a fair trade, it said. "Present competition is between corporations using modern technologies and small farmers without adequate water control and basic rural infrastructure."

According to FAO, though the negotiations were expected to address trade issues related to the needs of poor countries and small farmers, "they never got round to these issues and as a result the Doha Round collapsed because of a fundamental lack of fairness in its vision, its process and projected outcomes".

One of the faults in the negotiations is that they focused on the problem of high levels of budgetary support and import protection in several developed countries, FAO said. Without mentioning names, FAO pointed out that one of the three largest agricultural subsidizers would not cut its agricultural subsidies to a level acceptable to the others, and another of the three would not reduce its agricultural tariffs by an acceptable amount. Developed countries demanded that developing countries open their markets in order to agree to better terms for their exports, it said.

Another reason for the failure of the Doha talks is that developing countries had little to gain from an agreement centred on concerns of large developed countries. "The Doha Round's focus was largely irrelevant to the LDCs which have seen almost no gains from past WTO agricultural trade agreements," FAO said.

(*The Economic Times*, 15 August 2006)

Boxing Match in Agricultural Trade

Will WTO Negotiations Knock Out the World's Poorest Farmers?

NINETY-SIX per cent of the world's farmers live in developing countries, where agriculture provides the main source of income for some 2.5 billion people. Despite growing urbanization, two-thirds of the world's poor still live in rural areas and nearly three-quarters of the workforce of the Least Developed Countries (LDCs) are employed in agriculture. While the demand for food continues to grow in developing countries, 17 per cent of their populations are already undernourished.

The agricultural sector in developing countries is, in other words, critical to food security, poverty reduction, and economic growth. It is therefore crucial that agricultural trade rules are designed to foster agricultural growth in these countries. However, the system which governs world agricultural trade, in the form of the Uruguay Round

Agreement on Agriculture (AoA), is inherently unjust. It legalizes unfair trading practices by rich countries, thereby denying poorer countries the chance to benefit from their share of the wealth generated by global trade.

> Agricultural trade could play a key role in the fight against poverty. But in practice the rules which govern world agricultural trade benefit the rich rather than the poor. Rich countries spend vast sums of money protecting the interests of their producers, while at the same time forcing poor countries to open their markets to subsidized imports. Achieving an equitable outcome from the WTO agricultural negotiations will be a litmus test of the so-called Doha Development Round. Developing countries should not sign a new agricultural agreement if their vital development needs are not adequately addressed.

The Agreement's main flaw is that it allows rich countries to dump their subsidy-driven surpluses on world markets, depressing prices to levels at which local producers can no longer compete. Developing-country domestic markets are thus undermined, their import dependence increased, and export opportunities denied. US subsidies on cotton, for example, have stimulated over-production, leading to a slump in cotton prices on the world market. As a consequence, cotton exporting countries in sub-Saharan Africa lost an estimated $301m in export earnings in the 2001-02 season alone. Millions of African cotton farmers now see their livelihoods under threat.

What makes it worse – and illustrates the spectacular double standards at play – is that rich-country members of the WTO, while protecting and subsidizing their own domestic producers, have at the same time been forcing developing countries to open their markets. Haiti, for example, is now one of the most open economies in the world. Under pressure from the IMF and the US, it cut its tariff on rice to a mere 3 per cent. As a result, rice imports – mostly subsidized rice from the US – increased thirty-fold. The price of rice in Haiti has hardly fallen, and malnutrition now affects 62 per cent of the population, up from 48 per cent in the early 1980s. Big rice traders and American rice farmers have emerged as the winners of this process.

At the same time, high tariffs in rich countries continue to limit marketing and diversification opportunities for developing countries. As a result, the liberalization of agricultural markets has mainly benefited the few transnational companies that dominate agricultural trade, and a tiny minority of wealthy landowners in developed countries. Farmers in developing countries captured only 35 per cent of world agricultural exports in 2001 – down from 40 per cent in 1961, as a result of falling commodity prices and high trade barriers.

Rich countries have clearly stacked the advantages of the AoA in their own favour. Tailoring the rules to their specific situations, they have secured the right to subsidize their own farmers at almost unlimited levels. Since the introduction of the Agreement on Agriculture in 1995, domestic subsidies in the OECD countries have not fallen but actually increased.

Many developing countries, which have limited funds to subsidize agricultural development, see domestic market protection as the major policy instrument to support their agricultural sectors and secure the livelihoods of their rural poor. The AoA, however, has considerably reduced the flexibility they have to protect their agricultural markets. Future negotiations threaten to reduce that room for manoeuvre even more.

WTO negotiations for a new agricultural agreement are due to be concluded in 2005 but are now reaching a critical phase where the basic rules are being redefined. Instead of working towards rebalancing the current agreement, rich countries are fighting to protect their privileges, and completely failing to register the very specific needs of developing countries. Achieving an equitable outcome from the WTO agricultural negotiations will be a litmus test of the so-called Doha Development Round. Developing countries should not sign a new agreement that condones export dumping and prevents the protection of rural livelihoods and food security.

Oxfam is, therefore, recommending that the Agreement on Agriculture under negotiation be accompanied by an interpretative note establishing members' rights to take necessary measures to protect the livelihoods and food security of all their citizens. In addition, the Agreement should be amended in order to:

1. ***End all forms of dumping of agricultural products.*** This entails:

- A binding timetable to eliminate all export subsidies, including the subsidy element of export credits;
- Stronger disciplines on domestic subsidies that facilitate export dumping (exporting products at prices below their production cost)
- Stronger disciplines on food aid;
- The right for developing countries to apply additional tariff duties while phasing out trade-distorting support.

2. ***Recognize the special position of developing countries by providing meaningful Special and Differential Treatment*** such as:

- Lower reduction commitments for developing countries on tariffs, internal support and export subsidies, with no commitments for LDCs;
- Timeframes for liberalization based on development indicators;
- Market access under Tariff Rate Quotas preferentially allocated to developing countries;
- A renewed 'Decision on Measures Concerning the Possible Negative Effects of the Reform Programme in Least-Developed and Net Food-Importing Countries'.

3. ***Provide developing countries with sufficient flexibility to achieve their food security and development objectives.*** To that end introduce a Development Box which, among other things, includes:

- Basic food security crops in developing countries exempt from reduction commitments on tariffs;
- The right to renegotiate excessively low tariff bindings for food security crops;
- A new Special Safeguard Mechanism available to all developing countries.

4. ***Improve market access conditions for developing countries.***

Composition of Merchandise Trade of LDCs

UNCTAD data show that in 2000–2003 primary commodities constituted almost two-thirds of the merchandise exports of the Least Developed Countries (LDCs) as a group and over one-third of their total merchandise imports. As illustrated in Table, fuel exports were in 2000–2003 the leading source of total LDCs' export revenues and surpassed export receipts from manufactures, the second source of merchandise export receipts in the LDCs. In that period, fuel exports represented 40 per cent of the LDCs' total merchandise export receipts, while exports of manufactured goods averaged 33 per cent. Food items were in third position (14% of total LDCs merchandise exports), followed by agricultural raw materials (6%) and minerals, metals and ores (5%).

During the same period, the LDCs as a group had a trade surplus in fuels, agricultural raw

MERCHANDISE TRADE STRUCTURE IN LDCS, 2000-2003

(SECTORS AS PER CENT OF EXPORTS, IMPORTS AND NET TRADE)

	% of total LDC exports	*% of total LDC imports*	*% of LDC net trade*
All food items	13.6	19.6	-38.6
Agricultural raw materials	6.0	2.5	8.6
Fuels	39.7	11.1	79.5
Metals and Ores	5.3	1.2	11.5
Manufactured goods:	32.8	62.7	-157.5
Chemical products	1.6	9.3	- 33.7
Other manufactured goods	29.6	27.6	-21.4
Machinery and transport equipment	1.6	25.8	-102.4
Unallocated	2.7	2.9	- 3.6
Primary commodities	64.6	34.4	61.1
Non-fuel primary commodities	24.8	23.3	-18.5

Products have been classified by sector according to the SITC Revision 2 group (3-digit level). All food items include codes 0+1+22+4; agricultural raw materials include codes 2 less (22+27+28); fuels include codes 3; ores and metals include codes 27+28+68; manufactured goods include codes 5 to 8 less 68; chemical products include code 5 products; other manufactured goods include code 6+8 less 68 products; machinery and transport equipment include code 7 products. Primary commodities are the sum of all sectors with the exception of manufactured goods and unallocated goods. Non-fuel primary commodities are primary commodities excluding fuels. Negative value means a deficit in the sector.

Note: No data available for Timor-Leste.

Source: UNCTAD Secretariat estimates based on UN COMTRADE.

materials and minerals, metals and ores. But the LDCs' trade surplus in fuels was driven by the few oil-exporting LDCs. The majority of the LDCs are likely to have been quite adversely affected by the recent surge in the price of oil. Petroleum products imports accounted for 10.7 per cent of the LDCs' total merchandise imports bill in 2000-03, compared with 8.9 per cent in the group of other developing countries.

Interestingly, if fuels are excluded from the LDC trade basket, the LDCs were net primary commodity importers during 2000–2003. This non-fuel net primary import position has been apparent since 1998 and is explained by the deepening of the LDCs' deficit in food trade, which outweighed the LDCs' traditional trade surplus position in agricultural raw materials and in minerals, metals and ores. In contrast, the other developing countries (excl. China) remained net primary commodity exporters throughout the whole of the 1990–2003 period, even when fuel products are excluded.

Although food exports constituted 13.6 per cent of the LDCs' total exports in 2000-03, the overwhelming majority of LDCs were net food-importing countries, with food imports averaging almost one fifth of their total imports. The group of other developing countries were less dependent on food trade, which accounted for 7 per cent of their total exports and imports respectively. It should be noted that the food import capacity of LDCs deteriorated drastically over the 1997–2003 period as the result of a substantial escalation of their food import bill. Between 2002 and 2003, the LDCs' food import bill increased by over $1 billion and reached $7.6 billion in the latter year, whereas the LDCs' food export receipts decreased by $0.2 billion and barely totalled $2.2 billion. The negative trend in the LDCs' food import capacity accelerated particularly in 2000-01, which coincides with the beginning of the period of increasing food prices. Against this background, the short-term food price effects of the removal of agricultural export subsidies in OECD countries, agreed as part of the Doha negotiations, will need to be closely monitored.

Because they are net food importers, most of the LDCs are particularly vulnerable to swings in the prices of food items and to the financial terms attached to food imports (i.e. their concessionality level). This is particularly relevant for cereal products, which constituted over 40 per cent of the LDCs' total food imports in 2000-03. The combination of rising food prices and rising fuel prices is likely to have a marked negative impact on the trade balance of LDCs.

Exports of manufactured goods, in particular capital-intensive manufactured goods, constitute a much smaller share of total LDC exports than of other developing countries' exports. In 2000–2003 the share of manufactured goods in total merchandise exports of LDCs was 33 per cent (22% without Bangladesh). In contrast, during the same period, exports of manufactured goods generated 70 per cent of the merchandise export revenues of the group of other developing countries (66% without China). The LDCs' manufactured exports were mainly composed of labour-intensive products, such as textiles, garments and footwear. In 2000–2003 these constituted 23 per cent of total LDC merchandise exports (11.8% without Bangladesh). In contrast, the manufactured exports of the group of other developing countries were dominated by capital-intensive products such as machinery and transport equipment. These constituted 37 per cent of their total merchandise exports (versus 1.6% in the LDCs). On the import side, machinery and transport equipment represented a much lower share of total merchandise imports in the LDCs than in the group of other developing countries. The ratio of capital goods imports to total imports averaged 25.8 per cent in the LDCs versus 42.4 per cent in the group of other developing countries in 2000–2003.

Finally, it should be noted that despite the impressive export performance, the share of LDCs in world exports remains marginal both in aggregate and in major export sectors. In 2000–2003, the exports of LDCs as a group constituted 0.54 per cent of total world merchandise exports. LDC exports averaged 2 per cent of world fuel exports in 2000-03, 1.8 per cent of world agricultural raw materials exports, 1 per cent of world food exports, 1 per cent of world exports of minerals, metals and ores and 0.2 per cent of world manufactures exports.

(UNCTAD, LDC Report 2006)

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BOOKS/ARTICLES NOTES

BOOKS

The Least Developed Countries Report 2006: Developing Productive Capacities, United Nations Conference on Trade and Development, Geneva, 2006.

THIS Report shows that in almost all the Least Developed Countries (LDCs) there is an imbalance between the rate of growth of the labour force, and the rate of capital accumulation and technological progress. As a result, most workers have to earn their living using their raw labour, with rudimentary tools and equipment, little education and training, and poor infrastructure. Labour productivity is low and there is widespread underemployment. This is the basic cause of persistent mass poverty in the LDCs.

The development of productive capacities in a way in which productive employment opportunities expand - in non-agricultural activities as well as within agriculture - is the key to achieving substantial and sustained poverty reduction in the LDCs. The Report thus calls for the development of productive capacities to be placed at the heart of national and international policies to promote economic growth and poverty reduction in the LDCs.

The LDCs are a group of 50 countries which have been identified as "least developed" in terms of their low GDP per capita, their weak human assets and their high degree of economic vulnerability. The first part of this Report reviews recent economic trends in the LDCs and progress towards the development targets agreed at the Third United Nations Conference on the LDCs (UNLDC III), held in Brussels in 2001. The second part of the Report focuses on the issue of developing productive capacities in the LDCs.

The Least Developed Countries Report 2004: Linking International Trade with Poverty Reduction, United Nations Conference on Trade and Development, Geneva, 2004.

THIS Report shows that most LDCs undertook deep trade liberalization in the 1990s. They also received some degree of preferential market access from developed and developing countries. But trade liberalization plus enhanced market access does not necessarily enhance poverty reduction. Many LDCs are today grappling with challenges like how to become self reliant, self sufficient, more productive and benefit from this multilateral trading system. They feel they look up to processes of globalization and multilateral trading regime for their economic development. But the conflicts existing in these processes are hardly helping them to achieve their targets.

If past trends persist, the LDCs are likely to become the major focus of extreme poverty in the world economy by 2015. A more effective link between international trade and poverty reduction could help to prevent this happening. Action is required now on three fronts: a two-way main-streaming of both trade and development within national poverty reduction strategies; increased and effective international financial and technical assistance for developing domestic production and trade capacities; and an enabling international trade regime, which includes (i) phasing out by OECD countries of agricultural support measures that adversely affect LDCs, (ii) new international policies to reduce vulnerability to negative commodity price shocks and to address the special challenges facing marginal economies, (iii) more effective market access preferences for the LDCs complemented by new supply-side preferences, and (iv) enhanced South-South cooperation in the field of trade and investment.

The Least developed countries (LDCs) are a group of 50 countries that have been identified by the United Nations as "least developed" in terms of their low gross national income per capita, their weak human assets and their high degree of economic vulnerability. In almost all these countries, the majority of the population lives in extreme poverty.

The Report argues that international trade can play a major role in reducing poverty in the LDCs. However, in practice this is not happening in many of them. In some this is due to a weak trade performance. But most of the LDCs achieved much higher rates of export growth in the 1990s than in the 1980s. The failure of trade expansion leading to poverty reduction has been related to weaker linkages between trade and economic growth than in the more advanced developing countries.

Duty and Quota-Free Access for LDCs: Further Evidence from CGE Modelling by Bijit Bora, Lucian Cernat and Alessandro Turrini, United Nation Conference on Trade and Development, Geneva, 2002.

THE paper makes an attempt to assess the effects of trade policy initiatives aimed at improving market access for LDCs in quad countries (Canada, European Union, Japan and United States). The Study simulates the effects of two policy scenarios:

(i) Elimination of all tariffs and non tariff barriers against LDCs in the European Union. This experiment is aimed at simulating the effects of the already approved EBA initiative.

(ii) Elimination of tariffs and non tariff barriers faced by LDCs in the European Union. This experiment analyzes the effects of a hypothetical coordinated action where the other Quad countries follow the lead of the European Union.

Results show that non-reciprocal preferential trade liberalization targeted at LDCs is likely to entail non-negligible gains to beneficiary countries coupled with negligible losses for donor and third countries. When the only donor country is the European Union (EBA initiative), the gains accrue mainly to Sub-Saharan African countries, and are mostly explained by improved terms of trade for beneficiaries. In this case, the key sectors are paddy and processed rice, and sugar. Increased exports from LDCs are directed almost only to the European Union. When liberalization occurs in all Quad countries, the benefits from duty-free and quota-free market access rise substantially. Overall, welfare gains are ten times higher compared with EBA. All beneficiary countries gain notably more, and countries like Bangladesh and the rest of Sub-Saharan Africa enjoy disproportionately higher gains. In this case, in addition to rice and sugar, key sectors to benefit are wearing apparel, other food and dairy products. Increased export flows from some LDCs are still mainly directed to the European Union under this scenario. For other beneficiary countries, however, the rise in exports is basically targeted to the US market (Bangladesh), and to Japan (rest of Sub-Saharan Africa).

UNCTAD's Contribution to the Mid-Term Review of the Programme of Action for LDCs for the Decade 2001-2010: United Nations Conference on Trade and Development, New York, 2006.

THE purpose of this report is to provide an overview and synthesis of the country case studies and national reports including policy lessons from the experiences of countries covered by the project. Based on the experience and lessons drawn from the country case studies, national reports, the outcome of the Expert Meeting and, the research and policy analysis work of UNCTAD, the report also puts forward policy conclusions and recommendations aimed at assisting the further implementation of actions and commitments of the Programme of Action at the national and international levels. The report will be a further contribution of UNCTAD to the MTR. It is hoped that LDCs and their development partners would give due attention to and, take into account the policy lessons, conclusions and recommendations therein, in their collective efforts to enhance the full and effective implementation of actions and commitments of the PoA in the year ahead. UNCTAD, as a long time development partner of LDCs, would continue to implement actions and commitments of the PoA as they relate to its mandates and competence.

Trade and Environment Review 2006: United Nations Conference on Trade and Development, New York, 2006.

THE Trade and Environment Review 2006 examines some specific examples and sectors to show what governments and other key stakeholders in developed and developing countries could do to limit the trade-restricting effects of environmental requirements and to maximize their contribution to sustainable development in developing countries, for example by helping to enhance resource efficiency, lower emission intensity and improve occupational safety. The Review also elaborates on how countries could seize the export opportunities arising from more stringent environmental requirements and growing markets for environmentally preferable products.

The Review highlights the fact that the role of WTO rules and disciplines for limiting the trade-restrictiveness of environmental requirements is often overestimated. WTO Agreements can also do little to overcome the supply-related capacity constraints of exporting developing countries or contribute to turning environmental requirements into a catalyst for sustainable development. This Review addresses these crucial issues, including what UNCTAD can do, in particular in the context of the new Consultative Task Force on Environmental Requirements and Market Access for Developing Countries, and the UNCTAD/FAO/IFOAM International Task force on Harmonization and Equivalence in Organic Agriculture.

The Review says that exporting developing countries will have to become much more strategic and proactive in coping with environmental requirements.

Duty and Quota Free Market Access for LDCs: An Analysis of Quad Initiatives: United Nations Conference on Trade and Development, Geneva 2001.

THIS study focuses on providing a better understanding of current preference schemes; their value to LDCs; and how that value can be diminished as a result of their limitations. One of the key conclusions is that there would be positive gains to LDCs if Canada, Japan, the United States and the European Union offered quota- and duty-free market access to all products originating from LDC, with the exception of arms. The study examines the costs and benefits of extending the EU's EBA policy. This book suggests how the practical benefits of such policies can be made available to LDCs.

World Trade Organization (WTO) and Developing Countries by Surendra Bhandari, 1998.

THE book suggests that WTO is a significant step for pulling out the developing countries from the paradoxical rupture of "no rule situation" on access to the international market while ensuring them with comparative advantages and better competitive environment.

The book deals with the controversy behind the conclusion of the WTO in its historical perspective. Primarily written from the developing countries point of view, it takes into account the other major economic events, viz. the birth of the UNCTAD, Resolutions of NIEO and the Generalized Scheme of Preferences, and the growing importance of developing countries in the world trade particularly in the newly industrializing economies (NIEs), whose role in the world trade has become increasingly vital since the 1970s.

It favours multilateralism and harmonization of international trade rule. Though, it recognizes the WTO as both an opportunity and risk to Developing Countries particularly to the LDCs, the book argues that the rule based system and the effective mechanism of WTO ensures opportunities to them.

The major challenge posed to Developing Countries and Least Developed Countries is no more the extraneous one rather it is their own counterproductive and functional structural-functional pattern of state and government.

Interests and Options of Developing and Least-developed Countries in a New Round of Multilateral Trade Negotiations edited by T. Ademola Oyejide United Nations Conference on Trade and Development, No. 2, May 2000, Geneva.

THIS Paper discusses the trade-strategy options for low-income countries, an area of general concern to developing countries. The biggest challenge for developing countries is how to involve the LDCs in the negotiation process and how best they can enhance the effectiveness of their participation in the new round of multilateral trade negotiations, and also makes some suggestions on how to change WTO governance and management structures in order to ensure that the concerns of low-income members are given greater prominence in the Organization's activities.

Converting LDC Export Opportunities into Business: A Strategic Response, International Trade Centre UNCTAD/WTO Geneva 2001.

ITC organized a Business Sector Round Table for the Third United Nations Conference on the Least Developed Countries (14-20 May 2001) as an opportunity for analyzing and revealing export potential in LDCs as a whole, focusing on sectors of particular importance to these countries and highlighting constraints as well as opportunities.

At the Round Table, three main issues were posed for discussion. The first was: 'What realistic export opportunities are there for LDCs?' The two other issues were explored in more detail during an e-discussion, opened to a wider audience: 'How can successful exporters become less the exception and more the rule in LDCs?' and 'How can exports make the difference in reducing poverty?'

This book is based largely on research conducted for the Round Table. It notes the opportunities for LDCs in current markets. It draws lessons from successful entrepreneurs and describes a framework for turning opportunities into business. It reviews the possibilities in 13 trade sectors of major potential for LDCs. It looks at the measures that can encourage the creation of an enabling environment, including the range of trade support services that can help exporters to do better.

ARTICLES

Tariff Preferences, WTO Negotiations and the LDCs: The Case of the "Everything But Arms' Initiative" by Wusheng Yu and Trine Vig Jensen *The World Economy*, Vol. 28, No. 3, March 2005, pp. 375-405.

LEAST Developed Countries (LDCs) have been receiving tariff preferences from the developed countries for many years and have relied on them to export to these markets. The attractiveness of these preferences is made possible by the lower trade barriers faced by the LDCs.

To demonstrate the above-mentioned policy challenges concerning the LDCs, the article analyzes a specific policy initiative - the recently adopted 'Everything But Arms' initiative (EBA for short) of the EU - in the context of multilateral trade liberalizations. In doing so, the author provides some quantitative evidence to the debates on whether trade barriers maintained by the rich countries harm the LDCs, and whether the LDCs are able to benefit from multilateral trade reforms. These evidences are also useful in drawing out policy recommendations for the LDCs.

In short, this paper offers a description of the EBA. It discusses the model and data used for the quantitative analysis. It provides a number of policy prescriptions looking at the trade prospects of these countries. A summary on the LDCs' position in the WTO negotiations indicates that in the new round of trade negotiations, they will be better off by embracing this opportunity to reform their own protectionist trade policies.

The Challenges of WTO Law: Strategies for Developing Country Adaptation by Gregory Shaffer, *World Trade Review*, Vol. 5, No. 2, July 2006, pp. 177-198.

ALTHOUGH developing countries vary significantly in terms of trading profiles, they generally face three primary challenges if they are to participate effectively in the WTO dispute settlement system. These challenges are: (i) relative lack of legal expertise in WTO law; (ii) constrained financial resources, including for the hiring of outside counsel; and (iii) fear of political and economic pressure. This paper explores various strategies for responding to these three challenges, none of which involves a modification of the rules of the WTO's understanding on rules and procedures governing settlement of disputes or of WTO jurisprudence. WTO members have been discussing an amendment of the DSU through a special negotiating session since 1997, but without reaching any consensus.

If developing countries are to participate meaningfully in the WTO dispute settlement system, they will need to continue to increase institutional capacity and coordination of trade policy at multiple levels, from the national to the regional to the global.

If developing countries are to deploy the WTO law to their advantage, they will need to maintain routine on-going procedures for gathering, processing and prioritizing information from foreign embassies, the private sector, and international trade consultants regarding foreign trade barriers. Since developing countries face different contexts, there is no single strategy that fits them all.

The primary purpose of the article is to highlight options and provoke imaginative debate and experimentation with strategies that developing countries and their constituencies may adopt to better defend themselves in the international trading system.

Market Access for LDCs under the Hong Kong Ministerial of the WTO by M. Rafiqul Islam and M.K. Zaman, *Journal of World Investment & Trade*, Vol. 7, No. 3, June 2006, pp. 383-406.

THIS article examines the S&D provisions of the Hong Kong Ministerial in view of the specific commitments pledged for relieving the marginalized position of LDCs in particular. In so doing, it critically analyzes, among others, the market-access opportunities of LDCs to developed countries' markets. It reveals that such access is limited and riddled with conditions and caveats. Rampant protectionist trade policies and measures of developed countries against products of export interest to LDCs have been pushing LDC to further marginalization and militating against the 2001 Doha Development Agenda (DDA). The Hong Kong Declaration has introduced new trend of giving preferential treatment to some LDCs and not to others, thereby allowing developed countries to "divide and conquer" in order to reap the benefits of trade in their own favour. After sixty years of institutionalized trade liberalization, the system is yet to protect the legitimate trading interests of its most vulnerable members. The plight and dilemma of Bangladesh, once the leader of the LDCs, is highlighted and commented upon to show the continuing marginalization of LDCs in the post-Hong Kong era.

Erosion of Preferences for the Least Developed Countries: Assessment of Effects and Mitigation Options by the UNCTAD Secretariat, TD/B/52/4, 4 August 2005, p. 21.

IN an effort to assess the value of trade preferences and their erosion as a result of MFN tariff reduction, this article highlights the countries and products that are benefiting most from recent preferential market access initiatives of the EU, Japan and the United States in favour of LDCs.

The article briefly examines possible measures to mitigate the adverse effects of preference erosion. Besides it calls for deepening existing preferences and seeking financial compensation for countries most severely affected by the erosion phenomenon. It says, there is growing recognition of the importance of extending the notion of preferential treatment to policy areas other than market access preference. This involves action of direct relevance to productive capacities, with a view to reducing LDCs' dependence on trade preferences and their exposure to the risk of erosion.

Market Access, Market Entry and Competitiveness by the UNCTAD Secretariat, TD/B/COM.1/76, 12 January 2006, p. 23.

THIS article analyzes some key aspects of market access, market entry and competitiveness with special reference to developing countries and the least developed countries (LDCs). The analysis covers trends in trade and tariffs; market access issues in the Doha Round; salient issues relating to non-tariff barriers (NTBs); adjustment to trade liberalization, and the concept of 'aid for trade'; and determinants of competitive export performance. Special reference is given to dynamic and new sectors of world trade.

Development Dimension of Doha Agenda: A Major Concern for South Asia by Salma Chaudhuri Zohir & Narayan Chandra Nath, CUTS Briefing Paper No. 6/2005, p. 4.

AMONG the developing countries, the least developed countries (LDCs) constitute more than quarter of the total World Trade Organization (WTO) members. These countries are at a disadvantageous position in terms of bargaining power and negotiating positions, and hence, are lagging behind in exploiting the benefits of free trade. The share of the LDCs in world merchandise exports has even declined from 0.48 per cent in 1990 to 0.40 per cent in 1999.

The developing and LDCs initially signed the WTO agreement without understanding the consequences of the agreement. They raised the issue of ineffectiveness of the S&DT provisions and implementation of the agreements in the subsequent WTO Ministerials in Geneva and Seattle. The agreement became impossible for the LDCs to reap benefits made in the provisions. Moreover, the commitments and obligations were huge burden for the developing countries.

The Doha Ministerial Conference had put concerns of the developing countries at the centre of the new round of negotiation. It recognized the role of (1) enhanced market access; (2) balanced rule; and (3) well targeted technical assistance. The Cancun Ministerial failed due to lack of consensus on agricultural and Singapore issues.

Finally, a framework was adopted on August 1, 2004 called the "July Package", which identified Doha Development Agenda as the priority area along with the other issues of WTO negotiations and reaffirmed what was promised in Doha, and laid down the modalities for discussion in the Hong Kong Ministerial Conference in December 2005. The tools for addressing the DDA as cross cutting issues are S&DT, Technical Assistance, implementation and concerns of the LDCs.

WTO Negotiations and Changes in Agricultural and Trade Policies: Consequences for Developing Countries
by Danish Research Institute of Food Economics, Denmark, p. 42.

THIS paper aims to evaluate the impact of the recently adopted "Everything But arms" (EBA) initiative of the EU on the Least Developed Countries (LDCs) and to show how the EBA preferences will be eroded with further multilateral trade liberalization. Considering that preferences granted by the EU in the past have already covered most of the exporting goods from the LDCs, the number of products that are actually affected by the EBA is quite small. Simulation results indicate that total welfare impacts of the EBA are less than US$300 million for all the LDCs and that a great deal of these gains are associated with three "sensitive" products that are subject to gradual liberalization. Impacts of the EBA on the EU and third countries appear to be negative but quite small. WTO negotiations exert pressures on the EU to reduce its protection, which may lower the high domestic prices in the EU and decrease the attractiveness of the EBA. Further results indeed show that gains for the LDCs from the EBA will be greatly reduced or even reversed under a series of EU reform scenarios, indicating the difficulties the LDCs are facing in the current negotiations. In light of these results, this study concludes that other development assistance measures from developed countries should be made available to the LDCs to ease their dependency on trade preferences and to foster their supply capacities.

The WTO's Empty Hong Kong "Development Package": How the World Trade Organization's 97 per cent Duty-Free Proposal Could Leave Poor Countries Worse Off, *Global Trade Watch*, April 2006, Washington, p. 24.

THIS report shows what the terms of the "Development Package" announced at the Hong Kong World Trade Organization (WTO) Ministerial would mean in reality by examining the actual scenarios regarding the promises of: duty-free market access - least developed countries, or LDCs, were promised that 97 per cent of their exports to rich countries by tariff line would be given duty-free access if and once the Doha Round is completed - and "aid-for-trade" that could result from the package's terms.

The Multilateral Trade Negotiations under the WTO have not been a good one for the LDCs' economic development. The world's poorest countries have seen few benefits from the WTO while some have seen actual deterioration in economic conditions, with poverty rising while economic growth rates have stagnated or fallen. Recent studies are revealing that the likely outcomes of the WTO's Doha Round agenda, cynically dubbed the "Doha Development Agenda," would result in further net losses for many LDCs.

Can the Poor Benefit from the Doha Agenda?: The Case of Indonesia by Douglas H. Brooks and Guntur Sugiyarto, Asian Development Bank October 2005, p. 26.

AGRICULTURAL trade barriers remain prevalent among developing countries. Three important questions arise from this fact. *First*, is there any justifiable reason for agricultural protection in developing countries? *Second*, what are the effects of farm trade liberalization that might result from the Doha Development Agenda (DDA) in the current round of multilateral negotiations under the World Trade Organization? *Third*, as most farm producers are poor, will the poor benefit from the DDA and, if so, how? A computable general equilibrium model of the Indonesian economy is employed to answer these questions for one country by assessing the economy wide welfare and distributional implications of the DDA, first with respect to the agricultural sector, and then to broader trade liberalization. To put the current agricultural protection into context, the assessment includes the welfare cost of existing sectoral taxes, and of changes in those taxes. The overall results suggest that a removal of agricultural tariffs alone will generate adverse effects, while its combination with removal of agricultural taxes will create benefits for the economy, households, and the poor. Single-sector trade liberalization seems not a good strategy, therefore a more comprehensive trade reform is desirable. In addition, the last simulation result provides further evidence of the inefficiency of raising revenue through commodity taxation.

Market Access for Least Developed Countries: The Hong Kong Effect by John Tabari, CUTS Briefing Paper No. 1, 2006, p. 5.

THIS Briefing Paper discusses potential economic impact on LDCs' trade in light of the outcome of the Hong Kong Ministerial on DFQF market access for LDCs' products.

The Proposal for DFQF market access for LDCs' products to developed nations' markets was first put forward at the eighth session of the United Nations Conference on Trade and Development (UNCTAD VIII) held in Cartagena, in 1992. Since then, little progress was made until the WTO Ministerial in Doha 2001, where the idea was re-vitalized and set out in the Doha Declaration. The 32 LDC Members throughout the Hong Kong Ministerial continuously pushed the issue, but their efforts went in vain with the final declaration agreed by all WTO Members.

In the given scenario, LDCs will no doubt continue their ongoing preferential arrangements for market access with developed countries. LDCs rely on the European Union (EU) and the US for the most part of their exports. In terms of market access, these two developed countries among others provide different preferences according to their wishes for many LDCs on selected products.

The Impact of the WTO Regime on Developing Countries by Basudeb Guha-Khasnobis, World Institute for Development Economics Research, October 2003.

THE note summarizes some of the findings of the UNU -WIDER project titled "The Impact of the WTO Regime on Developing Countries." It highlights the actual, and potential, impacts of a number of preferential trade regimes conducted by the US and the EU on the trade patterns of the beneficiary less developed countries. In the context of liberalization of trade in agriculture, the impact of domestic support measure in the OECD on developing country welfare is also examined. It is found that a shift away from price based support to land based support can generate a win-win situation, raising the political feasibility of the reform process. Finally, the implications of openness on gender earnings differential are examined for Mexico. There seems evidence to support the Becker-hypothesis that competition reduces discrimination.

The Least Developed Countries in the WTO: Strengthening Participation Capacities
by Debapriya Bhattacharya and Mustafizur Rahman, Centre for Policy Dialogue, Bangladesh, p. 22.

DEVELOPING countries have been trying to integrate their economics in the multilateral trading system more effectively, in the face of continued marginalization in global trade and investment. On the other, developed countries, faltering in their commitments to weaker trading partners, have stepped up efforts for an early launching of a new round of multilateral trade negotiations, broadening its scope to include new issues.

The present article focuses on three specific aspects of the ongoing processes in the multilateral trading system. *First*, the state of multilateral efforts at strengthening the capacities of least developed countries in the area of trade-related technical assistance and market access. *Second*, the problems faced by least developed countries in acceding to the WTO. *Third*, the major regional cooperation measures to support the integration of least developed countries into the multilateral trading system.

An Enhanced Integrated Framework,
WTO WT/IFSC/W/15, 29 June 2006, p. 21.

THE first WTO Ministerial Conference, held in 1996, recognized that the least developed countries (LDCs) faced difficulties in integrating into the global economy. This led to the adoption of the WTO Plan of Action for Least Developed Countries. The following year, the WTO convened a high level meeting to discuss the specific needs of the LDCs and to formulate a programme to strengthen their trade capacities, including supply-side and market access capacities. The outcome of this meeting was what became known as the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries, or the "IF" in short.

The main objective of the IF is to improve the capacity of the LDCs to formulate, negotiate and implement trade policy so as to enable them to fully integrate into the multilateral trading system and take up the market opportunities that it provides. Support was offered to the IF by six major multilateral agencies, namely the International Monetary Fund (IMF), the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the World Bank (WB) and the World Trade Organization (WTO).

Non Tariff Measures on Products of Export Interest to the Least-Developed Countries,
WTO WT/COMTD/LDC/W/39, 4 July 2006, p. 35.

THE article at the outset discusses that a comprehensive examination of NTMs concerning LDCs is difficult due to data limitations. Availability of data on NTMs which is of relevance to LDCs is limited not only in the WTO Secretariat, but also in other NTM databases. Information on NTMs is usually provided by the private sector as enough information do not come from the private sector, hence data on these items concerning LDCs are quite limited.

It provides an overview of the literature on NTMs. It begins with a description of the issues involved in the identification and classification of NTMs, followed by a discussion on the measurement and impact of NTMs. It also establishes a foundation for the identification of specific products and measures. The key message from this section is that the complex nature of NTMs makes it difficult to draw precise conclusions about their impact on exports originating from LDCs.

Market Access Liberalization in the Doha Round: Scenarios and Assessment by Lionel Fontagne, Jean-Louis Guerin and Sebastien Jean, *The World Economy*, Vol. 28, No. 8, August 2005, pp. 1073-1094.

THE Doha Development Agenda (DDA) is aimed at integrating developing countries, especially least developed countries (LDCs), into the multilateral trading system. The failure of the WTO Ministerial meeting in Cancun reinforced the need to address issues of interest to developing countries, which have consequently been stressed in the July 2004 Framework Agreement.

The aim of this paper was to focus on "modalities of negotiation to be agreed" after the July 2004 Framework Agreement in the Doha Round. It accordingly proposed a set of scenarios at the six-digit level of the nomenclature of traded products, to evaluate accurately the impact of the choice of a formula. The paper assessed their impact on world economies with a CGE model after having aggregated this detailed tariff data (prior and post-liberalization) in the nomenclature of this model. This approach based on detailed information is providing a more accurate evaluation of the gains associated with trade liberalization. In contrast, working at too aggregated a level, or using biased aggregators, would have minimized the gains associated with trade liberalization as emphasized by Martin *et al.*

The various scenarios are based on a systematic rule of evolution of the *ad valorem* tariff equivalent of protection, conditional on the initial level of the tariff. They address two specific issues: tariffs peaks and special and differential treatment for developing countries.

Trade-Related Aspects of Intellectual Property Rights and Least Developed Countries by Md. Golam Robbani, *The Journal of World Intellectual Property*, Vol. 8, No. 4, July 2005, pp. 565-573.

THE Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) was negotiated at the Uruguay Round of multilateral trade negotiations carried out under the General Agreement on Tariffs and Trade and was signed in 1994 to introduce intellectual property rules into the multilateral trading system for the first time in history. Since then, this Agreement has been one of the contentious issues between developed and developing countries at the WTO.

The objective of this article is to highlight the issue in simple terms and to shed some light on preparatory measures for LDCs in fulfilling their TRIPS obligations under the WTO.

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DOCUMENTS

Committee on Trade and Development
Special Session

Negotiating Group on Market Access

Committee on Agriculture
Special Session

Duty-free and Quota-free Market Access Implementation of the Decision on Measures in Favour of Least-developed Countries of Annex F of the Hong Kong Ministerial Declaration of December 2005

Communication from Zambia on behalf of the LDC Group

The following communication, dated 29 June 2006, has been received from the Delegation of Zambia on behalf of the LDC Group.

1. Introduction

In adopting the Decision on Measures in Favour of Least-Developed Countries (36) of Annex F, 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 (DFQF) market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period of the Doha Round in a manner that ensures stability, security and predictability.

There are qualifications to this commitment which are as follows:

(i) that if specified Members face difficulties at this time to provide 100 per cent duty-free and quota-free market access to LDCs, they would commit to 97 per cent defined at the tariff line level;

(ii) developing country Members shall be permitted to phase in their commitments and shall enjoy appropriate flexibility in coverage.

The Ministerial Decision also specifies that Members shall notify the implementation of the schemes adopted under this decision annually to the Committee on Trade and Development. The Committee shall also annually review the steps taken to provide LDCs with DFQF market access and report to the General Council for appropriate action.

In the Closing Session of the Ministerial Meeting in Hong Kong, Ministers took note of their understanding that the text concerning the DFQF decision in sub-paragraph (a)(ii) of Annex F was a framework, and that developed Members and developing Members declaring themselves in a position to do so were urged to set out, by the end of 2006, the means by which they would implement this decision. (WT/MIN(05)/SR/12)

Follow-on work on the DFQF market access agreement will be done in the Committee on Trade and Development in Special Session (CTDSS) where it was dealt with in the run-up to the Hong Kong Ministerial Meeting and results thereof will form an integral part of the negotiations on Agriculture and NAMA.

LDCs reiterate their firm intention to implement policies and programmes which will allow them to graduate out of the LDC category and, by graduating, give up the market access provisions and other SDT provisions granted to LDCs in Annex F of the Hong Kong Ministerial Decision. However, for LDCs to graduate out of the LDC category, it is recognized that they require assistance from other WTO Members who should implement the decisions in the spirit that they were made and in recognition of the fact that LDCs require SDT in order for them to play a more meaningful role in the multilateral trading system.

This submission by the LDC Group makes proposals on how the decision taken on DFQF market access for LDCs shall be made operational.

2. Implementation of the WTO Ministerial Decision on DFQF Market Access

Given the very limited number of tariff lines which are exported by LDCs, Members are called upon to implement the decision on DFQF market access in a way which will be commercially meaningful to LDCs and in a way that will contribute to the expansion of LDC exports, so as to allow LDCs to use trade as a development tool to graduate out of the LDC category. Specifically, Members should implement the decision as follows:

(i) In order to meet the minimum 97 per cent benchmark (with a view to achieving 100 per cent coverage), developed country Members should provide DFQF market access in tariff lines in which positive duties are still applied to LDC existing exports. The list of tariff lines, extracted from the World Trade Organization's (WTO) Integrated Data Base (IDB), which are not zero-rated for LDCs, is available on request.

(ii) Those developing countries considering themselves in a position to provide LDCs with DFQF market access should make their positions known by the end of 2006, or in the shortest possible time. They should provide, as a first step, DFQF market access to products of export interest, and which are commercially meaningful, to LDCs, with a commitment to gradually achieving 100 per cent.

(iii) DFQF market access that is provided to LDCs will be defined as the percentage of the total number of tariff lines which are zero rated for all LDCs.

(iv) In providing DFQF market access to LDC exports as set out above, the origin of goods will be conferred to LDCs if they conform to the LDC Rules of Origin as set out in TN/CTD/W30.

(v) In order to ensure that the improved market access provided under the DFQF market access provisions are not nullified by non-tariff barriers to trade, SPS provisions and other technical barriers to trade, WTO Members will work with LDCs to ensure that they receive the necessary trade-related technical assistance and capacity building and aid for trade to allow them to conform to non-tariff regulations which govern imports into WTO Member markets.

3. Notification and Negotiations

In Paragraph 36 of the Hong Kong Ministerial Declaration, Ministers took note of the work done on the Agreement-specific proposals, especially the five LDC proposals. Ministers also recognized that substantial work still remains to be done and committed themselves to address the development interests and concerns of developing countries, especially the LDCs, in the multilateral trading system, and recommitted themselves to complete the task they set themselves at Doha. Ministers accordingly instructed the Committee on Trade and Development in Special Session to expeditiously complete the review of all the outstanding Agreement-specific proposals and report to the General Council, with clear recommendations for a decision by December 2006.

Annex F of the Hong Kong Ministerial Declaration is a framework agreement and work needs to be done to complete the implementation modalities of the framework agreement. This follow-on work will be done in the Committee on Trade and Development in Special Session (CTDSS) where it was dealt with in the run-up to the Hong Kong Ministerial Meeting and results thereof will form an integral part of the negotiations in Agriculture and NAMA.

Developed countries and developing countries declaring themselves in a position to provide DFQF market access to LDCs shall, by the time they submit their comprehensive draft schedules of concessions, indicate how they intend to implement the commitments they assumed under the *Decision on Measures in Favour of Least-Developed Countries* and as outlined above.

Developed countries and developing countries declaring themselves in a position to provide DFQF market access to LDCs shall provide a provisional list of the products they intend to exclude initially from DFQF market access, the steps they intend to take to progressively achieve compliance with the obligation to provide DFQF market access to all products from all LDCs, and the time frame within which they intend to complete those steps.

Once these steps are completed, developed countries and developing countries declaring themselves in a position to provide DFQF market access, will enter into negotiations with the LDC Group to allow the LDCs the opportunity to negotiate an improvement in market access.

4. Monitoring and Review

Members have decided that they shall notify the implementation of the schemes adopted under the decision taken under Annex F of the Hong Kong Ministerial Declaration every year to the Committee on Trade and Development. The Committee on Trade and Development shall annually review the steps taken to provide DFQF market access to the LDCs and report to the General Council for appropriate action.

In order to allow accurate monitoring of the implementation of the decision on DFQF market access to LDCs, Members shall provide preferential data to the IDB, which is currently done on a voluntary basis.

TECHNICAL ANNEX

I. LDC Export Profile[1]

1. In 2004, LDCs as a group accounted for 0.6 per cent of world exports and 0.8 per cent of world imports (Table 1). In growth terms, their performance has been mixed over the past 15 years (Chart 1).

TABLE 1

MERCHANDISE EXPORTS AND IMPORTS OF LEAST-DEVELOPED COUNTRIES BY SELECTED COUNTRY GROUPING, 2004

(Million dollars and percentage)

	Exports					Imports				
	Value	Annual percentage change				Value	Annual percentage change			
	2004	2000-04	2002	2003	2004	2004	2000-04	2002	2003	2004
Least-developed countries	61,825	14	10	16	34	71,233	13	5	22	17
Oil Exporters	29,168	18	17	20	52	16,945	22	25	27	19
Angola	13,850	15	27	14	46	6,500	21	18	46	19
Equatorial Guinea	5,190	47	21	33	76	1,410	33	-29	142	15
Yemen	4,150	0	-1	12	11	4,190	16	18	26	14
Sudan	3,778	20	15	30	49	4,075	27	25	18	41
Chad	2,200	86	-2	141	393	770	25	142	-38	-24
Exporters of manufactures	17,022	9	5	9	19	23,728	7	-6	18	14
Bangladesh	8,150	6	1	14	17	12,026	8	-5	21	15
Myanmar	2,850	15	28	-18	15	2,220	-2	-18	-11	6
Cambodia	2,798	19	28	10	32	3,170	13	11	12	22
Madagascar	990	5	-48	76	16	1,230	5	-37	84	11
Nepal	756	-2	-23	17	14	1,870	4	-4	24	7
Lesotho	726	35	33	29	51	1,400	15	9	38	26
Haiti	391	5	2	24	13	1,306	6	12	5	10
Lao People's Dem. Rep.	361	2	-10	20	1	506	-1	-18	12	5

(Table contd. on next page)

1 Sections I to III draw heavily on the WTO Secretariat paper entitled "Market Access Issues Related to Products of Export Interest Originating from Least-Developed Countries" (WT/COMTD/LDC/W/38) of 22 February 2006.

(Table contd. from)

	Exports					Imports				
	Value	Annual percentage change				Value	Annual percentage change			
	2004	2000-04	2002	2003	2004	2004	2000-04	2002	2003	2004
Exporters of commodities	15,635	15	7	17	22	30,561	14	6	24	19
Zambia	1,576	24	-6	2	67	2,143	21	-4	24	38
Senegal	1,529	14	6	25	15	2,710	16	17	18	13
Mozambique	1,504	43	-6	58	44	1,970	14	19	39	12
Congo, Dem. Rep. of	1,413	17	14	19	10	1,873	16	35	28	33
Tanzania	1,338	19	13	39	10	2,490	13	-1	30	14
Mali	1,123	19	21	5	22	1,320	13	-12	31	16
Togo	771	21	20	44	25	1,050	17	7	46	21
Guinea	700	1	-3	-14	15	690	3	11	-4	8
Benin	672	14	20	24	21	865	9	23	10	16
Ethiopia	639	7	5	5	27	3,080	25	-8	29	44
Uganda	635	8	4	12	19	1,491	-1	-29	14	15
Burkina Faso	445	21	10	33	37	1,155	17	13	25	25
Malawi	441	4	-9	13	-4	792	10	23	1	13
Afghanistan	420	23	150	40	20	2,300	43	50	53	0
Mauritania	410	3	-8	4	22	400	6	-5	1	11
Niger	370	7	3	22	9	560	9	8	23	14
Somalia	310	13	4	-25	39	610	15	1	14	18
Liberia	235	-8	-4	15	-13	900	8	-2	11	32
Maldives	172	12	20	15	13	645	13	0	20	37
Bhutan	165	13	7	18	24	400	23	3	26	61
Sierra Leone	139	81	69	88	51	286	18	45	15	-5
Central African Republic	120	-7	4	-17	-2	150	6	12	9	15
Rwanda	99	17	-24	-3	57	285	8	-12	4	10
Solomon Islands	97	9	23	28	31	100	2	-26	22	22
Guinea-Bissau	81	7	-14	28	17	86	10	-6	19	25
Burundi	47	-2	-22	25	24	176	4	-7	21	13
Djibouti	41	7	13	3	11	275	7	1	21	16
Vanuatu	37	9	0	35	37	128	10	-13	18	22
Eritrea	35	-1	174	-33	0	650	8	27	10	10
Gambia	22	10	30	-8	83	200	2	10	25	8
Cape Verde	15	8	10	18	15	386	14	18	27	10
Comoros	15	21	33	25	-25	115	13	20	33	-4
Samoa	11	-6	-7	7	-27	168	12	4	1	23
São Tomé and Principe	6	19	90	33	-10	45	11	9	36	7
Kiribati	2	-16	-29	-22	-20	48	5	5	-7	20
Tuvalu	0	78	736	9	-33	18	38	217	40	16
Timor Leste	...	...	...	...	...	...	...	...	...	...
Memorandum item:										
World[a]	9,153,000	9	5	16	21	9,495,000	9		16	21

[a] Includes significant re-exports or imports for re-export.

Note: Data for 2004 are largely estimated.

Source: WTO.

CHART 1

GROWTH IN THE VALUE OF LDC MERCHANDISE TRADE, 1990-2004

(Indices 1990 = 100)

Source: WTO.

2. Of particular note is the significant growth rate of exports posted by LDCs in 2004, which was 34 per cent, compared to 21 per cent for world exports (Table 1). This figure, however, is for all LDCs and masks considerable variance in the performance of individual countries. Five oil exporters as a group, which account for 47 per cent of total LDC exports, experienced a growth rate of 52 per cent, whereas manufacturing and commodity exporters experienced growth rates of 19 per cent and 22 per cent respectively. Eight commodity exporting LDCs (Malawi, Liberia, Central African Republic, Comoros, Samoa, São Tomé and Principe, Kiribati and Tuvalu) experienced negative growth rates.

3. The diversity of export performance across countries is also important in absolute terms. Two LDCs accounted for 36 per cent of all LDC exports in 2004 - Angola, which is a fuel exporter and Bangladesh, which is predominantly a clothing exporter. Their performance, due to their size, determines, to a significant degree, the overall performance of the LDCs as a group.

4. Chart 2 illustrates a distinct shift in the relative importance of different product groups in the total exports of LDCs. In 1995, food was the most important export, representing 21.7 per cent of total exports, followed closely by fuels representing 21.5 per cent. By 2003, food became the fourth largest export behind fuel, which accounted for 36 per cent of exports. Clothing became the second most important export, representing 19.9 per cent of total exports. Much of this significant shift is due to changes in oil prices, but at the same time, it also represents a structural shift towards clothing exports.

5. In terms of specific country markets, Table 2 shows that the European Union and the US continue to be the most important destinations for LDC exports. Although the EU's share of total LDC exports declined in 2004 to 29.2 per cent from 39.6 per cent in 1995, it is still the most important market. The share of LDC exports to the US has fluctuated over the ten-year period reported in Table 2, but is still, approximately, one fifth of total exports. China is the third most important market and after that the top ten markets have approxima tely the same share. These markets are: Thailand; Japan; India; Republic of Korea; the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei); Canada; and Singapore.

II. Market Access in Developed Countries

6. Developed countries provide preferential market access to products originating from LDCs on a non-reciprocal basis through their GSP schemes[2]

7. The difference between the current status of the tariff treatment of LDC exports in

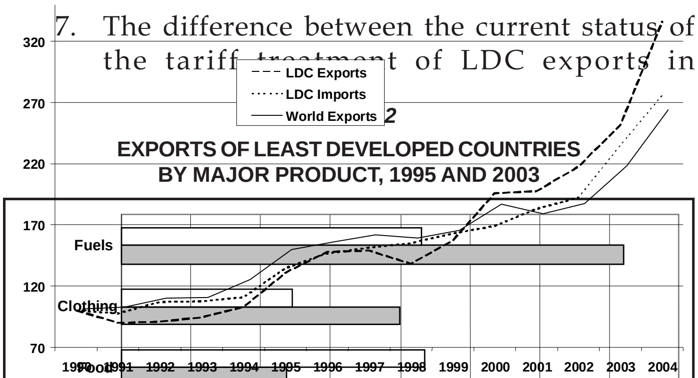
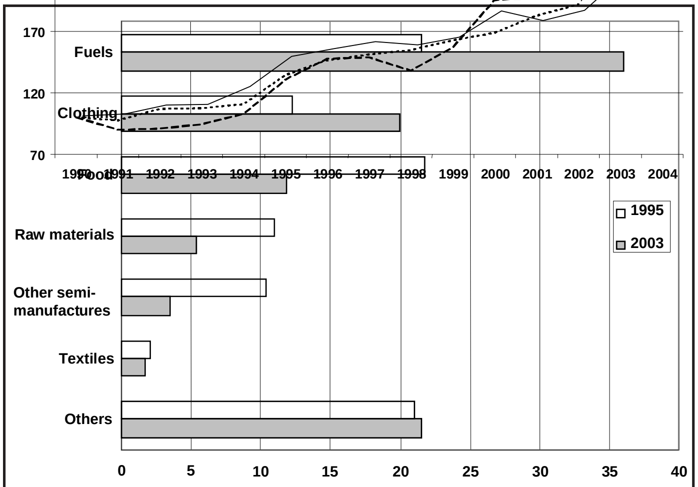


CHART 2

EXPORTS OF LEAST DEVELOPED COUNTRIES BY MAJOR PRODUCT, 1995 AND 2003



Source: WTO.

[2] A non-exhaustive list of preferences granted to LDC exports in developed and developing countries can be found in Annex 2 of WT/COMTD/LDC/W/38 (TN/MA/S/19) of 22 February 2006

TABLE 2

TOP 10 MARKETS FOR LDC EXPORTS, 1995-2004

(Percentage)

Rank	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004**
1 EU 15	39.6	36.9	34.9	37.3	34.6	31.1	33.4	32.8	30.6	29.2
2 USA	20.5	21.5	22.8	23.5	24.7	26.4	25.6	23.8	24.8	22.7
3 China	3.5	4.2	6.1	3.5	4.9	10.7	7.7	8.7	13.5	17.8
4 Thailand	3.9	3.5	3.8	3.1	3.8	3.7	4.9	4.9	5.1	5.0
5 Japan	6.5	6.4	4.7	4.0	3.6	3.3	2.9	4.0	3.4	4.2
6 India	2.7	2.6	2.7	3.0	4.1	2.5	3.4	3.3	3.1	2.9
7 Chinese Taipei	1.7	2.4	1.5	2.2	2.0	1.8	1.9	2.2	2.2	2.9
8 Korea, Rep. of	2.8	2.5	3.8	2.0	4.8	4.9	2.6	2.5	1.9	1.8
9 Canada	0.9	1.2	1.0	1.0	0.8	0.8	0.9	1.0	1.7	1.5
10 Singapore	2.8	2.2	1.5	2.7	2.0	1.6	1.9	1.4	1.1	1.2

* Preliminary estimates.

Source: WTO.

TABLE 3

TARIFF TREATMENT OF LDC EXPORTS IN SELECTED DEVELOPED COUNTRY MARKETS, 2003

		Number of Tariff Lines				*Imports (US$ mn)*			*Duty-Free Status (per cent)*	
		MFN	*LDC*			*MFN*	*LDC*			
Market	*Sector*	*Total*	*Dutiable*	*With Imports*	*Dutiable with Imports*	*Total*	*Total*	*Dutiable*	*Tariff Lines*	*Imports*
		6,102	**0**	**655**	**0**	**84,366**	**89**	**0**	**100**	**100**
Australia	Agri	773	0	73	0	3,975	14	*0*	100	100
	NonAg	5,329	0	582	0	80,392	135	0	100	100
		8,497	**97**	**1569**	**1**	**234,984**	**769**	**0**	**98.9**	**100**
Canada	Agri	1,372	97	194	1	14,531	36	0	92.9	100
	NonAg	7,125	0	1375	0	220,454	733	0	100	100
		10,404	**67**	**3517**	**19**	**992,010**	**13,705**	**120**	**99.4**	**99.1**
European Communities	Agri	2,115	42	505	17	66,248	1,562	120	98.0	92.3
	NonAg	8,289	25	3012	2	925,762	12,143	*0*	*99.7*	*100*
		9,296	**1,350**	**776**	**89**	**376,941**	**1,564**	**766**	**85.5**	**51.0**
Japan	Agri	1,858	938	121	31	37,152	177	5	49.5	97.2
	NonAg	7,438	412	655	58	339,789	1,387	760	94.5	45.2
		7,414	**59**	**521**	**3**	**18,439**	**31**	***0***	***99.2***	***100***
New Zealand	Agri	1,026	36	51	2	1,543	7	*0*	*96.5*	*100*
	NonAg	6,388	23	470	1	16,896	24	*0*	*99.9*	*100*
		7,165	**261**	**509**	**2**	**39,765**	**81**	***0***	***96.4***	***100***
Norway	Agri	1,337	258	55	2	2,724	12	*0*	*80.7*	*100*
	NonAg	5,828	3	454	0	37,041	70	0	99.9	100
		8,477	**1,167**	**818**	**47**	**96,177**	**118**	**5**	**86.2**	**95.7**
Switzerland	Agri	2,227	1,156	185	47	6,418	41	5	48.1	87.8
	NonAg	6,250	11	633	0	89,759	77	0	99.8	100
		10,496	**1,911**	**1421**	**581**	**1,196,833**	**10,489**	**3,991**	**81.8**	**62.0**
United States	Agri	1,808	274	183	3	49,988	361	2	84.8	99.4
	NonAg	8,688	1,637	1238	578	1,146,845	10,128	3,989	81.2	54.5

Source: WTO.

developed country markets and complete DFQF treatment is dependent on what measurement indicators are used. There would appear to be two ways to measure the value of DFQF market access:

(i) The percentage of imports from LDCs into developed markets that are duty free. Using data from Table 3, this figure was 82.2 per cent in 2003, but figures from Table 3 also show that 97 per cent of this value is accounted for by imports into just two markets – Japan and the US. Japan provides duty-free treatment to 51 per cent of its imports from LDCs and the US to 62 per cent. Other developed countries offer duty-free access to 100 per cent, or at least 95 per cent, of products originating from LDCs.

(ii) The number of duty-free tariff lines over the total number of tariff lines. Using this method, the US has almost 82 per cent of its total lines duty free (and if the lines with positive duties but no imports from LDCs are eliminated, this figure jumps to 94 per cent) although, in terms of value, 38 per cent of LDC exports to the US are dutiable. Similarly, Japan can claim to have only 1 per cent of its lines applying a duty to LDC imports, or 86 per cent of its lines duty free. Yet, in value terms, almost 50 per cent of imports are dutiable.

III. Market Access in Developing Countries

8. Preferences by developing countries can generally be classified into three categories:

(i) non-reciprocal preferential market access schemes;

(ii) preferential market access granted on a bilateral or regional basis; and

(iii) the Global System of Trade Preferences (GSTP).

9. However, preferential access offered by developing countries to LDCs is limited in terms of its depth and coverage, and market access conditions facing LDC exports in these markets are determined primarily by MFN rates.

IV. DFQF Market Access Requirements

10. The main exports, by value, from LDCs consist of petroleum products, garments, aluminium and gemstones and come from a small number of LDCs (mainly, by value, from Angola, Yemen, Sudan, Equatorial Guinea, Bangladesh, Mozambique, DR Congo, Tanzania, Cambodia and Guinea). These exports account for well over 50 per cent of the total value of imports from LDCs, with petroleum products taking up a large share of this value.

11. An examination of the IDB shows that tariff lines which are not free of quotas and duties are mainly those of export interest to LDCs. Chapters 1 to 24 of the Harmonized System are agricultural goods and most tariffs applied to LDC products by developed countries are either in these Chapter Headings or those which apply to textiles and apparel, which is another sector in which LDCs have a competitive advantage.

12. Of equal importance to LDCs as DFQF market access is the ability to take advantage of the improved market access conditions on offer. There are a number of examples where imports from LDCs, theoretically, are not dutiable, but where duties are paid. This is true, for example, for EU15 imports of garments from LDCs despite the fact that the LDC GSP of the EU covers "everything-but-arms" (arms being Chapter Head 93). The reason for this is that all imports into developed countries under existing GSP schemes must conform to the particular GSP Rules of Origin. If origin is not conferred, perhaps because the process is complicated (as is the case for the EU's GSP Rules of Origin for textiles and garments as these products have to go through a "double-transformation" process, meaning that, in effect, garments should be manufactured from cloth originating from the LDCs) or expensive to prove, then the import is charged the MFN tariff.

13. There is an obvious need for LDCs to expand the volume and values of existing exports and diversify their export bases. The developed and some developing countries could assist LDCs to do this by improving market access for LDCs by removing tariffs for not only existing exports but also to remove tariffs on goods in which LDCs have a comparative or competitive advantage. This, combined with a simple and single set of criteria conferring origin, would assist LDCs to not only expand the values and volumes of exports but also to diversify their export bases, which would have obvious welfare benefits to not only the poor in LDCs but also for consumers in importing countries.

(TN/CTD/W/31,TN/MA/W/78,TN/AG/GEN/23, 30 June 2006, www.wto.org)

Committee on Trade and Development
Special Session
Negotiating Group on Market Access
Committee on Agriculture
Special Session

Least-Developed Countries' Proposal on Rules of Origin

Communication from Zambia on behalf of the LDC Group

The following communication, dated 31 May 2006, has been received from the Delegation of Zambia on behalf of the LDC Group.

There is no evidence that strict rules of origin over the past 30 years have done anything to stimulate the development of integrated production structures in developing countries. In fact such arguments have become redundant in the light of technological changes and global trade liberalisation which have led to the fragmentation of production processes and the development of global networks of sourcing. Globalisation and the splitting up of the production chain does not allow the luxury of being able to establish integrated production structures within countries. Strict rules of origin act to constrain the ability of firms to integrate into these global and regional production networks and in effect act to dampen the location of any value-added activities. In the modern world economy flexibility in the sourcing of inputs is a key element in international competitiveness. Thus, it is quite feasible that restrictive rules of origin rather than stimulating economic development will raise costs of production by constraining access to cheap inputs and undermine the ability of local firms to compete in overseas markets.

From *Rules of Origin, Trade and Customs* by Brenton and Imagawa (page 36)

Introduction

1. Rules of Origin have been under consideration by the WTO since almost its inception in 1995 and consensus on Rules of Origin has yet to be arrived at. The main reason for this lack of consensus could well be that different Members of the WTO expect Rules of Origin to serve different functions. The function of Rules of Origin which refer to the Duty-Free Quota-Free Market Access for Least-Developed Countries (LDCs) provisions are to reduce trade diversion and trade deflection to a minimum, which can be achieved by having Rules of Origin which are simple and transparent.

2. LDCs have, for a long time, argued that, despite being accorded preferential market access through the various agreements, they have not been able to take advantage of these opportunities because of the associated, often stringent, rules of origin. It is against this background that LDCs have been advancing the position that rules of origin need to be simplified.

3. Paragraph 47 of the Hong Kong Ministerial Declaration (WT/MIN(05)/DEC) contains the following:

Building upon the commitment in the Doha Ministerial Declaration, developed-country Members, and developing-country Members declaring themselves in a position to do so, agree to implement duty-free and quota-free market access for products originating from LDCs as provided for in Annex F to this document. Furthermore, in accordance with our commitment in the Doha Ministerial Declaration, Members shall take additional measures to provide effective market access, both at the border and otherwise, including simplified and transparent rules of origin so as to facilitate exports from LDCs.

4. The Hong Kong Ministerial Declaration, therefore, commits developed-country Members of the WTO, and developing countries declaring them-selves in a position to do so to provide preferential market access to Least-Developed Countries.

5. Rules of Origin are required in any preferential trading arrangement, with the minimum requirement being to minimize trade deflection[1] by ensuring that the product to be exported into the customs territory granting the preference is produced (however that is defined) in the customs territory the preference is granted to. Although Rules of Origin can have development objectives and can also be used as a means of protection, the Hong Kong Ministerial Declaration specifically states that the Rules of Origin, in this situation, should be simple and transparent and should facilitate exports from LDCs.

6. Rules of Origin are important in that they can affect the sourcing and investment decisions of companies and can, at the same time, distort the relative prospects of similar firms within a country. The adoption of restrictive Rules of Origin are more likely to constrain than to stimulate regional economic development and can act to undermine preferential trade agreements.

Origin-Conferring Categories

7. There are two main origin-conferring categories, these being:

(i) Wholly Produced - refers to agricultural and mining products which are collected, mined, grown, reared etc in the exporting country (e.g. mineral products; vegetable products; live animals; products obtained from live animals; etc. if these products originate in the Member State concerned). Annex D1 of the Kyoto Convention contains a definition of what constitutes wholly produced and most preferential Rules of Origin follow this definition.

(ii) Substantive Transformation which can be achieved by one or all of the following (as defined in Annex D1 of the Kyoto Convention):

(a) change of tariff classification;

(b) percentage value added (build-down method);

(c) local content (build-up method);

(d) specific manufacturing process.

Change of Tariff Classification

8. A change of tariff classification refers to a change in the Harmonized System (HS) tariff classification once a good undergoes a substantial transformation. Origin is granted if the exported product has a different tariff classification to any of the inputs used in its production. The benefit of using the change of tariff classification is that it is unambiguous and easy to understand. In terms of documentary requirements, it requires that producers keep records of the tariff classifications of all inputs and the final product. Change of tariff classification is usually defined at the 6-digit level (change of tariff sub-head – CTSH).

Value Addition

9. Value-added is defined as the difference between the cost of the finished product and the cost of all the materials used in the production of the finished product. In calculating value addition the denominator is the ex-works price, which, in the case of the Cotonou Rules of Origin, for example, is the price paid for the manufactured product, ex-works, minus any internal taxes which are, or may be, repaid when the product is exported. The numerator would be the value of the materials used to produce the manufactured product and this could be calculated using either the free-on-board (f.o.b.) or cost-insurance-freight (c.i.f.) values. Each method of calculating value addition will give a different value of non-originating materials. Preferential Trade Agreements using the value addition criterion in determining source of origin have a value-added threshold of a defined percentage that has to be met if origin is to be conferred.

10. The value-added criterion has a number of limitations. Value-addition may deter a manufacturer from investing in more efficient plant and machinery as this will most probably reduce the cost of the manufacturing process which could result in the value added through processing to be reduced to below the value addition threshold which confers origin.

11. A further limitation is the fact that value-added percentages are easily affected by movements in exchange rates for finished products that have imported raw materials. When a local currency

[1] Trade deflection is taken to mean the export of products originating in a third country which does not have preferential access into a first country being re-routed through a second country which does have preferential access. This re-routing could take the form of simple transhipment or could involve a simple operation, such as repackaging the goods.

appreciates, the percentage value added tends to decline, and vice versa. The first column in the table below gives a example of a manufacturer importing half the value of his inputs, and a value addition of 35 per cent, so, in this case, the manufacturer meets the threshold for the value-addition criterion of the country in which his country has a preferential trading arrangement with. The second column assumes that there has been a currency devaluation of 100 per cent in the country of the exporter. Despite the fact that there has been no change in technology or change in volume of inputs, the value addition reduces to below 35 per cent so, in this case, the export would not qualify for preferential treatment and would be charged the full MFN duty by the importing county, despite the fact that the importing country is providing preferential treatment to the exporting country.

		Local currency	***100% depreciation***	***Local currency***
Cost of materials		1000		1500
Local	500		500	
Imported	**500**		**1000**	
Direct labour		250		250
Depreciation of machinery		40		40
Factory overheads		250		250
Ex-factory cost		**1540**		**2040**
Value Added=(1540-1000)/1540		**35.06**	(2040-1500)/2040	**26.47**

12. It is often difficult to calculate the value added if there are a number of products produced from the imported material. For example, some LDCs import crude palm oil and from this refined cooking oil, soap, margarine and other finished products are manufactured. Under these circumstances there are various ways to calculate the input cost of the crude palm oil. Even in instances where cost accounting methods are used, the calculations, which are done by the exporter, are open to dispute and query by the importer.

Specific Manufacturing Process

13. In some Rules of Origin, substantial transformation is defined on the basis of a list of processing or manufacturing operations which have to be carried out on specific non-originating materials in order to confer origin to the resulting product. In some instances specific manufacturing processes are used in conjunction with other origin-conferring criteria, such as value addition criteria. Specific manufacturing processing rules usually apply to specific sectors, such as the textile industry, and restrict firms' choices of production methods and of product. Requirements are usually very detailed and specific and are often extremely complex, with the end result being that it becomes difficult for products to qualify.

Cumulation

14. Cumulation allows producers to import materials from a specific country or regional group of countries without undermining the origin of the product.

De Minimis (Tolerance)

15. Most Rules of Origin allow for a certain percentage of non-originating materials to be used without affecting the origin of the final product. The tolerance rule can act to make it easier for products with non-originating inputs to qualify for preferences.

Problems Associated with Rules of Origin

16. There is a sizeable literature on Rules of Origin and the uptake of preferences and, from this literature, the following points arise:

- There is a direct cost associated with the completion of Rules of Origin of about 3 per cent to 5 per cent which reduce exports under preferential schemes;
- Rules of Origin can make it more difficult to achieve economies of scale since input requirements may vary according to destination markets of the final products;
- Rules of Origin are an incentive to purchase intermediates in the country conceding the preference, and this can be a source of a trade diversion if there is a more efficient producer of intermediates elsewhere;
- Rules of Origin can be used as a means of protection for the importing country, with some studies showing that the larger the difference in tariffs, the more restrictive the associated Rules of Origin; and
- Rules of Origin usually do not recognise constantly changing industrial configurations brought about through globalisation and can retard the effective utilization of trade preferences and may impede rather than facilitate preferential market access.

ANNEX 1

SUMMARY OF THE DIFFERENT APPROACHES TO DETERMINING ORIGIN

Rule	Advantages	Disadvantages	Key Issues
Change of Tariff Classification (in the Harmonized System)	• Consistency with non-preferential rules of origin. • Once defined, the rule is clear, unambiguous and easy to understand by both operators and enforcers. • Relatively straightforward to implement.	• Harmonized System not designed for conferring origin, as a result there are often many individual product specific rules, which can be influenced by domestic industries • Documentary requirements maybe difficult to comply with. • Can be conflicts over the classification of goods which can introduce uncertainty over market access	• Level of classification at which change required – the higher the level the more restrictive. • Can be positive (which imported inputs can be used) or negative (defining cases where change of classification will not confer origin) test[a] – negative test more restrictive.
Value Added	• Clear, simple to specify and unambiguous. • Allows for general rather than product specific rules	• Complex to apply – requires firms to have sophisticated accounting systems. • Uncertainty due to sensitivity to changes in exchange rates, wages, commodity prices etc.	• The level of value added required to confer origin • The valuation method for imported materials – methods which assign a higher value (eg CIF) will be more restrictive on the use of imported inputs
Specific Manufacturing Process	• Once defined, clear and unambiguous • Provides for certainty if rules can be complied with	• Documentary requirements can be burdensome and difficult to comply with. • Leads to product specific rules. • Domestic industries can influence the specification of the rules.	• The formulation of the specific processes required – the more procedures required the more restrictive • Should test be negative (processes or inputs which cannot be used) or a positive test (what can be used) – negative test more restrictive.

[a] A positive determination of origin typically takes the form of 'change from any other heading', as opposed to a negative determination of origin, such as 'change from any other heading except for the headings of chapter XX'; It is worth noting that change of tariff classification, particularly with a negative determination of origin, can be specified to have an effect identical to that of a specific manufacturing process.

Source of Table: *"Rules of Origin, Trade and Customs" by Paul Brenton and Hiroshi Imagawa.*

17. However, despite these drawbacks and difficulties, it is necessary to agree on a set of Rules of Origin if a preferential trading arrangement such as the one agreed to by the WTO Members for LDCs as defined in Annex F of the Hong Kong Ministerial Declaration is to be implemented. The challenge facing WTO Members is to define a set of Rules of Origin which will assist LDCs to take advantage of the improved market access conditions they have been provided with so that LDCs are able to translate this improved market access into improved living standards of their populations through economic growth brought about by increased trade, while minimising trade deflection.

Duty-Free Quota-Free Market Access Provisions for Least-Developed Countries

ANNEX F OF THE WTO HONG KONG MINISTERIAL DECISIONS

Rules of Origin

GENERAL PROVISIONS

Article 1

For the purposes of this Agreement:

(a) "LDCs" means the countries classified within this category by the United Nations General Assembly.

(b) "manufacture" means any kind of working or processing including assembly or specific operations;

(c) "material" means any ingredient, raw material, component or part, etc., used in the manufacture of the product;

(d) "product" means the product being manufactured, even if it is intended for later use in another manufacturing operation;

(e) "goods" means both materials and products;

(f) "customs value" means the value as determined in accordance with the 1994 Agreement on implementation of Article VII of the General Agreement on Tariffs and Trade (WTO Agreement on customs valuation);

(g) "ex-works price" means the price paid for the product ex works to the manufacturer in the LDC in whose undertaking the last working or processing is carried out, provided the price includes the value of all the materials used, minus any internal taxes which are, or may be, repaid when the product obtained is exported;

(h) "value of materials" means the customs value at the time of importation of the non-originating materials used, or, if this is not known and cannot be ascertained, the first ascertainable price paid for the materials in the LDC except that such value may be adjusted to exclude any costs, charges or expenses incurred for transportation, insurance and related services incident to the international shipment of the merchandise from the country of exportation to the place of importation;

(i) "value of originating materials" means the value of such materials as defined in sub-paragraph (h) applied mutatis mutandis;

(j) "value-added" means the difference between the ex-works cost of the finished product and the [f.o.b.][c.i.f.] value of the materials imported from outside the LDC and used in the production;

(k) "chapters", "headings" and "sub-headings" mean the chapters, headings (four-digit codes) and sub-headings (six-digit codes) used in the nomenclature which makes up the Harmonised Commodity Description and Coding System, or HS;

(l) "classified" refers to the classification of a product or material under a particular heading; and

(m) "consignment" means products which are either sent simultaneously from one exporter to one consignee or covered by a single transport document covering their shipment from the exporter to the consignee or, in the absence of such a document, by a single invoice.

GENERAL REQUIREMENTS

Article 2

1. The following products shall be considered as originating in the LDCs:

(a) products wholly obtained in the LDCs within the meaning of Article 3 of this Agreement; and

(b) products obtained in the LDCs incorporating materials which have not been wholly obtained there, provided that such materials have undergone sufficient substantial transformation in the LDCs within the meaning of Article 4 of this Agreement.

2. For the purpose of implementing paragraph 1, all LDCs shall be considered as being one territory.

3. Originating products made up of materials wholly obtained or sufficiently worked or processed in two or more LDCs shall be considered as products originating in the LDC where the last working or processing took place, provided the working or processing carried out there goes beyond that referred to in Article 5 below.

WHOLLY OBTAINED PRODUCTS

Article 3

1. The following shall be considered as wholly obtained in the LDCs:

(a) mineral and other naturally occurring products extracted from their soil or from their seabed;

(b) vegetable products harvested there;

(c) live animals born and raised there;

(d) products from live animals raised there;

(e) products obtained by hunting or fishing conducted there;

(f) products of sea fishing and other products taken from the sea outside the territorial waters by their vessels;

(g) products made aboard their factory ships exclusively from products referred to in sub-paragraph (f);

(h) used articles collected there fit only for the recovery of raw materials, including used tyres fit only for re-treading or for use as waste;

(i) waste and scrap resulting from manufacturing operations conducted there;

(j) products extracted from marine soil or subsoil outside their territorial waters provided that they have sole rights to work that soil or subsoil;

(k) goods produced there exclusively from the products specified in sub-paragraphs (a) to (j).

2. The terms “their vessels” and “their factory ships” in paragraph 1(f) and (g) shall apply only to vessels and factory ships which are registered or recorded in a LDC or in the country into which the exports of wholly produced products from LDCs are made.

3. Notwithstanding the provisions of paragraph 2, the preference giving country shall recognize, upon request of a LDC, that vessels chartered or leased by the LDC be treated as “their vessels” to undertake fisheries activities in its exclusive economic zone.

SUBSTANTIAL TRANSFORMATION

Article 4

1. For the purposes of these Rules of Origin, products which are not wholly obtained are considered to be sufficiently worked or processed in a LDC when the LDC value content is calculated on the basis of the build-down method (value added criteria) or the build-up method (local content criteria) described below.

(a) For the build-down (value added) method, the LDC value content of a good may be calculated on the basis of the formula:

$$LVC = \frac{P - VNM}{P} \times 100$$

Where:

LVC is the LDC value content of the good, expressed as a percentage.

P is the ex-works price of the good.

VNM is the value of non originating materials that are acquired and used by the producer in the production of the good, but does not include the value of a material that is self-produced.

(b) For the build-up (local content) method, the regional value content of a good may be calculated on the basis of the formula:

$$LVC = \frac{VOM}{P} \times 100$$

Where:

LVC is the regional value content of the good, expressed as a percentage.

P is the ex-works price of the good.

VOM is the value of originating materials that are acquired or self-produced, and used by the producer in the production of the good.

2. A finished good is sufficiently worked or processed when:

(i) In the case where the build-down method is used the LDC content expressed as a percentage is equal to (x) per cent.

(ii) In the case where the build-up method is used the LDC content expressed as a percentage is equal to (y) per cent.

(iii) In the case where adjustments are to be made to calculate the value of non-originating materials used in the production of a good when the built-down method is used paragraph 3(c) below will apply .

3. Value of materials.

(a) For the purpose of calculating the LDC value content of a good, the value of a material is:

  (i) in the case of a material that is imported by the producer of the good, the value of the material;

  (ii) in the case of a material acquired or self-produced as defined in paragraph 4 in the territory in which the good is produced, the value, determined in accordance with the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994.

(b) The following expenses, if not included in the value of an originating material calculated under sub-paragraph 3(a) above, may be added to the value of the originating material:

  (i) the costs of freight, insurance, packing and all other costs incurred in transporting the material within or between the territory of one or more of the LDCs or neighbouring countries as defined under Article 7 to the location of the producer;

  (ii) duties, taxes and customs brokerage fees on the material paid in the territory of one or more of the LDCs or neighbouring countries as defined in Article 7 other than duties or taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable;

  (iii) the cost of waste and spoilage resulting from the use of the material in the production of the good, less the value of renewable scrap or by-products.

(c) The following expenses, if included in the value of a non-originating material calculated under sub-division 3(a) above, are deducted from the value of the non-originating material:

  (i) the costs of freight, insurance, packing and all other costs incurred in transporting the material to the location of the producer;

  (ii) duties, taxes and customs brokerage fees on the material paid in the territory of one or more LDC or neighbouring countries as defined under Article 7, other than duties or taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable;

  (iii) the cost of waste and spoilage resulting from the use of the material in the production of the good, less the value of renewable scrap or by products;

  (iv) the cost of originating materials used in the production of the non-originating material;

  (v) in the case where the deductions mentioned above under (i) to (iv) are not made and the value of a non-originating material is calculated on a c.i.f basis the required percentage under the build-down method will be increased by (z) percentage.

4. If a product, which has acquired originating status by fulfilling the conditions set out above, is

used in the manufacture of another product, the conditions applicable to the product in which it is incorporated do not apply to it and no account shall be taken of the non-originating materials which may have been used in its manufacture.

INSUFFICIENT WORKING OR PROCESSING OPERATIONS

Article 5

1. The following operations shall be considered as insufficient working or processing to confer the status of originating products, whether or not the requirements of Article 4 are satisfied:

(a) operations to ensure the preservation of products in good condition during transport and storage (ventilation, spreading out, drying, chilling, placing in salt, sulphur dioxide or other aqueous solutions, removal of damaged parts, and like operations);

(b) simple operations consisting of removal of dust, sifting or screening, sorting, classifying, matching (including the making-up of sets of articles), washing, painting, cutting up;

(c) changes of packaging and breaking up and assembly of packages or simple placing in bottles, flasks, bags, cases, boxes, fixing on cards or boards, etc., and all other simple packaging operations;

(d) affixing marks, labels and other like distinguishing signs on products or their packaging;

(e) simple mixing of products, whether or not of different kinds, where one or more components of the mixtures do not meet the conditions laid down in this Agreement to enable them to be considered as originating in a LDC;

(f) simple assembly of parts to constitute a complete product;

(g) a combination of two or more operations specified in sub-paragraphs (a) to (f); and

(h) slaughter of animals.

2. All the operations carried out in the LDCs shall be considered together when determining whether the working or processing undergone by that product is to be regarded as insufficient within the meaning of paragraph 1.

TERRITORIALITY

Article 6

1. The conditions for acquiring originating status must be fulfilled without interruption in the LDCs.

2. The acquisition of originating status shall not be affected by working or processing done outside the LDCs on materials exported from the LDCs and subsequently re-imported there, provided:

(a) the said materials are wholly obtained in the LDCs or have undergone working or processing beyond the operations referred to in Article 5 prior to being exported; and

(b) it can be demonstrated to the satisfaction of the customs authorities of the preference giving countries that:

(i) the re-imported goods have been obtained by working or processing the exported materials; and

(ii) the total added value acquired outside LDCs by applying the provisions of this Article does not exceed (a) per cent of the ex-works price of the end product for which originating status is claimed.

CUMULATION

Article 7

Cumulation with Preference Giving Countries

1. Materials originating in the preference giving countries shall be considered as materials originating in the LDCs when incorporated into a product produced in the LDCs. It shall not be necessary that such materials have undergone sufficient working or processing, provided they have undergone working or processing going beyond that referred to in Article 5.

Diagonal Regional Cumulation

2. Products originating in any of the countries that are partners with a LDC of a regional group and used in further manufacture in a LDC shall be treated as if they originated in the LDC of further manufacture.

3. Notwithstanding paragraph 2, products further manufactured in a LDC shall be considered as

originating in a LDC only where the LDC content there is greater than the value of the materials used that originate in any one of the other countries that are members of the regional grouping.

4. LDC content is calculated according to the method contained in sub-paragraph 1(a) of Article 4 (built down method) and the value of originating materials is calculated according to sub-paragraph 3(a) of Article 4.

5. The cumulation provided for in this paragraph may be applied only provided that:

(a) a preferential trade agreement is in place between a LDC and other members of the same regional trading arrangement;

(b) originating material and products of other members of the regional group and incorporated into a product further manufactured in a LDC have acquired originating status by the application of rules contained in this Agreement.

Cumulation with Neighbouring Countries

6. At the request of a LDC, materials originating in a neighbouring developing country not a member of a regional trade agreement which is not a LDC shall be considered as materials originating in the LDC when incorporated into a product obtained there. It shall not be necessary that such materials have undergone sufficient working or processing, provided that the working or processing carried out in the LDC exceeds the operations listed in Article 5.

UNIT OF QUALIFICATION

Article 8

1. The unit of qualification for the application of the provisions of this Agreement shall be the particular product which is considered as the basic unit when determining classification using the nomenclature of the Harmonized System. Accordingly, it follows that:

- when a product composed of a group or assembly of articles is classified under the terms of the Harmonized System in a single heading, the whole constitutes the unit of qualification; and
- when a consignment consists of a number of identical products classified under the same heading of the Harmonized System, each product must be taken individually when applying the provisions of this Agreement.

2. [Where packaging is included with the product for classification purposes, it shall be included for the purposes of determining origin.]

3. Accessories, spare parts and tools dispatched with a piece of equipment, machine, apparatus or vehicle, which are part of the normal equipment and included in the price thereof or which are not separately invoiced, shall be regarded as one with the piece of equipment, machine, apparatus or vehicle in question.

4. Sets, as defined in General Rule 3 of the Harmonized System, shall be regarded as originating when all component products are originating. Nevertheless, when a set is composed of originating and non-originating products, the set as a whole shall be regarded as originating, provided that the value of the non-originating products does not exceed (b) per cent of the ex-works price of the set.

5. In order to determine whether a product originates, it shall not be necessary to determine the origin of the following which might be used in its manufacture:

(a) energy and fuel;

(b) plant and equipment;

(c) machines and tools;

(d) goods which do not enter and which are not intended to enter into the final composition of the product.

(TN/CTD/W/30,TN/MA/W/74,TN/AG/GEN/20, 12 June 2006, www.wto.org)

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