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Part Two: Chapter 6

IMPROVING THE TRADE–POVERTY RELATIONSHIP THROUGH THE INTERNATIONAL TRADE REGIME

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Improving the Trade–Poverty Relationship through the International Trade Regime

Chapter 6

A. Introduction

This chapter and the next one examine how international trade can be made a more effective mechanism for poverty reduction in the LDCs through appropriate international and national policies. The present chapter focuses on the international trade regime, whilst the next one examines how trade can be integrated into national development strategies in a way that supports poverty reduction.

The overall argument is that improving the trade–poverty relationship requires three elements to work together coherently and synergistically — firstly, better national development strategies which integrate trade as a central component; secondly, increased and effective international financial and technical assistance for developing production and trade capacities; and thirdly, a more enabling international trading environment. Improvements in the international trade regime will only be translated into poverty reduction in the LDCs if the latter's Governments formulate and implement appropriate national development strategies, and if donors provide appropriate support for these strategies, including more and better aid for trade. Equally, however, improvements in national development strategies and international assistance will only be translated into poverty reduction in the LDCs if the international trade regime is supportive. All good work done at the national level in improving national development strategies and all good work done in increasing international resource flows and their effective utilization will have a limited impact if the nature of the international trade regime continues significantly to constrain poverty reduction or even promotes immiserization.

All good work done at the national level in improving national development strategies and all good work done in increasing international resource flows and their effective utilization will have a limited impact if the nature of the international trade regime continues significantly to constrain poverty reduction or even promotes immiserization.

The international trade regime is understood here to refer not simply to WTO rules but also multilateral norms, rules and practices which go beyond the WTO legal framework. The most important element in this regard is the working of the international commodity economy, part of which is affected by WTO rules and part of which is not. Another aspect is the nature of agreements on preferential market access between developed countries and LDCs and between developing countries and LDCs, and also the nature of regional trade agreements. It is necessary to define the international trade regime in these broad terms because in practice, as we shall see, many of the key problems facing LDCs in terms of the international trade environment are actually outside the WTO agenda. Limiting the discussion to WTO issues would thus considerably foreclose proper analysis of how it is possible to link international trade to poverty reduction in the LDCs through improvements in the international trade regime.

The basic approach of the chapter is to identify what aspects of the international trade regime are acting as the most serious constraints on poverty reduction in the LDCs, and what concrete measures can be taken to improve that regime in a way in which it can better support poverty reduction in the LDCs. This approach is similar in its conceptual orientation to William Cline's idea of the "poverty intensity of trade" (Cline, 2004). This idea is that the potential impact of the trade of developed countries with developing countries will depend on the extent to which that trade occurs with countries where the poor are to be found and in products that are important to the livelihoods and living standards of the poor. In the present chapter, the analysis is concerned not only with the poverty-reducing impact of the geographical pattern of trade and the poverty-reducing impact of the product composition of trade, but also with the poverty-reducing impact of different types of changes in the international trade regime. Furthermore, in line with the development approach that informs the whole Report, the analysis seeks to bring a dynamic development perspective to the notion of "poverty intensity of trade". What matters is not simply where the poor are located now but where they will be in 15 years' time. Extreme poverty is currently located in rural areas and associated with agricultural livelihoods. But worldwide there is an increasing urbanization of poverty. Moreover, the importance of structural transformation in the development of productive capacities implies that the development of non-agricultural sectors is likely to be as important for poverty reduction as the development of agricultural sectors.

The analysis seeks to bring a dynamic development perspective to the notion of "poverty intensity of trade". What matters is not simply where the poor are located now but where they will be in 15 years' time.

This chapter discusses three distinct aspects of the international trade regime and, focusing mainly on government action, associated types of measures that may be taken to improve it. The first type are "generally applicable measures" in the sense that they concern all countries or at least all developing countries. These include the pursuit of further trade liberalization at the multilateral level, and also such measures to deal with the adverse effects of commodity price instability. The second type are "LDC-specific measures" in the sense that they are specifically targeted to the least developed countries. These measures include market access preferences granted to least developed countries by developed countries and other forms of special and differential treatment which are included within the WTO Agreements. Finally, a third type of measure is "South–South cooperation". Such measures include the market access preferences granted to least developed countries by other developing countries as well as cooperation within regional trade arrangements. Within this framework, the key questions that the chapter seeks to answer are:

- What generally applicable measures are likely to have the most positive impact in linking international trade more effectively to poverty reduction in the LDCs?
- How effective are special international support measures specially targeted at the least developed countries, and how can they be strengthened so that international trade works more effectively for poverty reduction in the LDCs?
- How important is increased South–South cooperation in the field of trade for poverty reduction in the LDCs, and what measures are likely to have the greatest poverty-reducing impact for LDCs and other developing countries?

The chapter is organized into five major sections. Section B examines the potential impact of multilateral trade liberalization on the LDCs, highlighting the importance of developing domestic productive capacities and also the importance of the issue of OECD agricultural support measures for LDCs in the current round of negotiations. Section C focuses on systemic measures beyond trade liberalization which are likely to have a high poverty-reduction intensity within the LDCs. Particular attention is given here to new international commodity policies. Section D summarizes current special international support measures for the LDCs in the field of trade and assesses their effectiveness, whilst section E suggests ways in which they can be improved. Section F highlights the increasing need to complement these measures more effectively through South–South cooperation in the field of trade. The main points of the argument are summarized in the concluding section.

B. The poverty-reducing impact of multilateral trade liberalization

1. Multilateral trade liberalization and the development of productive capacities

The potential effects of post-Uruguay Round trade liberalization on developed and developing countries have been assessed using computable general equilibrium (CGE) models in a number of recent studies (for an overview see UNCTAD, 2003a). The models estimate the static gains from multilateral trade liberalization based on the product-specific elasticities of supply and demand which relate output and demand changes to changes in prices associated with the reduction of tariff barriers, and also dynamic gains which incorporate assumptions about induced capital formation and productivity growth following trade liberalization. None of the studies include the least developed countries as a sub-group of developing countries. Moreover, in interpreting the estimated gains it is important to recognize that the models incorporate certain assumptions that diverge from real-world conditions, notably that factors of production are fully utilized and industries are perfectly competitive and there are constant returns to scale and constant elasticities of substitution. However, the studies provide a basis for assessing the possible order of magnitude of the impact of multilateral trade liberalization on the LDCs.

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The results of the studies suggest that the LDCs cannot be expected to gain much from further multilateral trade liberalization unless improvements are made to their productive capacities to enable them to benefit from any subsequent global growth in trade. There are two reasons for coming to this conclusion: firstly, the overall magnitude of gains from multilateral trade liberalization; and secondly, the extent to which the LDCs can be expected to share in these gains.

Most recent models suggest that multilateral trade liberalization will increase developing countries' income by approximately 3 to 5 per cent of their GDP (Cline, 2004).[1] The static gains are smaller, ranging from 1 per cent to 2.5 per cent of GDP. The gains are expected to materialize after a period of adjustment and the gains are typically predicted for the years 2010 or 2015.

What these static and dynamic gains imply in terms of poverty reduction depends on assumptions about the relationship between the income gains and poverty. The World Bank (2003) estimates that the dynamic gains from a "realistic" multilateral trade liberalization[2] would be real income gains of $518 billion for the world as a whole and $349 billion for low- and middle-income countries in 2015 in 1997 dollars. Without such trade liberalization the number of people living on less than $1/day in the low- and middle-income countries as a whole would be expected to fall from 1.1 billion in 2000 to 734 million in 2015 and the number of people living on less than $2/day would be expected to fall from 2.7 billion to 2.1 billion over the same period. With such trade liberalization the number of people living in extreme poverty in the low- and middle-income countries would fall by an extra 61 million (8 per cent of the projected 2015 level) by 2015, and the number of people living on less than $2/day would fall by an extra 144 million (7 per cent of the projected 2015 level) by 2015.

With no changes in policies, the number of the extremely poor living in the LDCs will rise from 334 million in 2000 to 471 million in 2015.

How the LDCs would benefit in terms of welfare gains and poverty reduction depends on whether the LDCs are affected in exactly the same way as other developing countries. If one assumes for the moment that they are and that the income gains from multilateral trade liberalization are 5 per cent of GDP (the maximum figure above), this would mean that real income per capita would be 5 per cent higher than it would have been without multilateral trade liberalization. This implies that for a country like Ethiopia, if multilateral trade liberalization had been undertaken in 2000 and the gains had been instantaneous, real per capita income in 2001 would have been $127 rather than $121. In 2000, the population of the LDCs constituted 13 per cent of the total population of low- and middle-income countries. If one assumes that the poverty reduction associated with the income gains is exactly proportional to this share, about 8 million of the extra 61 million people who are lifted out of extreme poverty through multilateral trade liberalization would be inhabitants of the LDCs.[3]

The impact of such trade liberalization would be that the number of extremely poor people will increase by 129 million rather than 137 million between 2000 and 2015.

This would clearly be an important achievement. However, what it implies in practice needs to be seen in the context of the fact that the incidence of extreme poverty was not declining in the LDCs in the 1990s and that contrary to the group of low- and middle-income countries the group of least developed countries is predicated to see an increase of poverty, if the trends of the 1990s persist. National-accounts-based poverty estimates and household survey-based poverty estimates give different pictures of the distribution of the extremely poor amongst the LDCs. But both suggest that the incidence of extreme poverty in the LDCs as a group has remained at around 49–50 per cent during the 1990s.[4] Projecting past trends into the future, and applying them to UN population forecasts, it can be estimated that, with no changes in policies, the number of the extremely poor living in the LDCs will rise from 334 million in 2000 to 471 million in 2015.[5] What multilateral trade liberalization would do is to slow down the rate of increase of the number of extremely poor people in the LDCs. To be precise, and assuming that it is 8 million extra people lifted out of extreme poverty in the LDCs through multilateral trade liberalization, the impact of such trade liberalization would be that the number of extremely poor people will increase by 129 million rather than 137 million between 2000 and 2015.

It may be argued that one should not take the figures derived from a CGE model at face value as they only reflect the assumptions put into the model. However, even studies based on higher dynamic effects and also greater responsiveness of poverty reduction to economic growth than that assumed by the World Bank still produce estimates that suggest that multilateral trade liberalization is not going to make much of a dent in poverty in the LDCs. For example, Cline (2004), using a different model and including stronger dynamic effects and high elasticities of poverty reduction with respect to income gains, found that an extra 650 million people could be lifted out of $2/day poverty by 2015 through global free trade. However, even if more than four times more people are lifted out of poverty than the World Bank estimates imply, as these numbers suggest, the total effect of multilateral trade liberalization on poverty in the LDCs would only be that the number of poor would increase by 105 million instead of by 137 million.

Once again it should be stressed that lifting an extra 32 million people out of poverty over 15 years would certainly be a significant achievement. However, it is likely that these estimates of the impact of multilateral trade liberalization on poverty in the LDCs are optimistic. One basic reason is that, as shown in the previous chapter, many of the LDCs have already undertaken extensive unilateral trade liberalization, and thus the gains from multilateral trade liberalization through further opening of their own markets are likely to be smaller. This is significant as most of the models, including the model used for the World Bank's simulations suggest that the greatest gains from multilateral trade liberalization to developing countries come from liberalization of their own markets. In addition, because preferential market access has been a major international support measure for the LDCs in the past, multilateral trade liberalization will be associated with the erosion of preferences. This issue will be taken up further below. Finally, multilateral trade liberalization will only have the poverty-reducing effects if there is an export supply to the opportunities that result from multilateral trade liberalization. The problem here is that the ability of the LDCs to increase their exports is highly constrained by weak production capacities.

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What the trade ministers of the LDCs themselves repeatedly emphasize as the way to increase the effectiveness of trade as a mechanism for development and poverty reduction is the development of competitive productive capacities (see the annex table to this chapter). This makes sense in that if multilateral trade liberalization boosts global trading opportunities, the LDCs can benefit. But they will only do so if they can sustain their share of world exports of goods and services, and this depends on the development of productive capacities. If they experience a continuing process of marginalization in world trade, increases in global trading opportunities and economic growth will simply pass them by.

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The importance of this is underlined by the analysis of chapter 3. This showed that if the LDCs had in 2001 maintained the same share of global markets as they had in 1980 their exports of goods and services would have been $20.8 billion more than they actually were. These export losses are due to a range of national and international factors, including changes in the composition of global trade and a decline in commodity prices since 1980. However, their quantitative importance for growth and poverty reduction is evident in that they were equivalent to 11 per cent of the GDP of the LDCs in 2001 alone.

It would be good to think that trade liberalization by itself would induce the development of productive capacities in the LDCs. But the evidence of the previous chapter gives few grounds for optimism in this regard. Rather, it is necessary to focus on developing productive capacities directly if LDCs are to avoid further marginalization (i.e. declining shares) in world trade.

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2. The effects of OECD agricultural support measures on LDCs

An area of multilateral trade liberalization that is likely to have a strongly positive poverty-reducing impact in the LDCs in the long run is the phasing-out of agricultural support measures in advanced countries in a way that ends the distorting effects of this support on international trade. This issue is vital for the LDCs because agriculture plays such an important role in their economies, contributing 35 per cent of GDP, employing 69 per cent of the total economically active population, and contributing 24 per cent of total exports in 1999–2001.

In the international debate on OECD agricultural support measures most attention has focused on the case of cotton. This is indeed important, as cotton is the product in respect of which the effects of agricultural support measures on poverty have been most clearly identified (see box 13). But in practice, although cotton is a very important export product for a number of LDCs, a relatively small proportion of the total exports of the LDCs are currently adversely affected by OECD agricultural support measures (see discussion below). The key mechanism through which the phasing-out of agricultural support measures can help to reduce poverty in the LDCs is the way in which it will stop low prices and cheap imports undermining the incentives for investment and productivity growth in domestic agriculture.

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The effects of the phasing-out of OECD agricultural support measures in the LDCs will, nevertheless, be complex. They depend on what the LDCs produce, export and import now, and also what they potentially can produce, export and import in the future. As shown in part 2, chapter 2, the LDCs have become increasingly dependent on food imports. This implies that in the short run, phasing out will mean higher food prices and also considerable pressure on the balance of payments of many LDCs.[6]

Models which estimate the effects of a phasing-out of OECD agricultural support provide a mixed picture, with Hoekman et al. (2002) indicating welfare gains for the LDCs and Peters (2004) indicating welfare losses.[7] The models are likely to underestimate the benefits of the phasing out of OECD agricultural support to the LDCs for at least three reasons. They assume that factors of production are fully employed. They concentrate on the products that receive agricultural support rather than both those products and potential substitutes for them. Their starting-point is the current pattern of agricultural production and trade, which is itself a product of the agricultural support measures, rather than a

Box 13. The impact of cotton subsidies

Cotton subsidies provided by advanced countries have had important negative effects on some least developed countries. The negative effects — which were transmitted through a decline of the cotton price on the world market — were particularly significant for those least developed countries that have the strongest specialization in cotton production. Measured by the total value of cotton exports, Mali is the largest cotton exporter amongst the least developed countries; but measured as share of cotton exports in total exports, Benin, Burkina Faso and Chad are more dependent on cotton exports. In 1999–2001, cotton exports of Benin, Burkina Faso, and Chad accounted for a very larger share of their total merchandise exports (between 60.3 and 77.9 per cent) and a large share of their GDP (between 5.0 and 9.4 per cent).

The cotton subsidies have depressed world cotton prices. On the basis of the assumption that cotton prices per pound in 2001 would have been 12 cents higher if the United States had eliminated cotton subsidies, it has been estimated that Central and Western African countries had forgone foreign exchange earnings of $250 billion (Badine et al., 2002). Similarly, on the basis of the assumption that cotton prices per pound would have been 11 cents higher, an Oxfam study estimates that African producers had forgone foreign exchange earnings of $302 million (Oxfam, 2003). Oxfam estimates forgone foreign exchange earnings for: Benin $33 million, Burkina Faso $28 million, Chad $16 million, the Central African Republic $2 million, Ethiopia $5 million, Guinea $3 million, Madagascar $3 million, Malawi $2 million, Mali $43 million, Mozambique $6 million, Somalia $1 million, Sudan $17 million, Togo lost $16 million, Uganda $5 million, United Republic of Tanzania $21 million and Zambia $8 million.

Simulations exercises show that if full liberalization in the cotton sector takes place, including removal of both trade barriers and production support (along with liberalization in all other commodity sectors), cotton prices would rise above the price that would have prevailed in the absence of reforms. It is estimated that in the next 10 years cotton prices would increase by an average of 12.7 per cent. World cotton trade would increase by 5.8 per cent, while Africa's cotton exports would increase by 12.6 per cent (IMF, 2003a).

pattern of agricultural production and trade that reflects comparative advantage. In the long run, those LDCs that have a comparative advantage in agricultural production should benefit from the phasing-out of agricultural support measures. According to Cline (2004), although many LDCs are net food importers, more than half of them have a comparative advantage in food production.

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The phasing-out of agricultural support measures is important for the LDCs because substantial and sustained poverty reduction depends in many of the LDCs on improvements in agricultural productivity and also beneficial complementarities between the agricultural sector and the non-agricultural sector. Without such complementarities, there is likely to be an enclave-based pattern of development. The harmful effects of agricultural support lie precisely in its encouraging this disarticulation in the domestic economy, which then prevents agrarian commercialization and development of national markets. The worst-case scenario for increasing poverty in the LDCs occurs if there is an acceleration of rural–urban migration because it is impossible to find viable livelihoods in rural areas, whilst at the same time few meaningful non-agricultural employment opportunities are developed in the urban centres. The policy combination of extensive trade liberalization undertaken by the LDCs and increasing support measures in the advanced countries has the potential to make this worst-case scenario a reality in some LDCs.

The situation is particularly troublesome as many LDCs have not simply undertaken extensive trade liberalization but have also reduced all kinds of support to their own domestic agriculture sector. This reflects the fact that the pre-structural adjustment agricultural policies tended to tax export crops but also to provide support for food crops. Such support has been radically reduced, one effect of this being the truncation of incipient Green Revolutions in African LDCs. In effect, the effort to remove distortions in the domestic agricultural sector within the LDCs is being subverted by distortions in the domestic agricultural sector in other countries.

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In order to illustrate the linkages between OECD agricultural support measures in developed countries and agricultural production and development in the LDCs, it is useful to match the products that are supported by the former with the products that are produced by the latter. This is not a straightforward exercise, since the product classifications that are used in the context of agricultural support measures in the OECD countries are not identical to product classifications used for agricultural production in non-OECD countries. Data related to agricultural support measures and production in OECD countries are provided by the OECD, while the most comprehensive data related to agricultural production in non-OECD countries are provided by the FAO. Moreover, a comprehensive assessment of the potential impact of agricultural support measures in the developed countries on agricultural production in the LDCs should focus not only on products that receive support, but also on products that are their substitutes, in both unprocessed form and processed form (Herrmann, 2003a).

Table 45 provides an overview of all products that currently receive support from OECD countries, regardless of type and level, and are also produced in the LDCs.[8] The table shows the importance of these products in the LDCs in terms of total output and total output per capita. It also shows the output of the LDCs as a share of the output of OECD countries. Beans, beef and veal, cotton, maize, milk, potatoes, rice, sorghum, sugar and wheat, are products that receive support in developed countries and are also of great importance to production in least developed countries. Some of these products received significantly more

TABLE 45. PRODUCTS[a] SUPPORTED BY OECD COUNTRIES AND THEIR IMPORTANCE FOR LDCS, 1991–2000

Rank	Average annual output of LDCs				Average annual ouput of LDCs as a share of average annual output of OECD countries			
	In metric tons		*In kilogram/capita*		*%, based on metric tons*		*%, based on kilogram/capita*	
Top 10								
1	Rice	61 155 943	Rice	102.7	Coffeebeans[b]	35 747.4	Coffeebeans[b]	50 713.6
2	Sugar	34 289 431	Sugar	60.8	Rice	255.0	Rice	354.4
3	Maize	15 628 671	Maize	26.1	Beans	64.7	Beans	90.4
4	Milk (cow)	10 267 425	Milk (cow)	17.1	Sorghum	56.3	Sorghum	79.0
5	Sorghum	9 844 374	Sorghum	16.5	Tobacco	27.6	Tobacco	38.7
6	Wheat	6 522 028	Wheat	10.9	Sheepmeat	21.1	Garlic	28.8
7	Potatoes	5 637 666	Potatoes	9.4	Garlic	20.5	Sheepmeat	26.8
8	Cotton	3 248 227	Cotton	5.4	Cotton	18.9	Cotton	26.3
9	Beans	3 134 699	Beans	5.2	Sugar	16.3	Sugar	21.1
10	Beef and veal	2 189 747	Beef and veal	4.3	Onions	13.0	Onions	18.2
Top 20								
11	Eggs	1 376 286	Barley	4.2	Beef and veal	9.2	Beef and veal	13.7
12	Barley	1 222 525	Eggs	2.3	Potatoes	7.1	Potatoes	9.9
13	Onions	1 154 560	Onions	1.9	Wool	6.4	Wool	8.9
14	Tomatoes	1 129 871	Tomatoes	1.9	Maize	5.8	Maize	8.0
15	Poultrymeat	880 889	Poultrymeat	1.5	Eggs	5.3	Eggs	7.3
16	Coffeebeans[b]	802 350	Coffeebeans[b]	1.3	Milk (cow)	4.4	Milk (cow)	6.1
17	Pigmeat	548 852	Rapeseed	1.2	Sunflower	4.3	Tomatoes	5.7
18	Sheepmeat	514 498	Sheepmeat	1.0	Tomatoes	4.1	Sunflower	5.2
19	Grapes	504 773	Pigmeat	0.9	Poultrymeat	3.5	Poultrymeat	4.9
20	Tobacco	332 715	Grapes	0.9	Wheat	3.2	Wheat	4.5
Top 30								
21	Rapeseed	326 920	Sunflower	0.7	Cabbage	2.7	Cabbage	3.8
22	Soyabeans	269 086	Tobacco	0.6	Spinach	2.1	Rapeseed	3.6
23	Sunflower	243 646	Soyabeans	0.5	Rapeseed	2.1	Spinach	2.9
24	Cabbage	223 572	Cabbage	0.4	Pigmeat	2.0	Pigmeat	2.7
25	Garlic	113 516	Garlic	0.2	Pepper, Red	1.8	Pepper, Red	2.5
26	Wool	81 998	Wool	0.1	Barley	1.6	Barley	2.4
27	Oats	53 511	Oats	0.1	Grapes	1.5	Mandarins	1.6
28	Mandarins	50 104	Mandarins	0.1	Mandarins	1.1	Grapes	1.4
29	Pepper, red	46 376	Pepper, red	0.1	Cucumbers	0.8	Cucumbers	1.1
30	Apples	30 810	Apples	0.1	Soyabeans	0.4	Oats	0.5
Remainder								
31	Cucumbers	30 394	Cucumbers	0.1	Oats	0.4	Soyabeans	0.4
32	Spinach	22 817	Spinach	0.0	Apples	0.2	Apples	0.3
33	Pears	4 120	Pears	0.0	Pears	0.1	Pears	0.1
34	Strawberries	0	Strawberries	0.0	Strawberries	0.0	Strawberries	0.0

Source: UNCTAD secretariat estimates, based on OECD PSE/CSE online data, and FAO online data on agricultural production.

Note: The table includes all goods that receive support from OECD countries, regardless of type and level. Support provided for products generally includes, but is not limited to, subsidies.OECD countries provide support to "oilseeds", which include rapeseeds, soyabeans and sunflowers, and support to “other grains”, which include barley, oats and sorghum. Here these products are considered on an individual basis.

a Products are ranked by level of average annual output in metric tons.

b Amongst OECD countries, only Mexico provides support for coffee; support is provided in form of consumer support.

support than others. According to OECD estimates, the average producer support per metric ton for the period 1991–2001 was highest for wool, followed by sheep meat, beef and veal, poultry meat, rice, pigmeat, eggs, oilseeds (including rapeseeds, soybean and sunflower), milk, other grains (including barley, oats and sorghum), refined sugar, wheat and maize. The estimated level of aggregate producer support ranged from from \$3,020 for wool to \$72 for maize per metric tonne.[9]

The least developed countries that can be expected to suffer most from agricultural support measures are those that have the largest specialization in these products, or in substitutes for them. Table 46 shows the top five LDC

TABLE 46. PRODUCTS SUPPORTED BY OECD COUNTRIES, AND TOP FIVE LDC PRODUCERS OF THESE PRODUCTS,[a] BASED ON ANNUAL AVERAGE PRODUCTION IN METRIC TONS, 1991–2000

	Animal products						Primary crops																											
	Meats				Non-meats		Cereals						Oil crops			Fruits					Vegetables									Others		Textiles		
	Beef and veal	Pigmeat	Poultrymeat	Sheepmeat	Eggs	Milk (cow)	Barley	Maize	Oats	Rice	Sorghum	Wheat	Rapeseed	Soyabeans	Sunflower	Apples	Grapes	Mandarins	Pears	Strawberries	Beans	Cabbage	Cucumbers	Garlic	Onions	Pepper, red	Potatoes	Spinach	Tomatoes	Coffeebeans[c]	Sugar	Cotton	Wool	Tobacco
LDC producers of equivalents[b]																																		
Afghanistan				1		2	2					1			4	1	1		1														2	
Angola																5																		
Bangladesh	4		2		1	3				1		2	1									1	1	2	3		1	1	5		1			3
Benin																										1			4			2		
Bhutan																3										3								
Burkina Faso											2															4						3		
Burundi																					4													
Cambodia		1								4				3																				
Chad																																5		
Dem. Rep. of the Congo		5						5														4	5							3				
Eritrea							5																											
Ethiopia	3		3	3	3	4	1	2	1		3	4	2	5			5	4			3	2								2			3	
Haiti																		3										2						
Lao People's Dem. Rep.																		1																5
Lesotho									2																									
Madagascar	5	3								5						2	4		2			5	3				5			4	4			
Malawi								3														3					3				5			1
Mali											4																					1		
Mozambique															5																			
Myanmar		2	1		2					2				2	1						1			1	1						3			2
Nepal							4	4		3		3															2							
Niger																									2									
Senegal			4																				4					3						
Somalia				4																														
Sudan	1			2	5	1					1	5			3			5						3		5			1		2	4	1	
Uganda		4												1							2				4		4			1				
United Rep. of Tanzania	2				4	5		1			5				2		3				5			5					3	5			5	4
Yemen			5	5			3									4	2	2	3				2	4	5	2			2				4	
Zambia														4					4															
LDC producers of substitutes[b]																																		
Afghanistan						5																												
Angola																															2			
Bangladesh	5	5	5	5		3																										1	1	
Burkina Faso							3	3	3	3	3	3																						
Burundi																5	5	5	5	5														
Central African Republic																															4			
Dem. Rep. of the Congo	3	3	3	3									4	4	4	2	2	2	2	2	1	1	1	1	1	1	1	1	1					
Ethiopia	2	2	2	2			2	2	2	2	2	2									5	5	5	5	5	5	5	5	5		3	5	5	
Madagascar																															5	4	4	
Mali							4	4	4	4	4	4																						
Mozambique													5	5	5						4	4	4	4	4	4	4	4	4					
Myanmar													2	2	2																	3	3	
Nepal	4	4	4	4		4																												
Niger							1	1	1	1	1	1																						
Rwanda																3	3	3	3	3														
Senegal													3	3	3																			
Somalia						1																												
Sudan	1	1	1	1		2							1	1	1																			
Uganda							5	5	5	5	5	5				1	1	1	1	1	3	3	3	3	3	3	3	3	3					
United Rep. of Tanzania																4	4	4	4	4	2	2	2	2	2	2	2	2	2		1	2	2	

Source: UNCTAD secretariat estimates, based on OECD PSE/CSE online data, and FAO online data on agricultural production.

Note: The table includes all goods that receive support from OECD countries, regardless of type and level. Support provided for products generally includes, but is not limited to, subsidies.

a The largest LDC producer for each product is identified by the number "1", while the fifth largest LDC producer for each product is identified by the number "5". In the case of strawberries no significant LDC producers of equivalents have been identified; in the case of oats and rapeseeds there are only two LDC producers of equivalents; in the case of spinach there are only three LDC producers of equivalents; and in the case of pears there are only four LDC producers of equivalents. For all other products there are at least five LDC producers of equivalents. No substitutes have been identified for eggs, coffee and tobacco.

b "Equivalents" are products included in the FAO database on agricultural production that can be directly compared with the products that are supported by OECD countries, whereas "substitutes" are products included in the FAO database on agricultural production that have properties similar to those products that are supported by OECD countries. While the category of "equivalents" includes only goods in their unprocessed form, the category of "substitutes" includes goods in both their unprocessed and processed forms. For a detailed description of the methodology, see Herrmann (2003a).

c Amongst OECD countries, only Mexico provides support for coffee; support is provided in form of consumer support.

producers of the products and also substitutes.[10] The top five producers amongst the least developed countries are ranked by their aggregate output in metric tons, rather than their output in per capita terms. This means that the countries included in the table are LDCs that are likely to derive the greatest benefits in aggregate terms from a phasing-out of support measures, but that relative to their population other LDCs can also expect to gain. The least developed countries that can, for example, be expected to derive the largest absolute gains from a phasing-out of support measures on rice are Bangladesh, Cambodia, Madagascar, Myanmar and Nepal, which are amongst the most important producers of rice, but also Burkina Faso, Ethiopia, Mali, Niger and Uganda, which are important producers of rice substitutes (table 46).

Estimation of the quantitative impact of these OECD agricultural support measures in the LDCs awaits in-country case studies, some of which are currently being undertaken by FAO. However, a rough idea of the possible effects on the LDCs can be gained if one estimates what the LDCs would have gained if their production had been subsidized to the same extent of that in OECD countries. Simply multiplying the average payments per ton of output that OECD producers received during the 1990s by the average production of the different commodities by the LDCs over that period indicates that the LDC producers would have received $11.7 billion per annum during that period.[11] This is on average equivalent to 7 per cent of their GDP over the period. Over half of this amount ($7.9 billion) would be attributable to payments for rice production. But if LDC producers of beef and veal, sugar, sheepmeat, sorghum, maize and wheat were to have received payments at the same rate as OECD producers in the period 1991-2001, they would have received for each of these products $857 million, $741 million, $605 million, $434 million, $382 million and $311 million, respectively.

It appears much more reasonable to promote a phasing-out of support that concentrates on a gradual reduction of support to all countries at the same time. However, the process might start by focusing on strategic agricultural goods that are of particular importance to the poorest developing countries.

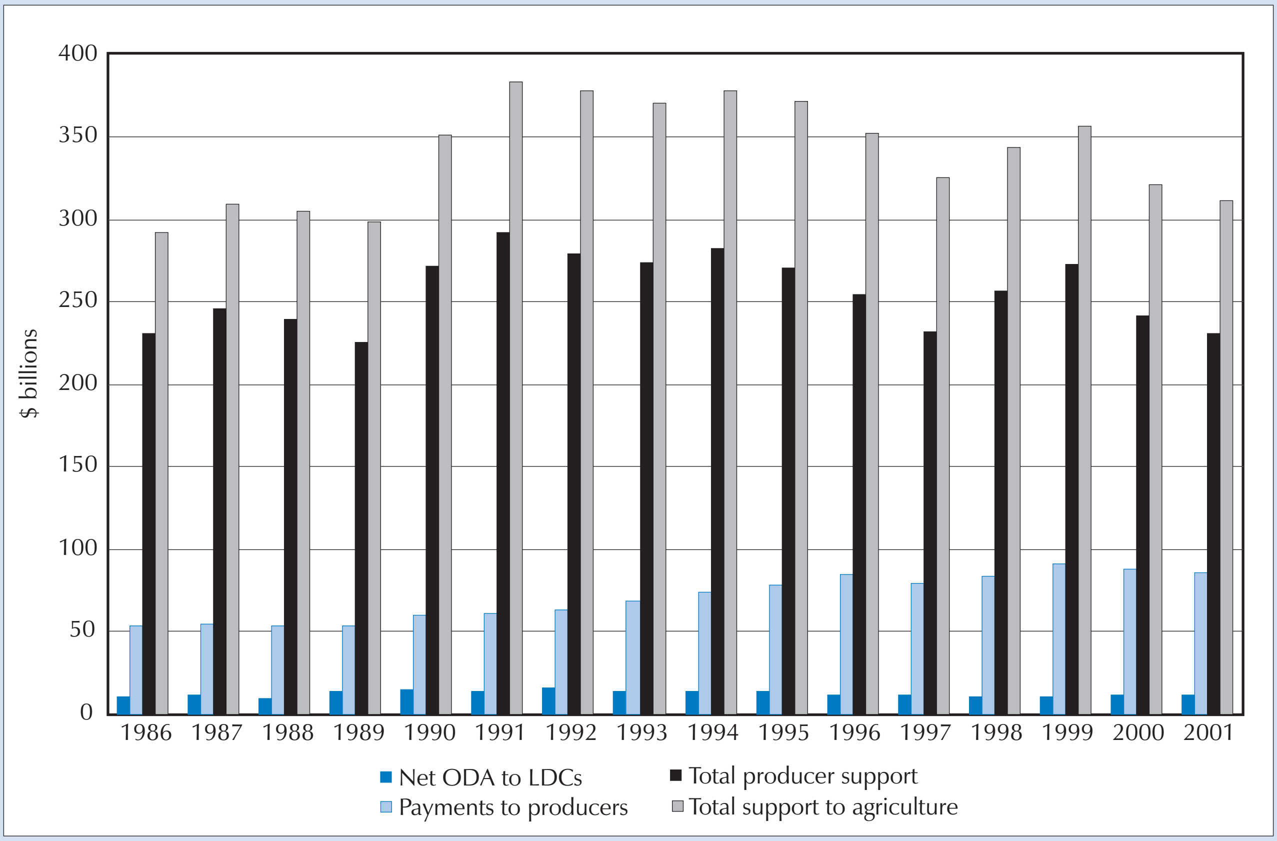
It has been proposed that an approach to the phasing-out of subsidies would be to eliminate subsidies on the goods shipped to specific groups of countries. Thus, the French Government has floated the idea of eliminating export subsidies on all goods that are destined for Africa. But while the French proposal is important because it acknowledges the damaging effects of agricultural support measures in developed countries, it is likely to introduce a dual price structure into world markets, with a continuously low food price for non-African countries and a relatively high food price for African countries. It is questionable whether such a structure is to the benefit of African countries, and also whether it could be maintained in reality. This is because African countries may be encouraged to import European agricultural products through third countries rather than from the European Union directly. In order to encourage agricultural production in developing countries effectively it appears much more reasonable to promote a phasing-out of support that concentrates on a gradual reduction of support to all countries at the same time. However, the process might start by focusing on strategic agricultural goods that are of particular importance to the poorest developing countries. If this approach were adopted with the LDCs as the target group, the product ranking identified in table 45 would be of importance. The key strategic products, depending on the method of identification, would include, in alphabetical order, beans, beef and veal, cotton, garlic, maize, milk, onions, potatoes, rice, sheepmeat, sorghum, sugar and wheat. Although coffee is an important product for the LDCs, the OECD support provided to coffee is not of great concern, as the LDC production is large compared to OECD production and as OECD support for coffee is small compared to its support for other products.[12] But given the existence of substitutes as well as equivalent products considered in table 46, such partial elimination of support should be considered a second-best solution to a more comprehensive approach.

Finally, it should be noted that the greatest benefits of the phasing-out of agricultural support will accrue if the phasing-out is linked to increasing international financial and technical assistance to agriculture in the LDCs to promote agricultural productivity growth and commercialization. Given the economic importance that agriculture has to the LDCs, it is a matter of concern that in real terms external assistance to agriculture in the LDCs in the 1990s was half its level in the 1980s. Chart 38 shows that in 2001 fiscal support for farmers in OECD countries — that is, the sum of different payments to OECD producers — was actually seven times the level of total ODA to the LDCs. In 2001 net flows of ODA to LDCs would have been doubled if 14 per cent of the 2001 value of the fiscal support to OECD producers had been redirected in aid to the LDCs. There is thus an opportunity for major poverty reduction benefits through not only phasing out of agricultural support but also increasing international assistance to promote agricultural development in the LDCs.

Given the economic importance that agriculture has to the LDCs, it is a matter of concern that in real terms external assistance to agriculture in the LDCs in the 1990s was half its level in the 1980s.

Chart 38. Net aid disbursements[a] of OECD countries to LDCs in comparison with support[b] of OECD countries to their agricultural sectors, 1986–2001

($ billions)



Source: UNCTAD secretariat estimates, based on OECD PSE/CSE online data.

a Net official development assistance comprises net disbursements, including imputed multilateral flows.

b Data for the year 2001 were provisional at the time of calculation.

C. The importance of generally applicable measures beyond trade liberalization

1. The relative importance of different international constraints

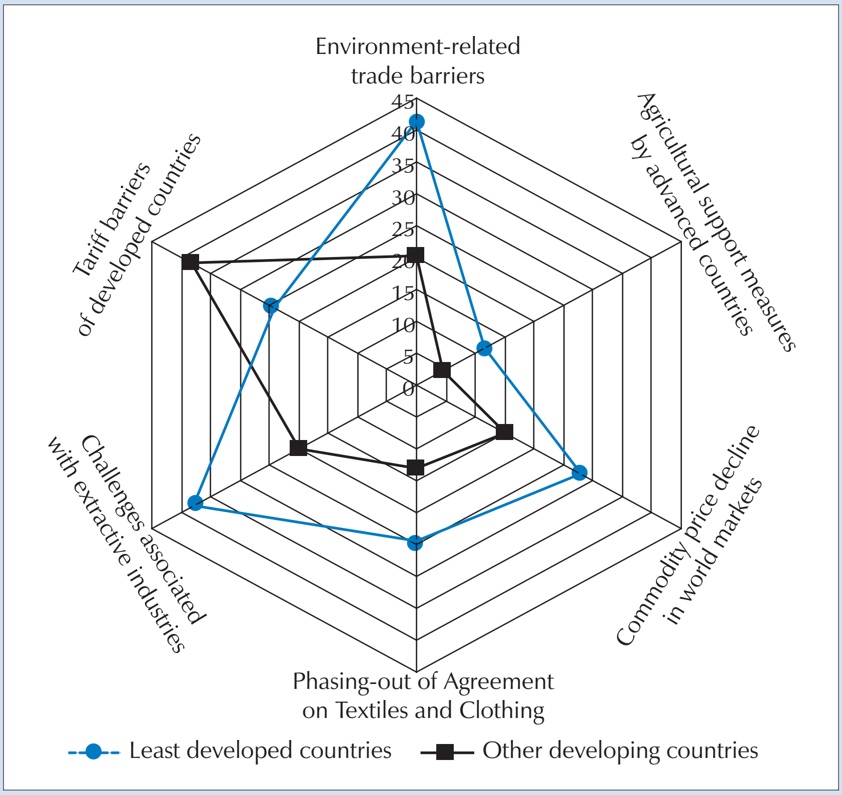
A broader view of the generally applicable measures in the field of trade that are likely to have the most positive impact on poverty reduction in the LDCs can be obtained if one asks:

- Which aspects of the international trading regime have the most negative effects on exports and production in the LDCs?
- Which aspects of exports and production are the most important for poverty reduction in the LDCs?

Chart 39 estimates the proportion of exports from the LDCs and other developing countries that are likely to be adversely affected by six different types of international constraints in 1999–2001. The six types of constraints are the following: environment-related trade barriers (including sanitary and phytosanitary standards, and technical product standards);[13] import restrictions

Chart 39. The share of merchandise exports of LDCs and other developing countries affected by selected adverse conditions, average 1999–2001

(Percentage)



Source: Herrmann (2003b).

Note: Tariff barriers of developed countries are the inverse of the share of goods that benefit from duty-free access to developed countries, which is one measure of progress towards goal 8 of the Millennium Development Goals. The goods admitted duty-free exclude arms and ammunition. Environment-related trade barriers (ETB) are defined in accordance with Fontagné, von Kirchbach and Mimouni (2001). They include sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT), and are generally motivated by the desire to protect the environment, wildlife, plant health, animal health, human health and human safety.

in developed countries (measured by the proportion of exports that do not enter developed country markets duty-free); the phasing-out of the Agreement on Textiles and Clothing; agricultural support measures in developed countries; declining world commodity prices on world markets; and the special challenges associated with extractive industries (oil, gas and minerals).[14] The last constraint has both national and international aspects, and it is the latter that will be considered here.

From the chart, a number of conclusions can be drawn.

Firstly, the exports of the LDCs as a group are more adversely affected than those of other developing countries by five of out six of these aspects of the international trading system. It is notable that the proportion of LDC exports by value affected by environment-related trade barriers, challenges associated with extractive industries, commodity price falls, agricultural support measures in developed countries and the phasing-out of the Agreement on Textiles and Clothing is more than twice the proportion of exports of other developing countries that are affected. The exception to this general pattern is restrictions on imports into developed country markets. In 1999–2001, the percentage of exports (excluding arms and ammunition) that did not enter duty-free was 38 per cent in other developing countries and 24 per cent in the LDCs.[15] But in the light of new preferential market access initiatives, the five-year average is likely to better reflect the comparative situation.

The proportion of LDC exports affected by environment-related trade barriers, challenges associated with extractive industries, commodity price falls, agricultural support measures in developed countries and the phasing-out of the Agreement on Textiles and Clothing is more than twice the proportion of exports of other developing countries that are affected.

Secondly, the aspects of the international trading system that adversely affect the highest proportion of LDC exports are commodity-related. The most important constraint for the LDCs as a group is environmental trade barriers, which affected 42 per cent of LDC exports in 1999–2001. This is followed by challenges associated with the development of extractive industries, which affected 38 per cent of LDC exports in the same period, and declining world commodity prices, which affected 28 per cent of LDC exports. Agricultural support measures are a further commodity-related issue. But, as explained above, the adverse effects of agricultural support measures work more through imports undercutting and depressing domestic production than through exports for most of the LDCs (the most important exception being West and Central African cotton producers). With regard to equivalent products, it is estimated that 11 per cent of LDC exports were adversely affected by agricultural support measures in the developed countries. This, and also the estimate for other developing countries, would be higher if substitutes were included and also the effects of agricultural support measures on diversification opportunities.

The most important constraint for the LDCs as a group is environmental trade barriers, which affected 42 per cent of LDC exports in 1999–2001.

Thirdly, besides the commodity-related issues the phasing-out of the Agreement on Textiles and Clothing is going to an important problem for the LDCs. Twenty-four per cent of the total exports of the LDCs will be affected by this change in the international trading system. Given the fact that LDC textile and clothing exports have developed on the basis of preferential market access, the pressing problem is how to adapt and be competitive in the emerging new trading environment. Further dimensions of this problem are set out in box 14.

It should be noted finally that chart 39 refers to the LDCs or other developing countries as a group and that within each group there are individual countries that face these constraints to a much greater degree. For the LDCs, the challenges associated with extractive industries are obviously relevant to those that have an export specialization in oil or minerals. The problems associated with the phasing-out of the Agreement on Textiles and Clothing are relevant to the LDCs that have built up export industries in textiles and clothing. Agricultural support measures are important for LDC that export cotton and those that have

Box 14. The phasing-out of the Agreement on Textiles and Clothing

From 1974 until the end of the Uruguay Round, the trade in textiles was governed by the Multifibre Arrangement (MFA), and as of 1995 the trade in textiles has been regulated under the Agreement on Textiles and Clothing (ATC). Although the WTO has aimed for a tariffication of all quantitative restrictions to trade, the ATC continued to allow for quantitative restrictions, namely quotas in specific imports. The trade in textiles and clothing was also characterized by exceptions to the principle of the most favoured nation, which demands that all members in the international trading system treat all other members in the system alike. Under the agreements relegating the trade in textiles, countries were able to treat others in an unequal manner, meaning that they could set different import quotas for textile exports of different countries. But while most countries faced relatively high import barriers of their textile exports, the least developed countries, and countries that are referred to as small suppliers of textile products, benefited from preferential market access in these goods. The relatively high import barriers faced by the majority of countries, on the one side, and the preferential market access enjoyed by the group of least developed countries, on the other, implied considerable preference margin for least developed countries.

It is on this basis that some LDCs have managed to diversify out of commodity exports and develop manufactures exports. As box chart 1 shows, it is the Asian LDCs in particular which have taken advantage of these preferences. Textile exports were equivalent to 61 per cent of the merchandise exports of Asian LDCs, but only 2 per cent of those of African LDCs. During the 1999–2001 period, the textile exports of 14 Asian LDCs accounted for 94.2 per cent of the total textile exports of the 49 LDCs.

The Agreement on Textiles and Clothing entails a 10-year schedule to bring the trade in textiles and clothing under GATT stipulations. In accordance with this schedule, there has been a first group of textile products (at least 16 percent of all relevant products) that has been brought under GATT rules in the period 1995–1997, a second group of textile products (at least 17 per cent of all relevant products) has been brought under GATT rule in the period 1998–2001, a third group of textile products (at least 18 per cent of all relevant products) has been brought under the GATT rule in the period 2002–2004, and a final group of relevant products (all remaining 49 per cent of the relevant products) will need to be brought under GATT rules by 1 January 2005. These changes have gradually eroded the preference margins enjoyed by least developed countries and by 2005 they will have completely eliminated the import quotas and also the preferential margins of these countries.

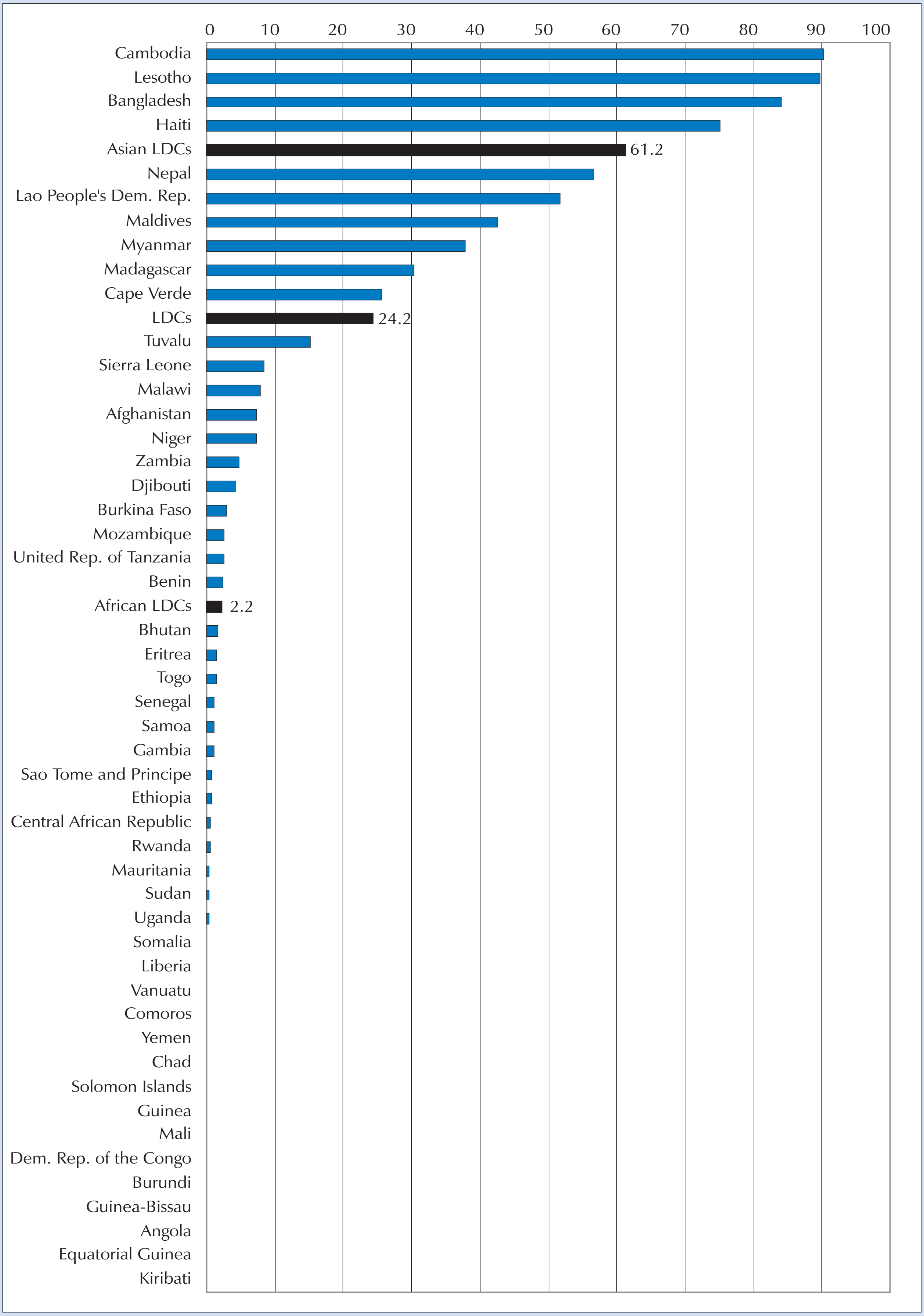
The overall outcome, however, will also be determined by whether the provision of unilaterally granted market access preferences for LDCs can balance the negative effects of the phasing out of the ATC. It is probable that most non-Asian LDCs will suffer only marginal losses from the phasing out of the textile regime, whereas the group of Asian LDCs may actually experience significant losses. During the past years Bangladesh and Nepal, for instance, have significantly increased their production and export of textiles owning to the provision of market access preferences by developed countries, especially the EU and the United States (Appelbaum, 2003). After the phasing-out of the agreement on textiles and clothing, the Asian LDCs should still benefit from far-reaching market access preferences to the EU as they are eligible for market access preferences granted under the EBA initiative, but they would no longer have the most preferential market access to the United States as they are not eligible for market access preferences granted under AGOA.

At present the United States grants market access to LDCs through three types of market access schemes. Through the African Growth and Opportunity Act, it grants one set of market access preferences to LDCs (and other countries) in sub-Saharan Africa, through the Caribbean Basin Initiative it grants another set of market access preferences to Haiti (and other countries) in the Caribbean, and through its Generalized System of Preferences for Least Developed Countries it grants a third set of market access preferences to all other remaining LDCs, namely those located in Asia. One of the most important differences between the different market access schemes are market access preferences in textiles. The market access for textile and apparel products is relatively good under the first two schemes, but it is much weaker under the third scheme. This means that the Asian LDCs, which are the LDCs with the strongest specialization in textile exports, are confronted by eroding market access preferences for their textile exports, where the market of the United States is concerned.

The overall effect of the phasing-out of the Agreement on Textiles and Clothing on the one side, and the provision of international support measures on the other, depends on how the changes at the different levels interact with each, and how these changes effect other economic variables, such as the flow of investments.

Box 14 (contd.)

Box Chart 2. Textile exports of least developed countries, 1999–2001
(Percentage of merchandise exports)



Source: UNCTAD secretariat estimates, based on UN COMTRADE data.
Note: Textile exports include codes 65, 82, 83, 84 and 85 in SITC, Revision 2.

a strong specialization in other agricultural goods. Declining or unstable commodity prices are relevant to commodity-dependent LDCs that export the commodities concerned.

From a policy perspective, chart 39 shows that in order to make trade a more effective mechanism for poverty reduction in the LDCs, there is a need to adopt a broad approach which encompasses, but goes beyond, multilateral trade liberalization. Within such an approach, commodity-related issues are particularly important for poverty reduction. This follows partly from the proportion of LDC exports affected by international constraints. But it also reflects the close association between primary commodity dependence and extreme poverty identified in *The Least Developed Countries Report 2002* and discussed in chapter 3 of the present Report. According to our estimates, 79 per cent of the people living on less than $1/day in the LDCs in the late 1990s were living in LDCs whose major exports were primary commodities (UNCTAD, 2002a: 125, table 31). Against this background, generally applicable measures to address constraints on production and exports related to the international commodity economy are likely to have a particularly positive poverty-reducing impact in the LDCs. A particular concern is the LDCs whose major exports are minerals, ores and metals and where the incidence of $1/day poverty rose from 61 per cent to 82 per cent between the early 1980s and the late 1990s. As discussed in chapter 4, this trend is related to civil conflict within the countries. But international measures with regard to the challenge of extractive industries, which are off the radar screen in current analyses of the effects of multilateral trade liberalization (which focus on agriculture and manufactures), are nevertheless likely to be particularly important.

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2. Priority elements of new international commodity policies

The failure to tackle the link between extreme poverty and the working of the international commodity economy is the major "sin of omission" in the current international approach to poverty reduction. As President Chirac of France put it, in his address to the Twenty-Second Summit of the Heads of State of Africa and France on 20 February 2003, "There is on the question of commodities a sort of conspiracy of silence. The solutions are not simple…But nothing justifies the present indifference".

The failure to tackle the link between extreme poverty and the working of the international commodity economy is the major "sin of omission" in the current international approach to poverty reduction.

Within the last year there has in fact been some new thinking on the issue. Notable in this regard is the Report of the Meeting of Eminent Persons on Commodity Issues requested by the General Assembly (UNCTAD, 2003c). That report identified a series of practical proposals, including short-term proposals, which involve urgent immediate action in response to severe crises in selected commodity sectors in recent years, medium-term proposals involving feasible reorientation of national and international policies, and long-term proposals on which discussion should be started now. The eminent persons attached the highest priority to the following actions:

- Enhanced equitable and predictable market access for commodities of key importance to developing countries (short-term through WTO negotiations and including the issue of agricultural support measures);
- Addressing issues of oversupply for many commodities (short-term and medium-term);
- Making compensatory finance schemes user-friendly and operational (medium-term);

- Strengthening national capacity and institutions to improve productive capacities and market entry (medium-term);
- Pursuing the possibilities of a new International Diversification Fund, which would focus on diversifying private-sector productive capacity (long-term).

Amongst the priority short-term proposals of particular relevance for the LDCs are action to address the effects of cotton subsidies in developed countries (through their early elimination or measures to mitigate their adverse consequences) and action to help alleviate poverty arising from low coffee prices. The latter is a complex problem, which has no easy solutions (see box 15). Apart from the issue of agricultural support measures in developed countries, which can be addressed through the multilateral negotiations on trade liberalization, the two priority elements of new international commodity policies that are likely to have the most poverty-reducing impact in the LDCs are, first, measures to reduce vulnerability to commodity price shocks, and, second, implementation of greater transparency in reporting of government revenues

Box 15. Possible responses to commodity price decline: the case of coffee

Like other primary agricultural commodities, the world coffee market is characterized by high instability and also, since 1980 there has been a slump in prices. In 2003, world coffee prices were just 17 per cent of their level in 1980. The falling prices have been accompanied and magnified by a major change in the distribution of income between producers and other agents in the coffee value-chain. According to the International Coffee Organization, coffee-producing countries currently earn (exports f.o.b.) just $5.5 billion of the $70 billion value of retail sales, while in the early 1990s they earned some $10–12 billion of the $30-billion value of retail sales (see http://www.ico.org, 25. April 2004).

There are 18 LDCs which export coffee, and for some of these, notably Burundi, the Central African Republic, the Democratic Republic of the Congo, Ethiopia, Lao People's Democratic Republic, Rwanda, Uganda and the United Republic of Tanzania, the crop has been particularly important. But with falling world prices, production prices have fallen so low in many poor countries that large parts of production has become unviable. The Integrated Framework's Diagnostic Trade Integration Study (DTIS) on Ethiopia estimates that coffee contributed 40 per cent of the value of Ethiopian exports in 2001/2002 and that, including dependants, 7.5 million depend on the sector. But "the negative margin between farmgate prices and production costs makes it clear that production is currently not profitable" (Integrate Framework, 2003: 49).

Possible responses to this problem include: upgrading coffee production, supply management to raise coffee prices and diversification.

The opportunity for upgrading is evident in box chart. As well as the major differential between the producer prices and retail price, this shows that LDC coffee producers generally earn less than coffee producers in other developing countries. Producer prices of Arabica coffee in LDCs were on average about 33 per cent of those in other developing countries, and producer prices of Robusta coffee in LDCs were just 55 per cent of those in other developing countries.

These differences between producers reflect tendencies for increasing differentials amongst producers to be occurring at the same time as the gap between retail and producer prices has been widening. The differentials amongst producers reflect: (i) the division between anonymous and non-anonymous sales, mainly for Robusta and hard Arabica; and the emergence of specialty and gourmet coffees, mainly within the mid-Arabica market (Gibbon, 2003). Non-anonymous sales are achieved mainly by large grower-exporters, mostly in large producing countries in Latin America, who are able to consistently supply large volumes, meet quality requirements and provide efficient logistics up to loading of a ship. These exporters can achieve reference prices and obtain medium- and long-term purchasing commitments from traders. By contrast, producers dealing with the anonymous market typically sell smaller volumes of somewhat inferior product through a series of intermediaries. Their production is based on lower inputs and is more weather-dependent, and productivity is lower than that of the large exporters. High premia are also commanded by producers of "specialty coffees", which include shade-grown, organic and fair trade coffees.

LDC could earn higher prices if they could qualify for the non-anonymous commercial and speciality markets. This requires investment and also new institutional arrangements. Participation in the former is unlikely to be possible

Box 15 (contd.)

for groups of smallholders that are not part of much larger organizations. Moreover, there will be a need for an initial investment in land clearing, infrastructure and high-quality public research into improved tree varieties and pest control. Entering speciality markets will require the meeting of certification costs. For example, most of Ethiopia's coffee is actually organically grown and merely needs to be certified to reap a larger premium on international markets. It has been estimated that if there is a Fair Trade Coffee Initiative in which 50 per cent of Ethiopian coffee production qualifies, the income of coffee producers would increase by 25 per cent, and the welfare of the whole poor population would increase by 2 per cent (Integrated Framework, 2003: 15). There is a major role for international assistance to facilitate such upgrading.

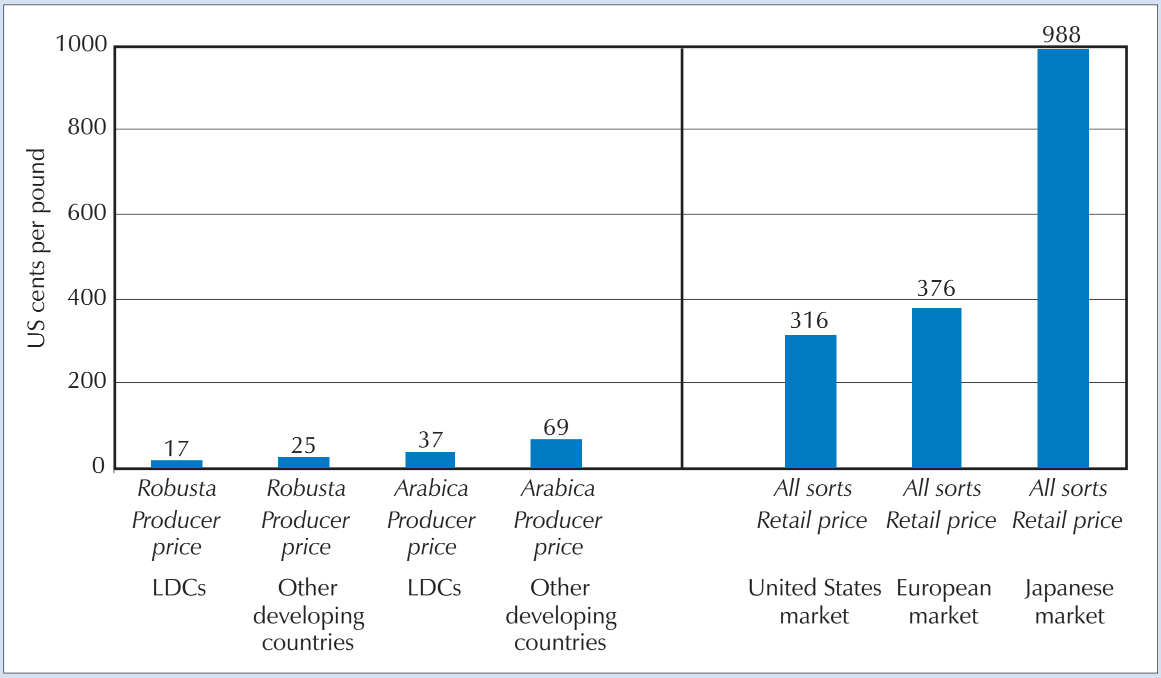
The second option, supply management, requires agreement amongst producers. According to Hermann, Burger and Smit (1993), in the year when the provisions of the international coffee agreement were operational prices were raised by 24 to 30 per cent over what otherwise would have been the market-clearing level. A model of the potential impact on LDCs of Brazil, Colombia, Indonesia and Viet Nam (which together constitute 53 per cent of global green coffee export revenues) jointly reducing their exports has shown that a 10 per cent reduction in their exports could result in a 17 per cent increase in the world price and a 21 per cent increase in LDC coffee export revenues (Gabriele and Vanzetti, 2004).

Whether such supply management is now feasible with more open and competitive trading systems is debatable. The uneven distribution of gains would also be a major stumbling block to the formation of such an agreement. But whether such an agreement can be achieved or not, the results show what would happen to global prices of commodities if advanced developing countries were able to move out of primary commodities and increasingly specialize in manufactures. At present the ability of those countries to upgrade their production structures and to increase exports and pursue a stronger specialization is often prevented by relatively high market access barrier by developed countries.

The third option for LDC coffee producers is diversification out of coffee. This is the best long-term option. But both vertical and horizontal export diversification should be part of a national development strategy and will require significant international financial and technical assistance to develop new export sectors (see next chapter). It is in this context that the proposal for a diversification fund is highly relevant.

The scale and challenge can be illustrated by Ethiopia. Its DTIS shows that "there is no single product exported by Ethiopia that has experienced a growing demand in world markets in the late 1990s. All four-digit HS categories have experienced negative growth, even though Ethiopia has been able to perform above average in world markets in a few of these products" (Integrated Framework, 2003: 7). It is from this point that diversification efforts must begin.

Box Chart 3. Price differences by coffee types and export markets, 2000–2002



Source: UNCTAD secretariat estimates, based on data provided by the International Coffee Organization
Note: Average prices for different producer countries and consumer countries.

derived from extractive industries (gas, mining and oil industries) and also company payments to governments.

(a) Reducing vulnerability to commodity price shocks

Vulnerability to commodity price shocks affects a large number of those LDCs where the incidence of $1/day poverty is highest. The vulnerability of a country to commodity price shocks reflects the degree of exposure to shocks and also the country's resilience in dealing with them. LDCs are often highly exposed because of the high level of their dependence on one or two commodities. Moreover, they have low resilience because of the limited domestic resources available for dealing with shocks. *The Least Developed Countries Report 2000* found that in 14 out of 24 LDCs for which data were available, the maximum two-year income terms-of-trade loss in the 1990s was over 100 per cent of the domestic resources available above private consumption which is available for financing private investment and government expenditure (UNCTAD, 2000a: 38–39). Relative to the size of such domestic resources available for finance (which was discussed as DRAF in chapter 3), the average LDC economy has, over the last three decades, been exposed to adverse external shocks, with an impact in the worst years of more or less double the developing country average.

The average LDC economy has, over the last three decades, been exposed to adverse external shocks, with an impact in the worst years of more or less double the developing country average.

Such shocks can have a major negative economic impact. The IMF (2003b) has estimated that in developing countries, between 1981 and 2000, negative price shocks on average led to a direct loss of income of 3.5 per cent of GDP. Collier and Dehn (2001) report even higher income losses due to negative price shocks, in the range of 6.8 per cent of GDP. The magnitude of the shock is worth comparing with the prospective benefits from multilateral trade liberalization reported above — which are generally of the order of 3–5 per cent of GDP.

Negative price shocks have a poverty-increasing impact both through their direct effects on producers and through macroeconomic channels (Guillaumont et al., 2003). At the micro level, shocks directly affect incomes and also discourage investment and innovation amongst producers. However, the main impact on poverty is likely to come through macroeconomic channels. A number of studies have now found that negative commodity price shocks significantly depress the economic growth rate of commodity-dependent economies (e.g. Collier and Dehn, 2001; Dehn, 2000). The negative effect on economic growth occurs particularly through the effect of shocks on full utilization of productive capacity, and there is not a similar offsetting positive effect from positive commodity price shocks. Amongst the macroeconomic mechanisms which research has found to be important as transmission channels of price shocks are increasing real exchange rate instability, which leads in particular to poor resource allocation and lower factor productivity, and increasing fiscal instability, which contributes to the build-up of indebtedness and reduces the level of and return on investment (Guillaumont et al., 2003). As noted in chapter 4, there is also some evidence of a link between falling and unstable commodity prices and export revenues and the onset of civil conflict.

Negative price shocks have a poverty-increasing impact both through their direct effects on producers and through macroeconomic channels.

In the past, marketing boards and caisses de stabilisation acted as a buffer between the producer and price shocks. But these have now largely been dismantled. Because of the costs of international buffer stocks, they are not particularly advisable. Two international measures which can help LDCs deal with negative commodity price shocks include the greater use of commodity risk management instruments and the revamping of compensatory financing schemes to offset losses in export earnings associated with negative price shocks.

With regard to the former, the key issue is how to make market-based risk management instruments work in very poor countries. With regard to the latter, an appropriate starting point may be to identify strengths and weaknesses of past compensatory financing mechanisms (such as STABEX and SYSMIN) and to establish a set of criteria for the successful operation of a compensatory financing mechanism that would be responsive to the financing needs of poor commodity-dependent countries (UNCTAD, 2003c).

There are important opportunities for reducing the adverse impact of negative price shocks on poverty through debt relief mechanisms and aid.

Finally, there are important opportunities for reducing the adverse impact of negative price shocks on poverty through debt relief mechanisms and aid. As noted in chapter 3, there is a close link between commodity dependence and the build-up of unsustainable external debt in poor countries. Automatic adjustment of debt service in response to price shocks, with the lowering of debt service payments when there is a decrease in tax revenues following world price declines, thus merits serious consideration. There is also a strong case for making aid more counter-cyclical as there is evidence that foreign aid to LDCs has in the past not generally alleviated the effect of short-term external shocks but has rather reinforced the effect of such shocks (UNCTAD, 2000a: 178–182). It may even be possible to envisage automatic grant assistance for poor countries in the event of negative price shocks. The possible modalities of automatic adjustment of debt service to negative price shocks and also automatic grants in the event of such shocks, the latter directly targeted at the LDCs, are elaborated in a preliminary way in Guillaumont et al. (2003).

(b) Transparency in revenue and payments from extractive industries

There is an increasing momentum for a multilateral approach to ensuring greater transparency in payments to Governments by transnational corporations involved in extractive industries (gas, oil and mining).

There is an increasing momentum for a multilateral approach to ensuring greater transparency in payments to Governments by transnational corporations involved in extractive industries (gas, oil and mining) (Global Witness, 2004). This is of vital importance for poverty reduction in oil- and mineral-dependent LDCs, which are becoming the sites of the worst and seemingly most intractable problems of extreme poverty. The relevance of such an approach to LDCs reflects the importance of revenues from extractive industries as the basis for economic growth and development in the mineral- and oil-exporting LDCs, together with the past failure to translate natural resource wealth into development and poverty reduction. There is no doubt that good management of mineral and oil wealth is difficult, particularly in the light of the unusually large size of revenues in relation to national income, price fluctuations in commodity markets and the finite nature of these natural resources (DFID, 2003). Improved transparency through international understandings can be part of a broader approach to improve the governance of oil, gas and mineral resources, which would include measures to ensure improved public financial management at the national level (see next chapter).

Transparency in mineral revenues and payments is required from both Governments and companies. With regard to Governments, this would include any income earned in cash or in kind, including tax receipts, royalties, lease fees, rental payments, bonuses, share of production, dividends and other profit transfers or receipts from asset sales. With regard to companies, this would include payments to host Governments and their agencies, including transfers of funds (in cash or in kind) for the purchase of an asset, or payments of tax dividends, royalties, fee rentals or bonuses (DFID, 2003). At present, companies are not required to report, and do not necessarily report, financial information disaggregated at the country level. Moreover, they may actually be discouraged from doing so because of the existence of confidentiality clauses in contracts with host countries. It is unlikely that unilateral disclosure will work, because competitors who decide not to make a unilateral disclosure on the part of companies could gain an unfair competitive advantage.

A number of different international mechanisms could be used for increasing companies' transparency, including OECD Guidelines for Multinational Enterprises, the UN Global Compact (as a forum for advocacy), an agreement on international accounting standards in the extractive industry, disclosure rules for securities markets and export credit agency requirements. The Extractives Industry Transparency Initiative (EITI) has indicated that whatever final mechanism is agreed, it is important that there be transparency on the part of Governments as well as companies, and that the key criteria for an effective approach will be the following: collective action (drawing together a critical mass of actors to forge a wide consensus and maximize the acceptability and the application of this initiative); confidentiality (protecting commercial confidentiality and respecting existing contract provisions); comprehensiveness (capturing critical payments and revenues and flows); and comparability (providing easily aggregated data) (DFID, 2003: para. 30).

Transparency in mineral revenues and payments is required from both Governments and companies...A number of different international mechanisms could be used for increasing companies' transparency.

A voluntary pilot approach is now being implemented through the EITI. There remain many unresolved issues, including:

- How will the system be monitored? How will compliance be ensured?
- How will disclosure of information occur (in the "home" country, in the producer country?). How would it be ensured that reporting is harmonized or that there is a minimum set of reporting standards beyond the templates proposed under the EITI?
- Data collection issues. Would there be an aggregation of "country" data to protect commercial confidentiality? Would this negatively affect transparency?
- Technical assistance. How will countries willing to cooperate with the compact finance the costs of implementing it?
- Accounting standards. There is no international agreement for the industry to date in this regard — that is to say, no International Financial Reporting Standard.

The voluntary approach is an important step and will help to provide answers to these questions. It is through the voluntary approach, and also through continued dialogue amongst all stakeholders, that the pros and cons of a compulsory, legally enforceable reporting mechanism, which is being advocated by the "Publish What You Pay" NGO coalition and also in Global Witness (2004), may be assessed.

D. The effectiveness of current international support measures targeted at the LDCs

For the LDCs, the poverty-reducing impact of generally applicable measures in the field of trade will be enhanced if a broad approach, encompassing but not limited to the multilateral trade liberalization agenda, is adopted. But there is also a strong case for complementing generally applicable measures with special international support measures specially targeted at the LDCs.

The need for special international support measures is based on experience that indicates that most LDCs have become increasingly marginalized in international trade and have found it difficult to integrate into the multilateral trading system in a way which supports their development. There is a wide consensus on the need for special international support measures in the area of trade for LDCs because of this. However, from the point of view of poverty reduction, there is also a strong case for focusing special international support measures geographically on the LDCs. This follows from the location of extreme poverty within the global economy. To the extent that a significant proportion of the global population living on less than $1/day live in LDCs, facilitating increased exports and increased ability to develop productive capacities within these countries will make a significant contribution to global poverty reduction.

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Unfortunately, estimates of the global distribution of the extremely poor depend on the methods used to make them. According to the household-survey-based estimates of the World Bank, most of the world's extremely poor live in rural areas outside the least developed countries, particularly in India and China (World Bank, 2003: 106, table 3.1). National-accounts-based poverty estimates suggest a lower number of extremely poor, and according to estimates in *The Least Developed Countries Report 2002*, many least developed countries, particularly in Africa, have a higher incidence of poverty than household-survey-based estimates suggest. As a consequence, the least developed countries are an important locus of extreme poverty in the global economy (UNCTAD, 2002a: 39–100, chapters 1 and 2). It is imperative that increasing efforts be made to reconcile differences in the scale and distribution of poverty in the world economy. Otherwise, the factual basis for geographical targeting, such as international support measures for the LDCs, will be a constant subject of dispute. However, what is important to stress here is that if the trends of the 1990s continue, the problem of extreme poverty in the world will increasingly become an LDC problem, and that by 2015 the majority of the $1/day poor will be located in LDCs, particularly in Africa. The case for international action targeted at the LDCs remains strong, despite disagreements about the current location of the extremely poor, because there is a need to act now to pre-empt this situation and create a better future for the people of the LDCs.

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The international consensus on the need for special international support measures in the field of trade has led to provisions for special and differential treatment that are written into GATT or WTO Agreements. The provisions of special and differential treatment typically provide flexibility in the implementation or application of agreements, and encourage the provision of technical assistance and market access preferences. In some instances, market access preferences are granted through the multilateral agreements directly, but in most instances, they are granted by individual countries or groups of countries.

These measures are exceptions to the most-favoured-nation (MFN) principle, a core principle of the multilateral trading system, which requires all members of the system to treat one another alike. The basis for preferential market access is the Enabling Clause, introduced into the GATT in 1979, and the Waiver System, which is set out in Article IX: 3 of the Agreement Establishing the WTO. These permit countries to grant special treatment to other countries without granting the same treatment to other member States. The Enabling Clause is the legal basis of the Generalized System of Preferences (GSP), under which developed countries grant preferential market access to developing countries, of and the Global System of Trade Preferences (GSTP), under which developing countries grant preferential market access to other developing countries. Going beyond legal provisions explicitly set out in WTO Agreements, actions in favour of developing countries, individually or as a group, may also be taken under "waivers" from the main WTO rules. The General Council Decision on Waivers regarding Preferential Tariff Treatment for Least Developed Countries of 1999 allows developing WTO members to grant preferential tariff treatment to products of LDCs.

Using these two approaches, a number of international support measures have been put in place for the LDCs. However, the effective benefits which they receive through special and differential treatment, including preferential market access, are generally, with a few exceptions, slight.

1. Special and differential treatment

The provisions for special and differential treatment granted by the various WTO Agreements to different WTO members are complex. Not only do they touch on different aspects of the multilateral trading system, but also they differ in terms of their content, geographical domain of application and time limits. Some are associated with clear rights and obligations, whilst others are mere statements of intent and calls for special assistance. Some apply to all developing countries, whilst others apply only to selected sub-groups of countries. Some are granted for an unlimited duration, while others are restricted in their applicability (WTO, 2000a; Michalopoulos, 2000; Hoekman, Michalopoulos and Winters, 2003).

The provisions for special and differential treatment granted by the various WTO Agreements to different WTO members are complex. Not only do they touch on different aspects of the multilateral trading system, but also they differ in terms of their content, geographical domain of application and time limits.

The different WTO Agreements contain about 124 separate articles or paragraphs containing around 160 provisions for special and differential treatment (WTO, 2000a). An overview[16] of these provisions, their binding nature and defined limits, and their applicability to different country groups, presents the following picture:

- Recommended action: 38 provisions encourage developed WTO members to take into account the special situation of least developed WTO members; 31 encourage different types of financial and/or technical assistance; 21 encourage flexibility in the implementation of agreements; 20 encourage flexibility in the application of agreements; 18 allow for different types of subsidies; 12 encourage the extension of market access preferences; eight encourage favourable treatment in safeguard actions; five allow for different types of import restrictions; one encourages paucity of the principle of full reciprocity; and another one encourages actions to stabilize commodity prices. In addition, there are five other provisions with diverse purposes.
- Binding nature: The majority of the provisions are best-endeavour provisions that do not have a binding nature. These include the 38 provisions that encourage the special consideration of difficulties, the 31 provisions that encourage the provision of technical and/or financial assistance, the 12 provisions that encourage the provision of market access preferences, one provision that encourages action to address commodity price problems, and five other provisions. The provisions that are binding generally include those that grant developing countries more flexibility in the implementation of WTO Agreements and/or flexibility in their application.
- Time limits: Of 124 articles and paragraphs in WTO Agreements that entail special and differential treatment provisions, 19 articles and paragraphs of these agreements have explicitly or implicitly defined time

> limits, affecting 21 provisions for special and differential treatment. The majority of the provisions of limited duration are related to provisions granting flexibility in the implementation or application of agreements, but several such provisions are related to provisions granting flexibility in trade policies. Of the six articles and paragraphs imposing time limits on the use of trade policies, three impose limits with respect to the use of import restrictions, and the other three impose limits with respect to the use of export subsidies. This in effect means that three out of five provisions that grant flexibility with respect to import restrictions have time limits attached to them, whereas only three out of 18 provisions that grant flexibility with respect to subsidies have an expiration date. Other articles and paragraphs limiting the duration of special and differential treatment provisions relate to provisions that are concerned with special consideration of developing countries and provisions granting market access preferences to least developed countries.

There are only a few provisions that are specifically designed to help this group of developing countries overcome their marginalization in the world economy.

Within this complex field, there are relatively few provisions that are actually targeted at the LDCs. Of the 124 articles and paragraphs extending special and differential treatment, 104 apply to the group of developing countries, which includes all least developed countries, and the remaining 20 apply to different sub-groups of developing countries, which also include many least developed countries. But although most special and differential treatment provisions are also applicable to LDCs, only very few such provisions are specifically targeted at the LDCs. This means that there are only a few provisions that are specifically designed to help this group of developing countries overcome their marginalization in the world economy. In total, there are about 24 articles and paragraphs in the WTO Agreements that extend special and differential treatment explicitly to LDCs. Of these provisions, 15 extend it to both developing countries and least developed countries, six extend it exclusively to the group of least developed countries, two extend it to least developed countries and small suppliers, one extends it to least developed countries and low-income countries, and one extends it to least developed countries and net food-importing countries. A final provision is extended to all developing countries, including least developed countries and net food-importing developing countries.

The majority of the articles and paragraphs that specifically refer to the group of least developed countries, namely 14 out of 24, entail provisions that encourage consideration of the special challenges faced by least developed countries, and a good number of those — 6 out of 14 — do nothing more than encourage special consideration of challenges faced by these countries.

Table 47 summarizes the 24 articles and paragraphs that explicitly refer to the least developed countries, as well as another seven articles and paragraphs that refer to other vulnerable groups of developing countries. These sub-groups of vulnerable countries typically include a large number of least developed countries. This is why the different types of articles and provisions are summarized in one table. The 31 articles and provisions are associated with 42 special and differential treatment provisions. The table shows that there are five provisions that enable the LDCs to use trade policies in the service of productive sector development, one of which is granted by the Agreement on Agriculture, and the other four are granted by the Agreement on Subsidies and Countervailing Duties. The former exempt LDCs from making further commitments on tariff reductions, while the latter allow them to make use of export subsidies. In addition, Article 27.9 and Article 27.10 exempt small suppliers from countervailing duty investigations. Finally, there are eight provisions that extend either flexibility in the implementation or flexibility in the

TABLE 47. OVERVIEW OF SPECIAL AND DIFFERENTIAL TREATMENT (SDT) PROVISIONS GRANTED TO LDCS

Articles/paragraphs of WTO Agreements		Associated provisions of SDT	
	Text	*Type*	*Target country groups*
Agreement Establishing the World Trade Organization			
Chapeau	The Parties to this Agreement, Recognizing that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steady growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development. — Recognizing further that there is 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 ... agree as follows ... (Agreement Establishing the World Trade Organization, chapeau)	Special consideration	Developing countries LDCs
Market access			
Agreement on Agriculture			
Preamble	Recognition of special and differential treatment; in implementing their commitments on market access, developed country Members to take fully into account the needs and conditions of developing country Members by providing for a greater improvement of opportunities and terms of access for agricultural products of particular interest to those Members, including the fullest liberalization of trade in tropical agricultural products; he possible negative effects of the implementation of the reform programme on least-developed and net-food importing developing countries to be taken into account.	Special consideration Market access preference	Developing countries LDCs Net-food-importers
Art. 12.2	Disciplines on export prohibitions and restrictions not applicable, unless the developing country Member is a net-food exporter of the specific foodstuff concerned.	Flexible implementation[a]	Net-food-importers
Art. 15.2 & Schedules	Developing country Members to implement reduction commitments over a period of 10 years (6 years). Least-developed country Members are not required to undertake reduction commitments.	Import restriction	Developing countries LDCs
Art. 16	Developed country Members to take action as provided for within the framework of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net-Food Importing Developing Countries. Committee on Agriculture to monitor the follow-up to this Decision.	Special consideration Aid Other	LDCs Net-food-importers
Notification	Certain annual notification requirements in the area of domestic [support] may be set aside, on request, by the Committee on Agriculture. LDCs: Certain notifications only to be submitted every other year.	Flexible appliction	Developing countries LDCs
Agreement on Textiles and Clothing			
Art. 1.2 (& footnote 1)	Members agree to use provisions of Art. 2.18 and Art. 6.6(b) (below) to permit meaningful increases in access possibilities for small suppliers and new entrants.	Special consideration Market access preference	Small suppliers
Art. 1.4	Particular interests of cotton-producing exporting Members should, in consultation with them, be reflected in implementation.	Special consideration	Cotton producing exporters
Art. 2.18	"Meaningful improvements in access" through accelerated increases in growth rates, or through agreed changes with respect to the mix of base levels, growth and flexibility, for Members subject to restrictions on 31 December 1994 and whose restrictions account for less than 1.2 per cent of all restrictions imposed by relevant Members as of 31 December 1991.	Market access preference	Small suppliers
Art. 6.6 (a)	Significantly more favourable treatment to be given to LDCs by Members making use of transitional safeguards.	Safeguard, favourable	LDCs
Art. 6.6 (b)	Members whose export volumes are small in comparison with the total volume of exports of other Members and represent a small percentage of imports of a product into an importing Member shall be accorded differential and more favourable treatment in the fixing of economic terms of Articles 6.8, 6.13 and 6.14, i.e. in fixing levels of export restraint, growth and flexibility (see also Article 1.2).	Special consideration Market access preference	Small suppliers
General Agreement on Trade in Services			
Art. IV:3	Special priority to be given to LDCs in implementation of Articles IV:1 and 2, and "particular account" to be taken of LDCs' difficulties in accepting negotiated commitments owing to particular development trade and financial needs.	Special consideration	LDCs
GATS Annex on Telecommunications			
Art. 6 (d)	Special consideration to opportunities for LDCs to encourage foreign suppliers to assist in transfer of technology, training and other activities for developing telecoms trade.	Aid	LDCs
Agreement on Sanitary and Phytosanitary Restrictions			
Art. 10.1	In the preparation and application of SPS measures, Members to take into account special needs of developing country and LDC Members.	Special consideration	Developing countries LDCs
Art. 14	May delay for up to 2 years implementation of most provisions of the Agreement relating to measures affecting imports (with the exception of measures not based on relevant or extant international standards). LDCs may delay for up to 5 years implementation of the provisions of the Agreement.	Flexible implementation[a]	Developing countries LDCs
Agreement on Technical Barriers to Trade			
Art. 12.3, 12.7	Members shall, in preparing and applying technical regulations, standards and conformity assessment procedures, take account of the special development, financial and trade needs of developing Members with a view to ensuring that unnecessary obstacles to exports from developing countries are not created. Technical assistance to be provided by Members to that end, taking account of the stage of development of the requesting Members. Particular account to be taken of the least-developed Members in provision of technical assistance.	Special consideration Aid	Developing countries LDCs

Table 47 (contd.)

Articles/paragraphs of WTO agreements		Associated provisions of SDT	
Number	*Text*	*Type*	*Target countries*
Auxiliary agreements			
Agreement on Trade-related Aspects of Intellectual Property Rights			
Preamble	Recognition of special interest of LDCs in respect of maximum flexibility in implementation of domestic regulations in order to enable the creation of a sound technological base.	Special consideration Flexible implementation[a]	Developing countries LDCs
Art. 66	LDCs: Delay for up to 10 years for most TRIPS obligations. Possibility of extension following duly motivated request.	Flexible implementation[a]	LDCs
Art. 66.2	Developed country Members to provide incentives to enterprises and institutions in their territories for purpose of encouraging transfer of technology to LDCs.	Aid	LDCs
Agreement on Trade-related Investment Measures			
Preamble	Taking into account trade, development and financial needs of developing countries and especially LDCs.	Special consideration	Developing countries LDCs
Art. 5.2	5 years (2 years) to eliminate TRIMS inconsistent with Agreement. LDCs: 7-year transitional period.	Flexible implementation[a]	Developing countries LDCs
International trade rules			
Agreement on Subsidies and Countervailing Measures			
Art. 27.2 (a)	Developing countries with per capita income below $ 1,000 (and listed in Annex VII) exempted from prohibition on export subsidies. LDCs: Not subject to prohibitions on export subsidies.	Subsidies, various	LDCs Low-income countries
Art. 27.3	Prohibition on subsidies contingent on export performance not applicable for 5 years. LDCs: 8 years.	Subsidies, various Flexible implementation[a]	Developing countries LDCs
Art. 27.5, 27.6	Export subsidies to be phased out within 2 years of attaining "export competitiveness" in any given product; 8-year phase-out for Annex VII Members. "Export competitiveness" is defined as at least 3.25 % of world trade in the "product" (HS Section) for two consecutive calendar years. LDCs: 8 years.	Subsidies, various Flexible implementation[a]	Developing countries LDCs
Art. 27.9, 27.10	Subsidies actionable only if they cause injury or nullify or impair benefits to other Members under GATT 1994. Countervailing duty investigations to be terminated where share of total imports less than 4 per cent and where total import share of developing country Members, each with less than 4 per cent share, does not exceed 9 per cent.	Subsidies, various	Small suppliers
Agreement on Safeguards			
Art. 9.1, footnote 2	Safeguards "shall not be applied" against products originating in developing countries if share of imports is not in excess of 3 per cent, and if developing country Members with less than 3 per cent share do not account collectively for more than 9 per cent of imports.	Safeguard, exemption	Small suppliers
Agreement on Import Licensing			
Art. 3.5(j)	Special consideration to be given to importers importing products from developing countries in allocating non-automatic licences. Consideration to be given to importers' products, especially from least-developed countries.	Aid	Developing countries LDCs
Understanding on Rules and Procedures Governing the Settlement of Disputes			
Art. 21.8	Particular consideration shall be given to the special situation of LDC Members at all stages in the determination of causes of dispute and of dispute settlement.	Special consideration	Developing countries LDCs
Art. 24.1	Members to "exercise due restraint" in raising matters under these procedures involving an LDC Member. If nullification or impairment established, Members to "exercise due restraint" in seeking compensation or authorization to suspend concessions or any other obligation pursuant to these procedures.	Special consideration Safeguard, favorable	LDCs
Art. 24.2	If satisfactory solution not found, Director General or Chairman of Dispute Settlement Board may offer their good offices upon request by LDC to find acceptable solution prior to request for a panel.	Aid	LDCs
Special and differential treatment			
Decision on Waiver			
Art. 1, 2, 3, 4	Considering that the Parties to the World Trade Organization Agreement have recognized the 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 ..., Members, acting pursuant to the provisions of paragraph 3 of Article IX of the WTO Agreement, decide that: 1. Subject to the terms and conditions set out hereunder, the provisions of paragraph 1 of Article I of the GATT 1994 shall be waived until 30 June 2009, to the extent necessary to allow developing country Members to provide preferential tariff treatment to products of least-developed countries, designated as such by the United Nations, without being required to extend the same tariff rates to like products of any other Member. 2. Developing country Members wishing to take actions pursuant to the provisions of this Waiver shall notify to the Council on Trade in Goods the list of all products of least-developed countries for which preferential tariff treatment is to be provided on a generalized, non-reciprocal and non-discriminatory basis and the preference margins to be accorded. Subsequent modifications to the preferences shall similarly be notified. 3. Any preferential tariff treatment implemented pursuant to this Waiver shall be designed to facilitate and promote the trade of least-developed countries and not to raise barriers or create undue difficulties for the trade of any other Member. Such preferential tariff treatment shall not constitute an impediment to the reduction or elimination of tariffs on a most-favoured-nation basis. 4. In accordance with the provisions of paragraph 4 of Article IX of the WTO Agreement, the General Council shall review annually whether the exceptional circumstances justifying the Waiver still exist and whether the terms and conditions attached to the Waiver have been met.	Special consideration Market access preference[a]	LDCs

Source: UNCTAD secretariat compilation, based on WTO (1999b, 2000a) and WTO website: http://www.wto.org/english/tratop_e/devel_e/anexi_e.doc; http://www.wto.org/english/tratop_e/devel_e/anexii_e.doc (17 December 2003).

Note: All provisions that apply to developing countries in general also apply to least developed countries. If not specified, information provided in parentheses refers to the manner of application of the relevant provisions to developing country WTO members. Low-income countries in the WTO are defined as countries with a GNP per capita of less than $1,000. a Provisions with time limit.

application of an agreement, five provisions that encourage the provision of market access preferences or improvements of market access conditions, and several articles that encourage the provision of technical assistance. But neither the provision of market access nor the provision of assistance is of a binding nature for advanced countries. Interestingly, the Agreement on Trade-Related Aspects of Intellectual Property Rights encourages advanced countries to take measures to promote investments in least developed countries. Such home country measures are very important for the strengthening of productive capacities in least developed countries.

The vast majority of the special and differential treatment provisions are granted to all developing countries rather than just the least developed countries.

In sum, this survey shows that the vast majority of the special and differential treatment provisions are granted to all developing countries rather than just the least developed countries. Moreover, the majority of the provisions that are granted exclusively to the group of least developed countries are provisions that encourage advanced WTO members to consider the interest of the least developed WTO members, rather than provisions that provide the least developed WTO members with exemptions from WTO rules and regulations in line with their level of development. Many of the provisions are best-endeavour clauses. They are by their nature transitory. Rather than being concerned with the development of productive capacities, they are intended to (a) facilitate the implementation of the WTO Agreements by the LDCs and other developing countries, and (b) to encourage these countries to design and implement trade policies in conformity with WTO Agreements. There is a need for more research on the extent to which special and differential treatment provisions are operational and also on the effective benefits which LDCs derive from them in practice (see, for example, work such as UNCTAD, 2001a).[17] But this initial survey suggests that it is doubtful that current provision are sufficient to enable the LDCs to actively promote their economic development and reduce their international economic marginalization.

2. Preferential market access

(a) The scope of preferential market access

The market access preferences granted to the LDCs are typically more far-reaching than the market access preferences that they grant to other GSP or GSTP beneficiary countries. But there are some developing countries that benefit from even more extensive market access preferences.

Following the Ministerial Conference of the WTO in Singapore in 1996, and particularly in the context of the Third United Nations Conference on the Least Developed Countries, many developed countries and developing countries have expanded or introduced market access preferences for marginalized developing countries, especially least developed countries. In 2001 the WTO took note of a total of 28 market access initiatives in favour of least developed countries, 19 of which were granted by developing countries or transition economies, and 9 were granted by developed countries, including the Quad countries — Canada, the European Union, Japan and the United States (WTO, 2001a). Table 48 summarizes the current situation with regard to recent market access initiatives of the Quad countries, whilst table 49 summarizes the market access initiatives for non-Quad countries in 2001, the most recent year in which this was systematically surveyed.

Market access preferences enable exporters from the LDCs to pay lower tariffs or even enter markets quota- and duty-free. The potential commercial benefits depend first of all on the preference margin which exporters in the LDCs receive over other exporters. The market access preferences granted to the LDCs are typically more far-reaching than the market access preferences that they grant to other GSP or GSTP beneficiary countries. But there are some developing countries that benefit from even more extensive market access preferences. These are typically countries that are part of a regional trade

TABLE 48. OVERVIEW OF QUAD MARKET ACCESS INITIATIVES TARGETING LEAST DEVELOPED COUNTRIES, AS AT 2003

Canada

In September 2000, the Canadian Government widened the product coverage of market access preferences granted under the Generalized System of Preferences (GSP) for the benefit of LDCs, and since January 2003 the Government has further expanded the market access preferences for these countries. Unlike the previous market access scheme, the new market access scheme improved market access for textiles and clothing, but continues to exclude sensitive agricultural produce, such as dairy products, eggs and poultry. With these exceptions Canada now provides duty-free access under all tariff items for imports from LDCs. The initiative also changed the rules of origin, introducing an innovative cumulative system that allows inputs from all beneficiary countries.

European Union

The EU originally granted two sets of market access preferences to LDCs. It provided relatively far-reaching market access preferences to the group of African, Caribbean and Pacific (ACP) countries, which includes many LDCs, and provided less far-reaching market access to other developing countries, including non-ACP LDCs. The market access for the former was regulated through the Lomé Conventions and is now being regulated through the Cotonou Agreement, while the market access conditions for the latter have been provided in accordance with other GSP schemes. The existence of different market access schemes meant that the ACP LDCs benefited more from better market access conditions than non-ACP LDCs. In 2001, however, the EU introduced the Everything But Arms (EBA) initiative, which has consolidated and improved the market-access preferences for the group of LDCs as a whole. It grants duty-free and quota-free market access to all types of exports from the LDCs, with the permanent exception of arms and ammunition, and a temporary exception for bananas, rice and sugar. Market access restrictions for the latter goods, however, are going to be phased out between 2006 (bananas) and 2009 (rice and sugar). Because of the different initial market access preferences for LDCs to the markets of the EU, ACP LDCs are likely to derive fewer benefits from the introduction of the EBA initiative than non-ACP LDCs. A prime explanatory variable for this low level of utilization are the EU's rules of origin, although rules of origin have already been simplified, allowing for derogations and promoting regional cumulation.

Japan

The GSP scheme of Japan was recently reviewed, and extended for a new decade (until March 2014). During the 2001/2002 fiscal year, the special treatment granted to LDCs was improved by the addition of a number of tariff lines. All exports from LDCs, under the Japanese scheme, are eligible for duty-free entry and exemption from ceiling restrictions for a list of relevant products. In early 2003, Japan further improved its GSP scheme for the benefit of LDCs. While many industrial goods have already benefited from far-reaching market access preferences under the previous scheme, the new scheme has improved market access preferences primarily for agricultural goods and food items, such as prawns and frozen fish fillets.

United States of America

In contrast to other Quad countries, which today provide the same set of market access preferences to LDCs, the United States provides three distinct sets of market access preferences to these countries. One set of market access preferences is granted through the African Growth and Opportunity Act (AGOA) to LDCs in Africa; another set is granted through the LDC GSP scheme to LDCs in Asia; and a third set is granted through the Caribbean Basin Initiative (CBI) to Haiti, the only LDC in the region. The LDC GSP scheme expired in September 2001 but was reauthorized until December 2006. Unlike the LDC GSP scheme, the other two market access schemes have been significantly revised and expanded in recent years, especially where clothing and apparel are concerned. The LDC GSP scheme, for example, excludes sensitive products such as textiles, work gloves, footwear, handbags, luggage, and watches, while AGOA provides preferential market access for many goods that are typically viewed as sensitive, such as watches, electronic articles, steel articles, footwear, handbags, luggage, flat goods, work gloves, leather wearing apparel, and semi-manufactured and manufactured glass products. The enhancements of AGOA concerned mostly textiles and apparel. Knit to shape products were included, the technical definition for merino wool was revised, the origin of yarn under the Special Rule for designated LDCs was clarified, and "hybrid" apparel articles were made eligible for preferences. Another important difference between the LDC GSP scheme and the AGOA scheme is that the United States reviews the list of products that are eligible for the LDC GSP system on an annual basis, but has decided not to review the list of products that are eligible for AGOA treatment with this frequency. A decrease of the frequency of reviews implies an increase in stability and predictability of market access preferences. In short, the differences between the two schemes imply that Asian LDCs have less favorable market access preferences to the US than African LDCs, and that the Asian LDCs are also subjected to a greater degree of instability of market access preferences than African LDCs. AGOA is therefore also referred to as "super GSP". The difference between the market access schemes has important implication for the export and production in textile and clothing, which also need to be viewed in the context of the phasing-out of the Agreement on Textile and Clothing (see box 2 of this chapter).

Source: UNCTAD secretariat compilation, based on WTO (2001a), UNCTAD (2003e), and EU at http://europa.eu.int/comm/trade/miti/devl/eba.htm (12 March 2003).

arrangement with the preference-granting country or countries that have special free trade arrangements with the preference-granting country.[18] In addition, most market access preferences also contain exceptions. Thus Canada maintains restrictions on dairy products, eggs and poultry; Japan continues to maintain restrictions on selected agricultural goods; the United States maintains restrictions particularly on textiles and apparel; and under the European Union's

TABLE 49. OVERVIEW OF OTHER MARKET ACCESS INITIATIVES TARGETING LDC, AS AT 2001

Argentina/Mercosur

In May 2000, Argentina (on behalf of Mercosur) announced that it provided tariff preferences for LDCs under the Global System of Trade Preferences (GSTP) scheme, and following completion of the ratification process for the offers made in the context of the second round of GSTP negotiations, they would be in a position to enhance their preferences.

Australia

Reported liberal existing market access conditions under the Generalized System of Preferences (GSP) scheme. In May 2000, provided duty- and quota-free access on 93.2 per cent of LDC exports to its market. In terms of tariff rates, nearly 84 per cent of tariff lines were duty-free for LDCs and included preferential rates of duty in products of interest, including agriculture, fish, textiles and clothing. In 1997, 98 per cent of LDC exports entered duty-free. Additional duty-free entry granted to South Pacific Forum island countries under SPARTECA (South Pacific Regional Trade and Economic Cooperation Agreement).

Bulgaria

Continued to grant duty- and quota-free access to its market for a wide range of products from LDCs. In 1997, all LDC exports entered duty-free.

Chile

In May 2000, the Government was in the process of evaluating preferential treatment for products originating in LDCs within its legal requirements. It also announced its intention to consider or finalize initiatives of market access for LDCs at the HLM in 1997.

Czech Republic

In May 2000, imports originating in LDCs through its national GSP scheme enjoyed duty-free treatment.

Egypt

Following the WTO High-Level Meeting on Integrated Initiatives for LDCs' Trade Development held in October 1997 (HLM), Egypt through GSTP in 1998 notified tariff reductions at HS 8-digit level, ranging from 10 per cent to 20 per cent of existing applied duties, for 77 products of export interest to LDCs, and duty-free access provided for about 50 products imported into Egypt. In addition, Egypt bound customs duties, with a 10 per cent reduction for industrial products imported from LDCs.

Hong Kong, China

Stated application of duty- and quota-free access on most-favoured-nation (MFN) basis to imports from all sources, including LDCs.

Hungary

All LDC exports enter duty-free and quota-free under existing GSP. Customs Law, 1996, through legal guarantees strengthened predictability of the preferential market access to LDCs. Liberal application of rules of origin requirements.

Iceland

In May 2000, the Government announced its intention of implementing both tariff-free and quota-free treatment for essentially all products originating in LDCs. An appropriate notification would be submitted at the earliest possible convenience. 0This treatment would apply to products of export interest to LDCs, including textiles.

India

Preferences granted under SAPTA — the Preferential Trading Arrangement (SAPTA) of the South Asian Association for Regional Cooperation (SAARC) — to LDC contracting states. In 1997, India granted tariff concessions on 574 tariff lines exclusively for the LDC members of SAARC, and removed quantitative restrictions on 180 lines exclusively in favor of SAARC LDCs. Further, under the existing GSTP, India provided preferential access to seven LDCs, namely Bangladesh, Benin, Guinea, Haiti, Mozambique, Sudan and the United Republic of Tanzania. Under the Bangkok Agreement, Bangladesh was given preferential access, and Myanmar and Nepal had preferential access to India under bilateral agreements.

Indonesia

Announced intention to consider initiatives to improve market access for LDCs at the HLM in 1997.

Korea, Republic of

In January 2000, the Republic of Korea notified preferential duty-free access on 80 items (HS 6-digit) originating from and of major export interest to LDCs effective from 1 January 2000. In May 2000, it indicated that it would consider further expanding its existing preferential tariff regime for LDCs.

Malaysia

Announced intention to consider initiatives to improve market access for LDCs at the HLM in 1997.

Mauritius

Notified effective September 1998, duty-free access for five tariff lines originating from LDCs. The products comprise certain crustaceans; guavas, mangoes, mangosteens; axes and billhooks; handsaws and files.

Table 49 (contd.)

Morocco

Proposed preferential access for African LDCs at the HLM in 1997.

New Zealand

New Zealand in November 2000, notified its decision to offer duty- and quota-free access to all imports from LDCs effective from 1 July 2001. Prior to this, in 1999, 96.7 per cent of its tariff lines and 99.3 per cent of its imports from LDCs entered duty-free.

Norway

Amendments and improvements to Norway's GSP scheme were notified in 2000-01. It accords duty- and quota-free access to all industrial and agricultural imports from LDCs covered by the GSP programme, with the exception of flour, grains and feeding stuffs; these products are given a preferential margin of 30 percent within indicative tariff ceilings. Rules-of-origin requirements have been revised and progressively simplified. Following harmonization in the application of rules of origin with the EC and Switzerland, from 1 March 1998, bilateral cumulation was permitted and the possibility of future diagonal cumulation of origin was being considered. At the HLM, Norway announced that it had, on an MFN basis, accelerated its Uruguay Round tariff cuts on agricultural products by implementing them from 1 January 1995 instead of 1999. Similarly, it had phased out almost all restrictions on textiles and clothing by 1997–98 instead of 2004.

Poland

Since 1990, Poland has applied preferential treatment for products originating from LDCs and in May 2000, it announced that it was examining autonomous improvements to the existing preferential system with a view to providing duty-free and quota-free market access for essentially all products originating in LDCs, in conformity with national legislation and international agreements.

Singapore

Singapore notified at the HLM duty-free treatment on 107 items (HS 6 digit) of export interest to LDCs in addition to the almost duty-free regime accorded on an MFN basis.

Slovakia

Slovak provided duty-and quota-free access for all imports from LDCs through its GSP. It confirmed in May 2000 that this system would be maintained in the future.

Slovenia

In May 2000, Slovenia announced that it was prepared to provide tariff and quota-free access for essentially all products originating in LDCs, independent of WTO membership, consistent with its domestic requirements and international agreements under its newly established preferential scheme. The Government took this general decision which would be confirmed through decrees.

Switzerland

Switzerland had undertaken a revision of its preferential tariff schedule, and since its entry into force on 1 March 1997, LDCs were able to benefit from zero tariffs for all industrial and most agricultural products. Some 98 per cent of LDC products entered Switzerland duty-free under its notified preferential scheme and improvements thereof. Rules of origin for goods benefiting from preferential access were also simplified. Switzerland harmonized its regulations with the European Union and in the near future materials originating from Switzerland but also from the European Union and Norway would enjoy the right of cumulation treatment. Under the new rules of origin regional economic groupings in developing countries also enjoyed the right of cumulation treatment.

Thailand

At the HLM in 1997, it announced tariff preferences on 74 product groups (at the 6-digit HS level), through which some products would be exempted from import duty and others would be given a margin of preference of 20 per cent from the applied rates. This would be subject to an annual review process.

Turkey

Notified additional preferential tariff rates for imports from LDCs effective from 1 January 1998. These unilateral preferential rates apply to 556 products at the HS 12-digit level. All these products except coffee are granted duty-free access.

Source: UNCTAD secretariat compilation, based on WTO (2001a).

Everything But Arms Initiative (EBA), remaining import restrictions will be phased out between 2006 (bananas) and 2009 (rice and sugar).

(b) The effective benefits of preferential market access

It is still too early to assess the effectiveness of recent preferential market access initiatives for the LDCs. Table 50 shows that the share of Quad countries' imports from LDCs has actually increased slightly since 1999, and that between 2001 and 2002 the imports originating in the LDCs increased by more than the imports originating in other developing countries. While it is possible that the increasing market share of the LDCs in Quad markets may be at least partially attributable to market access preferences granted to the LDCs, it needs to be emphasized that there is not a perfect match between the year in which the exports of least developed countries to the different Quad countries increased and the year in which the Quad countries introduced market access initiatives for least developed countries. The upturn in Canada, where the LDC market share jumped by 35 per cent in 2001, and in Japan, where it jumped by 39 per cent in 2002, suggests that each of these country's initiatives may be having concrete effects. But these seemingly large jumps are from a very low base. The LDC share of imports to Canada and to Japan was 0.18 and 0.44 in 2002, respectively.

It is still too early to assess the effectiveness of recent preferential market access initiatives for the LDCs.

The table shows that unlike the share of LDC exports to Canada and Japan, the share of LDC exports to the EU has not increased much, and LDC exports to the United States have even declined. One reason for the weak increase in market share in the EU is that the Everything But Arms Initiative was associated with only a limited improvement in market access conditions. Research has shown that the greatest benefits to the LDCs from the Initiative are likely to be related to products which are currently excluded, notably sugar (Cernat, Laird and Turrini, 2002). The Initiative has had an immense impact in terms of stimulating discussion of practical and innovative ways to increase market access for LDCs. But the actual commercial value-added to LDC producers, given the exclusion of key products, could only be small, given that, even before the Initiative was introduced, the EU already had a relatively open trade regime for LDCs. Thus, for example, it has been estimated that in 1997, before the Initiatives, only 11 out of 502 items exported to the EU from all LDCs as a group with a value of more than $500,000 were not eligible for duty- and quota-free access (Stevens and Kennan, 2001). Moreover, in contrast to Canada and the United States, where 30 per cent and 15 per cent of LDCs' imports faced tariff peaks of 15 per cent plus in 1999, before the Initiative only 2.8 per cent of LDC imports to the EU faced such tariff peaks (Hoekman, Ng and Olarreaga, 2001). Against this background it is perhaps not surprising that in 2001, only "three one-hundredths of one per cent of total LDC exports to the EU" entered under the EBA (Brenton, 2003: 6).

Unlike the share of LDC exports to Canada and Japan, the share of LDC exports to the EU has not increased much, and LDC exports to the United States have even declined.

TABLE 50. QUAD COUNTRIES' MERCHANDISE IMPORTS FROM LDCS AND OTHER DEVELOPING COUNTRIES, SELECTED YEARS 1982–2002

Importer/ reporter	**Exporter/ partner**	**% of total imports**			**% change over previous year**				
		1982	*1992*	*2002*	*1998*	*1999*	*2000*	*2001*	*2002*
Canada	Least developed countries	0.1	0.2	0.2	-2.7	-12.5	12.6	35.3	11.3
	Other developing countries	12.4	12.5	17.4	-3.0	-4.5	12.0	2.1	7.4
European Union	Least developed countries	0.8	0.5	0.6	-3.0	-24.2	9.5	14.0	1.9
	Other developing countries	21.2	13.9	16.5	-0.2	4.4	11.5	-1.4	-1.3
Japan	Least developed countries	0.7	0.5	0.4	-4.9	-1.1	-1.1	-3.1	39.2
	Other developing countries	62.4	49.7	59.4	-1.3	1.5	9.3	0.4	1.0
United States	Least developed countries	1.0	0.8	0.8	0.6	-14.8	14.5	7.5	-4.1
	Other developing countries	41.3	40.3	47.2	-4.4	6.2	4.2	-0.5	2.9

Source: UNCTAD secretariat estimates, based on IMF, *Directions of Trade 2003*.

Note: In September 2000 the Canadian Government widened the product coverage of its LDC GSP scheme; in 2001 the EU introduced the EBA; during 2001/2002, the Japanese Government widened the product coverage of its LDC GSP scheme; and in 2000 the United States has introduced the new AGOA initiative to the benefit of selected sub-Saharan African countries. In 2002 the United States further enhanced AGOA, and in 2003 both Canada and Japan further enhanced their LDC GSP schemes.

The African Growth and Opportunity Act (AGOA) has apparently had only a limited impact on the overall share of the LDCs in US imports. But it had positive effects in some African LDCs, notably Lesotho and Madagascar (UNCTAD, 2003e). In 2002, Lesotho's exports to the United States that were covered by AGOA totalled $318 million, representing 99 per cent of that country's total exports to the United States and in the same year Madagascar's exports to the United States that entered under AGOA stipulations were valued at $79.7 million, representing 37 per cent of the country's export to the United States (Office of the US Trade Representative, 2003). In both instances, the increase in merchandise exports to the United States was closely associated with an increase in exports from the textiles and garments sector. The preferential market access granted for textiles and garments exports also triggered significant investments in the textiles and garments industry.

Countries must have at least a minimum base of production and supply capabilities to take advantage of market access preferences.

These two countries illustrate the potential positive effects of market access preferences. But they also show that countries must have at least a minimum base of production and supply capabilities to take advantage of such preferences. Improved market access is commercially meaningless if the LDCs cannot produce in the sectors in which they have preferential treatment and if they lack the marketing skills, information and connections to convert market access into market entry. Moreover, unless the new production stimulated by the preferences also strengthens the development of national technological and entrepreneurial capabilities through learning by doing, the sustainability of the development processes may be questionable. In this regard, experience with the Caribbean Basin Initiative has suggested that the fragmented type of industrialization process which follows from the nature of the preferences may slow down the type of technological capacity-building and learning which are necessary for economic sustainability (Mortimore, 1999).

(c) The problem of underutilization of market access preferences[19]

A particular problem affecting all preferential market access schemes is that utilization of preferences is low. This is apparent in estimates of the utilization rate, defined as the ratio between total imports actually receiving preferences and the total imports eligible for preferences in any given market. Table 51 shows that in 2001 only 68.5 per cent of total imports from LDCs eligible to enter Quad markets at a preferential duty rate actually did so. The rest paid MFN duties. The utilization rate increased by 20 percentage points between 1994 and 2001. But this was mainly based on an increase in the utilization rate of the United States, which was driven by an increase in oil. If oil imports are excluded, the utilization rate in the United States drops from 95.8 per cent to 47 per cent in 2001.

A particular problem affecting all preferential market access schemes is that the utilization of preferences is low.

The low utilization ratios are mainly the result of the insignificant magnitude of the potential commercial benefits; the lack of technical knowledge, human resources and institutional capacity to take advantage of preferential arrangements, which require in-depth knowledge of national tariff systems in various preference-giving countries; and conditions attached to the realization of the potential benefits of the preferences. The effective benefits of market access preferences provided by Quad countries are being significantly limited also by their unpredictability and by non-tariff barriers, notably rules of origin and product standards.

Investors in preference-receiving countries may be hesitant to increase their investments in the Quad countries if preference-granting countries do not make clear commitments with respect to the period during which the market access schemes themselves remain effective, and/or if preference-granting countries do

TABLE 51. EFFECTIVENESS OF MARKET ACCESS PREFERENCES[a] OF QUAD COUNTRIES FOR LDCS AS MEASURED BY THE IMPORT COVERAGE, THE UTILIZATION RATE AND THE UTILITY RATE, 1994–2001

Country/ country group	Year	Total imports (a)	Dutiable imports (b)	Imports eligible for GSP preferences (c)	Imports receiving GSP preferences (d)	Imports covered by GSP scheme (c)/(b)	Utilization rate of GSP scheme (d)/(c)	Utility rate of GSP scheme (d)/(a)
		($ million)				(%)		
Quad	1994	5 347.0	3 917.3	2 071.0	999.0	52.9	48.2	18.7
	1995	6 087.8	4 706.1	2 564.3	1 361.2	54.5	53.1	22.4
	1996	9 956.3	7 451.1	2 985.0	1 517.9	40.1	50.9	15.2
	1997	10 634.1	8 163.4	5 923.1	1 788.2	72.6	30.2	16.8
	1998	9 795.7	7 915.1	5 564.2	2 704.5	70.3	48.6	27.6
	1999	10 486.5	8 950.4	5 869.3	3 487.5	65.6	59.4	33.3
	2000	13 359.2	11 715.5	7 836.0	4 990.2	66.9	63.7	37.4
	2001	12 838.2	11 167.1	7 185.5	4 919.9	64.3	68.5	38.3
Canada	1994	..	..	..	..	..	...	..
	1995	175.9	41.3	6.4	4.1	15.5	64.1	2.3
	1996	336.9	34.5	6.3	2.9	18.3	46.0	0.9
	1997	205.3	47.3	8.6	4.7	18.2	54.7	2.3
	1998	256.0	92.1	9.8	5.8	10.6	59.2	2.3
	1999	154.6	60.7	8.2	4.9	13.5	59.8	3.2
	2000	180.1	75.9	9.9	7.2	13.0	72.7	4.0
	2001	243.2	94.6	11.4	8.0	12.1	70.2	3.3
EU	1994	2 471.2	1 823.4	1 791.7	748.1	98.3	41.8	30.3
	1995	2 814.6	2 277.8	2 246.3	1 077.6	98.6	48.0	38.3
	1996	3 219.0	2 580.3	2 520.1	1 196.8	97.7	47.5	37.2
	1997	3 614.8	2 926.3	2 888.8	770.8	98.7	26.7	21.3
	1998	3 519.4	2 932.1	2 908.0	761.8	99.2	26.2	21.6
	1999	3 562.2	3 100.9	3 075.2	1 035.0	99.2	33.7	29.1
	2000	4 247.1	3 671.7	3 633.6	1 499.5	99.0	41.3	35.3
	2001	4 372.4	3 958.1	3 935.7	1 847.4	99.4	46.9	42.3
Japan	1994	1 120.5	695.5	211.2	200.5	30.4	94.9	17.9
	1995	1 309.8	912.7	241.9	230.1	26.5	95.1	17.6
	1996	1 504.3	939.8	388.9	269.9	41.4	69.4	17.9
	1997	1 204.9	757.3	306.3	222.1	40.4	72.5	18.4
	1998	1 045.4	643.8	364.0	189.9	56.5	52.2	18.2
	1999	989.0	679.6	366.2	231.9	53.9	63.3	23.4
	2000	1 236.5	881.3	615.3	236.0	69.8	38.4	19.1
	2001	1 001.3	398.1	278.3	228.4	69.9	82.1	22.8
USA	1994	1 755.3	1 398.4	68.1	50.4	4.9	74.0	2.9
	1995	1 787.5	1 474.3	69.7	49.4	4.7	70.9	2.8
	1996	4 896.1	3 896.5	69.7	48.3	1.8	69.3	1.0
	1997	5 609.1	4 432.5	2 719.4	790.6	61.4	29.1	14.1
	1998	4 974.9	4 247.1	2 282.4	1 747.0	53.7	76.5	35.1
	1999	5 780.7	5 109.2	2 419.7	2 215.7	47.4	91.6	38.3
	2000	7 695.5	7 086.6	3 577.2	3 247.5	50.5	90.8	42.2
	2001	7 221.3	6 716.3	2 960.1	2 836.1	44.1	95.8	39.3

Source: UNCTAD (2003e).

Note: Values for Quad countries for 1995 exclude Canada; figures are based on member State notifications; figures for Japan are based on fiscal years; figures for the European Union for 1994–1995 exclude Austria, Finland and Sweden.

a Granted through Generalized System of Preferences (GSP).

not make clear commitments with respect to the products and countries that are covered by the market access preferences. While all Quad initiatives make general commitments with respect to products and countries that are covered by those initiatives, all Quad countries also maintain the option to review the list of products and countries that are actually eligible for the initiatives or to introduce ad hoc safeguards. While the list of products is generally reviewed in the light of their economic sensitivity, the list of eligible countries is determined on the basis of non-trade-related concerns.

Rules of origin are rightly regarded as a predominant cause of the under-utilization of trade preferences.

Rules of origin are rightly regarded as a predominant cause of the under-utilization of trade preferences (e.g. UNCTAD, 2001b, 2003e; Mattoo, Roy and, Subramania, 2002). As preferences are granted unilaterally and non-contractually, preference-giving countries have consistently expressed the view that they ought to be free to decide on the rules of origin, although they have indicated their willingness to hear the views of the beneficiary countries. Preference-giving countries tend to feel that the process of harmonization of rules of origin can be limited to certain practical aspects, such as certification, control, verification, sanctions and mutual cooperation. Even with regard to these aspects, progress has been very limited, as basic requirements and the rationale for rules of origin have remained almost unchanged for nearly 30 years. Implementation difficulties among preference-receiving countries are particularly related to the obligation to devise and operate an accounting system that is conceptually and operationally different from national legal requirements that enterprises are often unable to meet.[20]

Overcoming non-tariff barriers to trade and complying with product standards — be they related to technical barriers to trade (TBT) or sanitary and phytosanitary standards (SPS) — constitute a formidable if not more challenging market access problem than tariff barriers. The inability to adhere to strict health or environmental measures (e.g. pesticides residue levels, packaging requirements, eco-labeling) is likely to cause the loss of shares in the market in question, and also, unlike tariff protection, may damage prospects for penetrating other markets (UNCTAD, 2002b, 2002c). LDCs' benefits from preferential market access may therefore be seriously impaired by non-tariff barriers to trade (NTBs). This issue is discussed in more detail in relation to fish exports in box 16.

Priorities for improving international support measures targeted at the LDCs have been a significant issue at the three meetings of trade representatives of LDCs held in 1999, 2001 and 2003.

E. Strengthening international support measures targeted at the LDCs

Priorities for improving international support measures targeted at the LDCs have been a significant issue at the three meetings of trade representatives of LDCs held in Sun City in 1999, Zanzibar in 2001 and Dhaka in 2003 (WTO, 1999a, 2001b, 2003b). The outcomes of these meetings, which are summarized in the annex to this chapter, provide the best basis for what the LDCs themselves see as priorities for improving the current situation with regard to international support measures for the LDCs in the field of trade.

1. Strengthening special and differential treatment

At present, the effectiveness of special and differential treatment appears to be undermined by the fact that a good number of special and differential treatment provisions are of a non-binding nature for the member States of the

Box 16. Negative effects of environmental barriers on seafood exports

LDCs face significant capacity constraints in meeting stringent technical standards as well as sanitary and phytosanitary measures and environmental requirements. These include a lack of infrastructure, such as internationally accredited and recognized laboratories with advanced testing equipment; poor legislative capacity; limited skills and training; and a lack of engagement in international standard-setting processes that is largely attributable to the small size of these countries' scientific and business communities and to limited government resources. These conditions and measures add to the insecurity and unpredictability of market access in the preference-giving countries and thus to the unattractiveness of the affected country to export-oriented FDI. At present, none of the major initiatives such as AGOA or EBA incorporate capacity building measures to meet standards, which would be critical for enhancing the utilization of the preferences.

The export of fish and seafood – which is amongst the most important exports of the group of least developed countries– is particularly sensitive to alterations in sanitary and phytosanitary standards. The import restrictions and bans imposed by the EU in the 1997-99 period on fishery products exports from Uganda, Mozambique and Tanzania on grounds of cholera and/or fish poisoning from presence of pesticides is illustrative of how exports of LDCs can be affected by these measures. The economic effects of such measures on the affected countries could be devastating. For instance in the case of Uganda the loss from the ban of fish exports in terms of earnings has been estimated at $36.9 million.[1]

Another example for the significant loss that may arise due to import restrictions and bans is provided by Bangladesh's shrimp industry. Shrimps are one of the most important primary commodity exports of Bangladesh, and the shrimp industry is an important employer in the country. A study by the Consumer Unity and Trust Society (CUTS) suggests that about 1.2 million people are directly employed in the shrimp industry and that an additional 11 million people are employed in the fisheries industry. When the European Union banned shrimp imports from Bangladesh between August and December of 1997, the shrimp exports of Bangladesh to the European Union dropped from $65.1 million to zero, but at the same time the shrimp exports of Bangladesh to the other major markets increased by a few million dollars, largely compensating for the loss (see box table 1) (CUTS, 2002).

Box Table 2. Estimated net effects on the shrimp exporting industry of Bangladesh associated with the import ban on shrimp from the European Union in late 1997

($ millions)

Import region	Imports without ban	Imports with ban	Net effects
United States	73.5	102.2	28.7
European Union	65.1	0.0	-65.1
Japan	22.7	26.1	3.4
All others	7.5	25.8	18.3
Total	**168.8**	**154.1**	**-14.7**

Source: Cato and Lima dos Santos (1998), in CUTS (2002).

[1] For further information, see UNCTAD's Trade, Environment and Development website: http://r0.unctad.org/trade_env/index.htm

WTO, and by the fact that the right to other such provisions is undermined by the process of accession to the WTO, which requires least developed countries to negotiate all trade rules, including all special and differential treatment provisions, on an individual basis. In order to increase the utility and effectiveness of the different provisions of special and differential treatment, it therefore appears important that the provisions be turned into rights for least developed countries and obligations for other countries, and that they be granted in an automatic manner to all least developed countries that decide to become members of the multilateral trading system. It is also vital that they be well targeted with respect to countries and to problems, and that they be actually associated with corresponding actions — in other words, more than mere statements of intent. Otherwise, they will not be effective and will not achieve their objectives.

At their different meetings, the trade representatives of the LDCs reiterated their request that special and differential treatment provided within the multilateral trading system be better targeted to their needs and related to their level of development. Moreover, at the last meeting they identified a number of major priorities.

At present, the effectiveness of special and differential treatment appears to be undermined by the fact that a good number of special and differential treatment provisions are of a non-binding nature for the member States of the WTO, and by the fact that the right to other such provisions is undermined by the process of accession to the WTO.

Firstly, the Dhaka Declaration emphasizes that WTO members ought to expeditiously implement the guidelines for accession adopted by the General Council of the WTO, and with respect to implementation issues, it emphasized that the WTO members ought to address the issues highlighted in the Ministerial Decision on Implementation-related Issues and Concerns adopted in the context of the WTO's Doha conference. All implementation issues that are not being dealt with in this decision are supposed to become an integral part of the subsequent work programme. Furthermore, the least developed countries requested that they not be forced to make any commitment that is not compatible with their development status.

Secondly, the Dhaka Declaration requested that the LDCs be exempt from the application of safeguards and anti-dumping measures, but it also emphasized that the LDCs should not be subjected to the application of any other contingency measure. In addition, the Dhaka Declaration requested that the LDCs be given the right to use special safeguards and anti-dumping measures so as to prevent severe damage to their domestic economies, especially their agricultural sectors, and to protect themselves against unfair competition from foreign producers, whose international competitiveness is artificially enhanced through various subsidies.

2. Strengthening market access preferences

The LDCs also encouraged developed WTO members to increase the stability and predictability of market access preferences by making firm commitments to unrestricted market access for all goods.

The trade representatives of the LDCs have welcomed recent improvements by Quad countries in market access preferences for least developed countries. But they have requested their development partners to further expand market access preferences and to ensure complete duty-free and quota-free market access. The LDCs also encouraged developed WTO members to increase the stability and predictability of market access preferences by making firm commitments to unrestricted market access for all goods. Complete duty-free and quota-free access implies that the products which are currently excluded from the preferential market access should be included. But in addition to market access for merchandise goods, the least developed countries also urged better market access conditions for services. They requested in particular that the developed countries not restrict market access in areas where the movement of natural persons is concerned (i.e. mode 4 on service trade). Finally, they requested developed countries to eliminate all trade-distorting agricultural support measures that negatively affect their export capacities.

Such measures, together with reductions in non-tariff barriers, particularly those related to rules of origin, and also assistance in meeting sanitary and phytosanitary standards, are likely to considerably increase the effective benefits of preferential market access in the short run. But as progress is made towards multilateral trade liberalization, the benefits of preferential market access will slowly be eroded.

In this context, the question of compensation for the loss of preferences has arisen.[21] But there is in fact a larger and more important issue. The provision of market access preferences as an approach to development support was probably the main new theme in the United Nations Programme of Action for the Least Developed Countries for the Decade 2001–2010. As multilateral liberalization occurs, there is not simply erosion of preferences, but also the weakening of the major market-based mechanism through which the LDCs are supported by their development partners. It is important that there be such market-based mechanisms, alongside government-to-government aid and debt relief, for international support for the LDCs. The big and important issue, therefore, is: what might complement and enhance preferential market access as a market-based mechanism to support the LDCs as multilateral trade liberalization occurs?

3. Developing supply-side preferences

A logical shift that can be made is to think not only of market access preferences but also, simultaneously, of what might be called "supply-side preferences". The seed of this idea is apparent in proposals that preferential market access for the LDCs be deepened through measures to enhance the synergies between trade and investment. Thus, as Cline (2004, chapter 2: 29) has put it, "if efforts are to be undertaken to enhance further market access as a means of reducing global poverty, these should be accompanied by measures that help spur direct investment in the countries in question". Similarly, the WTO in its assessment of market access preferences granted to least developed countries has come to the conclusion that "taken together, these results imply that a broad approach is required to assist LDCs improve their export performance. This approach needs to be complemented with efforts to improve supply capacities of LDCs" (WTO, 2002b: 22). Such deepening of market access preferences would improve their efficacy. But as multilateral trade liberalization occurs and as regional trade arrangements expand, market access preferences will inevitably erode. It is important to make the best use of market access preferences while they are available as a policy instrument, but it is equally important to complement market access preferences though other instruments that help the LDCs overcome their marginalization. Supply-side preferences could provide the basis for a new generation of international support measures which would promote trade and development through enhanced supply capabilities in weak countries.

A logical shift that can be made is to think not only of market access preferences but also, simultaneously, of what might be called "supply-side preferences".

The idea of supply-side preferences needs to be further elaborated. But they may be envisaged in three particular areas: technology, FDI and finance. With regard to technology, it is notable that Article 66.2 of the TRIPS urges "Developed country Members to provide incentives to enterprises and institutions in their territories for purpose of encouraging transfer of technology to LDCs". Today, most OECD countries have adopted "home country measures" to promote both technology transfer and foreign direct investment in developing countries. The measures taken by advanced countries to promote technology transfer include advisory services, training and education, promoting the use of specific technology, research and development, and partnerships (table 52). The measures taken to promote FDI include financial support in the form of equity and loans, and the provision of fiscal incentives and insurance. Other forms of assistance concentrate on the dissemination of information about potential investors and support in matchmaking (see table 53). There are also various corporate taxation measures which might be used to encourage FDI. These include reduction of the corporate tax rate to very low levels in specific sectors (i.e. those that are most cost-effective) in such a way as to attract FDI to poor countries (Margalioth, 2003). A more detailed account of different home country measures is to be found in Krut and Moretz (1999).

A number of innovative suggestions have also been made to mitigate risks and encourage FDI in the LDCs. The Ministry of Foreign Affairs of Sweden has commissioned a study looking into different types of risks that discourage investments in LDCs and different types of public and private measures of how these risks can be mitigated (Ministry of Foreign Affairs of Sweden, 2003). Immediate actions in this area suggested by Mistry and Olesen (2003) include:

- Increased funding for multilateral risk insurance agencies in order to partially cover the non-commercial risk in the LDCs;

TABLE 52. EXAMPLES OF MAIN TYPES OF EXISTING HOME COUNTRY MEASURES ENCOURAGING TRANSFER OF TECHNOLOGY

	Partnerships	**Promoting the use of specific technology**	**Provision of expertise**		**Research and development**
			Advisory services	*Training and education*	
European Union	x	x	x	-	x
Australia	-	-	x	x	-
Austria	-	-	-	-	x
Belgium	x	-	-	x	-
Canada	-	x	x	x	x
Denmark	x	-	x	-	x
Finland	-	x	-	-	-
France	x	-	x	x	x
Germany	-	-	x	-	-
Japan	-	-	x	-	-
Netherlands	-	x	x	-	-
New Zealand	x	-	x	-	-
Norway	x	x	x	x	-
Spain	x	-	x	-	-
Sweden	-	-	x	x	x
Switzerland	-	x	x	-	-
United Kingdom	x	x	-	-	x
United States	x	x	x	x	-

Source: UNCTAD (2000b: 11).

TABLE 53. OUTWARD FDI PROMOTION PROGRAMMES OF SELECTED OECD MEMBER COUNTRIES

	Information and technical assistance					**Financial**		**Fiscal**	**Insurance**
	Information	*Match making*	*Missions*	*Feasibility studies*	*Project & start-up*	*Equity*	*Loans*	*Tax sparing*	*Guarantees*
Australia	x	x	x	x	-	-	-	x	-
Austria	x	-	-	-	-	x	x	-	x
Belgium	x	x	-	-	-	x	x	-	x
Canada	x	x	x	x	x	x	-	x	-
Denmark	-	-	-	-	-	x	x	x	x
Finland	x	-	x	x	x	x	x	-	x
France	x	-	-	x	x	x	x	-	-
Germany	x	x	x	x	x	x	x	x	x
Italy	x	x	x	x	x	x	x	-	x
Japan	x	x	x	x	x	x	x	x	x
Netherlands	x	x	x	x	-	x	x	x	x
New Zealand	x	x	-	x	-	x	-	x	-
Norway	x	x	x	x	x	-	x	-	x
Portugal	x	x	x	-	-	-	x	-	-
Spain	x	x	x	-	-	x	x	x	x
Sweden	x	x	-	x	-	x	x	x	-
Switzerland	x	x	x	x	x	x	x	-	x
United Kingdom	-	-	-	-	-	x	x	x	x
United States	x	x	x	x	x	-	x	-	x

Source: UNCTAD (2000b: 9).

- Standard non-commercial risk insurance policies for LDCs;
- Pooling the capacity of non-commercial risk insurers from developed countries in specific public–private partnerships in developing countries. The development of private–public partnerships should be encouraged between developed countries and those developing countries that are becoming a major source of FDI in LDCs (e.g. South Africa in Africa);
- Project-related subsidies to cover non-commercial risks;
- Full or large partial tax credits, and rebates for the equity invested by home country companies in LDCs against their tax liabilities in their home countries.

A number of innovative suggestions have also been made to mitigate risks and encourage FDI in the LDCs.

In elaborating such measures it is important that development-friendly FDI be encouraged. To that end, Te Velde (2002), for instance, has suggested the introduction of a global business linkage fund that is supposed to strengthen linkages between transnational corporations and local small and medium-sized enterprises.

Finally, with regard to finance, a critical problem is to enable both foreign and domestic investors to gain access to concessional loans and with long periods of amortization period credit. The Commonwealth Secretariat is working on a practical proposal in this area (see Hughes and Brewster, 2002).

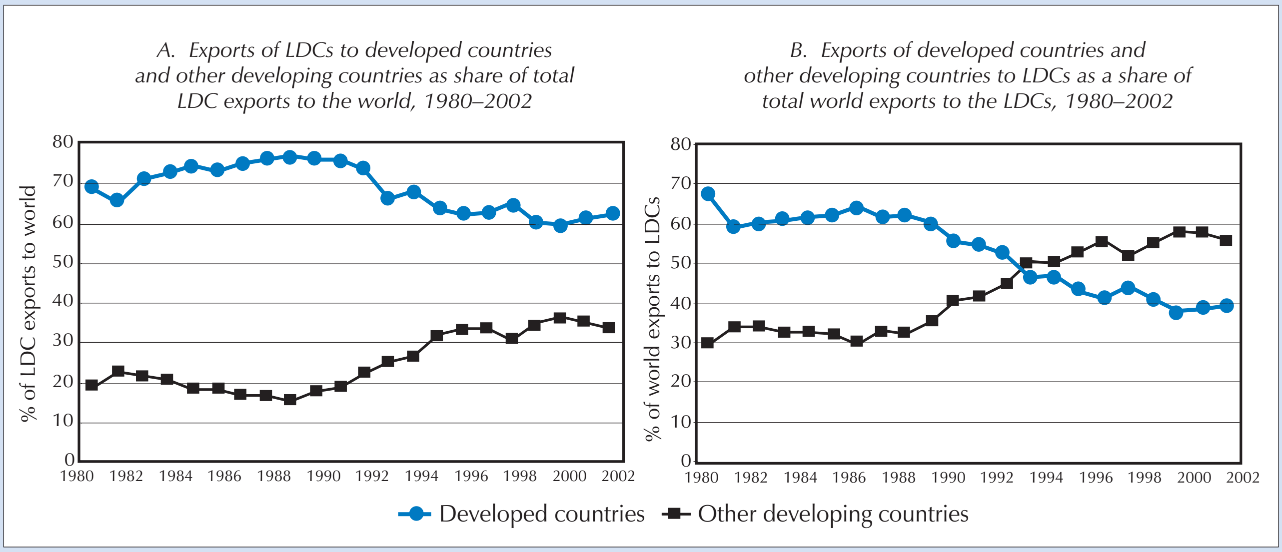
F. Enhanced South–South cooperation in the field of trade

Enhanced South–South cooperation in the field of trade has an important role to play as a complement to broad system-wide policies and special international support measures for the LDCs in international policies to enhance the effectiveness of trade as a mechanism for poverty reduction. Indeed, there are good reasons to believe that South–South cooperation is becoming increasingly important in policies to link international trade with poverty reduction in the LDCs.

South–South cooperation is becoming increasingly important in policies to link international trade with poverty reduction in the LDCs.

The basic reason why South–South cooperation is becoming increasingly important is that there was a major shift in the geographical direction of the LDCs' trade in the 1990s. On the one hand, the LDCs began to acquire a greater proportion of their total merchandise imports from other developing countries. On the other hand, they began to ship a greater proportion of their total merchandise exports to other developing countries. But this has not been happening in a totally balanced way. As chart 40 shows, the geographical pattern of trade of the LDCs changed little between 1980 and 1989. But between 1989 and 1997 the share of other developing countries in LDC imports rose from 32 per cent to 56 per cent, which is the level at which it was in 2002. Over the same period, the share of LDC exports going to other developing countries rose also, but more slowly, from 15 per cent in 1989 to 34 per cent in 1997, which is also the level at which it was in 2002. As South–South trade has gained in importance, the developed countries have lost importance as a source of the merchandise imports of the LDCs. About 67 per cent of LDC imports originated in developed countries in 1980, but by 2002 the figure was only 39 per cent. But as a destination for LDC exports, developed country markets have retained their importance. Their share of total LDC exports fell only from 69 per cent in 1980 to 62 per cent in 2002, partly because of the decline in LDC exports to former socialist countries.

CHART 40. EXPORTS OF DIFFERENT COUNTRY GROUPS TO DIFFERENT COUNTRY GROUPS, 1980–2002



Source: UNCTAD secretariat estimates, based on IMF, *Direction of Trade 2003*.

The changes are such that the share of LDCs in the imports of other developing countries was by 2002, despite the progress in the 1990s, 10 per cent less than it was in 1980 (see chart 41). In contrast, the share of other developing countries in the total imports of LDCs was 82 per cent higher in 2002 than in 1980. In relative terms, the LDC share of the imports of other developing countries fell from 0.73 per cent in 1980 to 0.66 per cent in 2002. In absolute terms, the trade balance between LDCs and other developing countries was $15.6 billion in 2002, compared with $5.5 billion in 1990 and $2.2 billion in 1980 in favour of other developing countries.

There was a major shift in the geographical direction of the LDCs' trade in the 1990s.

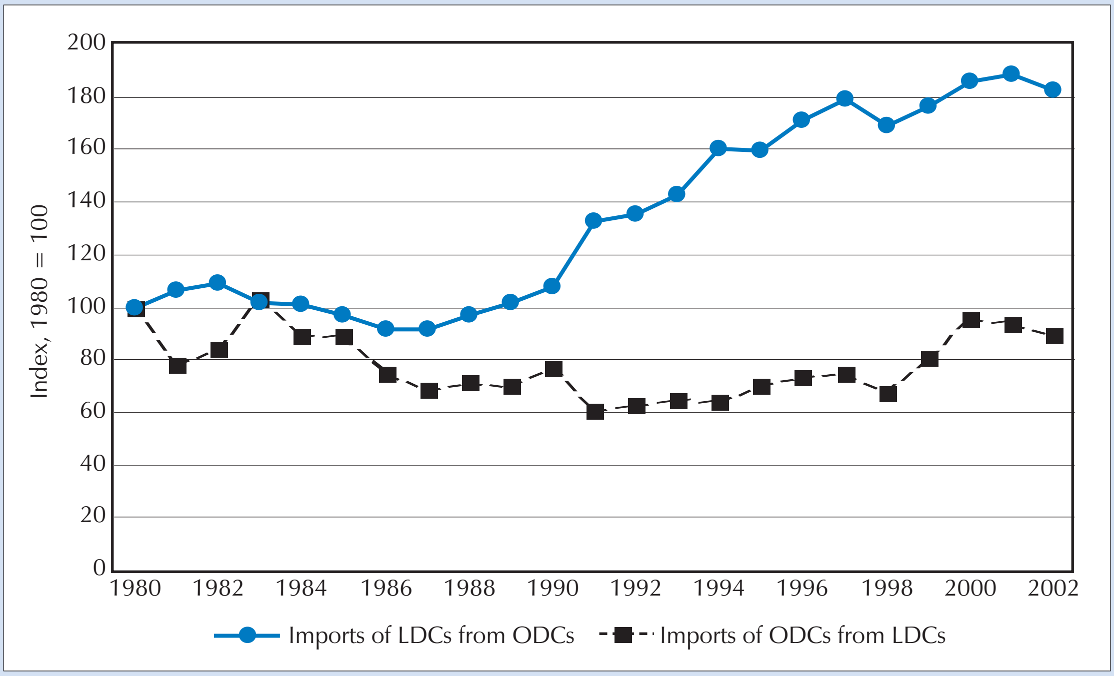
As table 54 shows, China, Taiwan Province of China, the Republic of Korea, Singapore, South Africa, Thailand, India, Côte d'Ivoire, Indonesia, Malaysia, Kenya and Brazil were all amongst the largest exporters to the LDCs during the period 1999–2001. These economies are also amongst the top importers from LDCs. But in all cases the LDCs export less to the other developing countries than they import from other developing countries.

There is also an interesting difference between African and Asian LDCs in terms of their integration with other developing countries in their respective regions. The share of the exports of African LDCs going to other African countries has remained low since the early 1980s, fluctuating between 7 and 10 per cent of total LDC exports. The share of the exports of Asian LDCs going to developing Asia has been consistently higher. Between 1980–1982 and 2000–2002, it has increased from 38 per cent to 41 per cent of their total merchandise exports. This pattern of trade suggests that the Asian LDCs have been able to link into the growth processes of rapidly growing Asian newly industrializing economies.

The evolving pattern of trade partly reflects the pattern of market access barriers that the LDCs face in other developing countries. The situation is complicated in this regard. Most important developing country trading partners of the LDCs have granted market access preferences to the LDCs (see table 49 above). Moreover, almost all the LDCs, with the exception of Afghanistan, Kiribati, the Solomon Islands, Tuvalu and Vanuatu, are members of some kind of customs union or free trade arrangement (table 55).[22] Through these arrangements, the LDCs receive reciprocal or preferential market access. India,

CHART 41. IMPORTS OF LDCS FROM OTHER DEVELOPING COUNTRIES (ODCS) AND IMPORTS OF OTHER DEVELOPING COUNTRIES FROM LDCS AS SHARE OF THEIR TOTAL IMPORTS RESPECTIVELY,[a] 1980–2002

(Index, 1980 = 100)



Source: UNCTAD secretariat estimates, based on IMF, *Direction of Trade 2003*.
a Imports are merchandise imports.

for example, provides preferential market access for the LDC members of SAARC. However, there is a general tendency for LDCs' exports to face higher tariffs in developing country markets than in developed country markets.

Table 56 summarizes some data on this phenomenon. It is clear that despite the preferences, Brazil, China, India, the Republic of Korea, South Africa and Thailand, which are all important for the LDCs, face higher tariffs there. The increasing imbalance in the trade relations between LDCs and other developing countries is likely to reflect the more extensive process of trade liberalization undertaken in the LDCs in the framework of structural adjustment programmes, which has resulted in significantly improved market access in the LDCs for both developed countries and other developing countries.

Most important developing country trading partners of the LDCs have granted market access preferences to the LDCs... However, there is a general tendency for LDCs' exports to face higher tariffs in developing country markets than in developed country markets.

Linking into the growth process of more advanced developing countries can offer important trading opportunities for the LDCs. Such linkages can play a key role for LDCs in linking into global growth and serve as a stepping stone for learning how to export. The enhanced development of the LDCs will also increase market opportunities in the more advanced developing countries. There are also opportunities for trade–investment linkages which could also be mutually beneficial. FDI by other developing countries in the LDCs has served as a major mechanism for developing productive capacities and non-traditional exports from the LDCs. Important positive synergies can be achieved as the more advanced developing countries move up the ladder of technological development but seek to continue to derive benefits from simpler products through triangular relationships with LDCs. Finally, landlocked LDCs and their neighboring transit countries both stand to gain from enhanced cooperation in the field of transit transport.

TABLE 54. TOP EXPORTERS TO LDCS AND TOP IMPORTERS FROM LDCS[a], AVERAGE 1999–2001

	Top exporters to LDCs	Merchandise exports $ millions	Merchandise trade balance $ millions	Top importers from LDCs	Merchandise imports $ millions	Merchandise trade balance $ millions
1	EU	10 956	-407	EU	11 363	-407
2	China, total	4 372	717	United States	8 880	-6 490
	China	3 254	473	China, total	3 656	717
	China, Taiwan Province of	969	316	China	2 781	473
	China, Hong Kong SAR	150	-72	China, Taiwan Province of	653	316
	China, Macao SAR	0	0	China, Hong Kong SAR	222	-72
3	Korea, Republic of	2 662	1 268	China, Macao SAR	0	0
4	United States	2 390	-6 490	Thailand	1 448	428
5	Singapore	2 361	1 732	Korea, Republic of	1 394	1 268
6	South Africa	2 356	2 184	Japan	1 122	1 036
7	Japan	2 158	1 036	India	1 059	730
8	Thailand	1 876	428	Singapore	629	1 732
9	India	1 789	730	Saudi Arabia	323	-4 100
10	Côte d'Ivoire	826	760	Canada	289	-19
11	Indonesia	732	544	Malaysia	264	383
12	Malaysia	647	383	Brazil	212	168
13	Kenya	578	535	Indonesia	188	544
14	Australia	528	385	Ethiopia	184	-102
15	Brazil	380	168	South Africa	171	2 184
16	Pakistan	374	235	Norway	157	74
17	Saudi Arabia[b]	282	-41	Australia	143	385
18	Canada	269	-19	Pakistan	140	235
19	Turkey	258	188	Russian Federation	132	98
20	Argentina	248	234	Egypt	120	27
21	Nigeria	236	133	Poland	116	57
22	Zimbabwe	231	184	Nigeria	103	133
23	Norway	230	74	Switzerland and Liechtenstein	98	99
24	Russian Federation	230	98	Ghana	94	42
25	Oman	225	205	Cameroon	90	-1
26	Switzerland and Lichtenstein	197	99	Mexico	80	-59
27	Croatia	178	158	Turkey	70	188
28	Poland	173	57	Côte d'Ivoire	66	760
29	Senegal	153	148	Ukraine	63	3
30	Egypt	147	27	Philippines	58	-26

Source: UNCTAD secretariat estimates, based on UN COMTRADE data for merchandise trade; *UNCTAD Handbook of Statistics 2003*.

a Top exporters to and top importers from LDCs are ranked by value of average annual exports and imports, respectively.
b Export value for Saudi Arabia was based on data for 2001.

Both the LDCs and the more advanced developing countries stand to gain mutually from increased trade and investment linkages between them.

Realizing these positive synergies is difficult in a world in which asymmetries in the global economy make it difficult for the more advanced developing countries to promote development and reduce poverty. Further innovative use of regional trade arrangements can be envisaged. But advances in this area are likely to depend also on a more supportive global environment for more advanced developing countries. Both the LDCs and the more advanced developing countries stand to gain mutually from increased trade and investment linkages between them.

TABLE 55. MEMBERSHIP OF LDCS IN REGIONAL TRADE ARRANGEMENTS, 2002

	Africa										Americas	Asia		Africa /Asia
	Arab Maghreb Union (AMU)	Common Market for Eastern and Southern Africa (COMESA)	Cross Boarder Initiative (CBI)	Economic and Monetary Community of Central Africa (CEMAC)	Economic Community of Central African States (ECCAS)	Economic Community of Western African States (ECOWAS)	Mano River Union (MRU)	Southern African Customs Union (SACU)[a]	Southern African Development Community (SADC)	West African Economic and Monetary Union (WAEMU)	Caribbean Community and Common Market (CARICOM)[a]	Association of South East Asian Nations (ASEAN) Free Trade Area (ASEAN FTA)	South Asian Association for Regional Cooperation (SAARC) Preferential Trading Arrangement (SAPTA)	Arab Free Trade Area (Arab FTA)
Africa														
Angola			X			X				X				
Benin						X				X				
Burkina Faso						X				X				
Burundi		X	X		X									
Cape Verde						X								
Central African Republic				X	X									
Chad				X	X									
Comoros		X	X											
Dem. Rep. of the Congo		X			X				X					
Djibouti		X												
Equatorial Guinea					X									
Eritrea		X												
Ethiopia		X												
Gambia						X								
Guinea						X	X							
Guinea-Bissau						X				X				
Lesotho								X	X					
Liberia						X	X							
Madagascar		X	X											
Malawi		X	X						X					
Mali						X				X				
Mauritania	X					X								
Mozambique									X					
Niger						X				X				
Rwanda		X	X		X									
Sao Tome and Principe					X									
Senegal						X				X				
Sierra Leone						X	X							
Somalia														X
Sudan		X												X
Togo						X				X				
Uganda		X	X											
United Rep. of Tanzania			X						X					
Zambia		X	X						X					
Americas														
Haiti											X			
Asia														
Bangladesh													X	
Bhutan													X	
Cambodia												X		
Lao PDR												X		
Maldives													X	
Myanmar												X		
Nepal													X	
Yemen														X

Source: UNCTAD secretariat compilation, based on WTO (2000b, 2002b, 2003b).

Note: Afghanistan, Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu are not members of any customs union or free trade arrangement as classified by the WTO (2002b), but all are members of other regional economic cooperation arrangements. For description, see Herrmann (2004b).

a CARICOM and SACU are the only customs unions; all other trade arrangments are free trade arrangments.

TABLE 56. APPLIED TARIFF RATES OF IMPORTANT TRADING PARTNERS OF LDCS ON IMPORTS FROM LDCS, 1996–2001

Economy	Year	MFN applied rates				LDC applied rate			
		Simple average	Weighted average	Minimum	Maximum	Simple average	Weighted average	Minimum	Maximum
Top four developed economy trading partners									
Canada	2001	5.7	11.9	0.0	22.5	3.8	11.4	0.0	22.5
European Union	2001	5.9	5.3	0.0	74.9	0.3	0.2	0.0	25.0
Japan	2001	10.3	6.6	0.0	60.0	2.4	1.6	0.0	60.0
United States	2001	5.9	10.9	0.0	350.0	5.6	6.1	0.0	350.0
Other developed economy trading partners									
Australia	2001	7.8	8.3	0.0	25.0	6.7	5.8	0.0	25.0
Norway	1996	14.7	6.1	0.0	249.0	8.2	2.0	0.0	249.0
Switzerland	2001	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Top four developing economy trading partners									
China	2001	17.4	9.4	0.0	114.0	15.3	9.4	0.0	114.0
Taiwan Province of China	2001	8.5	6.3	0.0	50.0	8.3	6.3	0.0	50.0
China, Hong Kong SAR	1998	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
India	2001	32.9	22.8	0.0	210.0	26.0	18.9	0.0	210.0
Rep. of Korea	1999	8.8	5.3	0.0	50.0	7.9	5.3	0.0	50.0
Thailand	2000	20.9	5.3	0.0	80.0	18.9	5.3	0.0	80.0
Other developing economy trading partners									
Brazil	2001	13.8	5.2	0.0	28.0	13.4	5.2	0.0	28.0
Indonesia	2000	8.7	2.7	0.0	170.0	8.3	2.6	0.0	170.0
Malaysia	1997	3.7	1.1	0.0	352.9	3.7	1.1	0.0	352.9
Singapore	2001	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South Africa	2001	11.4	9.3	0.0	60.0	10.9	9.3	0.0	60.0

Source: UNCTAD secretariat compilations, based on WTO (2002a).

G. Conclusions

The basic message of the chapter can be summarized as four major points.

Firstly, the LDCs cannot be expected to gain much from the current round of multilateral trade liberalization unless improvements are made in their productive capacities to enable them to benefit from any subsequent global growth in trade. Amongst the issues currently under discussion, the phasing-out of agricultural subsidies in OECD countries is particularly important for the development prospects of the LDCs. Although agricultural support measures may help countries import cheap foods and meet food security needs in the short term, they have a depressing effect on agricultural production in the LDCs, breaking the potential complementarities between agricultural and non-agricultural development that are central to the development process.

There is considerable room for strengthening current international support measures, and practical proposals are available for doing so.

Secondly, and against this background, special international support measures, although they are frequently seen as a second-best option compared with multilateral trade liberalization, still have an important role to play in making international trade a more effective mechanism for poverty reduction in the LDCs. Current special measures, including both market access preferences and other special and differential treatment in favour of the LDCs, have various limitations, which reduce their effectiveness. There is considerable room for strengthening current international support measures, and practical proposals are available for doing so. However, as multilateral trade liberalization deepens, market access preferences for LDCs will gradually erode and the major market-based approach to supporting the LDCs will be undermined. As this happens it is important to consider complementary international support measures for the LDCs. One possible course of action is to introduce new supply-side preferences. Such preferences could encourage FDI and technology transfer to the LDCs, and could also enable domestic investors to gain access to cheaper finance than at present. These could usefully complement and strengthen preferential market access as a market-based approach to supporting LDCs.

Thirdly, there are also a number of systemic international trade measures beyond multilateral trade liberalization, which can play a very important role in making international trade a more effective mechanism for poverty reduction in the LDCs. The major sin of omission in the current international approach to poverty reduction is the failure to tackle the link between commodity dependence and extreme poverty. Any systemic measures in relation to commodities are likely to have a high poverty-reduction intensity in the LDCs. Priority areas include measures to reduce vulnerability to commodity price shocks and initiatives to ensure international transparency in the revenues derived from oil and mineral exploitation. Systemic measures with regard to the mineral economies, which are off the radar screen in current analyses of the effects of multilateral trade liberalization (which focus on agriculture and manufactures), are likely to be particularly important as extreme poverty has been increasing in most mineral-dependent LDCs.

Growth in the more advanced developing countries could play a key role in enabling the LDCs to benefit from global growth rather than face persistent marginalization.

Finally, international trade can be made a more effective mechanism for poverty reduction in the LDCs through increasing South–South cooperation in the field of trade. This has become increasingly important as South–South trade has grown. But there is a danger that LDCs may become marginalized in South–South trade as they are in North–South trade. Measures to reverse the marginalization of LDCs in South–South trade include further use of the Global System of Trade Preferences, the encouragement of regional FDI by more advanced developing countries in the LDCs and of triangular relationships with developed countries, and also special provisions within regional agreements. In the end, a major obstacle to increased South–South cooperation is the difficulties the more advanced developing countries have in the global economy. As these are removed, growth in the more advanced developing countries could play a key role in enabling the LDCs to benefit from global growth rather than face persistent marginalization.

Annex Table 3. Overview of recommendations of LDCs made with respect to the multilateral trade agenda at Sun City (1999), Zanzibar (2001) and Dhaka (2003)

Recommendations	Sun City, 1999	Zanzibar, 2001	Dhaka, 2003	Special and differential treatment	Preferential market access	Assistance	General
	by Declaration			by Category			
Accession							
WTO members shall expeditiously implement guidelines for accession of LDCs adopted by the General Council			X	X			
WTO members shall automatically recognize the special development status of LDCs, defined by the United Nations	X	X					X
WTO members shall automatically recognize the right of LDCs to special and differential treatment	X	X	X				X
Commitments in accession process shall not exceed what admitted LDCs have committed	X	X	X	X			
Commitments in accession process shall not exceed what is requested in the multilateral trade agreements	X	X	X	X			
Commitments in accession process shall not entail any demands concerning plurilateral agreements	X	X		X			
Accession process should be supported by adequate technical and financial assistance	X	X				X	
Accession process should be facilitated through simpler and clearer procedures	X	X	X	X			
Accession process should be speeded up through fast-track accession option	X	X	X	X			
Market access							
General issues							
Market access to other countries is considered very important			X				X
Least developed countries have undertaken far-reaching liberalization of their trade regimes		X	X				X
International organizations should aim for policy coherence with respect to liberalization demands	X	X	X				X
Agriculture							
Least developed members States should not be requested to make further liberalization commitments in the negotiations	X	X	X	X			
Developed member States should provide duty-free and quota-free market access to all agricultural LDC exports	X	X	X		X		
Support measures by LDCs should be permissible (special and differential treatment, combined w/ subsequent)	X	X		X			
Support measures by developed countries should be eliminated (special and differential treatment, combined w/previous)	X	X	X	X			
Standards: LDCs should be provided with technical and financial assistance to deal with SPS and TBT		X	X			X	
Food security: Member States should establish revolving fund to address food insecurity	X	X	X			X	
Food security: Member States may provide food aid to address food insecurity		X	X			X	
Agricultural development: Member States should provide assistance for agricultural development		X	X			X	
Special safeguards: Least developed member States should be eligible to use special safeguards to protect their agricultural sector			X	X			
Non-agriculture/non-textile							
No restrictions on use of export subsidies	X	X		X			
Exemption from competitiveness thresholds	X	X					
Expansion of non-actionable category of subsidies	X	X		X			
Least developed countries should receive financial support to finance their subsidies	X	X		X		X	
Least developed countries shall not be required to make further liberalization commitments in this round of negotiations			X	X[a]			
Preferential market access shall become an integral part of modalities to be established in negotiations			X	X			
Textiles and clothing							
Exemption from anti-dumping duties and safeguard actions	X			X			
Compensation for phasing-out of ATC through extension of market access preferences	X	X		X			
Simplification and harmonization of rules of origin and customs procedures by preference-giving countries		X					X
Services							
LDCs should have flexibility in making commitments with respect to liberalization	X	X	X	X			
LDCs should have flexibility in complying with provisions			X	X			
LDCs should benefit from special and differential treatment regarding subsidies, emergency safeguards and government procurement	X			X			
WTO members, especially developed countries, shall grant full market access for exports of interest to least developed countries			X		X		
Developed country members shall help LDCs with technical and financial resources to develop their competitiveness in services exports	X	X	X			X	
International agencies shall help LDCs through assistance programmes to develop their service sectors and fulfil implementation requirements			X			X	
WTO members should establish disciplining mechanism to deal with anti-competitive practices		X	X				X
LDCs should have the right to provide different treatment to domestic and foreign suppliers		X		X			
LDCs should have the possibility to impose safeguards against foreign suppliers, which arebenefiting from trade-distorting subsidies			X	X			
Maritime transport							
Least developed countries require support in negotiations	X					X	
Financial services							
Financial liberalization ought to be coordinated with other macroeconomic policies	X						X
Telecommunication services							
Least developed countries require technical assistance to build human capacities and infrastructure	X					X	
Movement of natural persons							
Least developed countries should not face restrictions of exports under this mode of supply	X	X	X		X		
Preferential market access							
Access to developed markets: Improve stability and predictability through binding commitments on duty- and quota-free access for all products	X	X	X	X			
Access to other developing countries: Encouraged			X		X		
Non-tariff barriers: Improve special and differential treatment with respect to non-tariff measures		X	X	X			
Non-tariff barriers: Provide technical and financial assistance to deal with SPS and TBT		X				X	
Compensation for preference erosion			X	X			
Sanitary, phytosanitary and technical standards							
Help LDCs comply with sanitary, phytosanitary and technical standards	X	X				X	
Sanitary and phytosanitary standards shall not exceed equivalent international standards	X						X
Help LDCs effectively participate in international standard-setting bodies	X	X				X	
Standards shall not be used for protectionist purposes	X						X
Introduction of fast-track dispute settlement body in case of conflicts over SPS and TBT agreements		X		X			
Compensation for standards that are found to be inconsistent with SPS and TBT agreements	X	X		X			
Rules of origin							
In multilateral trading system, rules of origin should be harmonized for all countries	X						X
In multilateral trading system, rules of origin should not impede trade of LDCs	X						X
In preferential trade arrangements, rules of origin should be harmonized and simplified for LDCs	X	X			X		
Auxiliary agreements							
Trade-related intellectual property rights							
Patents: Non-patentability of all life forms	X	X	X				X
Patents: They shall not be granted without prior consent of country of origin	X	X					X
Patents: Countries shall be able to develop their own *sui generis* protection regimes	X	X	X				X
Patents: National protection regimes may cover plant varieties, recognized traditional knowledge and farmers' right to use, save and exchange seeds		X	X				X
Patents: National *sui generis* protection regimes may cover folklore	X	X					X
Patents: National protection regimes may cover biological and genetic resources		X	X				X
Patents: All protection regimes shall be consistent with the Convention on Bio-Diversity	X	X	X				X
Patents: All protection regimes shall be consistent with the International Treaty on Plant Genetic Resources for Food and Agriculture			X				X
Patents: TRIPS Agreement shall not endanger food security		X					X
Patents: Geographical indications shall be expanded beyond wines and spirits		X	X				X

Annex Table 3 (contd.)

Recommendations	Sun City, 1999 (by Declaration)	Zanzibar, 2001 (by Declaration)	Dhaka, 2003 (by Declaration)	Special and differential treatment (by Category)	Preferential market access (by Category)	Assistance (by Category)	General (by Category)
Patents: Geographical indications: LDCs need not provide legal means for enforcement			X	X			
Patents: LDCs should be provided with access to genetic resources		X		X			
Public health: Easy access to essential drugs		X	X	X			
Public health: Automatic compulsory licences for essential drugs	X			X			
Public health: No patentability of essential drugs		X					X
Implementation: Extension of transition periods for TRIPS	X	X	X	X			
Assistance: Member States should fulfil their obligation to provide assistance	X	X	X			X	
Assistance: Relevant agencies should also help LDCs implement the agreement	X					X	
Trade-related investment measures							
Open-ended transition period for agreement for LDCs	X			X			
Complete exemption from agreement for LDCs		X		X			
Singapore issues							
General issues							
Acknowledge start of negotiations after Fifth Minterial Conference in Cancún			X				X
Help LDCs understand implications of Singapore issues for their economies			X			X	
Trade and investment							
LDCs are not demandeurs of a multilateral investment agreements		X					X
Working Group shall highlight whether agreement can help LDCs to attract FDI and improve its quality	X	X	X			X	
Trade and environment							
Trade barriers, LDCs do not want environmental standards to be used for protectionist purposes		X					X
Trade barriers, LDCs want notification system for prohibited goods to increase transparency	X						X
Trade barriers, LDCs ask for enforceable obligation to provide assistance	X					X	
Trade barriers, LDCs encourage positive measures, i.e. capacity-building rather than trade restrictions	X					X	
Trade and competition							
LDCs expect Working Group to highlight implication of competition policy for their economies	X		X			X	
LDCs require help to implement competition law, policies and relevant institutions		X	X			X	
Trade and labour standards							
Labour standards should not be dealt with in the WTO	X						X
Trade and government procurement							
Working Group on issue shall shed light on how agreement would affect LDCs		X	X			X	
International trade rules							
Subsidies and countervailing measures							
Expansion of non-actionable category of subsidies	X	X		X			
Safeguards							
LDCs should not be subjected to any safeguard action	X	X	X	X			
LDCs should be able to impose safeguard actions without compensatory measures	X	X		X			
Anti-dumping							
LDCs should not be subjected to any anti-dumping action	X		X	X			
LDCs should benefit from simplified procedures to initiate anti-dumping actions	X	X	X	X			
Other contingency measures							
LDCs should not be subjected to any other contingency measure			X	X			
Customs valuation							
LDCs should benefit from an extension of the transition periods provided	X	X		X			
LDCs should be able to express reservations concerning minimum values for longer periods		X		X			
Pre-shipment inspections							
Sometimes helpful, but always burdensome							X
Dispute settlement							
Establishment of Legal Advisory Centre for LDCs	X					X	
General implementation issues							
Flexibility: Issues identified in the Decision on Implementation-related Issues and Concerns shall be addressed at Cancun			X	X			
Flexibility: All issues not identified in the Decision on Implementation-related Issues and Concerns shall be addressed on a priority basis			X	X			
Flexibility: Transition periods for implementation of Uruguay Round Agreements shall be extended to a realistic time frame	X			X			
Flexibility: No commitments that are not compatible with the LDCs' development status			X	X			
Simplification of notification requirements for LDCs	X			X			
Trade-related assistance							
General assistance as a right for LDCs and obligation for other member States and key agencies	X					X	
Improvement: Increase of budget of key agencies, including ITC, UNCTAD and WTO	X	X				X	
Improvement: Increase contribution to UNCTAD's Trust Fund in order to increase its support for LDCs		X				X	
Improvement: Welcome the establishment of/ encourage more contributions to WTO's Global Trust Fund to increase its assistance to LDCs			X			X	
Improvement: Special assistance to LDCs to address problems of smallness, remoteness and landlockedness, and economic vulnerability			X			X	
Type: Provide technical assistance to strengthen negotiation capacities	X	X				X	
Type: Provide technical assistance in accession process	X					X	
Type: Provide assistance to strengthen human capacities and ownership of programmes		X	X			X	
Type: Assistance to resolve all implementation-related issues	X	X	X			X	
Type: Assistance to comply with sanitary, phytosanitary and technical standards		X				X	
Type: Assistance to comply with rules of origin	X					X	
Type: Assistance to comply with stipulations of customs valuation and pre-shipment inspections	X					X	
Type: Assistance to build productive capacities		X	X			X	
Type: Assistance to strengthen trade-related infrastructures		X				X	
Type: Assistance to IF: Strengthen the entire framework	X		X			X	
Type: Assistance to IF: Increase funds available to core agencies		X	X			X	
Type: Assistance to IF: Increase focus on strengthening supply capacities			X			X	
Type: Assistance to IF: Increase focus on strengthening supply capacities			X			X	
Type: Assistance to IF: Strengthen follow-up to Trade Diagnostic Integration studies and move towards concrete projects						X	
Type: Assistance to IF: Monitor activities of IF and satisfy LDCs' trade-related capacity-building needs		X				X	
Type: Improve trade facilitation: does not require new rules, just more assistance		X				X	
Type: Improve trade facilitation: requires significant assistance in implementation matters			X			X	
Special and differential treatment							
Should be binding; "best-endeavour provisions" should be changed accordingly		X	X	X			
Should better target needs of least developed countries	X	X	X	X			
Should help to promote not only trade but also investments			X	X			
Sub-totals							
Messages in Sun City Declaration	70[b]			30	3	23	15
Messages in Zanzibar Declaration		76[b]		31	3	25	18
Messages in Dhaka Declaration			68	29	4	22	13

Source: UNCTAD secretariat compilation, based on the three LDC Declarations, which are available at the WTO (1999a, 2001b, 2003a).

a Special and differential treatment is requested only on a temporary basis.

b Both the Sun City Declaration and the Zanzibar Declaration entail a message with two requests, one for special and differential treatment and the other for financial assistance. In these two cases, the number of messages is therefore not equal to the number of implications.

Notes

1. Brown, Deardorff and Stern (2001) derive higher figures, whereas Van Meijl and Van Tongeren (2001) derive lower figures.
2. A realistic trade liberalization is described as one in which industrial countries are assumed to cut agricultural tariffs to no more than 10 percent and a target average of 5 percent, and to reduce tariffs on manufactured goods to no more than 5 percent and a target average of 1 per cent. Developing countries are assumed to implement corresponding ceiling averages of 15 and 10 percent for agriculture and 10 to 5 percent for manufacturing, respectively. There would be complete elimination of export subsidies, specific tariffs and tariff-rate quotas, and antidumping penalties (World Bank, 2003)
3. Other assumptions could be made, for example, that the share of the poverty reduction is proportional to the number of extremely poor people in the LDCs as a share of poor people in the low- and middle-income countries, or the share of LDCs trade in the trade of low- and middle-income countries.
4. This is based on UNCTAD (2002a) and Naschold (2001).
5. This projection assumes that the share of the population living in extreme poverty below $1/day will remain constant at 50 per cent.
6. Proposals for a food financing facility have been put forward to address these adverse effects (UNCTAD, 2003b)
7. The difference in estimations is attributable to differences in methods and policy scenarios. Whereas Hoekman et al. (2002) assume a 50 per cent reduction of domestic support, Peters (2004) assumes a 50 per cent reduction of export subsidies only.
8. These products are those products included in the FAO database on agricultural production that can be considered equivalent to the products that are included in the OECD database on agricultural support.
9. Producer support estimates include support derived from border measures i.e. trade policies. Support through payments to producers is lower. Values for 2001 were provisional at time of calculation. Please note that the level of producer support is only a rough indicator for the level of assistance or the level of protection. A more precise indicator for the former is the nominal assistance coefficient, and a more precise indicator for the latter is the nominal protection coefficient. For definition, see OECD PSE/CSE online database.
10. The table includes substitutes. Substitutes are goods that fall in the same family of products (based on the natural characteristic of the products) and/ or can be used for similar purposes. Safflower seeds, for example, are a direct substitute for rapeseeds because both fall into the category of oilseeds, but palm kernels are considered to be another substitute for rapeseeds, because they can also be used to make margarine. The classification of substitutes used here is a first attempt at systematic classification (Herrmann, 2003a).
11. Fiscal transfers are the sum of direct payments to producers, including payments based on output, on areas planted/animal numbers, historical entitlements, input use, input constraints, overall farming income and miscellaneous reasons. Average OECD support is based on 1991–2001 period, whereas average LDC output is based on 1991–2000 period.
12. According to the OECD, PSE/CSE database, in 2001 Mexico was the only OECD country to provide support for coffee; support was provided in form of consumer support.
13. Environment-related trade barriers include sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT), and are generally motivated by the desire to protect the environment, wildlife, plant health, animal health, human health and human safety, see Fontagné, von Kirchbach and Mimouni (2001).
14. Special challenges include the challenge to mainstream mineral policy and mineral revenue management into a national development agenda targeting both sustainability and inclusiveness, more precisely: to create sufficient incentives for investors and secure a fair share of mining revenues for public use; to increase transparency and accountability in management of mineral resources and rents; to protect the environment and social and cultural values; to implement an effective mineral tax system and adopt sound fiscal rules; to find means to distribute mineral rents more evenly throughout the economy; to link production enclaves with other economic sectors; and to manage shocks resulting from the instability of mineral revenues and prices.
15. This estimate is based on the database that is being used to monitor the Millennium Development Goals.
16. The overview is based on provisions of special and differential treatment in WTO Agreements of 1994 and the "Decision on Waiver" of 1999. It does not consider provisions entailed in other subsequent Ministerial Declarations and Decisions. It is important to emphasize that although the different agreements, declarations and

decisions are of a binding nature, the provisions of special and differential treatment within them are not necessarily of a binding nature.
17. On the concept of effective benefits see UNCTAD (2001a).
18. For an overview table of different preference schemes granted by the Quad countries, see Hoekman, Ng and Olarreaga (2001: 11, table 3).
19. This section is based on UNCTAD (2003d).
20. In the textiles industry, the concomitance of a peak in imports of fabrics and the low rate of utilization of preferences indicates that manufacturers in the relevant country have forgone tariff preferences because they cannot comply with rules of origin. This has been observed in Bangladesh and Cambodia, which have consistently imported fabrics rather than yarn. Their manufacturing industries are greatly dependent on the sourcing of fabrics from external suppliers, a factor of competitiveness that is generally more important than the use of market access preferences. On this issue, see UNCTAD (2003f).
21. The IMF has sought to quantify the possible effects of erosion of LDC preferential access to Quad markets, which has been published by the WTO (WTO, 2003a). According to this study, it appears that many LDCs do not appear to lose much because they are commodity exporters. The reason is that the MFN tariffs on unprocessed commodities which these countries export is relatively low and thus "there is not a lot of preference to be eroded in the first place" (WTO, 2003a:12). The general picture therefore is that a few LDCs are quite highly dependent on trade preferences for Quad markets, but many derive negligible effective benefits from them.
22. Afghanistan is a member of the Economic Cooperation Organization (ECO); Kiribati, the Solomon Islands, Tuvalu, Vanuatu and Western Samoa are members of the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA); and the Solomon Islands and Vanuatu are also members of the Malaysian Spearhead Group (MSG). But none of these regional economic cooperation arrangements has been classified as a free trade area or a customs union by the WTO (2002b).

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