UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE, POVERTY AND CROSS-CUTTING DEVELOPMENT ISSUES
STUDY SERIES NO. 1

Towards a New Trade "Marshall Plan" for Least Developed Countries

How to Deliver on the Doha Development Promise and Help Realize the UN Millennium Development Goals?

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UNITED NATIONS
New York and Geneva, 2005

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UNCTAD/DITC/TAB/POV/1

UNITED NATIONS PUBLICATION

ISSN 1815-7742

ABSTRACT

At no time have our civilization and the principle of solidarity been tested more than at the present time when one sixth of the world's population lives in abject poverty and 50 countries – big and small – are categorized as least developed and caught in a seemingly endless poverty trap.

This paper sets out a new and comprehensive vision for a trade-related support plan for LDC's, who at present are unable to profit from trade liberalization and beneficially integrate into the international trading system and the global economy. Drawing upon historical experience with the Marshall Plan where the US reconstructed a war devastated Europe ground up, it calls for practical and concrete commitments, policies and measures in favour of LDC's.

Its arguments rest essentially on three pillars of such a "Trade Marshall Plan for LDCs".

The first pillar is the provision of WTO bound duty free quota free treatment (DFQF treatment) by developed countries, coupled with effective standards-related capacity building in LDCs to overcome market entry barriers. The DFQF treatment alone is likely to bring welfare gains of as much as US$8 billion and will add up to US$6.4 billion (10 per cent) per year increase in LDC exports, which currently represent just 0.68 per cent of world trade. The second pillar would be a liberalization package in services, which would include measures to operationalize LDC priority areas, specifically in Mode 4 access. A liberalization package in Mode 4 coupled with a capacity support package in trade in services for LDCs is estimated to generate 10-20 billion USD per year. The third pillar envisages the creation of a one billion USD *Aid for Trade Fund* which would provide much needed finance to meeting adjustment costs arising from trade reform, help provide the hardware and software of trade -related infrastructure and supply capacity and competitiveness building in commodities, manufacturing and services.

The first two pillars are based on a trade-for-aid logic whereas the third pillar rests on an aid-for-trade logic. The position of LDCs today is similar to the immediate condition of post WWII Europe, and if a similar initiative to the Marshall Plan were to be envisaged for LDCs today, US$62.5 billion per year of additional resources would be needed. A "Trade Marshall Plan" for LDCs could deliver a large part of that amount. From an LDC perspective such funds would cushion adjustment shocks build productive capacity, competitiveness and critical infrastructure; generate employment and at a human level lift millions of people out of poverty leading to sustainable trade growth within the LDCs and in turn creating new and viable markets for other countries.

The paper argues that there is now a happy confluence of a strong moral imperative in the context of poverty alleviation, political consensus in terms of contributing to the achievement of the Millennium Development Goals (MDGs), economic justification representing major development gains and institutional and legal viability of mechanisms and measures to operationalize such a "Trade Marshall Plan for LDCs".

Pointing out that the window of opportunity in relation to the implementation of DFQFT treatment to LDC exports is limited in time, the paper makes a strong plea for a comprehensive decision to be taken at the United Nations Millenium+5 Summit in September 2005 and at the WTO Hong Kong Ministerial in December 2005.

Core Actions for Implementation of a New Trade "Marshall Plan" for LDCs

- Bound duty-free, quota-free treatment (DFQFT) is granted by developed countries to all commodities and manufactured products of all LDCs.

- Preferential schemes are upgraded through harmonized and simplified rules of origin and administrative procedures and removal of conditionalities.

- Other developing countries in a position to do so provide preferential treatment, including DFQFT, to LDCs in the context of the ongoing GSTP negotiations.

- Action is taken to discipline non-tariff barriers and market entry barriers facing LDCs, especially in the area of SPS/TBT measures, and help build effective standards-related capacity and infrastructure in LDCs to deal with and overcome such barriers.

- A targeted S&D package in services operationalizes LDC priority areas. This would entail two elements: (i) measures to support supply-side capacity and technology transfer, and (ii) commercially meaningful expansion of market access in Mode 4 at all skill levels and in sectors of key interest to LDCs.

- Additional finance is provided to help meet compliance and adjustment costs, facilitate trade-related infrastructure building and enable supply-side and export-competitive capacity building in commodities, manufacturing and services.

- This can be achieved through technical assistance, ODA initiatives and public-private partnerships. A specific mechanism to meet a chunk of these financial requirements could be met through the creation of an *Aid for Trade* fund with seed money of $1 billion. This money can have a multiplier effect, generating development finance up to 15 times its initial value (i.e $15 billion) within two to three years.

It is estimated that the above measures could help mitigate trade diversion and financial outgoings in LDCs as follows:

- Welfare gains from the grant of DFQFT up to $8 billion, representing additional annual growth of around 4 per cent for LDCs

- Export gains: up to US$6.4 billion (10 per cent of total LDC exports)

- Gains from a targeted services package: US$10–20 billion

- US$15 billion from Aid for Trade Fund in 2-3 years

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ACKNOWLEDGEMENTS

I would like to thank my colleagues in DITC, particularly Lucian Cernat, for their useful suggestions and comments.

"A decent provision for the poor is the true test of civilization."
Samuel Johnson

"Global challenges must be managed in a way that distributes the costs and burdens fairly in accordance with basic principles of equity and social justice. Those who suffer or who benefit least deserve help from those who benefit most."

Principle of Solidarity of the United Nations Millennium Declaration, 2000

INTRODUCTION

In 1947, millions of people in Europe were on the verge of starvation. On June 5, 1947, US Secretary of State George C. Marshall spoke at Harvard University and warned that substantial aid was needed to prevent further economic and political deterioration. He said, "Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos." Between 1948 and 1953 the Marshall Plan contributed more than $13 billion[1] (nearly $100 billion at 2005 US conversion rates) of economic and technical assistance toward the recovery of 16 European countries (an average of $1.25 billion per beneficiary country annually). The Marshall Plan was part of the "politics of prosperity" and a clear manifestation of the "principle of solidarity" between developed countries against the threat of poverty and political instability. It was an attempt to raise levels of industrial productivity in Europe by creating an international consensus for economic growth.

It is nearly 60 years since the Marshall Plan and its successful execution, but one could hardly find words that would depict better than Marshall's the situation of LDCs today. As many as 50 countries – labelled the least developed countries – find themselves unable to escape a vicious circle of underdevelopment, poverty and structural weaknesses. Unlike many developed and developing countries, they have been unable to transform their economies and accelerate their growth through trade-led export strategies. There is, therefore, a strong moral case, a political consensus, an economic rationale and the legal, institutional and financial wherewithal to fashion a new Marshall Plan for LDCs.

[1] All references to "$" are to US dollars.

At no time have our civilization and the principle of solidarity been tested more than today, when one sixth of the world's population lives in abject poverty and 50 countries, big and small, are categorized as least developed and caught in a seemingly endless poverty trap. Transposed into the realm of trade and development policy and cooperation at the national and international levels, making a "decent provision" for developing countries in general, and LDCs in particular, implies giving new life and meaning to the concept and practice of differential and more favourable treatment or, as it is known now, special and differential treatment (SDT). A trade "Marshall Plan" for LDCs would be in the enlightened self-interest of all countries and key to achieving what the Secretary-General of the United Nations has called the larger freedoms comprising the inter-related trinity of development, security and human rights (United Nations, 2005).

As part of SDT for "less developed countries", an even more favourable treatment for LDCs has long been recognized as a guiding principle in the multilateral trading system. It is linked to their special situation and inherent characteristics because of which they find themselves in the category of LDCs. Three key criteria have been established and used by the Economic and Social Council of the United Nations for identifying LDCs. These are low income, human resource weakness and economic vulnerability.

The economic vulnerability criterion involves a composite economic vulnerability index based on indicators of instability of agricultural production and exports of goods and services, the low economic importance of non-traditional activities and modern services in GDP, and merchandise export concentration in a few commodity sectors (UNCTAD, 2004a: xiv). These indicators clearly highlight the constraints faced by LDCs in terms of inadequate physical, social and trade-related infrastructure on the one hand and supply capacity, competitiveness and value addition in agriculture, manufactures, services production and exports on the other. Their specially disadvantaged position in the international trading system is thus the basis on which a case for special treatment to them rests.

As of 2004, LDCs share in world trade stood at 0.68 per cent (approximately $131 billion) of total world exports of $9.46 trillion.[2] However, LDCs have been increasingly marginalized in world trade. Over the last four decades, their share in world exports decreased constantly from 3.06 per cent in 1954 to 0.42 per cent in 1998 (UNCTAD, 2001a). In the last two decades, their trade performance continued to worsen. From 1980 until 1994, there was a persistent tendency towards increasing marginalization of the LDCs in world trade. Even though since 1994 the decline in the LDCs' share in world exports has actually ceased, in 2001 their share in world exports of goods and services was only 0.63 per cent, 31 per cent lower than their share in 1980 (UNCTAD, 2004a). This is particularly true for the majority of LDCs that are exporters of non-oil primary commodities. Their export growth rates have been negatively affected by declining prices of their most important commodity exports. For instance, in the first half of 2003, the price of coffee was just 17 per cent of its 1980 value, cotton was 33 per cent and copper was 42 per cent.

[2] As reported in the WTO trade statistics database available on www.wto.org.

SDT in trade is aimed at enabling LDCs to compete fairly in the context of a liberalizing multilateral trading system. It assumes accepting lesser obligations or receiving exemptions from obligations, or enjoying preferential treatment in market access over and above that received even by other developing countries from their developed-country partners. Indeed, it is widely recognized that such treatment is a sine qua non of upholding and safeguarding the equity aspect of an open, rule-based, predictable and non-discriminatory multilateral trading system – an aspiration reflected in the UN Millennium Declaration and the UNCTAD XI São Paulo Consensus. It is expected to foster the increased participation of LDCs in international trade and their beneficial integration into the global economy, enabling them to use trade not only as an engine of economic growth but also as a means to reduce poverty and advance social development.

Preferential market access by developed countries to developing-country exports has been a notable way of providing SDT as affirmative action in the multilateral trading system, analogous to disadvantaged groups' receiving special treatment in many democracies. The principle is the same: to provide the extra support and incentives that would enable disadvantaged countries in the trading system to compete on a less unequal basis. This was inspired, among others, by the Prebisch-Singer hypothesis of declining terms of trade of developing countries and the need for sectoral intervention and non-reciprocal tariff preferences to foster manufactured and other exports from the developing countries. In a departure from the most favoured nation (MFN) clause and based on the principle of non-reciprocity, an exception has been made in favour of developing countries. The rationale has been that "treating unequals equally simply exacerbated inequalities" (UNCTAD, 2004b), whereas preferential treatment at least attempts to level the playing field somewhat.

Over the years, LDCs have been granted preferential market access in developed countries – first through Generalized System of Preferences (GSP) schemes, then through specific targeted schemes like the Lomé and Cotonou Conventions, and most recently by Everything But Arms (EBA) and the African Growth and Opportunity Act (AGOA). Under these preferential schemes, LDCs have received some measure of duty-free, quota-free treatment for exports of their agricultural and manufactured goods.

For a number of reasons, this treatment has been partial. Schemes have not been comprehensive in terms of product coverage, have been cumbersome to use and have not matched the export capacity of LDCs in all respects. Moreover, their "autonomous" non-binding nature did not lead to secure, predictable market access, which is the most important guiding principle of the multilateral trading system. Hence, the objective of granting duty-free and quota-free treatment (DFQFT) to all LDCs for all products has been a rallying cry ever since the UN Millennium Summit in 2000, when it was pronounced as a "deliverable" of Goal 8 on the international partnership for development as it relates to trade. It is also the part of the WTO Doha Ministerial Declaration representing a commitment of all WTO Members to work towards the objective of DFQFT. It has found prominent mention in the report by the Secretary-General of the United Nations on the follow-up to the Millennium Summit, in which he has posited the provision of duty-free and quota-free market access for all exports from LDCs "as a first step" towards "fulfilling the development promise of the Doha Round of multilateral trade negotiations" (United Nations, 2005).

LDCs, while reiterating their demand for DFQFT by all developed countries to all least developed countries and in respect of all products, have also asked that such treatment be bound in the context of the Doha Round. Such demands fit in with the development premise of the round as well as with its mission to make SDT for developing countries, especially LDCs, "effective, operational, and precise" (WTO, 2001a, paragraph 44). Bound DFQFT is also a means of making the concessions more predictable for both domestic and foreign investors and traders so as to stimulate investment in and sourcing from these countries.

So far such requests have not been acceded to, although in a number of influential quarters they have struck a sympathetic chord. This paper seeks to put the issue of DFQFT in the larger perspective of current efforts to assure development gains from international trade and trade negotiations for LDCs and provide them with better opportunities to achieve their Millennium Development Goals (MDGs). The remainder of the paper is organized as follows. Section 1 briefly describes the systemic evolution and conceptual and legal background of SDT, with special emphasis on LDCs. Section 2 assesses the state of play in terms of the extent and effectiveness of such treatment being provided to them. Section 3 describes how DFQFT can specifically help LDCs overcome handicaps, meet their needs and achieve their MDGs. Section 4 advances a series of proposals to improve preferential market access for LDCs. Section 5 discusses what elements are required in the trade and development policies of LDCs themselves, of developed countries and of other developing countries so as to complement, supplement and enhance the impact of DFQFT. The last section presents a series of considerations on how development gains from international trade and trade negotiations can be assured for LDCs, as provided for in the São Paulo Consensus of UNCTAD XI.

1. The systemic evolution and conceptual and legal background of special and differential treatment (SDT) and its relevance for LDCs

UNCTAD and GSP

In 1971, the international community recognized the existence of a category of LDCs – developing countries whose distinctiveness lay not only in their profound and widespread poverty but also in the weakness of their economic, institutional and human resources, often compounded by geophysical handicaps. In the trade area, LDC-related concerns were linked to the larger principle and instruments of the differential and more favourable treatment (DMFT) principle (later called the SDT principle) evolved by UNCTAD and the GATT as part of the emerging international trading system in the 1960s and 1970s. As early as 1964, the first UNCTAD conference in Geneva advanced the earliest idea of a special chapter on trade and development to be added to the GATT. As a result of this, Part IV was included in the GATT to take into account the concerns of developing countries and make multilateral trade rules more adapted to their needs. This principle also found expression in the GSP, which was first politically adopted at UNCTAD II in New Delhi in 1968 and then agreed to technically by UNCTAD's Trade and Development Board in 1970, with the stated objectives of creating a generalized, non-reciprocal, non-discriminatory system of preferences in favour of the developing countries, including special measures in favour of LDCs so as to "increase their export earnings, to promote their industrialization, and to accelerate their rates of economic growth" (UNCTAD, 1968, 1970).

As a consequence, a number of developed countries launched autonomous GSP schemes providing unilateral, non-binding preferential tariff concessions to developing countries. In some cases, there were duty- and quota-free elements in these schemes, but most preference-giving countries generally provided only lower-duty access, imposed quotas and excluded from their schemes large areas of export interest to developing countries, such as agricultural products and textile, clothing, and footwear products. In addition, tariff peaks and escalation often affected these excluded products. Both a positive and a negative list approach were used in terms of the product coverage. In terms of country coverage, a number of conditions and limitations (e.g. competitiveness needs criteria), including non-trade-related conditions (e.g. intellectual property rights protection, labour and political conditionality), were also used to deny or restrict preferential access by developing countries. Covered developing-country products were often subject to antidumping and safeguard actions. Rules of origin differed markedly from one GSP scheme to another. However, these schemes did enable LDCs and other developing countries to increase their export earnings, promote their industrialization, and accelerate their rates of economic growth. This is particularly true of Asian and Latin American countries and a few African countries.

To deal with questions relating to the functioning and impact of GSP schemes, an UNCTAD Special Committee on Preferences (SCP) was formed in 1970. The Committee reviewed a number of key aspects of the schemes, such as product coverage, exception lists, depths of cuts, operation of safeguard mechanisms (including ceilings and escape clauses) and rules of origin. The Committee was also given a mandate to assess the effects of the GSP schemes on LDCs and review the special measures in their favour. These reviews provided an opportunity for multilateral or bilateral consultations between GSP preference-giving countries and beneficiary countries with respect to the functioning of the GSP and possible improvements in the system (UNCTAD, 1970, part VIII). The consensus-building forum provided by the SCP led to a number of improvements in several GSP schemes (see e.g. European Commission, 1996).

The GATT-WTO evolution

The legal cover for preferential treatment, including through GSP schemes, was temporarily provided (for 10 years) in the GATT by a temporary waiver adopted by the GATT Council in 1971, and subsequently, on a permanent basis, by the 1979 Understanding on Differential and More Favourable Treatment Reciprocity and Fuller Participation of Developing Countries (the Enabling Clause), which was adopted in the Tokyo Round and built on development provisions contained in Part IV of the GATT. The Enabling Clause recognized, *inter alia,* that, "notwithstanding the provisions of Article I of the General Agreement, contracting parties may accord differential and more favourable treatment to developing countries, without according such treatment to other contracting parties" (paragraph 1), and without requiring a waiver from GATT Article I. DMFT applied to tariffs (paragraph 2a) and non-tariff barriers (paragraph 2b) in developed countries vis-à-vis developing countries. It also covered concessions and specific measures given in the context of South-South regional and global arrangements (paragraph 2c). Special treatment in favour of least developed countries was highlighted (paragraph 2d) (see Annex 4 for a full text of the Enabling Clause).

From a legal and conceptual perspective, two key provisions are noteworthy for the current policy consideration on a development package for LDCs in the Doha Round. First, the Enabling Clause in paragraph 3c states that any differential and more favourable treatment provided to developing countries "shall […] be *designed and, if necessary, modified*, to respond positively to the development, financial and trade needs of developing countries" (emphasis added). This, together with paragraph 8, reinforces the LDC orientation by stating that particular account shall be taken of the serious difficulty of the LDCs in making concessions and contributions in view of their special economic situation. This implies that any package of preferential market access for LDCs has to be continuously "designed" and "modified" in such a way as to adapt preference schemes to LDCs' development, financial and trade needs. The calls for binding DFQFT and making it more comprehensive and user-friendly are thus justified and deserve to be fully responded to by developed countries. Likewise, LDCs need to be given more flexibility in making concessions and commitments.

The second significant feature of the Enabling Clause was that it left open the possibility for GATT members "to consider on an ad hoc basis, under the GATT provisions for joint action, any proposal for differential and more favourable treatment not falling within the scope of the Enabling Clause" (footnote to paragraph 2). This means that, apart from preferential treatment in respect of tariff and non-tariff measures affecting goods, other measures affecting trade in goods and other areas of preferential market access could be evolved, following the GATT provisions for joint action (today under the WTO decision-making provisions), to grant preferential access for all exports by LDCs in their major markets.

In this connection, Article XXXVIII of the GATT on Joint Action provided, inter alia, that members should collaborate jointly to further the objectives of Part IV (Trade and Development), Article XXXVI. Such collaboration included actions aiming at improving conditions for commodity exports of developing countries and devising measures designed to stabilize and improve conditions in world markets in these products, including to attain stable, equitable and remunerative prices for exports of such products. Interestingly, it also provided for collaboration in terms of trade and aid relationships to devise concrete measures to promote the development of export potential and to facilitate the development of the export supply capacity of developing countries and provision of concomitant market access by developed countries (Article XXXVI, paragraph c). This seems to be the progenitor of the idea that an important element of SDT, particularly for LDCs, is aid for both supply capacity building and trade-related infrastructure building. It also contains the basis for acting jointly to deal with the problem of commodity-dependent LDCs, which persists after so many years.

Collaboration in seeking feasible methods to expand trade was emphasized in Article XXXVIII, and specific mention was made of international harmonization and adjustment of national policies and regulations, technical standards and commercial practices affecting production, transportation and marketing, and export promotion. This seems to presage the need to provide technical assistance and capacity-building support to developing countries, in particular LDCs, in the area of technical standards and commercial practices (trade facilitation and standards infrastructure-related help for developing countries), which today are becoming a key determinant of not only competitiveness and export capacity but also effective market access. Article XXXVIII also called for appropriate collaboration in matters of trade and development policies with the United Nations and in particular with UNCTAD. UNCTAD has been the UN focal point for monitoring the development dimension of trade agreements and negotiations and has over the years provided ideas, inputs and a forum for consensus building to promote and help realize these objectives.

Building on the basis provided by Part IV and the Enabling Clause, the Punta del Este Ministerial Declaration launching the Uruguay Round (UR) in 1986 set out a commitment in section B7 of part I recognizing the specific needs of the LDCs in the area of market access, where continued preferential access remains an essential means for improving their trading opportunities. Although no mention was made of DFQFT, it was indicated that all tariff and non-tariff concessions agreed in the UR would be implemented in advance and without staging with respect to products of export interest to LDCs. As part of the same decision, it was agreed to keep under review the specific needs of the LDCs and to continue to seek the adoption of positive measures that facilitated the expansion of trading opportunities in favour of these countries.

The Marrakech Declaration establishing the WTO and capping the UR of multilateral trade negotiations gave special recognition to a need for "positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development" (WTO 1994: 1). The Agreement Establishing the World Trade Organization set up the Committee on Trade and Development (CTD) to periodically review the special provisions in the multilateral trade agreements in favour of LDCs. The CTD in turn established in July 1995 a Sub-Committee on LDCs to review the operation of the special provisions in the multilateral trade agreements and related Ministerial Decisions in favour of the LDCs and to consider specific measures to assist and facilitate the expansion of the LDCs' trade and investment opportunities and their development. Although many GATT/WTO agreements included SDT provisions in favour of LDCs, the Uruguay Round Agreements, while providing for global trade liberalization, did not yield significant gains for LDCs whose competitive production and export capacities remained low or, in certain sectors, continued to deteriorate. In 1999, the WTO General Council adopted a Decision on Waiver regarding Preferential Tariff Treatment for Least-Developed Countries (WTO, 1999). The waiver allows developing countries to provide preferences to LDCs without being required to extend the same tariff rates to other WTO members.

Given the feeling within the international community that there was an urgent need to intensify the efforts aimed at enabling LDCs to assure development gains from trade, there seems to be growing consensus in favour of a meaningful set of key proposals that could be held accountable for much progress in the field of preferential market access. One such proposal is for the adoption by all developed countries (and other developing countries in a position to do so) of DFQFT for all products originating from all LDCs. This idea of granting DFQFT to LDCs was first advanced in the multilateral trading system in 1996 by Renato Ruggiero, the then Director-General of the newly established WTO. The proposal was endorsed at the first WTO Ministerial Meeting in Singapore (WTO, 1996, paras. 5 and 14). The idea was subsequently included in several other WTO Ministerial Declarations.

In November 2001 the Ministerial Declaration adopted at the WTO Fourth Ministerial Conference emphasized (in paragraph 42) that all WTO Members were committed to the objective of duty-free, quota-free market access for products originating from LDCs, and in this regard welcomed the market access improvements announced at the third UN Conference on LDCs in Brussels (May 2001), notably the European Union's launch of its Everything But Arms initiative. More recently, the Doha Round's "July Package" of August 2004 (paragraph 45 of Annex A) provided that DFQFT will be provided by developed countries to LDC exports and that, where other developing-country members are in a position to do so, they too will provide duty-free, quota-free market access for products originating from LDCs. Further, paragraph 10 of Annex B of the "July Package" calls on developed-country Members and other Members to grant, on an autonomous basis, duty-free, quota-free market access for non-agricultural products originating from LDCs in order to support diversification of LDCs' production and export base, thereby enhancing their integration into the world trading system.

UN processes

In parallel with these developments in the GATT/WTO context, several efforts were also pursued as part of various UN initiatives. Ways and means of addressing the LDCs' special situation were discussed in a series of UN conferences, the third and last of which was held in Brussels in 2002. The Millennium Summit organized under UN auspices in 2000 adopted the Millennium Declaration and eight goals in a number of areas, including eradicating poverty and hunger. Goal 8 relating to developing a global partnership for development specifically addresses the LDCs' special needs in the area of trade and puts particular emphasis on providing duty- and quota-free access to LDCs in the context of international partnership for development. This goal was picked up and reiterated at the LDC III Conference in Brussels in 2002.

The Brussels Declaration recognized, inter alia, that increased trade is essential for the growth and development of LDCs, as is a transparent, non-discriminatory and rule-based multilateral trading system. Member states undertook to aim at "improving preferential market access for LDCs by working towards the objective of duty- and quota-free market access for LDC products in the markets of developed countries". The Brussels Conference specifically committed members to "take measures to address problems caused by supply-side constraints" (United Nations, 2001: 2).

The Monterrey Consensus adopted in March 2002 on "Financing for Development" called on developed countries that had not already done so to work towards the objective of duty-free and quota-free access for all LDC exports (paragraph 34), as envisaged in the Programme of Action for the Least Developed Countries adopted in Brussels. Further, it recommended that proposals be considered for developing countries to contribute to improved market access for LDCs.

Most recently, the São Paulo Consensus adopted at UNCTAD XI in June 2004 affirmed that "expeditious progress is required to meet the key concerns of the LDCs, including duty-free and quota-free market access on a secure and predictable basis for products originating from LDCs by developed countries, and others are urged to provide meaningful market access for LDCs consistent with the Doha Ministerial Declaration" (UNCTAD, 2004c: 18)

The *"In Larger Freedom"* report of the UN Secretary-General (United Nations, 2005) and the UN Millennium Project Report by Jeffrey Sachs made a strong case for DFQFT and special measures such as "aid for trade" funding.

2. The extent and effectiveness of special and differential treatment (SDT) for LDCs

The "development flexibility" agenda

The SDT measures sought by LDCs can be divided into three distinct but interrelated spheres: the "development flexibility" agenda – a sphere of securing greater development flexibility; the responsive agenda – a sphere of capacity-enhancing or -enabling measures in the LDCs' favour to respond to their particular trade, development and financial needs; and the positive agenda – a sphere of seeking the most favorable treatment in terms of market access in other countries.

The "development flexibility" agenda became all the more relevant after the Uruguay Round and the creation of the WTO. The single undertaking required all countries to sign onto all agreements simultaneously as a single package. Many of the agreements went beyond border measures into the realm of core development policy choices and measures. This necessarily meant a reduction of the development flexibility and national policy space that LDCs needed in this context. Hence, they were given certain exemptions (subsidies), longer transition periods (the TRIPS Agreement) and other flexibilities in conformity with certain obligations under these "within-the-border" agreements. Even in relation to current non-agricultural market access and agriculture negotiations, LDCs are being exempted from tariff cuts, and in services negotiations they are expected to make few or no commitments.

This paper does not, however, seek to go into the details of a "development flexibility" agenda for LDCs, which requires another in-depth look and is substantially reflected in the proposals on Implementation and SDT being put forward by LDCs and other developing countries in the ongoing Doha negotiations. What is worth affirming, however, is that such an agenda is a necessary concomitant of the positive measures that need to be taken as part of any trade "Marshall Plan" for LDCs. If LDCs are not allowed such flexibility, their ability to deal with a plethora of economic and social challenges will be hampered and their achievement of MDGs like poverty reduction and universal access to essential goods and services for their populations will remain a distant dream. Also, acceding LDCs need to be given the policy flexibility available to other LDCs and not charged a WTO "entry fee" inconsistent with their trade, development and financial needs.

That is not to say that LDCs should exclude and marginalize themselves from the multilateral trade negotiations. There is unexplored potential for the use of trade liberalization instruments to foster broader economic development, productive capacity and competitive abilities. In fact, most LDCs have, under Structural Adjustment Program (SAPs) or other International Monetary Fund–World Bank programmes, undertaken extensive liberalization measures. Each LDC should be able to evaluate how this autonomous opening up has helped infrastructure and supply capacity building as well as reinforced the country's export efforts and helped combat poverty. Depending on a particular economy's level of preparedness, the entrepreneurial base for external competition and the prior setting up of necessary regulatory frameworks, LDCs may see fit to progressively bind their autonomous liberalization in the context of the Doha negotiations and derive benefits and get commercially meaningful credit for such concessions. In this regard, their approach needs to be strategic, with proper provision for pacing, sequencing and sectoral or public interest safeguards.

The "enabling" or "responsive" agenda

The responsive agenda of LDCs includes elements of technical cooperation, capacity-building and financial support in different areas of LDCs' trade and development endeavours. It would also mean operationalizing certain provisions like Article IV of the GATS or Article 66.2 of the TRIPS Agreement relating to transfer of technology to LDCs, or SPS/TBT agreements pertaining to special treatment of LDCs. Responding to their public health needs in the context of TRIPS and the Public Health declaration of Doha also falls in this category. The "July Package" emphasized that the concerns of developing countries relating to food security, rural development, livelihood, preferences, commodities and net food imports, as well as prior unilateral liberalization, should be taken into consideration during the agriculture and non-agricultural market access negotiations. It is regarding this responsive agenda that this paper will make suggestions about meeting implementation costs and providing supply capacity, trade adjustment and infrastructure support through increased aid for trade funding.

The "market access" or "positive" agenda

Operation of GSP schemes for LDCs

Regarding LDCs' positive agenda, the international community's most prominent and important response has been in the form of GSP schemes introduced by the European Communities and Japan in 1971, Canada in 1974 and the United States in 1976. Later on, a number of other OECD countries and Eastern and Central European economies followed suit.

The number of GSP schemes increased in the 1980s as many other developed countries introduced bilateral schemes. Preference-giving countries also made several attempts to improve their GSP schemes (see Annex Table 1 for key developments in the Quad countries). However, by the late 1990s around half of LDC exports to Canada, Japan and the United States still faced significant tariffs. With the exception of the EU GSP scheme (which increased its product coverage from around 70 per cent in 1997–1999 to almost 100 per cent with the adoption of EBA in 2001), the GSP schemes of other Quad markets were still far from providing duty- and quota-free market access for all LDC products. A number of schemes excluded from their coverage products considered "sensitive", and in general a significant proportion of agricultural products are excluded from GSP schemes.[3]

[3] During the late 1990s, Japan GSP scheme covered less than 50 per cent of total number of lines. In the US, the actual GSP coverage in terms of tariff lines declined from around 63% to 51% during the same period. A similar decline was witnessed between 1995-2000 in the coverage of the GSP scheme of Canada (from 76% to 36%).

According to UNCTAD estimates, several products of export interest to LDCs were largely excluded from preferential treatment. For instance, transport equipment, mechanical and electrical equipment, optical and precision instruments in the Japanese scheme, textiles and clothing in the case of the United States, and live animals and products in the case of Canada have historically been affected by low GSP coverage ratios. Furthermore, in certain cases, excluded products of key export interest to many LDCs are affected by tariff peaks (UNCTAD, 2003a). Since 2000, however, Quad countries have adopted a number of amendments to their GSP schemes in order to improve market access for LDCs. (Examples include the adoption of AGOA, covering African LDCs, in May 2000 by the United States; product coverage improvements in the Canadian GSP scheme in 2000 and 2003; and coverage improvements for industrial products in 2000 and agricultural products in 2003 in the Japanese GSP scheme; see Annex Table 1 for more details.) These improvements in the GSP schemes of Quad and other OECD countries have increased the GSP coverage for LDC exports and the prospects for future increases in market share.

The last two decades were marked by a substantial erosion of LDCs' preferential market access and a stagnation of their market shares. The LDCs' preferential margin vis-à-vis simple MFN rates in Quad countries has, despite virtually duty-free access for covered products since the mid-1990s, been significantly eroded (by 57% in Canada, 36% in the United States, 22% in the European Union and 19% in Japan). UNCTAD estimates that losses of preference value (export revenue) resulting from decreased preference margins for ACP countries alone vis-à-vis the European Union amounted to $650 million (Monge Roffarello, 2004). At the same time, a notable encouraging trend is that, with the exception of the European Union,[4] the weighted LDC preferential has increased constantly during the same period – by around 119% in the United States to around 13%, by 90% in Canada to around 10.5%, and by 72% in Japan to 6.4%. This suggests that LDCs are able to channel their exports into products that enable them to benefit from the largest preference margins, and thus to take advantage of commercially meaningful preferences. However, despite all these developments and although in absolute terms, imports from LDCs that received GSP treatment increased from only $145 million in 1976 to $1.6 billion in 1996, the share of total GSP imports of major preference-giving countries in total imports remained practically stagnant, increasing only marginally from 1.3 per cent in 1976 to 1.6 per cent in 1996 (UNCTAD, 1998: 8).

GSP coverage of LDC exports

The concentration of the bulk of GSP benefits in a few beneficiary developing countries has remained a prominent feature throughout the years (table 1). In 2001, for instance, the top five LDC exporters receiving GSP treatment accounted for 96 per cent of total GSP-covered imports of Canada, 99 per cent of US covered imports, and 89 per cent in Japan. Bangladesh is a major supplier among LDC beneficiaries, ranking in top position in Canada and the European Union. The European Union is the most important single market for LDC exports. In 2000 over 50 per cent of LDC exports were sold on the EU market, compared to 37 per cent in 1999. In 2000, the European Union took around 70 per cent of LDC agricultural exports. Among the 49 LDCs, 15 are dependent on this market, as over 50 per cent of their exports are directed there.

[4] In the EU, the weighted LDC preference margin remained practically constant at around 5%.

In addition, imports that benefited from the GSP have in the case of LDCs been highly concentrated in a few products. Textiles, footwear, prepared foodstuffs and beverages, live animals and products thereof were the main products benefiting from GSP market access in Canada and Japan. Exports to the United States and European Union from LDCs under their GSP schemes are highly concentrated in two product categories: mineral products (mostly oil) in the United States and textiles in the European Union.[5]

The concentration of current GSP trade in a few products originating from a limited number of LDCs (table 1) points to the importance of the linkage between country and product coverage, rules of origin requirements and, most of all, the supply response capacity of individual beneficiary countries. The GSP trade pattern is also an indication of LDCs' ability to deal with administrative and procedural challenges, which have a bearing on their export performance.

For a number of reasons, however, eligible products for GSP treatment have been unable to take advantage of preferential market access. On average, during the 2001–2002 period, 61 per cent of LDC exports to Quad countries still faced a tariff, as a result either of non-inclusion in GSP schemes or of inability to qualify for GSP treatment. In other words, the share of total LDC exports under MFN treatment was still the bulk of their trade. This share of LDC exports was entering on an MFN tariff basis, with a not negligible number of products subject to tariff peaks and tariff escalation.[6] Given the composition of their exports in relation to the tariff structure of developed countries, developing countries and LDCs face higher trade-weighted average tariffs in these markets than other OECD countries. The trade-weighted average tariffs that LDCs face when exporting to developed countries are 48 per cent higher than the tariffs

Table 1. The share of the top five preference-receiving LDCs in total GSP exports from LDCs to major markets, 2001 (per cent)

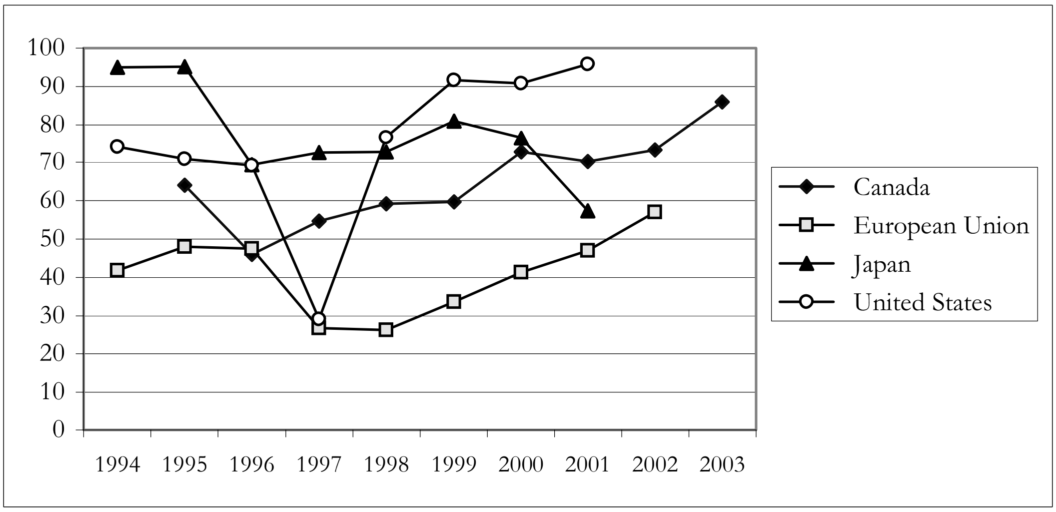
Canada		Japan		United States		European Union	
Bangladesh	47	Cambodia	25	Angola	87	Bangladesh	81
Nepal	25	Bangladesh	24	Congo, Dem. Rep. of	4	Cambodia	8
Haiti	13	Mauritania	17	Equatorial Guinea	4	Nepal	4
Maldives	8	Myanmar	16	Yemen	3	Lao PDR	4
Malawi	3	Zambia	7	Bangladesh	1	Yemen	1
Total top five LDCs	96		89		99		98

Source: UNCTAD GSP database. The statistics do not cover LDC exports that enjoy more preferential market access in preference-giving countries, such as the ACP scheme in the European Union or the US CBTPA scheme for Caribbean countries.

[5] UNCTAD (2003b) suggests that, when petroleum oils from Angola are excluded from the calculations, the coverage rate of the US scheme drops to 4 per cent, the remaining amount of GSP preference-receiving LDC exports being in the range of only US$122 million.

[6] In Canada, for instance, in 2001 LDC exports that were not covered by GSP or enjoyed very low utilization rates (under 40%, many items with zero utilization rates) were still affected by 335 domestic tariff peaks.

Figure 1. GSP utilization rates for LDCs in Quad countries



Source: UNCTAD GSP database. The statistics do not cover LDC exports that enjoy more preferential market access in preference-giving countries, such as the ACP scheme in the European Union or the US CBTPA scheme for Caribbean countries.

that other developed countries face when exporting to developed countries (Fernandez de Cordoba, Laird, Vanzetti, 2004). This is a very important aspect of the market access dilemma that LDCs face, with much of the preferential treatment remaining virtual.

The utilization rates (the ratios between imports that have actually received GSP treatment under a scheme and imports covered by the scheme) show how effectively beneficiaries have been able to take advantage of a given GSP scheme and also point to the endogenous constraints and infirmities of such schemes.

Figure 1 depicts the evolution of utilization rates between 1994 and 2003 in Quad countries for GSP schemes (see Annex Table 2 for a detailed breakdown by GSP beneficiary). The available data show an uneven pattern of utilization of GSP schemes, with a general upward trend since the mid-1990s for the European Union, Canada and the United States. For instance, utilization rates for the EU GSP scheme remained below 50 per cent throughout the period 1994–2001 but increased sharply after 1998, reaching a peak of 57 per cent in the post-EBA period. The utilization rate in Japan declined starting in the mid-1990s from 94 per cent to less than 57 per cent. The utilization rate of the US GSP scheme has improved in recent years, after a sharp drop to 29 per cent in 1997. In terms of specific products and beneficiary countries, utilization rates have fluctuated even more dramatically over the last decade. Individual product categories showed large variations in utilization rates across time within the same scheme and across various GSP schemes. Many products of export interest to LDCs that are still unable to take advantage of the GSP benefits show low utilization rates (see Annex Table 3).

Endogenous and exogenous constraints of GSP treatment

Such fluctuations in LDC exports to major preference-giving countries are determined to a large extent by a number of constraining factors that arose from the nature, scope and other endogenous factors affecting the operation of the GSP schemes. Over the years, specific concerns were systematically raised with regard to the negative impact of the exclusion of particular countries[7] and products of export interest for LDCs from GSP schemes, the linking of the GSP benefits to non-trade issues such as environmental and social and labour standards, and intellectual property rights protection and the fight against drugs (WTO, 2001b: 5). In addition, complex administrative procedures, conditionalities and eligibility criteria, as well as the degree of uncertainty about the scope and duration of such unilateral preferences, have mitigated the benefits of GSP schemes.[8]

Another constraint has been stringent and complex rules of origin systems in different schemes that do not match the production and trade patterns of LDCs. These systems have reduced the ability of LDCs to diversify their export structure and increase market shares in higher-valued-added agricultural and manufactured products (UNCTAD, 2003b). The rules of origin applicable to different GSP schemes vary widely, from global cumulation across beneficiaries in the case of Canada, for instance, to limited bilateral or regional cumulation in the case of the United States, Japan and the European Union. For instance, in 1997 the utilization rate for LDCs in the European Union as shown in figure 1 resulted largely from a severe drop in Bangladesh's utilization of the scheme, as a result of complex origin requirements in the textiles and clothing sector.

A number of exogenous factors have been at work, reducing the effectiveness of these schemes. Multilateral trade liberalization, especially in regard to tariff reductions for industrial products, has progressively eroded preference margins. Regional and free trade agreements, mostly on a North-North and North-South basis, have also adversely affected preferential access to Quad and other OECD markets.[9] South-South regional trade agreements have had a positive

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[7] Country coverage across various GSP schemes is not uniform. For instance, unlike other schemes based on the UN definition of LDCs, AGOA grants LDC status to several non-LDC African countries and provides thus duty-free treatment on all products covered under the scheme, which erodes the LDC preferential market access to the US to a considerable number of products.

[8] Frequent changes in product coverage and beneficiaries affected the US and Canadian schemes. In the case of the US, such changes were introduced even twice a year (WTO, 2001:39-40). The uncertainty is even more pronounced in the case of country- or region-specific unilateral preferential schemes (such as the ACP or the US and Canadian preferences for Caribbean countries) covered by waivers from WTO Article I, which are temporary and need periodical renewal. In the case of EBA, uncertainty is also introduced by new provisions allowing the EU to apply safeguard measures when massive increases in imports of products originating in the LDCs arise in relation to their usual levels of production and export capacity. Specific safeguard measures apply especially with regard to three sensitive products of key interest to many LDCs (bananas, sugar and rice), if imports of these products cause serious disruptions to the EU mechanisms regulating these products.

[9] The erosion and adverse effect of multilateral tariff liberalization and regional trade arrangements has been accentuated by the fact that these arrangements, unlike GSP schemes, are bound in legal frameworks and thus provide greater security and predictability of access.

impact for LDCs in several regional contexts, since they usually have special LDC provisions. But inter-regional schemes for giving LDCs preferential treatment on a South-South basis have not made much headway, especially since the GSTP initiative launched in 1986 did not really take off until recently, when a third round was launched during UNCTAD XI in São Paulo in June 2004.

All these endogenous and exogenous factors suggest that LDC exports have been affected by a low level of predictability in terms of market access. One indirect indicator of the low level of predictability is the greater volatility of total LDC exports covered by the GSP compared to the volatility of Quad countries' total world imports. In addition, with the exception of the European Union, the evolution of LDC exports does not seem to be correlated with the evolution of world imports by Quad markets, further suggesting that LDC trade is affected to a large extent by other factors than tariff liberalization.

3. How can DFQFT help LDCs overcome their handicaps and achieve their MDGs?

Although most studies of GSP schemes find positive trade effects – that is, LDC exports increased as a result of preferential market access – the concentration of LDC exports under the GSP schemes into a very limited number of unprocessed commodities (such as petroleum, raw cane sugar, tobacco, etc.) and a limited number of beneficiaries clearly suggests that so far the design of such schemes has prevented LDCs from achieving the objectives originally set out in the 1968 UNCTAD II Conference Resolution 21 and subsequently endorsed in various forums by the international community – to increase the successful integration of LDCs into the world trading system, promote their industrialization, and accelerate their sustainable economic development.

As was mentioned in the previous section, since 2000, several initiatives have been undertaken to improve LDCs' preferential access to Quad countries' markets and thus provide greater opportunities for their economic development. Such schemes have been in operation for a relatively short period, and it is probably too early to fully assess their impact on the prospects for economic development of LDCs. However, some evidence suggests that recent improvements like EBA and AGOA provided substantial benefits to many LDCs. For instance, total LDC exports to the European Union increased by around 40 per cent during the post-EBA period. For specific countries, export increases are even more significant: EU imports from Mozambique increased by 346 per cent in the past three years. Textiles and apparel is another example of the potential impact of DFQFT on LDC exports. Duty- and quota-free market access for LDC textiles and apparel in the European Union has consolidated these countries' export performance. For instance, Bangladesh is currently the fourth largest exporter of garments to Europe. By contrast, Bangladesh's garment exports to the United States have fallen 6 per cent since 2001 because Bangladesh and other Asian LDCs are excluded from AGOA and do not enjoy duty-free treatment in the United States.

Similarly to the situation with EBA and the European Union, aggregate trade between the United States and AGOA-eligible countries has increased significantly since pre-AGOA times. The share of AGOA-covered products in total LDC exports to the United States in 2005 (year to date) was 75 per cent, a sharp increase from 50 per cent in 2002 (AGOA, 2005). However, an analysis of the sectoral trade data shows that three sectors – energy-related products, textiles and apparel, and transportation equipment – account for the vast bulk (over 90%) of exports currently qualifying for AGOA benefits. Agricultural products and minerals and metals have also been successfully exported under AGOA, while AGOA-eligible exports in the remaining product categories are still insignificant. Most of the other product sectors lag far behind, with only a very small proportion of total exports to the United States in those categories being AGOA-eligible.

Ex ante estimates of DFQFT

A number of recent ex ante studies have also tried to estimate the benefits that can be expected from such new market access conditions for LDCs. Using a computable general equilibrium methodology, such studies usually examined the economic effects of such proposals for all LDCs, in particular the European Union's EBA proposal and the impact of its possible adoption by the other three Quad members (see e.g. UNCTAD, 2001a).[10] The analysis indicates that, overall, EBA and its extension to the other Quad countries have the potential to increase the total annual exports of LDCs by around 2.6 billion, or 6 per cent. Most studies concur that, in the case of the EU EBA, the most substantial export gains for LDCs are expected to occur in the sugar sector, followed by other agricultural products (such as meat and cereals) where there is a substantial price difference between EU domestic and world prices. However, so far sugar remains a sensitive product subject to transition arrangements until its full liberalization in July 2009.[11]

More recent studies, analysing various scenarios (Quad DFQFT, OECD DFQFT and DFQFT granted by OECD plus a 50 per cent reduction in tariffs by some developing countries) and labour market assumptions, found that total LDC exports could rise by 5 to 10 per cent ($3.1 to $6.4 billion), depending on the assumptions.[12] However, it should be noted that when LDCs receive tariff preferences in key developing countries, available estimates suggest that LDCs stand to gain modest increases in exports (around 0.5 percentage points) (Fugazza and Peters, 2005). This suggests that GSP beneficiaries have price-responsive productive sectors able to take advantage of commercially meaningful preferences in developed countries but that, given the similarities in factor endowments and production and export patterns, LDCs gain less from DFQFT by developing countries than they do from developed-country DFQFT.

The ex ante estimates suggest that DFQFT encourages economic growth. The average LDC growth rate during 2000–2002 (the latest available data for the countries as a group) was 4.9 per cent a year; only seven LDCs achieved the 7 per cent growth target set by the UN Programme of Action for the LDCs for the Decade 2001–2010 (PALDC). The estimated annual welfare gains for LDCs from DFQFT in all developed countries are in the range of $4 to $8 billion, representing additional annual growth of around 2 to 4 per cent for LDCs (Fugazza and Peters, 2005). Thus, DFQFT could be a factor in achieving the PALDC target of 7 per cent annual growth. In addition, if DFQFT were granted by all countries and in all products, including sensitive manufacturing products and agricultural exports affected by high MFN tariffs, tariff peaks and tariff escalation, LDCs would benefit from increased value-added and commodity export diversification. DFQFT would also create opportunities for unemployed factors of production to engage in value addition and in diversification away from basic commodities traditionally affected by declining terms of trade into labour-intensive manufacturing areas.

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[10] For a review and summary of similar analyses found in the literature, see Cernat et al (2004).

[11] Following the transitional period, many analyses claim that, eventually, LDC sugar would substantially erode the current market share enjoyed by ACP countries that are dependent on preferential market access for their sugar, such as Mauritius and Fiji. However, LDCs account for less than 4 per cent of total EU cane sugar imports and various estimates suggest that the largest ACP sugar exporters such as Mauritius and Fiji would see their current level of exports reduced by only 5 and 2.4 per cent respectively (Cernat et al. 2004).

[12] This compares favourably with previous studies for the early 1980s when the overall impact of GSP schemes on trade flows was estimated at around 2.3 per cent increase in total GSP-covered trade.

Other implications of DFQFT

Some computable general equilibrium (CGE) analyses also suggests that the increased value added in the products most affected by preferential liberalization might lead to some resource allocation between alternative export sectors. In particular, the ex ante estimates indicate that, when the European Union is the only market granting DFQFT, some LDC export industries that do not benefit from EBA may contract. This is particularly true for textiles and clothing (Fugazza and Peters, 2005) but also for services (Cernat et al., 2004).[13] However, for a number of reasons, such sectoral output contractions are highly unlikely. First, when labour and capital market rigidities affecting LDCs are taken into account, such reallocation of resources is less likely to occur (Fugazza and Peters, 2005). Second, redirecting existing domestic sales or exports towards markets offering better preferential market access is more feasible in the short run and less costly than reallocation of resources across sectors.[14] Third, there is clear evidence that such sectoral export contractions based on CGE estimates are not confirmed by current developments. For instance, although textiles and apparel did not benefit from additional preferences under the EU EBA scheme, apparel exports from Bangladesh in the post-EBA period have increased by 19 per cent since 2001.

Another key aspect indicated by the CGE analysis is that full account should be given to non-tariff barriers other than quotas affecting trade flows (such as sanitary and phytosanitary measures, technical barriers to trade, rules of origin, safeguards, etc.) that may preclude LDCs from increasing their exports to the extent predicted by CGE analyses. Moreover, CGE analyses refer to long-run scenarios, usually largely neglecting adjustment issues and alternative macroeconomic responses.[15] This may be a serious limitation especially when analysing the economies of LDCs, which are normally characterized by structural rigidities.

One other important element that needs to be emphasized is that all these CGE estimates are based on existing supply capacity in LDCs. If appropriate supply-capacity-building measures are put in place, DFQFT will have a greater positive impact on the economic prospects of LDCs. In 2003, for instance, 100 countries imported 4,212 products (HS 6-digit level) from LDCs (around 82% of the total range of exportable goods). However, many of these products are exported in negligible quantities. When a commercially meaningful threshold (of, say, $100,000) is applied, the number of product lines with meaningful LDC exports decreases to 1,647. However, 773 products showed exports greater than $1,000,000, suggesting that LDCs have a significant number of products with good export potential (WITS, 2004). Therefore, for such products with little trade values, supply-side shortages rather than limitations on market access may be the more important constraints and need the urgent attention of the international

[13] This shows the need to expand the preferential market access to the services sectors, a point that will be further elaborated in the next sections.

[14] Comparing value-added and export changes, UNCTAD (2001a) and Cernat et al (2004) also suggest that the increase in LDC exports to DFQFT-giving countries is accounted for by a redirection of domestic sales and existing LDC exports, and less so from a cross-sectoral reallocation of resources.

[15] For an attempt to simulate the impact of various labour adjustment scenarios see Fugazza and Peters (2005).

community. In the absence of responsive supply capacity, even the most generous market access enhancements alone may not be sufficient to strengthen the links between trade and development in the world's poorest countries.

Therefore, it is important to create the necessary conditions favouring the expansion of processed agricultural goods that are likely to generate more value added. It is also important to underline that duty-free access could be seen as a temporary window of opportunity that should serve longer-term development goals. It could act as a trigger for sustained productive capacity building in commodities and manufacturing in LDCs through stimulation of trade and investment flows. One immediate benefit of DFQFT for all LDCs in all developed markets is that many of the poor are located in agriculture and would gain directly from measures strengthening agricultural exports, which would increase the contribution of trade to the achievement of the MDGs.

4. How to improve preferential market access for LDCs?

Given this DFQFT-related untapped trade, investment and development potential for LDCs, proposals for improvement and reform of preferential market access for LDCs have surfaced in many forms. Essentially the current debate is driven by two divergent views that could be labelled "preference sceptics" and "GSP reformers".

Preference sceptics emphasize that trade preferences have been granted for more than three decades to developing countries, including LDCs, and that so far there is little evidence that these countries have benefited considerably as a result of such schemes (e.g. Bhagwati, 2002; Whalley, 1990). Preference sceptics argue that the actual record of preference utilization suggests that very few countries have benefited and that, with few exceptions, these were not the countries that most needed trade preferences (such as LDCs) but rather more advanced developing countries. Moreover, such preferences have led developing countries, and LDCs in particular, to invest in economic activities that have little chance of survival in the absence of such preferences. Further, given the trend towards multilateral liberalization, preference margins crucial for their competitiveness are inexorably being eroded and LDCs are coming under continuous structural adjustment pressures to divest away from "artificially" developed economic activities, given the fact that preferences are limited in time.

In contrast, GSP reformers believe that GSP schemes have played and will continue to play a positive role in the export and development performance of developing countries.[16] Preferences enabled the "Asian success story" countries to gain market penetration, sustain themselves in markets over time and build the necessary competitiveness. They also helped these countries diversify their export structures, especially into manufacturing. GSP reformers point out that, while the arguments of preference sceptics carry some weight, a crucial point is overlooked: a main reason for the underperformance of GSP schemes in terms of development expectations is precisely the inability of such schemes to adapt to and reflect the interests and concerns of beneficiary countries. The previous sections of this paper briefly highlighted a number of major deficiencies reducing the positive impact of GSP schemes on the trade and development prospects of LDCs. For instance, quotas have considerably reduced the development potential of GSP schemes. It has often been alleged that GSP quotas were sometimes set below minimum efficient plant size, thus negating the intended trade- and investment-increasing incentives of the preferences. Quotas have also considerably reduced the predictability of GSP preferential market access, since they introduce a great deal of uncertainty regarding the operation of the system: it is difficult for LDC exporters to know until a shipment's arrival in the import market whether the shipment will qualify for GSP treatment or will be denied it because the quota has been filled.

[16] One notable argument is provided by Rose (2004) who, after controlling for other relevant factors, found that GSP more than doubled trade between GSP donor an beneficiary countries. Romalis (2003) calculated an average "growth dividend" of 10 percent for African countries, over a 15-year period in which GSP schemes were operational.

In addition to such factors directly related to the design and implementation of GSP schemes, exogenous factors also affect the impact of the GSP scheme, irrespective of their intrinsic merits and weaknesses. The ongoing process of multilateral liberalization, paralleled by the proliferation of regional and bilateral trade agreements, has considerably reduced the preferential margin that GSP schemes offered to LDCs. Other macroeconomic factors such as the major shifts of the last decades (the increasing importance of services, the use of ICT and consolidation among major global companies) have also reduced the ability of small LDC producers to rely on GSP preferential margins as a sufficient competitive wedge.

However, even with these endogenous and exogenous deficiencies greatly affecting the ability of LDCs to take advantage of the preferential market access granted by developed countries, several LDCs have managed to increase their market shares and to a certain extent adapt their export and investment patterns to take advantage of the market opportunities provided by such GSP schemes. Apart from countries like Bangladesh in the European Union, an example is Lesotho with its ability to attract foreign investment and build new supply capacity as a result of the duty-free, quota-free market access provided by AGOA for textiles and clothing.

Anecdotal evidence and industry surveys indicate that the new spatial production geography and economic integration are driven by locational, trade and investment decisions of global enterprises. These in turn are affected by comparative advantages of a country location flowing from natural resources or labour skills and costs, a stable macroeconomic and policy environment, and specific government policy incentives. DFQFT is such a policy incentive that will affect costs and prices as well as the policy environment for trade and investment in LDCs. It will help LDCs leverage their natural assets better and will influence the decisions of footloose global enterprises. The relatively temporary nature of DFQFT need not pose problems as long as the DFQF access is for a fixed period – for example, 10 years. Predictability can be attained through a binding, multilateral legal solution offering predictability and compatibility with other trade rules. As the experience of several LDCs (such as Bangladesh) shows, given sufficient time even the "artificial" industries fomented by preferences can mature into areas of real comparative advantage. Also, the adaptability of countries and their ability to move into connected sectors increase over time.

Although sceptics and reformers disagree regarding the extent to which such schemes have contributed to the economic growth, additional value added and development of particular sectors and countries, there is sufficient evidence to conclude that there is room to increase the potential benefits to be derived from GSP schemes, once the current rules governing preferential market access are changed to increase their predictability and "development-friendliness".

Binding DFQFT

One effective way to increase the predictability of GSP schemes for LDCs is to bind DFQFT granted to LDCs under GSP schemes in the WTO. In particular, it is worth mentioning that the draft Seattle Ministerial Declaration (1999) proposed to bind such preferential treatment in the WTO, in an attempt to increase the coherence and predictability and, ultimately, the development benefits of such preferential schemes for their beneficiaries (Onguglo and Ito 2001: 18). The Commission for Africa Report also recommends binding preferential schemes in the

WTO on a permanent basis to enhance the predictability of such schemes and promote investment in productive capacities (Commission for Africa, 2005: 294).

There is also considerable evidence that binding preferential schemes under the WTO rules would provide a number of non-negligible benefits. Section 2 pointed out that many aspects of the various GSP schemes need further improvement (in predictability of country and product coverage, conditionality, rules of origin, administrative procedures, etc). In addition, several studies and anecdotal evidence clearly suggest that the design of unbound, unilateral preferential schemes was influenced by domestic interests in the preference-giving country that resisted the inclusion of any products that could have led to significant trade creation effects for GSP beneficiaries (DeVault, 1996).[17] Binding preferential access could alleviate some of these constraints and thus contribute to the commitment of the international community, as part of the Millennium Declaration and the São Paulo Consensus, to an open, equitable, rules-based and predictable multilateral trading system. As was indicated in section 3, GSP preferences, although hampered by all these constraints, have had a positive impact on many LDC exports and government revenues, especially when significant preference margins are available for products of export interest to them, as for sugar in the European Union or textiles in the United States.

According to various estimates, an ambitious Doha round could provide global welfare gains in the order of $80 to $250 billion, potentially lifting 100 million people out of poverty, depending on assumptions. Binding preferential market access as a "down payment" during the Doha round could provide a more targeted "early harvest" for millions of poor people living in LDCs. The call for binding preferential schemes in the WTO therefore has a sound economic justification not only from a trade perspective but also from an investment point of view. Providing secure market access to major developed markets to LDC producers may act as a powerful investment incentive to firms that are looking for new opportunities or could integrate existing LDC firms into global production chains. Both effects would also have a positive impact on the overall competitiveness, export diversification and technological content of LDC producers and would give them the benefit of economies of scale, size and scope.

Several arguments favour the idea of binding DFQFT for all products originating in LDCs. First, as set out in paragraph 3(c) of the Enabling Clause, developed countries have an obligation to improve their GSP schemes and make them more adapted to "the needs" of developing countries.[18] This interpretation of the language contained in paragraph 3(c) as a binding requirement has been upheld by the recent Appellate Body report on the European Communities – Conditions for the Granting of Tariff Preferences to Developing Countries case and accepted by the European Commission (WTO 2004: 64).[19]

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[17] DeVault (1996), based on econometric estimates, suggests that in the case of the US, domestic opposition to expansions in GSP product coverage reduced the potential for GSP trade by 58%.

[18] Other legal scholars disagree with this argument and consider some of the Enabling Clause provision as "best-endeavour" clauses (see for instance Howse, 2003).

[19] The Appellate Body, in para 158, stated as follows: "At the outset, we note that the use of the word 'shall' in para. 3(c) suggests that paragraph 3(c) sets out an obligation for developed-country Members in providing preferential treatment under a GSP scheme to 'respond positively' to the 'needs of developing countries."

Second, regarding the "needs" that have to be addressed, the Appellate Body recognized that the obligation to address such needs positively has to be based on an "objective standard" and that "broad-based recognition of a particular need" in the WTO Agreement or in other "multilateral instruments adopted by international organizations" gives extra priority to such needs (WTO 2004: 66). Granting binding DFQFT for all LDC exports by all developed countries meets these criteria outlined by the Appellate Body in its interpretation of paragraph 3(c) of the Enabling Clause. The main benefits of binding GSP schemes are to make them more secure and irreversible, predictable and rule-based, that is, subject to WTO disciplines. These are objective standards and have been widely recognized as such in the UN Millennium Declaration and the UNCTAD São Paulo Consensus, to cite just a few international instruments. Granting DFQFT to all LDC exports by all developed countries has also been recognized as a legitimate objective in the WTO Doha Ministerial Declaration.

Based on this economic logic, political consensus and legal viability, several options are available to provide legal cover to such an initiative in the WTO. A legal framework that would provide legally binding obligations by developed countries in the WTO for bound DFQFT for LDCs could involve a Ministerial Decision, a new WTO Agreement, a protocol, a plurilateral agreement, an Understanding, or an amendment of the Enabling Clause. Each legal solution has several advantages and shortcomings. For instance, a simple legal solution would be to use the existing provisions of the Enabling Clause to enter into binding commitments to provide DFQF market access for LDCs. As was mentioned at the outset of this paper, the Enabling Clause in paragraph 3c allows and even urges developed countries to adapt and improve SDT for LDCs in such a way as to respond positively to the development, financial and trade needs of developing countries. It goes without saying that a legally binding commitment by all developed countries to provide DFQFT to all LDC products as part of their WTO obligations will have a positive impact on the trade and development prospects of LDCs and meet their needs.

Another approach would be to build on the political momentum gathered around the importance of trade as an engine for development and the commitment to increase the participation of LDCs in international trade and trade negotiations. A WTO Ministerial Decision will convey such political will to ensure that DFQFT, as part of the SDT, contributes to the achievement of development goals embodied in the Doha Declaration and enhances the contribution of trade and trade negotiations to the achievement of the MDGs. This political momentum in favour of bound DFQFT can also be captured in a WTO Ministerial Declaration at the Hong-Kong Ministerial Meeting, along the lines of the E-Commerce Moratorium that was adopted in the Geneva Ministerial Conference in 1998 and then renewed in successive declarations. [20]

A strong and more legally binding option between using the existing provisions of the Enabling Clause and having a WTO Ministerial Decision would be to negotiate a Protocol or an Understanding on DFQFT for LDCs.[21] This Understanding could recall the commitments made

[20] Some authors have argued that Ministerial Decisions contain many "best endeavour" clauses and hence have certain legal weaknesses (Onguglo and Ito, 2001).

[21] See Onguglo and Ito (2001) for a draft protocol under the GATT 1994.

in the Doha Declaration, at the Millennium Summit and in other UN reports and clarify that the provisions in the Enabling Clause should be interpreted as the legal basis for the adoption by developed WTO Members, and other WTO Members in a position to do so, of binding DFQF market access commitments for all LDC products.

However, one argument made against such an approach is the reluctance of WTO Members to negotiate essentially another multilateral agreement that violates the MFN clause. Yet the existing precedents suggest that an Understanding of the Enabling Clause will not work against the overall objectives of the WTO system. The proposed Understanding will serve a purpose similar to that of the Understanding related to GATT Article XXIV, for instance. Both would have the same objective of adding predictability and improving compatibility between the multilateral trading system and reciprocal or unilateral preferential trade agreements, such as the GSP schemes.

Such an Understanding or Protocol will, however, most likely entail subsequent detailed negotiations on additional measures that need to accompany the binding DFQF commitment, in particular on harmonization of rules of origin. Such negotiations could prove lengthy and burdensome in addition to the current core issues in the Doha work programme and might in time diminish the utility of the GSP schemes themselves.

Another option would be to conclude a plurilateral agreement between "like-minded" preference-giving and beneficiary countries. Such an agreement, although having the merit of flexibility and the ability to negotiate tailor-made provisions for participating countries, could run the risk of inconsistency with other WTO obligations and could be challenged by non-participating countries. It could also become a vehicle for demanding reciprocity from LDCs in other areas, if not regarding tariffs. Yet another shortcoming of the plurilateral approach would be that not all important preference-giving countries might participate. A critical mass of participants would be needed in order to make such an agreement effective and commercially viable for LDCs.

Still another possibility would be the scheduling of DFQF commitments by developed countries exclusively in favour of LDCs by following the procedure outlined in Article IX.3(b) relating to a waiver of an MFN obligation imposed by the GATT 1994. This would imply, inter alia, the following procedures:

a) A request would have to be made to the Council for Trade in Goods, and, after a period not exceeding 90 days, the Council should submit a report to the Ministerial Conference for a decision to be adopted in this regard.

b) The decision would have to be taken by three-fourths of the members unless it were made by consensus.

c) The waiver can be given for 10 years, but Article IX.4 requires that the waiver be reviewed not later than one year after it is granted, and thereafter annually until the waiver terminates.

d) The advantage would be the possibility of a quick and simple solution not requiring detailed negotiations. The existence of political will on the part of developed countries in particular and Members in general is sufficient to make this outcome a reality expeditiously even at the Hong Kong (China) Ministerial Meeting. As was the case with the Cotonou related waiver, given political will, the detailed procedures can be short-circuited and compressed into a simple Ministerial Decision on the waiver.

e) The only shortcoming would be the element of uncertainty introduced by the mandated annual review of the waiver and the fact that none of the elements relating to improvement of preference schemes, particularly rules of origin, could be adequately addressed.

Given the various options available and their advantages and disadvantages in terms of legal validity and political consensus in favour of such measures, it is difficult to assess which proposal would be the most feasible and beneficial for LDCs. However, a criterion to be kept in mind is that of immediate delivery without imposing an additional negotiating burden on LDCs. Also, given the sunset nature of the tariff-based preference margins, the legal solution and its benefits need to have immediate effect in order to be of substantive value. The need for immediate extension of DFQFT to all LDC exports could hardly be exaggerated, in view of the urgent need for progress towards the achievement of the MDGs in most LDCs, including in sub-Saharan Africa. At the same time, it is important to emphasize that the potential benefits stemming from DFQFT should supplement the considerable benefits expected from multilateral liberalization.

Resource-constrained LDCs should not be overburdened during the already complex Doha negotiations with the additional task of negotiating a full-fledged Agreement, Protocol or Understanding that would spell out the legal framework for binding DFQFT at the multilateral level. A more pragmatic solution in the short run would be to agree on a Ministerial Declaration granting DFQFT for all LDC products through either the waiver route or the moratorium route explained earlier in all developed-country markets, with immediate effect, and explicitly stating the commitment of developed countries to binding DFQFT, probably on a time-limited basis (for example, 10 to 20 years).

This "quick-fix" solution would provide immediate benefit to help LDCs take advantage of the tariff preferences. MFN tariffs are increasingly becoming less constraining as a result of successive rounds of multilateral trade liberalization and the proliferation of regional trade arrangements. DFQFT therefore has a limited shelf life, and if it is not brought into operation immediately, its potential benefits will vanish.

Rules of origin: global cumulation and donor country content

There is ample empirical and anecdotal evidence that rules of origin are a major factor in the low utilization rates of GSP schemes (e.g. UNCTAD, 1998; UNCTAD, 2001a; UNCTAD, 2003b). The rules of origin governing imports under various GSP schemes have considerable scope for further harmonization and simplification. Rules of origin for sensitive products, such as textiles and fishery, are often very trade-restrictive. While some progress has been made in harmonization of the process criterion, differences of substance remain between GSP donor countries over percentages set for imported materials or originating products and over the processes prescribed. Another major element hampering the ability of LDCs to increase their utilization of GSP schemes are the cumulation provisions. Several GSP schemes allow for cumulation across several regional groupings, including LDCs, but this is far from ideal. For instance, AGOA allows for regional cumulation of fabric for textile and apparel products and global cumulation for African countries eligible for the "Special Rule for lesser-developed countries".[22] However, apparel made in a designated lesser-developed country of third-country yarns and fabrics is subject to a regional cap, which is filled on a "first-come, first-served" basis (United States, 2005).[23]

One option for improving the current system and allowing for harmonization of rules of origin and economies of scale in LDCs is to adopt global cumulation rules.[24] For instance, the GSP scheme of Canada has successfully adopted such rules. Canada's GSP rules of origin for LDCs allow any materials used in the manufacture or production of the goods originating from any other GSP beneficiary country (global cumulation) or from Canada (donor country content rule) to qualify as originating in the LDC beneficiary country and thus not to be counted towards the 60 per cent maximum import content allowance of the ex-factory price of the product. All value-added and manufacturing processes performed in other beneficiary countries may be integrated to meet the qualifying maximum import content requirement. Thus, for the purposes of calculating the qualifying percentage of the maximum import allowance, under global cumulation, all LDC beneficiary countries are regarded as one single customs area. However, inputs from non-LDC beneficiaries of Canada's GSP scheme cannot be counted as local content (UNCTAD, 2001b). A more generous option would be to allow inputs from non-LDC GSP beneficiaries to qualify under global cumulation and thus give a stimulus to South-South trade. Some aspects of AGOA's rules of origin in respect of textiles and clothing could also be a model. The envisaged improvements in the EU GSP rules of origin, in particular cross-regional cumulation, are also welcome.

The Canadian model for global cumulation or its improved version could be promoted as "best practices" in rules of origin cumulation and recommended for adoption by other donor countries. Such rules of origin would not only provide better options for LDCs to take advantage of existing GSP preferences but also encourage South-South trade and investment linkages. In addition to the cumulation issue in rules of origin, simplification and harmonization across schemes are highly desirable. UNCTAD is working on model rules of origin for preferen-

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[22] Other specific details (de minimis rule, certain component exemptions) also allow for a certain degree of flexibility in AGOA RoO.

[23] The regional cap available under the "Special Rule for lesser-developed countries" is set at 2.3571 per cent of apparel imported into the United States in the preceding 12-month period. However, as of October 1, 2006, the sub-cap for the Special Rule will be phased down by 50 percent (United States, 2005).

[24] A similar proposal has been put forward recently in the report prepared by the Commission for Africa. The report advocates the adoption of global cumulation rules, with a 10% local content requirement.

tial schemes aimed at LDCs and drawing on best practices that could maximize LDC exports to developed-country partners. Steps also need to be taken to simplify procedural and administrative requirements and reduce costs that deter LDC exports from using preferences. Another point supporting the argument for appropriate rules of origin, especially in the context of DFQFT, is that without adequate rules of origin, the value added and employment created may occur in competitive developing countries from where a product may be shipped to LDCs to have minor value added and finally proceed as a duty- and quota-free export to developed-country markets without actually leading to job creation within the exporting LDCs. This argument has been advanced by, for example, Bangladesh.

Market entry and non-tariff barriers

LDC exports today face a variety of non-tariff barriers in their major markets. UNCTAD estimates indicate that as many as 40 per cent of LDC exports to developed-country markets are affected by non-trade barriers such as TBT/SPS measures, customs rules and procedures, competition-related restrictions, import licensing and subsidies. Developed-country markets today are characterized by the proliferation of ever more complex, rapidly changing, stringently applied and hard-to-meet market entry conditions. One only needs to look at the annual Market Access Barrier reports of the European Union and the United States complaining about each other's SPS- and TBT-related standard regimes to understand what a serious challenge this can pose for developing countries and LDCs in particular. The importance of SPS, TBT and environmental standards and measures in determining effective market entry for developing-country goods can be gauged by the fact that 95 per cent of all internationally traded goods and the bulk of developing country exports are covered by one or more health, safety or environmental requirements. Each measure is potentially a prohibitive market entry barrier, which could impair or even nullify the benefits given by DFQF market access. The challenge involved in complying with such market entry conditions is even greater for LDCs, whose physical infrastructure and financial and institutional resources put them at a disadvantage in the international trade arena. The problem is compounded by the fact that in LDCs, small producers usually account for a large part of the country's production and trade. SMEs are particularly ill-equipped to meet new standards imposed in developed countries or to participate in the standard-setting processes at the international level.

The struggle of LDCs to improve their competitiveness and prospects for development has been hampered by increasingly stringent market entry conditions. Complying with standards may involve disproportionate costs for LDCs in exchange for benefits of doubtful value in import markets. For example, Otsuki et al. (2000) estimate that the implementation of a new aflatoxin standard in the European Union will have a very negative impact on African exports of cereals, dried fruits and nuts. On the basis of an econometric model, it is estimated that the EU standard, which would reduce health risks by approximately 1.4 deaths per billion a year, will decrease African exports of these products to the European Union by 64 per cent, or $670 million.

Several policy initiatives can be implemented to reduce the negative impact of such trade barriers and make market access and entry more effective. Thus, the imposition of standards in major markets affecting key products of export interest to LDCs needs to be disciplined, and positive measures need to be taken to build capacity in LDCs to monitor and comply with such standards. More specifically, effective awareness raising, notably among LDC producers, particularly SMEs, of existing and upcoming standards and regulations should be promoted through effective communication with Governments and standard-setting bodies in importing countries regarding the impact of environmental requirements on the compliance costs and profitability of producers in developing countries. Informed participation in standard-setting bodies related to products of particular export interest to LDCs should be encouraged and supported through operational and comprehensive technical assistance and institutional and infrastructural capacity building. Innovative finance mechanisms aimed at providing LDC exporters with the necessary funds to comply with such standards should be further explored, and information about best practices and successful experiences in certain developing countries should be disseminated more widely. Efforts should be made to reduce the costs of (multiple) conformity assessments and certifications. These efforts should include building cost-effective infrastructure – for example, through group certification and the creation and accreditation of national and regional certifying bodies and laboratories. A network could be established especially for LDCs.

Most LDC producers and exporters are SMEs that do not have market power in their own or in international markets. One major challenge, therefore, for LDC producers and exporters is the increasing prevalence of anti-competitive practices by foreign enterprises in their own markets and in international markets. In areas such as food and agriculture exports, where LDC exports are concentrated, these exports often face monopsonistic and oligopsonistic situations and are therefore at the mercy of price, quality and other stipulations set by large buyers with concentrated economic power. There is a need for capacity building in LDCs to create awareness about competition policy and establish their own legislation and mechanisms to deal with these anti-competitive practices. The international community should also be sensitive to the vulnerability of LDCs to anti-competitive practices and take measures to afford international consultation and cooperation as required. UNCTAD has been working with LDCs in this area.

5. Beyond market access in goods: What else is required?

Market access for LDC exports of goods is only one factor influencing the trade and development prospects of LDCs. Other important factors affect the ability of LDCs to take advantage of the market access opportunities created by GSP schemes. Preferential market access in services, supply capacity-building support and "aid for trade" initiatives are additional factors that could deliver the development promise of liberalized international trade for LDCs.

Services

The services sector is a latecomer into the multilateral trading system, where GATS came into being with the establishment of the WTO in 1995. So far, no unilateral preference schemes for services trade have been granted to developing countries or to the LDCs. Since then, the services sector has increasingly become a non-negligible component of many LDC economies. It has also become an important "currency" in the multilateral trade negotiations, with LDCs increasingly drawn into the dynamics of the ongoing GATS negotiations. The majority of the LDCs have felt that they must clearly define their "development flexibility" and positive agenda in these negotiations. A key aspect of building such a positive agenda in the area of services has become the issue of making operational "special priority" or "special consideration" that have been accorded in various provisions of the GATS in favour of the LDCs through which effective market access in sectors and modes of supply of export interest to LDCs could be achieved.

LDCs as a group account for only 0.4 per cent of total world exports of commercial services, and their imports of the latter are close to 1 per cent; however, services as a share of total trade in individual countries are of undisputed importance. The share of commercial services exports in the total trade of LDCs is 18 per cent (compared with the world average of 20 per cent). Given that many services sectors play a key role in the performance of other economic sectors, trade in services has been slowly gaining recognition as an important contributor to the economic performance of LDCs. Hence, putting into effect unilateral preferential schemes to grant commercially meaningful preferential market access for services sectors through modes of export interest to LDCs could significantly enhance the overall benefits of such schemes and the SDT available to LDCs in key areas of trade interest to them.

In the multilateral context, the need to accord "special priority" to LDCs in the area of services trade has been recognized. Special consideration to be given to the LDC members was built into the GATS, as well as into the recently negotiated instruments - the Guidelines and Procedures for the Negotiations on Trade in Services (S/L/93) and in the application of Modalities for Treatment of Autonomous Liberalization (TN/S/6). The adoption of the Modalities for the Special Treatment for Least-Developed Country Members in the Negotiations on Trade in Services (henceforth "LDC Modalities", TN/S/13) attests to the trade community's commitment to seeking ways of addressing the special needs of the LDCs in the ongoing GATS negotiations. And most recently, in the July Framework, the WTO General Council stressed that special attention would be given to LDCs in providing effective market access and to ensure a substantive outcome, particularly in sectors and modes of supply of export interest.

Clearly, special priority in services has nothing in common with preferences as we know them in the goods area. In the negotiations WTO Members are required, in accordance with Articles IV and XIX of the GATS and LDCs modalities, to give special priority to providing effective market access in sectors and modes of supply of export interest to LDCs, through specific commitments pursuant to Parts III and IV of the GATS. In other words, special priority means that LDCs should indicate those sectors and modes of supply that represent priority in their development policies, so that developed-country Members take these priorities into account in the negotiations. Once Members bind such market access, it will be open to all WTO Members on an MFN basis, diluting "special priority" to LDCs in terms of effective market access, where they would have to compete with others on an equal basis.

LDCs are likely to seek special priority in liberalization of market access by developed WTO Members in a number of areas. First, it is recognized that the temporary movement of natural persons supplying services under the GATS (Mode 4) provides potential benefits to the sending and recipient countries. Recognizing that Mode 4 is one of the most important ways of supplying services internationally for LDCs, developed countries should make binding commitments to provide access in Mode 4, taking into account all categories of natural persons identified by LDCs in their requests, including professionals, technicians and associate professionals and service providers other than professionals. These services providers could include nurses, dental assistants, certain categories of teachers, providers of secretarial and clerical work, social workers and care givers, hospitality, housekeeping and personal service providers, drivers, construction services workers and skilled agriculture-related services providers. Market access under Mode 4 could in addition create spill-over opportunities for LDCs, particularly for those with a growing pool of experienced and educated workers with credibility gained abroad that could also benefit from outsourcing of IT-enabled services through Mode 1.

As regards sectors of special export interest to LDCs, tourism is for many LDCs a major source of export revenue. Arrangements could be worked out for measures to be taken in the public domain by the developed-country governments in support of the LDCs, which could, for example, include using extreme care when issuing travel warnings in relation to LDCs so as to avoid trade diversion effects for these countries, which often get as much as 70 per cent of their export earnings from tourism. Furthermore, proactive measures could provide LDCs with improved access to global distribution channels and information networks related to tourism products. In addition, construction services, professional services (especially those supplied by technicians and associate professionals), entertainment and sporting services, education, health and related business services are areas in which LDCs have demonstrated trade potential or are likely to develop comparative advantage over time. Often, many of these services are already being supplied by LDCs regionally where market access and market entry barriers are considerably lower.

In addition to market access openings, facilitation of the delivery of LDCs' services and service suppliers to foreign markets is a priority issue. In the ongoing negotiations on Mode 4, facilitation would refer to the delays and procedures related to the issuance of visas and work permits and other administrative measures that may act as a disguised barrier and could result in additional costs for suppliers of services. Contact points established under GATS Article IV could help in achieving transparency and access to information about market entry requirements in developed-country markets by making information easily accessible for small suppliers of services from LDCs and would also facilitate trade. Feedback obtained from LDCs' services suppliers in relation to procedures and administrative measures on a continuing basis and positive response to ameliorate difficulties encountered by them could go a long way in giving LDCs a helping hand.

The GATS allows for certain development flexibility to LDCs on opening fewer sectors, liberalizing fewer types of transactions and progressively extending market access in line with their development situation as well as attaching conditions when granting access to their markets, exemption from offering full national treatment or undertaking additional commitments under Article XVIII of the GATS (on regulatory issues), etc. It is therefore important for this flexibility to be respected in the context of ongoing GATS negotiations and in WTO accession negotiations. Imbalances in negotiating strength may put at risk the effective application of these provisions for development flexibility, since none of them is granted at the outset and all have to be negotiated, usually at the bilateral level, by the individual LDCs. On the other hand, imperfect knowledge of development-enhancing trade policies and the lack of progress on assessment of trade in services in most of the LDCs limit their ability to make full use of the flexibility provided for under the Article XIX.2. Notwithstanding the above, it is imperative to safeguard this principle of progressive liberalization of services trade by LDCs, not only in letter but also in spirit. This does not mean that LDCs should exclude themselves or be marginalized from the ongoing GATS negotiations. On the contrary, they would gain from engaging in areas of priority interest to them.

The GATS also provides for the treatment of liberalization undertaken autonomously by Members outside the scope of the multilateral negotiations. The giving of credit for the unilateral liberalization in the services sectors that many LDCs have undertaken, especially under SAPs, is expected to provide for preferential treatment of requests by LDCs, without demands for any reciprocal concessions. Notably, LDC Modalities provide that LDCs shall be granted appropriate credit for their autonomous trade liberalization. In addition, Members shall refrain from requesting credits from LDCs.

Capacity-building programmes provided to LDCs have been recognized in their importance in the GATS, including LDC Modalities, especially in order to strengthen their domestic services capacity, build institutional and human capacity, and enable them to undertake appropriate regulatory reforms. LDCs have also sought technical assistance in carrying out national assessments of trade in services. WTO Members had agreed on specific positive measures for technical cooperation in the context of earlier negotiations on basic telecommunications. It was recognized that foreign suppliers of telecommunications services in LDCs could assist in technology transfer, training and other activities that support development of the telecommunications infrastructure in the LDCs and expansion of their telecommunications services trade. This kind of commitment should be made operational and extended to other infrastructure services. This is an area where the proposed aid-for-trade fund can also be very useful. Such a fund could draw on cross-border services transactions for raising resources, such as Tobin taxes, which are proposed excise taxes on cross-border currency transactions, or air passenger taxes aimed at development funding, which are being discussed in different forums, including the European Union and the G-8.

However, these important GATS provisions in favour of LDCs do not translate into trade preferences in the traditional sense. There is no legal basis for providing non-reciprocal trade preferences in favour of LDCs under the current framework of the GATS. However, actual implementation of the mandate built into the LDC Modalities "to develop appropriate mechanisms with a view to achieving full implementation of Article IV.3 of the GATS and facilitating effective access of LDCs' services and service suppliers to foreign markets" may provide answers on how non-reciprocal unilateral preferences could be accorded to LDCs in services.

The main concern is that, currently, according non-reciprocal unilateral preferences to LDCs would violate the Article II (MFN) obligation of non-discrimination. Time-bound exemptions to the MFN provision were allowed for WTO Members at the entry into force of the GATS under the relevant Annex during the Uruguay Round negotiations; however, at the time no such broad-based MFN exemptions in favour of LDCs were undertaken by Members. Hence, to make non-reciprocal unilateral preferences compatible with the GATS, an additional legal instrument would be needed. One way is to adopt a WTO Ministerial declaration or decision to provide a legal basis for effective implementation of the special priority principle enshrined in GATS Article IV.3 and allow for non-reciprocal preferential market access and special capacity-building measures and technical assistance to LDCs in the area of services. Such an instrument could be time-bound and enable Members to provide non-reciprocal preferential treatment to services of LDCs for an initial period of 10 years, for example, and be subject to periodical reviews.

Another option would be to consider applicability of GATS Article V on economic integration as a tool for accommodating non-reciprocal unilateral preferences to developing countries or LDCs granted by other Members. Technical review of Article V was sought in the ongoing negotiations, as a number of questions were raised and remained to be clarified. Scope for consideration of this Article in relation to the non-reciprocal unilateral preferences to developing countries and LDCs is given in its flexibility provision under V.3(a) for developing countries, including LDCs, with respect to the conditions set out in paragraph V.1. The notions of paragraph 1 on "agreement liberalizing trade in services between parties to such agreement" could be extended to accommodate unilateral granting of preferential access to developing countries and LDCs. Also, the flexibility would also apply in this case in terms of what is understood as substantial sectoral coverage that would be earmarked for the preferential access. It is understood that no a priori exclusion of any mode of supply from such preferential schemes would be made.

Focusing on the market access negotiations without adequate attention to strengthening of the GATS agreement risks making the multilateral trading system unbalanced. Strengthening of the GATS agreement is needed both in terms of making progress on its negotiating mandates and in achieving greater liberalization of market access, especially in areas of particular interest to the LDCs. Development of the multilateral rules and disciplines mandated under GATS Articles VI.4 (Domestic regulation), X (Emergency safeguard measures), XIII (Government procurement) and XV (Subsidies) would strengthen the legal framework of the GATS and make the multilateral trading system more predictable. But in that process Members would also need to account for the specific interests and difficulties of the LDCs. The mandate of the LDC Modalities to provide mechanisms for achieving full implementation of Article IV.3 of the GATS calls for translating "special priority" into effective market access for LDCs. Given the vulnerability of LDCs services suppliers, such access could only be achieved if non-reciprocal unilateral preferences for LDCs could be made compatible with the GATS. LDCs need to engage in negotiations on strengthening GATS agreement to achieve these objectives.

Recognizing that the services sector is *sui generis* compared to other areas of trade, and that, even within services, different sectors may necessitate different approaches, the sector may not be easily amenable to the development of across-the-board preferences. Specific measures for including non-reciprocal unilateral preferences for LDCs could be advanced by analogy to and based on the experience of the existing regional or bilateral integration agreements in services. In the meantime, achieving effective market access under the GATS in sectors and modes of supply of trade interest of LDCs as expressed in their request would contribute to attaining a development-oriented outcome for the ongoing negotiations and increasing the participation of the LDCs.

So far LDCs have felt that, given their competitive weaknesses, they would not be able to benefit from the improved market access offered by other members on an MFN basis. At the same time, for fear of losing their own markets to foreign suppliers of services, they have not been forthcoming in making extensive specific commitments themselves. Providing for non-reciprocal unilateral preferences for LDCs in services could give LDCs an incentive and the confidence to consider the benefits of opening up their own markets under the GATS – for example, in infrastructure services, given their important interconnecting role to foreign markets, in which the existence of preferences would provide trading opportunities for LDCs as well. In addition, to make genuinely sustainable specific commitments, LDCs need to obtain results from assessment of trade in services, since many of them feel that further progress in negotiations without knowledge of the sectors could lead to commitments that would place limitations on services sector development. Ongoing multilateral negotiations on services are posing increasing challenges for LDCs owing to the fact that undertaking specific commitments in the GATS means new international obligations binding certain policy options. LDCs need to have policy choice in their development agenda, including under the domestic regulatory framework, and to be able to attach conditions, such as regarding the use of local services inputs, based on the sequencing of different components of trade policies with a view to progressive trade liberalization.

Translating a commitment to provide special priority to LDCs into action through making possible the granting of non-reciprocal unilateral preferences for LDCs in services is a shortcut for increasing participation by LDCs in international trade in services. From the cost and benefit consideration, this approach would most likely entail minimal costs for developed countries while reaping huge spill-over benefits for LDCs in terms of trade and trade policy and for promoting long-term economic and social development, as well as for the broader systemic consideration of integrating the weakest players into the multilateral trading system. LDCs have been facing a certain amount of mounting pressure to step up their efforts in the liberalization of multilateral services and to make new and improved offers in the ongoing negotiations. Putting in place preferences in services might create a win-win situation in the negotiations, since LDCs, themselves having a stake in the ongoing negotiations, would be readier to make specific commitments on market access. Furthermore, preferences would be a specific development benchmark that could link measures by developed-country partners to strengthen the efficiency and competitiveness of LDCs' services capacity, thus increasing the contribution of services to the attainment of the social and development objectives, and would also contribute to raising the liberalization benchmark. Specific public-private partnerships could also be launched in favour of LDCs with regard to implementation of Article IV. Achieving this goal could become a major building block in delivering a specific development-oriented outcome at the WTO Ministerial Meeting in Hong Kong (China).

Corporate responsibility for development and LDCs

Since global enterprises are major drivers of international trade and investment today, their role in the working out of the trade "Marshall Plan" for LDCs is crucial. It is hoped that many of the measures suggested in this paper will encourage global enterprises to invest in and source from LDCs and thus contribute to their productive capacity in export growth as well as better value creation. Many multinational companies are taking initiatives in the area of corporate responsibility for development. Such initiatives would include, *inter alia*, providing remunerative prices to LDC producers for their exports of commodities, manufactures and services; investing in supply-chain-linked infrastructure and capacity building in LDCs; and undertaking special promotional initiatives in the light of growing awareness among developed-country consumers and their own shareholders of development "value" goods, which also contribute to poverty reduction in LDCs.

Supply capacity and trade-related infrastructure building

The supply capacity and competitiveness of LDCs are extremely limited. Most ex ante studies assessing the potential benefits of improved preferential market access for LDCs make a number of optimistic assumptions about supply elasticity in LDCs. The few ex post methodologies and various case studies and microeconomic analyses, however, indicate that supply capacity is a significant shortcoming. For instance, UNCTAD (2001a) clearly shoed that supply-side constraints were major impediments inhibiting Bangladesh's capacity to access benefits under the EU GSP and EBA schemes. This is also true of most sub-Saharan African countries and other LDCs. Fugazza (2004) shows, for example, that Africa's ability to reap benefits from improved market access has been constrained by the poor development of supply capacity factors.

UNCTAD studies on the export competitiveness of LDCs in particular indicate that the basic productive capacity in LDCs, whether in agriculture, manufacturing or services, is rudimentary, with limited technological or export value added. Very few have been able to move away from the syndrome encompassing commodity dependency, low value addition and realization, lack of viable diversification, fallacy of composition and unfavorable terms of trade. Their ability to cope with the emerging complex of sophisticated market access and entry conditions is negligible. The basic physical social and trade-related infrastructure is inadequate or even missing in many LDCs. FDI as a source of productive capacity building or infrastructure development has not materialized. It has been largely concentrated in fuels, minerals and some agricultural commodities, and in very few manufacturing and services sectors.

There is now recognition in development quarters that donor-supported public funding is an essential prerequisite for boosting or upgrading supply capacity and infrastructure building in LDCs. UNCTAD studies[25] show that the most important element in driving a supply and trade competitiveness response in LDCs is injecting a significant amount of public resources into trade-related infrastructure. This has the advantage of giving a Keynesian-type macro impetus to the economy, generating jobs until the infrastructure comes on stream, addressing poverty in the short term and improving capacity to trade in the medium term. Improved infrastructure, better macroeconomic conditions and growth will induce investment in supply capacity building, both domestic and foreign, and increase and sustain export competitiveness. Thus, in the longer term, the LDCs could hope to pay their own way and to cease reliance on aid if they are supported at this vital juncture.

Existing technical assistance and new ODA initiatives still have to adequately address supply-side constraints in LDCs. While announcing the EU EBA initiative, the then EU commissioner Pascal Lamy acknowledged that "duty-free access alone is not enough to enable the poorest countries to benefit from liberalized trade. We need to help them build their capacity to supply goods of export quality and we reaffirm the Commission's commitment to continued technical and financial assistance to this end" (European Commission, 2000). Such initiatives are all the more important owing to the continual decline in the preferential margin offered by GSP schemes, not only in absolute terms (i.e. as compared with applied MFN rates) but also in relative terms (i.e. vis-à-vis other non-tariff barriers).

Aid-for-trade initiatives

In the last decade and a half, there were many in development circles who raised the slogan "trade, not aid", implying that if developing countries were given fair, enhanced, and preferential market access, and if they themselves opened up and organized in order to seize opportunities provided by liberalization, they could generate sufficient financial resources for development, break out of aid dependence and escape the debt and poverty trap. Unfortunately, for most LDCs these gains have not been realized, and the countries have been unable to use trade as an engine of growth and development. The main reason lies in the internal and external

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[25] Marco Fugazza,"Export performance and its determinants: Supply and demand constraints," UNCTAD Policy Issues in International Trade and Commodities, Study Series No. 26, 2004.

constraints that have been highlighted by successive editions of the UNCTAD Least Developed Countries Report. Other reasons for their inability to maximize their development gains from trade include (a) the high adjustment costs arising from import industries' suddenly competing with imported goods, or export industries' unexpectedly losing markets, (b) lack of capacity to meet compliance costs and deal with and benefit from new trade rules, (c) severe deficits in infrastructure, including trade-related infrastructure, (d) export dependence on a single or two or three commodities in most cases, and minimal diversification into new and dynamic sectors of manufacturing and services trade, and (e) lack of the necessary productive supply capacity and competitiveness to participate effectively in a liberalized trading environment, especially since, despite liberalization of FDI regimes by LDCs, expected and sufficient FDI with capital and technology value added has not materialized so far.

This situation has brought to the fore the need for an "aid for trade" fund, in addition to aid for development, particularly for LDCs in the context of the Doha Round of negotiations, as also in the context of their being helped to achieve the MDGs. The Secretary-General of the United Nations, in his statement at the Fifth WTO Ministerial Meeting in Cancún in 2003, affirmed that "developing countries need aid for trade and such aid must not come at the expense of aid for development … indeed trade liberalization must be carefully managed as part of comprehensive development strategies … the least developed countries in particular often need genuinely special and differential treatment thus not simply more time to comply with new rules". It has been pointed out that so far the approach was to provide modest amount of aid for trade funding on an ad hoc basis, as an after-thought or as a sweetener in the context of LDCs participating in trade negotiations. This has clearly been a reason for the LDCs not being able to use trade as an instrument of economic growth. Hence, there are suggestions that there could be some commitment *ab initio* as part of the larger "single undertaking" to provide aid for trade resources adequate to meet existing trade and development needs, as well as those generated by new obligations.

This idea was further picked up by the Millennium Project task force on trade chaired by Ernesto Zedillo and which formed part of Jeffrey Sachs's report Investing in Development: A Practical Plan to Achieve the Millennium Development Goals. The report called for "a temporary aid for trade fund" to provide additional assistance to developing countries to help them comply with new trade rules. Another influential report by a group chaired by former GATT Director General, Peter Sutherland on the "Future of WTO - addressing institutional challenges in the new Millennium", also stressed the adjustment challenge facing developing countries and argued that "international development agencies chiefly the World Bank, should have, or should improve, programmes to fund adjustment assistance to developing countries" and continues that "we would argue that the ability of the Doha Round to deliver worth while results depends critically on such action".

The Trade Commissioner of the European Union, Peter Mandelson, in a key policy speech at the London School of Economics on 4 February 2005 titled "An Action Plan for Trade and Development in 2005: The EU, the WTO, the G-8" stated that "trade will not promote development without parallel investment in the supply side" and that "there is an urgent need for the world's richest countries to establish a special Trade Adjustment Fund". Existing efforts by the

IMF and the World Bank are inadequate, if the G-8 is unwilling to make such a move, then it will fall on the EU to consider what it can do on its own".

The Africa Commission report entitled "Our Common Interest", commissioned by the UK Government, specifically endorses an aid for trade fund in its core recommendations. It says "the rich countries must finance aid for trade to help meet the economic and social costs of adjusting to a new global trading environment". The UK Chancellor of Exchequer Gordon Brown in his path breaking speech at the UN General Assembly in December 2004 made an impassioned plea for an International Finance Facility (IFF) and fair trade pointed out that there was need for the IFF to "frontload aid for investment in development", "an investment in the future", and that "it is not enough to say to the poorest countries "you are on your own, simply compete" we have to say "we will help you build the capacity you need to trade – not just opening the door but helping you gain the strength to cross the threshold".

At the Development Committee meeting of the IMF/World Bank held in April 2005, an informal note circulated by IMF/World Bank staff, noted that "the demand for, and capacity to absorb, "aid for trade" still exceeds available resources. For these reasons, they see a strong case for "increased assistance in the form of grants or loans to cover the gamut of needs and aid for trade from technical assistance to budget support or investment lending". It is significant that they recognize that "such resources should be genuinely additional to existing aid budgets".

Before examining what should be done with regard to an aid-for-trade fund, it is important to look at what is being done, particularly by the multilateral financial institutions, individual donor governments, the WTO and UNCTAD and other UN agencies.

The IMF and the World Bank have a responsibility to provide resources with regard to trade for development. This is in keeping with the "coherence mandate" affirmed in the Marrakech Declaration at the founding of the WTO and is reiterated in paragraph 5 of the Doha Declaration, which calls for "greater coherence in global policy making" through the involvement of the Bretton Woods institutions with regard to the challenges facing members in the international environment. In this regard, it is recognized that multilateral financial institutions must focus on trade-negotiations-related deficits in resources caused by adjustment shocks and costs, provide resources to build trade-related infrastructure and supply capacity to enable developing countries to take advantage of opportunities created by MTNS - triggered liberalization of international trade. The World Bank has, according to its specific mandate, been providing resources in the following areas as outlined in its note: (a) technical assistance and capacity building, (b) policy research and advice (c) institutional reform, (d) investment in related infrastructure and trade facilitation, and (e) assistance to offset adjustment costs. The World Bank has indicated that it has increased its trade-related resources by 50 per cent in 2004–2006 as compared to the previous eight years. The trade facilitation component alone was $560 million in 2004.

One specific and recent initiative of the IMF on the other hand includes the TIM (Trade Integration Mechanism) introduced in April 2004, which provides financial assistance to member countries facing balance-of-payments pressures resulting from multilateral trade reforms, not own trade reforms. Though it is not a new facility, it is debt creating and part of the IMF's normal funding package involving conditionalities, it can play a useful role for some LDCs facing balance-of-payments problems on account of specific trade adjustment shocks.

The support provided by the World Bank and the IMF in different aspects of trade-related capacity building has played a useful role. However, there are some needs that cannot be met through the kind of programmes operated by the World Bank and the IMF. While more resources for the hardware of trade-related infrastructure could be made available through the World Bank, and the IMF can help mitigate the balance-of-trade related consequences of trade liberalization, the comparative advantage in complementary capacity and institution building that LDCs require, as well as the related research and policy support, lies with UN organizations. A comprehensive aid for trade programme should allow both groups to enhance their operations.

The other initiative mentioned by both Mr. Mandelson and the IMF and the World Bank as providing an important mechanism for channelling trade for aid is the Integrated Framework (IF) for Trade Related Technical Assistance bringing together multilateral agencies (IMF, ITC, UNCTAD, UNDP, WTO, World Bank) and bilateral and multilateral donors to assist LDCs through Poverty Reduction Strategy Papers (PRSP) and to assist in the coordinated delivery of trade-related technical assistance in response to needs identified by the LDCs. Built on principles of country ownership and partnership, it is financed from a Trust Fund comprising two main "windows" - a window to finance the Diagnostic Trade Integration Study (DTIS) and a second window created in 2003 to finance high-priority projects from the action matrices that serve as a basis for delivery of trade-related technical assistance.

So far the IF has not realized its potential. The DTIS have had little impact on the allocation of donor funds and critical trade infrastructure remains unfunded, while the budget per country of $1 million under Window II is insufficient and its use too unfocused to make such a difference in the four key areas identified earlier, namely (a) adjustment support, (b) capacity building to comply with new rules and overcome market entry conditions and barriers in particular the hardware and software of SPS/TBT/environment measures related capacities, (c) trade-related infrastructure (including backward and forward linkages in trade facilitation), and (d) productive supply capacity building and assistance in diversifying into new and dynamic sectors of international trade.

UNCTAD as the UN's focal point for the integrated treatment of trade and development has been and is committed to providing comprehensive trade- and development-related technical cooperation and capacity building support to LDCs. UNCTAD has been carrying out research and analysis and providing policy advice in sectors ranging from commodities to services and thematic trade-related areas covering competition, environment, technology, investment and debt, migration, culture, gender and poverty policies. It has been actively supporting LDCs in their national trade policy making, and in their efforts in regional and multilateral trade negotiations. Three initiatives launched at UNCTAD XI have direct relevance and can contribute to improving supply capacity building, competitiveness and market access and entry for LDCs. An international task force on commodities has been launched for addressing commodity supply, competitiveness, price shocks, diversification and finance related problems through an innovative partnership based approach. Endorsed strongly by the Africa Commission, this needs to be operationalized and is a prime candidate for Aid for Trade funding. Another responsibility placed on UNCTAD is to carry out assessment of trade in services for developing countries. Particular emphasis would of course be put on services sector supply capacity, export competitiveness and adequacy of infrastructure services in LDCs. This would enable them to make best use of GATS negotiations to upgrade and augment their services sectors. The third major candidate for aid for trade funding support is the work initiated on strengthening the participation of developing countries in dynamic and new sectors of international trade through sectoral reviews. Particular effort would be made to help LDCs identify the dynamic and new sectors and product areas they could successfully diversify into as part of their trade, development and poverty reduction strategies.

Key questions related to the Aid for Trade Fund that arise are (a) size and scope of fund, (b) where it should be located and how managed, (c) what areas of support should be targeted, (d) who should be the target beneficiaries, and (e) how it should be related to the outcomes of the Doha Round and its potential agreements. In responding to these and other questions, one can from the perspective of LDCs and based on their experience, set out what one might call the Ten Commandments on Aid for Trade funding:

1. Aid for trade resources must match the real needs and growing demands of LDCs and establish a predictable stream of assistance so that LDCs can plan and execute eligible projects efficiently and sustainably.
2. Aid for trade funding must provide additional and complementary resources to those provided as aid for development and must not divert from it. It should not be a re-branding of existing programmes. Moreover, its mode of operation should address specific trade-related needs, and not be subsumed into wider adjustment programmes.
3. Enlarging, improving and strengthening existing mechanisms, including IF is desirable and should be pursued.
4. Innovative and additional mechanisms or facilities operated by donors on a bilateral/regional basis with beneficiaries or through multilateral institutions – multilateral financial institutions/UNCTAD, WTO, etc. also need to be created or fostered.
5. The level of overall funding should be substantial and credible. Looking at the challenges of trade-related infrastructure funding, adjustment support and supply capacity building in 50 LDCs, $1billion as seed money to be placed at the disposal of different existing facilities, bilateral schemes and new mechanisms seems reasonable. Supply capacity building will increase productivity in the economy, leading to greater employment opportunities, increased income, increased spending and hence multiplier effects. With proper design, in two to three years (the time needed to make the fund fully operational), a multiplier in the range of 10 to 15 could reasonably be reached. Thus the initial investment into an aid-for-trade fund could make many times more private financing possible and generate further export opportunities.
6. The form of funding should preferably be concessional loans (on IDA-related terms) and grants to cover budget support to beneficiary governments or investment lending in specific projects. Easy accessibility, user friendliness and non-debt creating aspects are vital for the success of the fund.

7. Target beneficiaries should primarily be LDCs, but other developing countries in need could also be included on request.
8. Target areas of intervention by aid for trade fund could include (a) adjustment support for example to meet commodity prices related shortfalls, post ATC adjustment in textiles or food import financing schemes for net food importing developing (NFID) countries (b) compliance and benefit related institution building including hardware and software, (c) productive supply capacity and competitiveness building, renewal and retooling for viable diversification - horizontal, vertical and diagonal - into dynamic and new sectors of international trade, (d) trade-related infrastructure funding - including help to fund warehouses, cold chains, grading systems, marketing and promotion bodies, roads and port infrastructure, energy grids (f) transfer of publicly funded technology or building research and development capacity in key areas.
9. Provide finance to help LDCs build up their own trade finance and credit institutions like EXIM Banks, export credit guarantee organization, and other specialized credit systems for meeting the needs of producers and exporters of LDCs.
10. Foster public/private partnerships for meeting supply capacity and infrastructure related requirements of LDCs because existing mechanisms either purely public or intergovernmental or purely private sector may be unequal to the task.

Turning to the last important "commandment", Mr. Mandelson's speech provides an important lead on the role of public, private partnerships as vehicles for delivering aid for trade. "We need to design public/private partnerships so that LDCs can make use of public sector skills while a key role is played by investment funded by overseas aid". This is indeed a promising and in some sectors and circumstances for the LDCs, the most effective area of the aid for trade endeavour. Based on UNCTAD's body of work on commodity, infrastructure and trade financing, following suggestions are put forward for consideration by the international community - donors, potential beneficiaries and other partners.

Investments in trade infrastructure should be profitable, but particularly in LDCs, may well not be profitable at the country risk premiums and discount rates for future revenue that private investors typically apply; or they may not be profitable at the high interest rates with which local investors are generally confronted. A significant part of the infrastructure necessary for efficient trade has a long life – warehouses, cold chains or port facilities, power grids, for example, can be used for decades – and investments in them are not likely to give fast returns. Public-private partnerships can overcome the obstacles to private investment, for e.g. by making available – not only by governments or multilateral organizations making or sharing the investments, but also through targeted support that changes the risk premium and discount rates applied by private investors, and through technical assistance that reduces the upfront costs of investments (e.g. feasibility studies; work with government authorities to ensure supportive legal and regulatory regimes).

To complement the existing actions of the international community to "aid LDCs to trade", it is therefore worthwhile to create a dedicated public-private partnership for investments in trade-supporting infrastructure: a comprehensive Fund for Investment in Trade Support (FITS). FITS would be addressing the bottlenecks in the supply chain, ensuring investments in these critical parts so that developing country producers can benefit from the opportunities offered by trade liberalization. If structured properly, such investments can be profitable, and as they will provide valuable new market entry opportunities to developing country producers and exporters, they will have significant multiplier effects. UNCTAD's experience with helping many developing countries set up or operate such schemes public or private in developing countries would enable it to provide policy backstopping.

FITS could involve two main components. First, a Trust Fund for providing risk capital for investments. This would be a profit-oriented venture for investments in trade-related infrastructure in Least Developed Countries (or in neighbouring countries, if of direct relevance for LDCs). Such projects would include relevant transport and port infrastructure, energy grids, warehouses, cold chains, marketing systems including Internet-based schemes, standard setting institutions, certification agencies, testing laboratories, SPS/TBT, etc. Funds would be made available at LIBOR-related terms (not concessional IDA-related terms), but contrary to the finance that is already available from the commercial market, with long tenors and relatively long grace periods, and without overly high country risk premiums. The Trust Fund would provide finance only as a minority partner in a project, but would be willing to carry much or most of the risks in projects - e.g., provide equity and/or mezzanine loans, etc.

Second, FITS will contain provision of technical assistance, to strengthen the capacity of local partners in the investment projects, and to help trade-related planning and policy improvements. These activities would therefore be targeted on both public and private sectors, and the Fund for Investment in Trade Support (FITS) would have a mandate to interact directly with both and beneficiary countries should have a buy in with some minimum contribution. After an initial build up period, the operational costs of the secretariat as well as the technical assistance "arm" of the Fund would be financed from the interest and dividends earned on its investments.

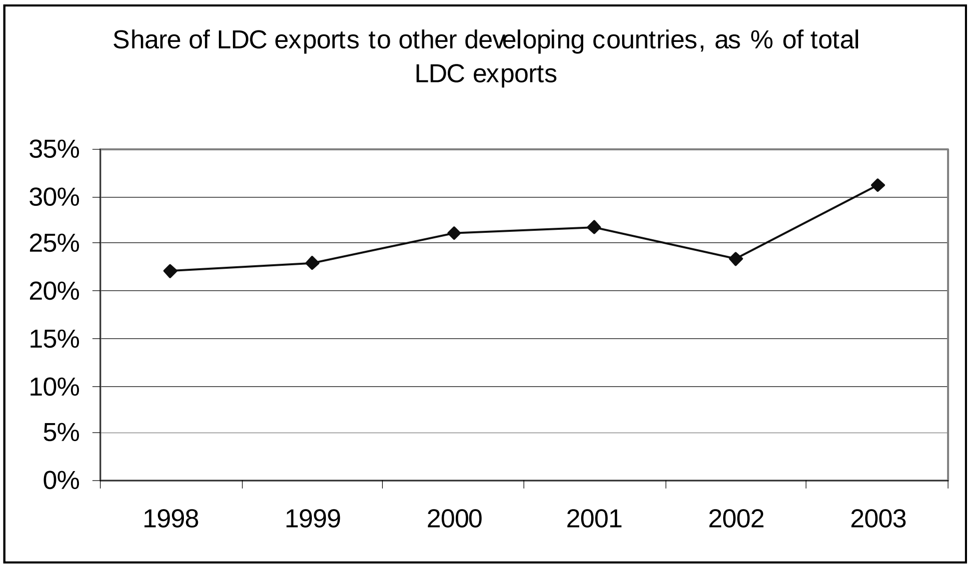
From an organizational perspective, the International Finance Corporation and the European Investment Bank have the structure to operate investment funds of this nature, although it is clear that a wider group of international organizations with more specialized skills should be involved in project development and execution. But one could equally envisage funds like this created by bilateral donors in cooperation with beneficiary country governments and UNCTAD with their management outsourced to investment professionals. The necessary finance can come from the usual development assistance agencies, but also from the developing countries themselves.

6. South-South cooperation

Trade among countries of the South, by offering manifold opportunities to developing countries to increase their profile in international trade, can have a decisive influence in shaping any "new trade geography". Today, South-South trade accounts for just over one tenth of total world trade, and is growing at double the rate. Moreover, over 40 per cent of developing country exports are to other developing countries, and trade among them is increasing at double-digit annual rates (UNCTAD, 2004d). South-South trade in services is also on the rise and has substantial possibilities. LDCs also need to take advantage of the opportunities offered by South-South trade cooperation and integration. The share of LDC exports to other developing countries has shown a robust growth from 22 per cent in 1998 to more than 31 per cent in 2003 (figure 2). South-South economic and trade co-operation therefore offers additional opportunities to LDC's for assured development gains from the trading system.

In terms of trade or tariff preferences, many developing countries have been providing special tariff concessions for LDCs, including DFQFT elements, as part of regional trade and economic cooperation agreements. Whilst it is true that developing countries with high level of poverty and populations engaged in similar economic activities may not be able to afford duty and quota free market access across the board for LDCs, those in a position to do so could take recourse to the GSTP multilateral route. Several developing countries have granted preferential market access for LDCs and many others are willing to do more so under the GSTP. The GSTP has been conceived as the cornerstone of economic cooperation among developing countries and has been designed to give concrete expression to their political commitment. Estimates suggests that, if developing countries agree to reduce the average tariffs applied to each other by 50 per cent in the current GSTP round, this would generate an additional $15.5 billion in trade (Ricupero, 2004). This is not an alternative to, but a complement to the multilateral liberalization process.

Figure 2. LDCs and South-South trade



Source: WITS.

The GSTP system offers the legal basis for developing countries to grant mutual trade preferences and more favourable treatment and less-than-reciprocal commitments for LDCs. Ever since the inception of GSTP, the special treatment in favour of LDCs has been a guiding principle reiterated in various G-77 ministerial declarations and programmes of action. Article 3, paragraph f of the GSTP Agreement states that the special needs of LDCS must clearly be recognized and concrete preferential measures in their favour should be agreed upon, without the need for LDCs to make concessions on a reciprocal basis.

Thus the third round of GSTP is not only an expeditious and effective way to obtain preferential market access in developing countries but also a good way for LDCs to maximize several other short and medium-term trade-related objectives. Firstly, a short-term objective for LDCs is to minimize the erosion of their existing preferences in developed country markets and future preferential margins granted by developing countries under GSTP. By doing so, LDCs will retain more meaningful preferential margins both vis-à-vis GSTP and MFN tariffs. This means that LDCs will gain more from privileged access through preferential tariff liberalization by other developing countries as part of a South-South GSTP package, rather than in the context of purely MFN liberalization under NAMA. LDCs therefore have to approach MFN tariff cutting formulas carefully because in the case of MFN liberalization by developing countries they would be competing with other developing and developed countries, whereas the GSTP tariff reductions and DFQFT by developed countries could give them genuine preferential edge that they need in developed and developing country markets. The responsibility rests with developing countries to make meaningful concessions in GSTP and for LDCs themselves to engage proactively in GSTP negotiations. Concessions to LDCs given under GSTP have the advantage of legal security and predictability because GSTP is a contractual arrangement among members. The GSTP also has the advantage of being consistent with WTO rules requiring no additional negotiations or steps to be taken in WTO.

There are several ways in which developing countries can make meaningful concessions exclusively in favour of LDCs under GSTP, depending on their capacity and political will. One way would be to select products of interest to LDCs and give them special concessions. Another alternative would be to give LDCs deeper cuts that those given to other developing countries or even duty free treatment in all GSTP covered products. The most ambitious option would be for individual countries in a position to do so to grant DFQFT across the board, with the possibility to maintain a short negative list and special safeguard measures as provided for under GSTP in regard to highly sensitive sectors of their domestic production trade.

Participation by LDCs in GSTP negotiations will also open the way for supportive measures that will address other medium-term objectives. Annex III of the GSTP agreement further spells out a number of specific provisions aimed at enhancing the supply and export capacity of LDCs, including the identification, preparation, and establishment of industrial and agricultural projects in LDCs, export credit insurance schemes, shipping facilities for landlocked countries, and so on.

7. Conclusions

This paper has highlighted some key components and initiatives that should be an integral part of a Trade "Marshall Plan" for LDCs. The main planks of this plan are (a) bound duty-free, quota-free treatment for LDCs to provide secure and predictable market access, (b) effective standards-related capacity building in LDCs to overcome the major market entry barriers that are becoming ever more pivotal to market access, (c) measures to operationalize the promised "special priority" and "special consideration" for LDCs in trade in services, especially through enhanced market access commitment in their favour, (d) increased aid-for-trade funding, legally connected to the WTO, to provide an additional and predictable stream of resources through strengthening and refocusing of existing mechanisms, as well as fostering of innovative and additional facilities, and (e) support for productive supply capacity building in the commodities, manufactures and services sectors, trade-related infrastructure and adjustment with adequate funding and technical assistance.

An attempt is made at what Jeremy Bentham called "moral arithmetic" – that is, replacement of general principles by exact calculations and specificity so that policy makers can make the right decisions regarding the form and level of ambition of development solidarity. As was pointed out earlier, the grant of DFQFT will bring the equivalent of $4 to $8 billion in additional welfare gains annually and represent a 5 to 10 per cent increase in exports for LDCs, depending on the assumptions. Since elements of DFQFT are already present in many preferential tariff schemes of developed countries, binding comprehensive treatment for at least 10 years will be a virtually cost-free option for developed countries. Since it is not based on direct transfers but on "trade for aid" logic, it should be politically more saleable. On the analogy of Neil Armstrong's first step on the moon, bound DFQFT is a small step for developed countries but a big step in trade and development solidarity vis-à-vis the LDCs. Mode 4–related liberalization in favour of LDCs is estimated to yield more than $10 to $20 billion in welfare gains for them, judging by the dependence of many LDCs on remittances, their latent capacity to provide temporary workers (especially in the lower-skilled categories) to developed countries, and ex ante estimates in this regard.

The situation in which LDCs find themselves today is similar to that of Europe in the aftermath of the Second World War. At current conversion levels, a "Trade Marshall Plan" for LDCs should deliver development gains in the range of $62.5 billion per year. Bound DFQFT and preferential access on services could yield almost half of the amount. Additional "aid for trade" funding at, say $1 billion for 50 LDCs would be a small-ticket item compared to the original Marshall Plan outlays and might have a multiplier effect on trade and supply capacity in LDCs. It would have the advantage of covering most aspects of the trade-related enabling and empowering that LDCs require in order to reap real development benefits. It would cushion adjustment shocks and build productive capacity, competitiveness and critical infrastructure. It would stimulate export expansion and improve terms of trade; spur economic growth, employment generation and poverty reduction and gender equity; and register efficiency gains. In a symbiotic response, these LDCs in turn will become new and viable markets for other countries, including the developed ones, and contribute to the sustainability of the "global enterprise".

We stand at a rare juncture in history when we have the possibility to combine clarity of goals – in terms of the MDGs, for example – with the perfection of the means to achieve them. At least in the case of LDCs and in the realm of "trade justice", such means are at hand and goals within reach. At the MDG + 5 summit in September 2005 and at the Sixth WTO Ministerial Meeting in Hong Kong (China) in December 2005, a clear indication of political will to seize the occasion must be given by all concerned.

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Annex Table 1. Quad GSP schemes: key features

GSP donor countries / Key features	Canada	European Union	Japan	United States
August 1997				Wider product coverage for LDCs
April 2000	Wider product coverage for LDCs (570 extra tariff lines)		Wider product coverage for LDCs (20 HS-2 digit product categories)	
May 2000				AGOA adopted
September 2000				
February 2001		EBA adopted - permanent exception for arms and ammunition and temporary exception for bananas (2006), rice and sugar (2009) - DFQF treatment for all other products		
January 2003	Improved market access for textiles and clothing, but sensitive agricultural products, such as dairy products, eggs and poultry still excluded		Wider product coverage for LDCs	Competitive-need limitations automatically waived
Other features	Cumulation of origin across all GSP beneficiaries Maximum non-GSP imported content 60%	Cumulation of origin across several regional groupings	DFQF for covered products Exemption from ceiling restrictions	In AGOA, DFQF treatment for apparel articles from LDCs, regardless of fabric country of origin

Annex Table 2. Average utilization rates in the Quad, 1994–2001 (%)

Beneficiary Country	Canada	Japan	US	EU
Afghanistan	8.9	7.2	..	22.6
Angola	0.0	48.8	72.1	..
Bangladesh	59.0	71.8	72.9	40.2
Benin	32.8	0.0	90.3	..
Bhutan	0.0	85.3	46.6	13.7
Botswana	0.0	33.0	66.6	..
Burkina Faso	44.7	34.7	75.7	..
Burundi	0.0	0.0	36.8	..
Cambodia	49.6	92.3	49.9	31.3
Cape Verde	20.8	25.5	44.5	..
Central African Republic	22.8	0.0	79.2	..
Chad	0.0	0.0	10.9	..
Comoros	25.0	..	28.7	..
Democratic Republic of the Congo	0.0	18.8	75.5	..
Djibouti	0.0	..	26.1	..
Equatorial Guinea	0.0	0.0	50.5	..
Eritrea	16.7	10.0	..	..
Ethiopia	16.2	72.2	54.7	..
Gambia	0.0	87.1	45.0	..
Guinea	4.9	0.2	30.9	..
Guinea-Bissau	0.0	0.0	25.1	..
Haiti	36.3	8.2	..	..
Kiribati	0.0	..	44.2	..
Lao People's Democratic Republic	46.0	89.2	..	41.0
Lesotho	0.0	25.6	27.2	..
Liberia	46.4	6.0	..	..
Madagascar	31.9	2.7	75.8	..
Malawi	63.8	94.6	73.5	..
Maldives	49.8	69.9	0.0	59.2
Mali	19.9	25.0	56.5	..
Mauritania	24.8	98.3	0.0	..
Mozambique	0.0	0.0	99.0	..
Myanmar	77.8	76.4	..	37.2
Nepal	63.9	69.6	90.6	81.8
Niger	2.8	1.7	17.4	..
Northern Mariana Islands	..	..	..	0.0
Rwanda	0.0	85.7	57.8	..
Samoa	0.0	0.0	77.2	..
Sao Tome and Principe	0.0	0.0	12.9	..
Senegal	45.8	66.8	..	..
Sierra Leone	47.5	10.1	54.6	..
Solomon Islands	0.0	89.3	61.5	..
Somalia	14.3	0.0	14.0	..
Sudan	0.0	57.5	..	..
Timor-Leste	..	..	..	4.6
Togo	20.0	6.5	71.2	..
Tuvalu	0.0	..	0.0	..
Uganda	49.9	42.6	72.9	..
United Republic of Tanzania	42.4	82.8	89.3	..
Vanuatu	100.0	62.5	40.1	..
Yemen	0.0	16.6	16.3	59.9
Zambia	56.1	44.0	57.0	..

Source: UNCTAD GSP database. The statistics do not cover LDC exports that enjoy more preferential market access in preference-giving countries, such as the ACP scheme in the European Union or the US CBTPA scheme for Caribbean countries.

Annex Table 3. Top 30 GSP-covered exports of LDCs in Quad markets, 2001 (in thousands US$)

HS Chapter Description	Imports total	Utilization rate (%)
Mineral fuels, oils & products of their distillation, etc.	3 406 748	82.6
Art. of apparel & clothing access, knitted or crocheted	1 788 326	57.6
Art. of apparel & clothing access, not knitted/crocheted	1 519 023	20.3
Fish & crustacean, mollusc & other aquatic invertebrate	996 357	18.7
Aluminium and articles thereof	341 907	0.1
Tobacco and manufactured tobacco substitutes	237 791	10.8
Footwear, gaiters and the like; parts of such articles	214 685	85.0
Raw hides and skins (other than furskins) and leather	199 188	59.5
Other made-up textile articles; sets; worn clothing; etc.	89 210	78.0
Carpets and other textile floor coverings	85 821	68.9
Animal/veg. fats & oils & their cleavage products, etc.	81 531	2.3
Coffee, tea, matï and spices	70 289	3.8
Copper and articles thereof	57 886	62.6
Organic chemicals	52 259	48.1
Live tree & other plant; bulb, root; cut flowers; etc.	52 015	0.2
Edible vegetables and certain roots and tubers	51 143	16.1
Prep. of meat, fish or crustaceans, molluscs etc.	47 796	32.3
Nuclear reactors, boilers, mchy. & mech. appliance; parts	47 045	0.4
Inorgn. chem..; compds. of prec. mtl., radioact. elements etc.	38 538	0.0
Cotton	35 175	4.9
Other vegetable textile fibres; paper yarn & woven fab.	23 040	92.8
Ceramic products.	20 841	93.4
Vehicles o/t railw/tramw roll-stock, pts & accessories	20 555	83.6
Natural/cultured pearls, prec stones & metals, coin etc.	19 883	82.3
Electrical mchy equip parts thereof; sound recorder etc.	17 554	12.0
Sugars and sugar confectionery.	15 486	99.8
Wood and articles of wood; wood charcoal.	15 461	25.4
Toys, games & sports requisites; parts & access thereof	15 171	75.5
Edible fruit and nuts; peel of citrus fruit or melons	13 889	36.6
Optical, photo, cine, meas., checking, precision, etc .	9 911	5.4

Source: UNCTAD GSP database. The statistics do not cover LDC exports that enjoy more preferential market access in preference-giving countries, such as the ACP scheme in the European Union or the US CBTPA scheme for Caribbean countries.

Annex 4. The Enabling Clause: Differential and More Favourable Treatment: Reciprocity and Fuller Participation of Developing Countries

Decision of 28 November 1979
(L/4903)

Following negotiations within the framework of the Multilateral Trade Negotiations, the CONTRACTING PARTIES *decide* as follows:

1. Notwithstanding the provisions of Article I of the General Agreement, contracting parties may accord differential and more favourable treatment to developing countries,[1] without according such treatment to other contracting parties.

2. The provisions of paragraph 1 apply to the following:[2]

(a) Preferential tariff treatment accorded by developed contracting parties to products originating in developing countries in accordance with the Generalized System of Preferences;[3]

(b) Differential and more favourable treatment with respect to the provisions of the General Agreement concerning non-tariff measures governed by the provisions of instruments multilaterally negotiated under the auspices of the GATT;

(c) Regional or global arrangements entered into amongst less-developed contracting parties for the mutual reduction or elimination of tariffs and, in accordance with criteria or conditions which may be prescribed by the CONTRACTING PARTIES, for the mutual reduction or elimination of non-tariff measures, on products imported from one another;

(d) Special treatment on the least developed among the developing countries in the context of any general or specific measures in favour of developing countries.

3. Any differential and more favourable treatment provided under this clause:

(a) shall be designed to facilitate and promote the trade of developing countries and not to raise barriers to or create undue difficulties for the trade of any other contracting parties;

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[1] The words "developing countries" as used in this text are to be understood to refer also to developing territories.

[2] It would remain open for the CONTRACTING PARTIES to consider on an *ad hoc* basis under the GATT provisions for joint action any proposals for differential and more favourable treatment not falling within the scope of this paragraph.

[3] As described in the Decision of the CONTRACTING PARTIES of 25 June 1971, relating to the establishment of "generalized, non-reciprocal and non discriminatory preferences beneficial to the developing countries" (BISD 18S/24).

(b) shall not constitute an impediment to the reduction or elimination of tariffs and other restrictions to trade on a most-favoured-nation basis;

(c) shall in the case of such treatment accorded by developed contracting parties to developing countries be designed and, if necessary, modified to respond positively to the development, financial and trade needs of developing countries.

4. Any contracting party taking action to introduce an arrangement pursuant to paragraphs 1, 2 and 3 above or subsequently taking action to introduce modification or withdrawal of the differential and more favourable treatment so provided shall:[4]

(a) notify the CONTRACTING PARTIES and furnish them with all the information they may deem appropriate relating to such action;

(b) afford adequate opportunity for prompt consultations at the request of any interested contracting party with respect to any difficulty or matter that may arise. The CONTRACTING PARTIES shall, if requested to do so by such contracting party, consult with all contracting parties concerned with respect to the matter with a view to reaching solutions satisfactory to all such contracting parties.

5. The developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries, i.e., the developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs. Developed contracting parties shall therefore not seek, neither shall less-developed contracting parties be required to make, concessions that are inconsistent with the latter's development, financial and trade needs.

6. Having regard to the special economic difficulties and the particular development, financial and trade needs of the least-developed countries, the developed countries shall exercise the utmost restraint in seeking any concessions or contributions for commitments made by them to reduce or remove tariffs and other barriers to the trade of such countries, and the least-developed countries shall not be expected to make concessions or contributions that are inconsistent with the recognition of their particular situation and problems.

7. The concessions and contributions made and the obligations assumed by developed and less-developed contracting parties under the provisions of the General Agreement should promote the basic objectives of the Agreement, including those embodied in the Preamble and in Article XXXVI. Less-developed contracting parties expect that their capacity to make contributions or negotiated concessions or take other mutually agreed action under the provisions and procedures of the General Agreement would improve with the progressive development of their economies and improvement in their trade situation and they would accordingly expect to participate more fully in the framework of rights and obligations under the General Agreement.

[4] Nothing in these provisions shall affect the rights of contracting parties under the General Agreement.

8. Particular account shall be taken of the serious difficulty of the least-developed countries in making concessions and contributions in view of their special economic situation and their development, financial and trade needs.

9. The contracting parties will collaborate in arrangements for review of the operation of these provisions, bearing in mind the need for individual and joint efforts by contracting parties to meet the development needs of developing countries and the objectives of the General Agreement.

QUESTIONNAIRE

UNCTAD Study Series on

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