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POST-2015 POLICY BRIEF

IMPROVING MARKET ACCESS FOR THE LEAST DEVELOPED COUNTRIES IN THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT

The sustainable development goals (SDGs) in the 2030 Agenda for Sustainable Development (General Assembly, 2015) will aim at, among others, doubling the share of global exports of the least developed countries (LDCs) by 2020. The agenda also calls for providing duty-free and quota-free (DFQF) market access to LDCs as one of the main pillars of international support for export expansion by LDCs. DFQF market access is important, but will it be sufficient to double the export share of LDCs? Will it contribute to sustainable development?
Considering market access conditions as one of the binding constraints to the export growth of LDCs in the post-2015 development agenda (along with constraints related to infrastructure, energy and transport), UNCTAD suggests that achieving genuine improvement in market access requires a package of actions.

The post-2015 agenda calls for the increase of least developed country exports

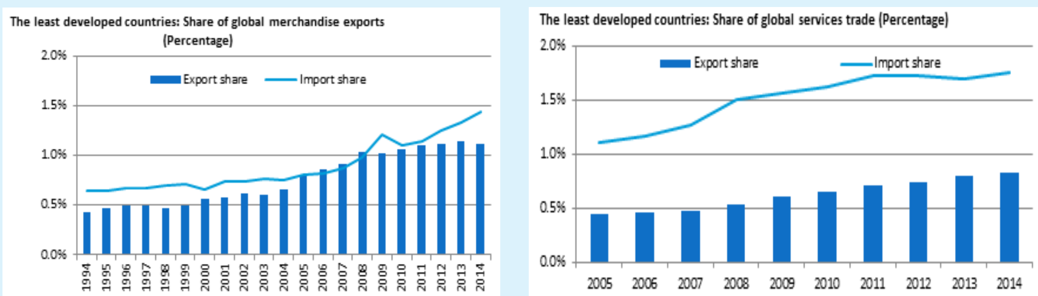
The SDGs in the 2030 Agenda for Sustainable Development will form the development paradigm from 2016 to 2030. Of the 17 SDGs, goal 17 includes trade-related targets, two of which specifically call for enhancing the export performance of LDCs:

17.11: Significantly increase the exports of developing countries, in particular with a view to doubling the LDCs' share of global exports by 2020.

17.12: Realize timely implementation of DFQF market access on a lasting basis for all LDCs consistent with World Trade Organization (WTO) decisions, including by ensuring that preferential rules of origin applicable to imports from LDCs are transparent and simple, and contribute to facilitating market access.

This policy brief focuses on key questions concerning how to achieve target 17.11 though improving market access conditions faced by LDCs. [1]

Figure 1. The least developed countries: Changes in their share of global trade



Source: UNCTADstat.
Note: Services exports statistics correspond to the concepts and definitions in the sixth edition of the International Monetary Fund *Balance of Payments and International Investment Position Manual* (2009), and are available from the year 2005.

[1] The interlinkages between trade and productive capacity are addressed elsewhere, for instance in *The Least Developed Countries Report 2014*.

How did the least developed countries double their merchandise export share in the past decades?

In 2014, the value of LDC merchandise exports was US$211 billion. The share of LDCs in world exports almost doubled in 15 years, from 0.6 per cent in 2000 to 1.1 per cent in 2014 (figure 1). The share of LDCs in world merchandise imports also increased, from 0.7 per cent in 2000 to 1.4 per cent in 2014, reaching US$271 billion. In services trade, the share of LDCs in world services exports and imports increased from 0.5 and 1.1 per cent, respectively, in 2005 to 0.9 and 1.8 per cent, respectively, in 2014. The key driver of export growth in this period was a massive rise in the prices of fuels, ores and metals, reflecting high demand in developing countries, notably China.

What kind of market access conditions are least developed country exports facing today?

Least developed country exports receive preferential market access in most developed countries. In 2014, 89.5 per cent of the value of the exports of LDCs to developed countries was duty free. Developing countries also provide preferential market access to LDC exports (table 1). Average applied tariff rates to LDC exports continued to fall even after the financial crisis in 2008–2009 (table 2). As the presence of import quotas has diminished in international trade, market access conditions faced by LDCs are moving closer to DFQF market access. However, the true value of preferential market access is determined by the tariff margins, that is the difference between the tariff rates applicable to LDC exports and those applicable to the exports of competitors.

Table 1. Duty-free treatment of least developed country exports in different markets

	Duty free (percentage)	Average applied tariff rate (weighted; percentage)
Selected developed countries and regions		
Australia	100.0	0.0
Switzerland	100.0	0.0
Japan	99.6	0.0
European Union	98.0	0.1
United States of America	65.9	5.9
Selected developing countries		
Singapore	100.0	0.0
China	98.2	0.1
Turkey	93.0	1.7
South Africa	78.1	2.1
Pakistan	77.9	3.5
Brazil	66.9	8.3
India	66.5	5.3

Source: WTO (2014). Market access for products and services of export interest to least developed countries. Note by the secretariat to the WTO Subcommittee on Least Developed Countries. WT/COMTD/LDC/W/59. 23 October.

Table 2. Average tariffs and relative preferential margins faced by least developed country exports

	Average applied tariff (percentage)		Relative preferential margin (percentage)	
	2008	2013	2008	2013
Developed countries	1.1	0.7	0.8	1.7
East Asia	0.8	0.4	0.1	0.2
Latin America	3.1	1.8	-1.8	-0.5
South Asia	5.7	3.5	1.9	1.1
Sub-Saharan Africa	1.9	1.5	1.3	2.4
Transition economies	7.2	4.8	1.3	2.6
Western Asia and Northern Africa	2.6	3.0	1.0	2.6
High-income economies	1.9	1.5	0.7	1.7
Middle-income economies	0.9	0.5	0.0	0.3
Low-income economies	5.2	3.3	2.0	1.8

Sources: UNCTAD (2013b); and UNCTAD (2015). *Key Statistics and Trends in International Trade 2014*. United Nations publication. New York and Geneva.

UNCTAD has estimated the preferential tariff margin of LDC exports relative to the exports of non-LDC countries competing in the same markets in 2008 and 2013 (table 2, right-hand column). The relative preferential margin in 2013 increased from the 2008 level except in Latin America, where LDC competitors enjoy better market access conditions through regional trade agreements (RTAs). The fall in relative preferential margins in low-income countries and South Asia may have resulted from a compositional shift of LDC exports from low-tariff products (e.g. fuels) to higher-tariff products (e.g. foodstuffs).

What will be the future of the preferential tariffs for the least developed countries?

Looking ahead, it is questionable whether relative preferential margins will be enough to double the export shares of LDCs for two reasons. First, the most-favoured nation tariffs are being cut. When a most-favoured nation rate approaches zero, the preferential margin also moves to zero. Second, the recent trend in the number of RTAs is likely to continue. As of April 2015, over 612 RTAs had been notified to WTO, 406 of which are currently in force, compared to around 100 RTAs in force in 1994. Few such RTAs involve LDCs as members.

An UNCTAD study estimated that a one unit fall in the preferential margin (in relative preferential margins) reduced the exports of preference-receiving countries on average by 0.3 percentage points, and that the proliferation of RTAs outside sub-Saharan Africa could limit new export opportunities via a reduction in relative preferential margins (UNCTAD, 2013b). Nevertheless, DFQF market access in both developed country and developing country markets remains crucial to LDCs. In developed country markets, DFQF market access at least ensures that LDCs will not face tariff disadvantages arising from the numerous RTAs that do not include LDCs. In developing country markets, the South has become the biggest trading partner of many LDCs. While the average applied tariff rates to LDC exports to the South have been falling, a large part of this fall is due to a significant shift to commodities such as fuels that are assigned extremely low tariffs.

What about non-tariff measures?

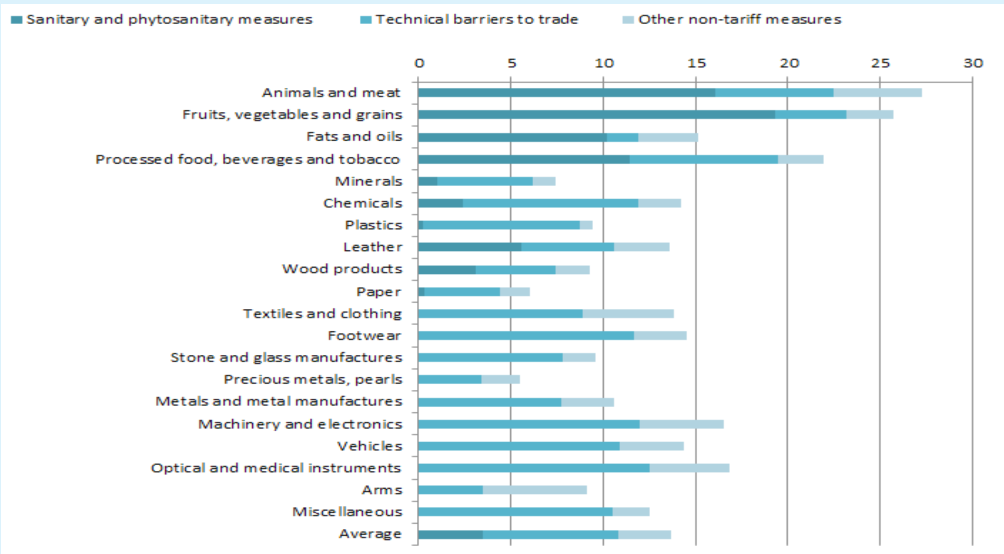
As tariff rates have fallen globally in the past decades, market access conditions for LDCs have been increasingly determined by non-tariff measures (NTMs) such as sanitary and phytosanitary measures and technical barriers to trade. UNCTAD estimates that more than 50 per cent of the exported products of developing countries face some type of NTMs, the majority of which are sanitary and phytosanitary measures and technical barriers to trade (UNCTAD, 2013a). As shown in figure 2, NTMs on the key exports of LDCs such as textiles and clothing, footwear and agrifood products are substantial, ranging at around 10–27 per cent of the tariff equivalent. UNCTAD's analysis finds that complying with NTMs is more costly to LDCs than to non-LDC exporters (UNCTAD, 2014). A trade-distorting effect of certain sanitary and phytosanitary measures in the European Union, measured in terms of loss in exports, is greater for exporters of low-income countries than other countries, as low-income countries' agricultural exports fall by US$3 billion more than the export loss experienced by other countries competing in the European Union market.

In the coming decade, there may be a risk that the 2030 Agenda for Sustainable Development will increase trade costs faced by LDCs, since the implementation of actions to meet SDGs will mean implementing new policy measures. Many such policy measures, for example environmental standards on product quality, constitute NTMs from the perspective of exporters.

What about physical access to markets?

The final question related to the market access of LDC exports concerns their physical connectivity to international markets. Reducing tariffs or NTMs faced by LDC exports will do little to increase their price competitiveness if LDCs cannot bring their goods to market at a reasonable cost. Many LDCs are at the bottom of rankings of direct maritime connectivity measured by the average number of trans-shipments. The absence of a direct connection may be associated with an export loss of 42–55 per cent (UNCTAD, 2015).

Figure 2. Trade-distorting impact of non-tariff measures in terms of ad valorem equivalent (Percentage)



Source: UNCTAD (2015). *Deep Regional Integration and Non-tariff Measures: A Methodology for Data Analysis*. United Nations publication. New York and Geneva.

What will genuinely improve the market access conditions faced by the least developed countries?

With a view to linking target 17.11 to a developmental outcome, UNCTAD proposes the following package of six international actions:

1. **Provide DFQF market access:** As many existing RTAs and upcoming mega-RTAs do not include LDCs, DFQF market access, with simple and transparent preferential rules of origin as advocated by LDCs, can limit the adverse effect of RTAs on market access by LDCs in key markets. The international community should encourage effective implementation of the WTO ministerial decision on preferential rules of origin for LDCs, agreed at the Ninth Ministerial Conference in 2013, with a view to effectively improving the utilization of preferential market access for LDCs. DFQF market access in South–South trade, especially regional trade, would contribute to the export expansion of LDCs.
2. **Implement the WTO ministerial decision on the services waiver and fulfil article IV.1 and 3 of the General Agreement on Trade in Services:** Export growth is desired not only in goods sectors but also in services sectors, where trade deficits in LDCs have been widening in the past decade. Average growth in LDC services exports between 2000 and 2013 was 12.9 per cent. However, services represent only 14 per cent of total LDC exports, and LDC participation in world services exports remains a meagre 0.8 per cent. The data reflect that much potential remains for LDC services suppliers to benefit from international community action to promote the "expeditious and effective operationalization" of special treatment for services and services providers of LDCs, as agreed at the WTO Ninth Ministerial Conference, and in article IV.1 and 3 of the General Agreement on Trade in Services (WTO, 2013).
3. **Reduce future trade costs by cooperating in SDG implementation:** To avoid a possible rise in South–South trade costs, mutual consultation on the planned SDG policy measures via a regional or interregional platform for such consultation and, if appropriate, the harmonization of certain SDG policy measures, such as certificate requirements for a measure for food safety, may be useful.
4. **Physically connect LDCs to the international market:** LDCs need improved connectivity for their exports to regional and interregional markets to genuinely benefit from any market access improvement. The cost to export from LDCs is 1.6–2.5 times higher than costs incurred by exporters of other countries (Organization for Economic Cooperation and Development and WTO, 2015). The international community can help LDCs cut down trade costs via, for example expeditious and effective implementation of the WTO Agreement on Trade Facilitation.
5. **Target aid for trade to upgrade the productive and export capacity of LDCs:** The export capacity of LDCs faces key challenges, including in technological upgrading of production and processing; domestic regulatory and procedural efficiency; and provision of timely and correct information on NTMs in different countries. Aid for trade for improving the productive capacity and institutional upgrading of LDCs should increase. Ongoing efforts to gather and disseminate data and information related to NTMs, such as the Transparency in Trade Initiative, should continue.
6. **Help LDCs use their export growth to achieve sustainable development:** Doubling the export share of LDCs by itself is not a development outcome. The ultimate objective of target 17.11 should be for LDCs to use export growth to build economic capacity to achieve sustainable development by 2030 and beyond. The growth of LDC exports should lead to increases in the number of jobs and of productive sectors that can accommodate 345 million more people than today or 31 per cent more young entrants into the labour markets in LDCs in 2030. Linking trade growth to jobs and structural transformation and spreading the gains from trade to a larger segment of society should be the underlying principle of the international trading system in the coming decade.

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