

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
**THE LEAST DEVELOPED COUNTRIES
1998 REPORT**

OVERVIEW

by the Secretary-General of UNCTAD



UNITED NATIONS



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Introduction

Events of the last twelve months have demonstrated yet again the strengths and weaknesses of the globalization process, and have also confirmed the need for effective governance and management of the world economy. During 1997 world output expanded at an annual rate of 3.2 per cent, improving on the 3.0 per cent growth in 1996. Rapid growth in trade was shared by all the regions of the world, recording an impressive 9.5 per cent increase in 1997. Trade in manufactured goods increased as a share of global goods trade to around 75 per cent. 1997 was also the year when the Asian financial crisis pushed the East Asian miracle economies into recession, with large falls in real output being recorded for the first time in recent decades. It was also the year when the adverse effects of El Niño were felt in many of the world's least developed countries, a vivid reminder of their continuing vulnerability to the vagaries of the weather and unpredictable natural disasters.

This year, 1998, marks the fiftieth anniversary of the founding of the multilateral trading system under the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). It is an occasion to remember the achievements of GATT in liberalizing world trade through successive rounds of multilateral tariff reductions and the contribution this process of freer trade has made to the economic growth and prosperity of the world economy. The expansion of markets and the provision of a rules-based system for trade between nations have together provided a powerful driver of world economic growth: world trade has expanded and international integration has proceeded apace. At the same time, the membership of WTO has increased to 132 members, two-thirds of whom are developing countries. This serves as a reminder, if any were needed, that a truly multilateral trading system requires the full involvement and participation of both developed and developing economies in the rule-making process that affects them all. To be fully credible, such a system also needs to accord due recognition to the special needs and conditions of its poorer member States.

As the new millennium approaches, it is timely to consider the opportunities and challenges of translating the reality of a globalizing and interdependent world economy into a sustained improvement in the standard of living in the

world's least developed economies. The main focus of this year's Least Developed Countries Report is an analysis of how different aspects of the multilateral trading system affect opportunities and constraints for least developed countries (LDCs) to enhance their participation in the world economy. The Report also examines the evolving interface between trade issues and the development objectives of LDCs. It analyses, in particular, several aspects of the multilateral trading system which traditionally have not been the main focus of concern for LDCs, but which are rapidly becoming important as these countries attempt to diversify their economies and enhance their involvement in the global economy. These issues include the extension of the multilateral framework to cover trade and the environment, and trade in services. The Report focuses on two other issues: the implementation of WTO agreements by LDCs and how implementation by the developed countries is likely to affect LDCs, and how the process of accession could be expedited for the 19 LDCs which are not members of WTO while ensuring that they enjoy the same rights and concessions as current LDC members. The Report also identifies areas where specific concessions and provisions in multilateral agreements may be beneficial to LDCs and areas in which LDCs should develop a proactive agenda which systematically puts forward their concerns and interests in the global trading system.

Globalization, trade and development

The success of the international trading system in fostering ever-stronger economic linkages between national economies has highlighted the uneven sharing in the benefits of the globalization process. Furthermore, this has generated a new set of management and governance issues which impact on the everyday lives and well-being of the majority of the world's population, particularly in LDCs, where the people continue to live in conditions of relative poverty and hardship. That globalization does not benefit everyone equally is now widely acknowledged. LDCs are often the least able to take advantage of the opportunities that globalization presents, and globalization may lead to an increase in inequality in these countries. *The Least Developed Countries 1996 Report* drew attention to the rising inequality in the world

distribution of income that has accompanied globalization. The *Report* pointed out that the differential in per capita incomes between the countries with the poorest 20 per cent of the world's population (a group that consists mainly of LDCs) and the richest 20 per cent has widened as globalization has proceeded, and that many of the LDCs were becoming further marginalized from the mainstream of the world economy. Not only have LDCs' growth rates lagged behind those in other developing countries but also their share of world exports and imports has fallen sharply. LDCs have attracted a negligible share of global flows of foreign investment and remain heavily dependent upon official development assistance to finance a large share of their investment.

This growing polarization among countries has been accompanied by increasing income inequality within countries, and poverty remains a harsh reality for significant segments of the population in many LDCs. Some 1.3 billion people – nearly a quarter of the world's population – continue to live in extreme poverty. In the year 2000, four-fifths of the people of the world will be living in developing countries, and the number in absolute poverty will still be growing.

The question of whether the international community can manage the globalization process in a way that facilitates the integration of LDCs in the world economy and at the same time offers a more equal sharing in its benefits is at the centre of the current development policy debate. Finding an answer to that question is increasingly being seen as a shared challenge and responsibility for those charged with the management of the world's economies, and this will require the active involvement and participation of all members of the international community, not least the LDCs, whose economic future is ever more closely linked to global trends over which at present they have little control or influence.

How should the international community respond, particularly to the needs of LDCs? Certainly, trade liberalization within the multilateral system will continue to perform an important role as an engine of global growth. At the same time, however, there needs to be a general recognition that an ongoing expansion in world trade is insufficient to ensure that developmental imperatives and goals are met. As President Mandela reminded the GATT Anniversary Conference, "trade does not of

itself or in itself bring about a better world". What is needed is an improved system of governance of the global economy, which acknowledges, more openly than has perhaps been the case so far, that market liberalization is a good servant but a poor master of economic development.

An emerging trade and development consensus

There is already evidence of the emergence of what is increasingly being called the "post-Washington consensus" on economic development policy. The new consensus reflects a better understanding of the limitations of market forces and what is needed to make markets work better. The cornerstone of the Washington consensus which dominated development policy thinking and practice for much of the 1980s and 1990s was the belief that good economic performance depended upon liberalizing markets and getting prices right. Once these reforms were in place, private markets could be relied upon to allocate resources efficiently and to deliver robust economic growth. What is increasingly being acknowledged, however, is that this prescriptive policy package was incomplete and potentially harmful to the achievement of sustainable and poverty-reducing economic growth in the developing and least developed countries. Markets are often imperfect or incomplete and need to be supported and managed by public policy if they are to function effectively. This is most clearly seen with respect to income distribution and economic growth. The liberalization paradigm rightly asserted that sustained long-term economic growth is a necessary condition for achieving a significant improvement in the living standards of the poor, but the assumption that the benefits of faster economic growth would trickle down automatically to all socio-economic groups has been contradicted by the mounting evidence of rising inequalities in many low-income countries, even where growth performance has improved significantly. Recent research has confirmed that public policy can provide the essential intervention which allows the benefits of faster economic growth to be shared more equitably. The emergence of the post-Washington consensus on development policy has, therefore, re-established the proper role of

public policy as a complement to economic liberalization and reform, which enables the market mechanism to function more effectively as an instrument of development policy.

The new consensus also recognizes that the goals of development extend beyond the relatively narrow objective of economic growth, to include distribution and poverty reduction, social development and environmentally sustainable development. There is also a recognition that the achievement of these wider developmental goals should be built on a more inclusive and participatory process of policy-making whereby all groups in society, in particular those disadvantaged groups whose voice was seldom heard in the past, participate in a variety of ways in making decisions that affect all their livelihoods.

The emergence of a broader perception of the goals of development, and a less doctrinaire and more inclusive approach to the formulation of the development policy agenda, points the way to what might be achieved by the incorporation of the same principles and ideas into the arena of international economic policy debate and negotiation. There are already encouraging signs of a greater readiness on the part of the advanced countries and the major international institutions to adopt a broader vision on matters of international economic policy and global governance and to work for shared and cooperative goals which address directly the needs of the developing and least developed countries and their people. The Director-General of WTO reflected this shift in perception in an address shortly after the fiftieth GATT/WTO Anniversary Celebration in May 1998, when he said,

“... we must stop viewing the world through a narrow lens, and begin to look at the various challenges we face as pieces of a larger puzzle demanding broader, more integrated solutions ... many perfectly reasonable people are legitimately concerned about signs of worsening environmental degradation, unacceptable levels of poverty, human rights abuses in certain countries, or a lowering of labour standards ... More than ever before trade – and the rules of the trading system – intersect with a broad array of issues and concerns which have a powerful impact on people’s day-to-day lives ...”

Thus, despite the lack of a broad consensus on negotiating approaches and strategies on the built-in agenda and new issues, it is possible to discern the beginnings of a “Geneva consensus”, that is, an increasing acknowledgement that trade should be seen less as an end in itself, and more as a means of achieving more sustainable and equitable growth and development. Sharpening such a consensus and translating it into an operational programme of implementation will be a major intellectual and political challenge for the United Nations Conference on Trade and Development (UNCTAD), LDCs and the international community.

In part, this willingness to extend and widen the international trade policy agenda has come about as a response to the changing patterns of international exchange flows. In the rich countries of the Organisation for Economic Co-operation and Development (OECD), the balance of economic activity has swung from manufacturing to services, with the effect of shifting manufacturing to the developing countries, where lower labour costs can provide a comparative advantage. The nature of manufacturing is also changing with the emergence of a global structure of production. Today, trade is increasingly integrated with investment flows as multinational corporations using global networks coordinate international production. These structural changes in the pattern of world trade underscore recent contentions that GATT/WTO needs to shift its emphasis from the traditional concern with trade liberalization matters to “new” trade-related issues, such as trade in services, international investment and technology flows, competition policy and the environment.

The financial crisis in Asia that began in mid-1997 has had damaging effects both within and outside the region. The fact that it occurred in a region that had previously been seen as the most successful developing region in the world has had a profound effect on current thinking on trade and development strategies, and on the role of the international bodies responsible for managing the world economy. The crisis has also had an important influence on the emergence of the new development and trade policy consensus. The financial crisis in Asia has provided a stark reminder that globalization is double-edged, bringing risks as well as opportunities. The impact has not been confined to the countries at the centre of the

storm, and contagion and spillover effects have affected developing countries' growth prospects. The large exchange rate devaluations in the Asian countries have damaged other developing countries' relative competitiveness, while weakened demand in the Asian markets has impacted adversely on the export prospects of both developed and developing countries. Combined with the effects of adverse weather conditions and the decline in commodity prices, this has meant that growth projections for LDCs have had to be revised downwards.

Several factors contributed, in varying degrees in different countries, to the Asian crisis, but a common factor was the weakness of financial markets. The relaxation of controls on financial institutions and the liberalization of capital accounts encouraged reckless lending and excessive exposure to foreign exchange risks by financial institutions and their customers. The crisis has a number of important lessons for development and financial policy. It shows that full-blown capital liberalization increases short-term capital volatility and contributes little to investment and growth. What is needed are policies that will both inhibit the flow of short-term capital and at the same time encourage long-term capital inflows, especially foreign direct investment. More generally, the crisis confirms that the free market cannot be relied upon to lead to a socially optimal outcome. What is lacking, for now, is a public policy that manages and controls the behaviour of financial markets; these markets, if left unregulated, are likely to produce less than optimal outcomes that are inimical to long-term real growth and development.

If a new agenda for international dialogue on trade and development is to be sustainable and is to command the support of the whole international community, then LDCs must share as equal partners in its formulation and must be able to claim ownership of it. The particular interests and concerns of the developing countries were acknowledged in the Uruguay Round negotiations, but much remains to be done to ensure that LDCs are able to access fully the benefits of membership of WTO and that their needs are addressed both in the implementation of the existing agreements and in the ongoing negotiations on the built-in agenda and consideration of new issues.

Recent growth performance in LDCs

The Least Developed Countries 1997 Report recorded the significant developments that had taken place among LDCs in the mid-1990s, when determined efforts to implement economic policy reforms led to improved economic performance in about half of the LDCs. This progress was maintained during 1997. Growth performance for the LDCs as a group averaged 4.8 per cent in 1997, one percentage point below the average growth recorded by the developing countries. Some 34 LDCs recorded an increase in per capita income. Twenty-five LDCs have now maintained per capita growth for three or more consecutive years, underscoring the economic recovery which began in the mid-1990s. Considering that the past economic growth of most LDCs has been extremely episodic, this sustained growth performance is encouraging.

The overall improvement in LDCs' economic performance in 1997 was due to a combination of factors, including enhanced macroeconomic stability as a result of prudent fiscal and monetary policies, some delayed effects of recent reform efforts, favourable weather in some Asian LDCs, and improved economic growth in Europe and North America, which are major markets for LDCs. However, this performance was not strong enough, relative to the rest of the world (in particular other developing countries), to prevent a continuing decline in the LDCs' share of world production and trade. Furthermore, the fragile nature of LDC economies, reflecting their vulnerability to exogenous shocks, lack of diversification, risk of policy reversal and threat of armed conflict, continues to threaten the sustainability of the recent recovery in performance.

The unfolding economic turmoil in East Asia raises considerable uncertainty over the short-term prospects for world output and trade. Lower non-oil commodity prices, exacerbated by weakened demand in Asian markets, will negatively affect a large number of LDCs which are highly dependent on commodities for their export earnings. Likewise, the global allocation of financial flows is expected to be affected significantly in the aftermath of the crisis. A re-evaluation of the risks associated with investment in emerging or pre-emerging economies may lead to scarcer

and more expensive private external financing for LDCs. Furthermore, given the sheer size of the recent rescue packages for those countries in financial turmoil, the facilitation of concessionary finances to deal with the emergency needs of LDCs, particularly if these include calls on donor countries such as schemes under the Heavily Indebted Poor Countries Debt Initiative, will be significantly constrained.

Economic growth in African LDCs weakened slightly in 1997, but their recent growth momentum was maintained in spite of several unfavourable exogenous developments, such as bad weather, declining aid and weakening commodity prices. Drought and untimely rain caused extensive crop failures in LDCs in southern Africa and in some Sahelian countries, while the economies of eastern Africa in particular were devastated by severe floods during the last quarter of 1997 and early 1998. The floods resulted in not only significant food shortages but also heavy loss of human life and severe damage to the agricultural and transportational infrastructure in the region. Apart from the immediate need to supply emergency food, shelter and medical care to the people affected by the floods, the need for long-term agricultural and infrastructural rehabilitation in the region has put additional pressure on budgetary resources. This could have an adverse effect on both short-term macroeconomic management and long-term development planning if LDC Governments have to divert a significant amount of resources to meet these emergency needs. In other African LDCs, prudent fiscal and monetary policies and the liberalization of the exchange rate continued and brought about improvements in inflation, governmental fiscal balances and current account balances.

Asian LDCs maintained their steady economic progress in 1997, recording 5.4 per cent growth, but economic growth in the region as a whole was dampened as the financial crisis unfolded during the second half of 1997. Asian LDCs appear to have been only mildly affected in the early period of the crisis, but with a steep contraction of economic activity under way in the region in 1998, Asian LDCs who relied on their dynamic neighbours as a source of investment and trade are facing severe challenges in the form of a sharp fall in net transfers of earnings from expatriate workers, weak export performance and declining inflows of foreign direct investment.

Although the recent performance of many LDCs has been encouraging, the prospects for sustaining the recent growth momentum, especially in Africa, remain highly uncertain. There has been a lack of response from the private sector to the opportunities provided by the improved macroeconomic environment and liberalized markets in LDCs. Analysis of the sectoral contribution to growth in LDCs over the past two decades confirms that there has been little structural diversification and confirms that the agricultural sector continues to be the major contributor to growth in LDCs. The manufacturing sector's share of gross domestic product (GDP) in LDCs remains below 10 per cent. Economic performance in LDCs remains highly dependent therefore on the agricultural sector, whose performance in turn is vulnerable to exogenous and unpredictable shocks, be they from the weather, natural disasters, fluctuations in export prices or political disturbances.

Investment and savings in relation to GDP have remained very low in LDCs despite some improvement of late, and in many countries investment is insufficient to cover replacement needs, let alone support new productive capacity. Foreign direct investment in LDCs is also scarce, and is concentrated in the mineral-rich countries. The weak performance of investment and savings, coupled with scanty inflows of foreign direct investment in LDCs, casts serious doubt on LDCs' ability to sustain the momentum of the recent recovery. With little evidence of a major productivity breakthrough in the near future, a significant increase in domestic and foreign resource mobilization to raise investment levels is the key to achieving sustained long-term economic growth in LDCs.

Opportunities and constraints for LDCs in the multilateral trading system

FINANCE FOR DEVELOPMENT

The mobilization of resources for investment has long been acknowledged as a key condition for achieving sustained long-term economic growth. For LDCs, however, the average savings and investment rate has been much lower than that of other developing countries and well below the level needed to stimulate or sustain a strong economic recovery. The LDCs' record of low savings and investment has been exacerbated by the decline in public investment levels in many countries as Governments pursued more prudent budgetary and fiscal policies. As public investment has fallen or remained static, the role of the private sector in investment is becoming more important. The development of the domestic financial institutions and regulatory framework is a key instrument in the mobilization of additional domestic savings from the private sector. *The Least Developed Countries 1996 Report* documented the progress made by LDCs in strengthening their financial sectors; this year's *Report* focuses attention on the contribution that external investment resources can make in helping LDCs to maintain their growth momentum. In this regard, the *Report* discusses the role that official agencies can play in supporting public-private partnerships for the financing of investment projects in LDCs, using new forms of joint-venture finance arrangements.

The contribution of private foreign investment in LDCs remains low. In part this is due to the structural characteristics of the LDC economies, where financial markets are underdeveloped, information available to potential investors is imperfect and the risks attached to longer-term investment are high. A potentially important factor that influences the volume or direction of foreign investment flows to LDCs is the level of official support offered to private-sector investment. In conditions where markets are weak and operate imperfectly, there is a need for public intervention to support and encourage private investors. A number of multilateral agencies already play an important role in guaranteeing some

of the non-commercial risks of foreign investors, by directly mobilizing private capital, providing advice and technical assistance on project development and disseminating information to potential investors and lenders. These bodies include the International Finance Corporation (of the World Bank group) and the Multilateral Investment Guarantee Agency. The regional development banks and bilateral donors also make an important contribution in this area. However, the extent to which these institutions have supported private-sector investment and resource mobilization in LDCs has been highly variable. In the case of the International Finance Corporation, for example, only 2.6 per cent of its investment portfolio and 9.4 per cent of its investment projects in 1997 were in LDCs. A similar pattern can be observed for many of the other agencies. In part this reflects the fact that their participation is demand-driven and shows the agencies' response to proposals or requests from private-sector investors. Public support has grown in recent years for the use of private investment to finance infrastructure projects, using various arrangements linking repayment to the revenues raised from the operation of the new infrastructure. However, here again, LDCs have not participated to any significant extent.

Public agencies can play a key role in supporting private investment in situations where the private market provides inadequate or incomplete information to potential investors. They can also act as brokers in establishing public-private investment partnerships to finance jointly infrastructure investments that neither partner acting alone would be willing or able to undertake. However, most LDCs have little experience of these sophisticated forms of project finance and need technical assistance and advisory services on setting up such arrangements. Funding on concessional terms from multilateral and bilateral agencies, partial risk guarantees and special government guarantees and financial support will also be needed to structure the financing of the projects. The international community can contribute to LDCs' efforts to improve their investment performance by helping to mobilize private finance for investment projects in LDCs, particularly in various infrastructure sectors.

EXTERNAL DEVELOPMENT FINANCE AND DEBT

The external debt burden of LDCs continues to hamper efforts to mobilize more resources and acts as a constraint on their capacity to accelerate growth. This burden has not been eased by the decline of over \$1 billion in the flow of external resources to LDCs in 1997. As in earlier years, official development assistance continues to account for most of the external flows to LDCs. There was a sharp drop in aggregate flows of official development assistance to LDCs in 1996, from \$16.6 billion in 1995 to \$14.2 billion, which represents a fall in the LDCs' share of total flows of official development assistance from 28 per cent to 24 per cent. The overall outlook for development assistance is bleak, as the United States seems hesitant to maintain a leadership role in the provision of aid and the Japanese economy is moving into recession. Moreover, although the recent mobilization of resources by the international community to help the East Asian countries in crisis may not have diverted aid funds set aside for the poorest countries, the crisis has shifted the focus of international attention to the Asian region and significantly increased that region's claims on global resources.

The speed and magnitude of the international community's financial support to the Asian economies in crisis contrast sharply with its hesitant response to the debt overhang and decline in real aid flows which continue to restrain development prospects in LDCs. Many LDCs have been unable to meet their obligations fully, and by the end of 1997 a total of 19 LDCs had rescheduled their debts. Of the 41 countries identified as heavily indebted poor countries (HIPC), 29 are LDCs, and are in principle eligible for consideration of additional relief under the HIPC initiative. By mid-April 1998, nine countries, six of which were LDCs, had been reviewed for eligibility for additional debt relief under the HIPC scheme. However, progress in completing the eligibility process has been slow, and it seems that only three LDCs will reach completion point before the end of the year 2000. It appears therefore that few LDCs will benefit from the HIPC initiative over the short or even medium term. Continued efforts are needed on the part of the international donor community to address the problems of LDCs' indebtedness and the downward trend in real aid flows to them, if the opportunity to transform the recent recovery in many LDCs into sustained economic growth is not to be lost.

LDCs AND THE MULTILATERAL TRADING SYSTEM

Strengthening LDCs' capacity to participate in the multilateral trading system, including accession to WTO by those LDCs which are not already members, should be an important part of the efforts by the international community to integrate LDCs into the world economy. Membership of WTO allows countries to design their development strategies and trade policies in a more predictable, transparent and stable environment. It also allows them to advance their trade and economic interests through effective participation in multilateral trade negotiations, thereby obviating the need for a series of periodic bilateral trade agreements with trading partners. However, WTO is more than just a trade organization: its influence extends beyond trade negotiations and it has a growing impact across a wide spectrum of trade-related issues. LDCs therefore cannot remain indifferent to its activities, nor can those that are not yet members expect to remain unaffected by the processes and evolution of the trading system. More significantly, LDC members of WTO have an opportunity to play a proactive role in the workings of the organization and to ensure that their interests are properly recognized in the emerging "Geneva consensus" on issues that fall within the parameters of the trade-development nexus. Even from a weak multilateral bargaining position, these countries can contribute to the dialogue in WTO by articulating their interests and formulating specific proposals on the implementation of the Uruguay Round agreements and on the negotiations on the built-in agenda. Those that are not yet WTO members must ensure that accession negotiations take full account of their shared, development-oriented problems.

ACCESSION TO WTO

In order to achieve accession on terms consistent with their trade, financial and development needs, LDCs need to formulate their major negotiating objectives on the basis of a detailed analysis of their economic strategies and policies and their conformity with the obligations of WTO membership. Accession negotiations and eventual WTO membership require a considerable strengthening of the national institutional infrastructure in acceding countries, many of which have found themselves poorly equipped in terms of human and financial resources to

meet this challenge. A major effort is required with respect to institution-building and -upgrading, training in specialized skills and improving information collection, coordination and management. UNCTAD, with its wide-ranging and multidisciplinary technical expertise, has a particular contribution to offer LDCs in many of these areas.

In the light of the exceptionally heavy burden that the accession process imposes on the limited human and institutional capacity of LDCs, the process might be reviewed in order to reduce the obligations it entails for them, without compromising the transparency and integrity of the WTO multilateral rules and disciplines. Without the full institutional integration of LDCs in the multilateral trading system, there cannot be a truly global framework for the management of the world economy. The developed and the more advanced developing countries have already demonstrated their commitment to accession of all LDCs to membership of WTO. The challenge, however, is not only to expedite the process, but to ensure that the process is non-discriminatory in the sense that it acknowledges the common policy, institutional and structural problems faced by LDCs, and treats them accordingly. If this challenge is met, LDCs will be able to assume full, participative roles in the multilateral order they have chosen to join.

IMPLEMENTATION OF THE URUGUAY ROUND AGREEMENTS

Most of the 29 LDCs who are currently members of WTO started the process of accession in the course of the Uruguay Round negotiations, but many failed to anticipate fully the consequences of membership on their particular trade and development interests. Some of these consequences have become clearer as the countries have sought to implement the agreements and fulfill their obligations. The implementation of the agreements has posed two distinct types of problem for LDCs: (1) problems derived from their own processes of interpretation and domestic implementation of the agreements; and (2) problems arising from the parallel processes of other WTO members.

The relationship between a country's municipal or domestic law and international law is a complex one, even when it is not complicated by development-engendered problems. Four general activities,

nevertheless, characterize most domestic exercises in implementation, and LDCs have experienced special difficulties in carrying out each of them.

First, notifications to the WTO secretariat, which are designed to promote transparency, involve the compulsory sharing of specific information relating to the trade policy and trade measures of Governments. They present major administrative hurdles for countries with a poor communications infrastructure and an understaffed or inefficient civil service. Given the number of WTO agreements that include provisions for notification, it is not surprising that LDCs have experienced particular problems in complying with these provisions.

Second, trade-restrictive measures have to be eliminated. These are mainly non-tariff barriers in the agricultural sector, investment-related domestic content requirements or subsidies to facilitate import substitution. While there may be good reasons for treating barriers of the first and second kind as temporary measures taken for balance-of-payments reasons under article XVIII B of GATT 1994, prohibited import substitution subsidies must be abolished by the end of 2002.

Third, certain agreements mandate the establishment of national institutions, typically to perform administrative or enforcement-related functions. While this may represent a heavy drain on the financial and administrative resources of LDCs, it is important to recognize that to delay the establishment of an institution whose creation is not compulsory (e.g. anti-dumping authorities to comply with the Agreement on Implementation of Article VI of GATT 1994) may involve further costs.

Fourth, many agreements involve compulsory legislative enactment and the formulation of procedures. LDCs' problems in this respect generally parallel those associated with the establishment of obligatory executive institutions.

As was mentioned above, the way in which non-LDC WTO members implement their WTO obligations can also create particular problems for LDCs. Article XX of GATT 1994 and the agreements on anti-dumping, technical barriers to trade, and sanitary and phytosanitary

measures, in particular, include a number provisions whose interpretation could adversely affect LDCs' export interests. Moreover, any problems that LDCs experience in this respect are likely to be compounded by the non-diversified nature of their exports.

In addition to the problems of implementation per se, LDCs are also particularly exposed to what might be described as the ongoing or unfinished business of implementation. Many of the Uruguay Round agreements involve continuing reviews or built-in agendas; these reviews are often effectively fully-fledged negotiation processes. LDCs need to be prepared to defend their interests in each of the respective forums, for example with regard to non-actionable subsidies under the Agreement on Subsidies and Countervailing Measures, the patenting of plants and animals under the Agreement on Trade-Related Aspects of Intellectual Property Rights, the limitations of anti-dumping panels, and the formulation of rules of origin under the Agreement on Trade-Related Investment Measures.

It is important to emphasize that the benefits of the Uruguay Round agreements are contingent upon the implementation of obligations and commitments. LDCs, particularly those in Africa and the net food-importing countries, are adjudged to benefit the least from the agreements because of their weak integration in the multilateral trading system. They risk being marginalized further if they are unable to implement effectively their WTO commitments and therefore cannot make the most of whatever opportunities the multilateral trading system offers. The implementation of the Uruguay Round agreements and the provision of technical assistance programmes to enhance the participation of LDCs in the multilateral trading system should be priorities for the international community in the immediate future.

LDCs AND TRADE IN SERVICES

Trade in commercial services, which include travel, transport, communications and financial and professional services, accounted for about 25 per cent of world trade in 1996. The revolution in information technology has made many services increasingly tradeable, and the

lowering of communication costs has added a new dimension to global integration, with important implications for LDCs as they seek to enhance their participation in the world economy. To compete successfully in the international arena, LDCs need to ensure that producers can access efficient, competitively priced producer services; such services are a key element in determining international competitiveness both for firms and for economies as a whole.

The importance of the global trade in services is reflected in the inclusion of services as a new issue in the Uruguay Round agreements. The General Agreement on Trade in Services (GATS) sets out multilateral principles and procedures to govern trade in services, and although it contains no general obligation to offer national treatment or market access to foreign suppliers, specific duties of this nature do arise in the sectors and subsectors included in each member State's individual schedule of commitments. Article XIX of GATS provides for appropriate flexibility for developing countries and LDCs in extending market access in line with their development situation.

GATS has important implications for LDCs, despite the fact that their service sector is still at a relatively early stage of development. The focus in GATS on opening markets poses difficult challenges for policy makers, who will need to balance carefully the costs and benefits of greater competition. In addition, since the liberalization of trade in commercial services often also involves domestic regulatory policies and legal requirements, any reforms that may be introduced will need to have an internal as well as an external dimension. LDCs stand to gain from such reforms through either the expansion of their service exports or improvements in the competitiveness of their domestically produced services. Unfortunately, they are often too poorly equipped in terms of institutions and human and financial resources to derive the maximum benefit from the strengthening and expansion of their involvement in international trade in services, and they find themselves at a considerable disadvantage in preparing for trade negotiations and in formulating domestic policy reform measures. There is a need for international support to strengthen LDCs' institutional infrastructure and help them to acquire the skills required to identify the main issues and policies concerning their integration into the international economy on terms that

will increase their economic progress and leave them better equipped to compete internationally, while at the same time their special development priorities and concerns as LDCs are recognized.

LDCs AND THE ENVIRONMENT

LDCs have traditionally given little attention to environmental issues, and even less to the trade-related aspects of such issues. In recent years, however, environmental degradation has become an internationally recognized fact, and LDC Governments have acknowledged the need to integrate environmental considerations into their development planning and poverty alleviation programmes. Many have introduced national environmental action plans or similar projects designed to strengthen institutions, monitor and enhance environmental quality, provide environmental education and raise public awareness. Significantly, however, trade-related environmental and environment-related trade issues have received little or no explicit mention in these plans.

Many of the issues that are under consideration in the WTO Committee on Trade and Environment affect LDCs just as they affect other developing countries. Environmental requirements, for example, restrict market access for LDC producers in exactly the same way as they do for those in relatively more developed countries. LDC producers, however, are generally much less better prepared to accommodate such requirements in their production processes than their competitors in other developing countries. Their resulting market access problems can, in turn, be compounded when multiple measures (designed, for example, to safeguard both the environment and health) are imposed simultaneously. The fact that LDC export earnings typically depend on a limited number of items may further exacerbate these problems.

In other instances, trade-related environmental issues pose a special challenge to LDCs. While environmental degradation can reduce their capacity to generate future export earnings, these countries are especially vulnerable to the dumping of wastes, environmentally harmful products and obsolete technologies that may, directly or indirectly, lead to such degradation. Lack of information on the toxic or hazardous nature of such

wastes as well as multiple points of entry make it extremely difficult for LDCs to legislate and implement import bans on such materials. The costs of any environmental degradation they may suffer then tend to be compounded by their lack of economic diversification.

The trade-related environmental problems of LDCs reflect a myriad of development-related linkages and it is more appropriate to describe them in terms of their broader socio-economic context, not as trade-related environmental issues, or even environment-related trade issues, but rather in terms of the overall problems of trade expansion. LDCs' environmental problems include inadequate sanitation facilities, water pollution, land degradation, deforestation and loss of biodiversity. These problems are closely related to poverty, population pressure, market and policy failures, and dysfunctional institutions. They are also aggravated by social and political instability. WTO environmental disciplines seek to restrict the use of trade measures to achieve environmentally-oriented ends, and they are premised on certain assumptions with respect to member States' infrastructure and institutional capacity that exclude many of the LDCs' most pressing concerns. Greater attention needs to be given by the international community to increasing the capacities of LDCs for policy analysis and improved coordination on trade and environment issues, to help reduce some of the constraints that at present hinder the achievement of sustainable development in LDCs.

Advancing the new consensus

Over the past decade, Governments have been considering the contours of a new post-cold war order based on promoting sustainable economic growth and development. There is a growing recognition that globalization has led to a disjunction of economic and political structures at the international level, where the boundaries of economic activity bear less and less resemblance to national and political frontiers. Equally, the economic gap between the economies of the North and South, and even between economies within the South, has widened, while at the same time the pace of economic integration has accelerated. The traditional separation between trade and investment has been eroded as manufacturing production is increasingly organized and managed at a

global level. As developing economies have become more open and integrated into the global economy, so the need for a closer integration of development policy and trade issues is increasingly being acknowledged. The efforts to accommodate these disjunctions in the world economy have been concentrated in the United Nations and WTO but integration at the international institutional level has lagged behind the evolving realities of the globalization process. Meeting the challenge of achieving a closer integration of the trade and development policy agendas will not be easy and will require new negotiating techniques and approaches, in which proper recognition is given to the concerns and interests of LDCs. There is, fortunately, evidence of a will on the part of the whole international community to strengthen the international institutional structures in a way that will ensure that the globalization process is directed towards achieving sustainable growth and development, particularly in LDCs.

LDCs themselves can make a significant contribution to the rule-making process in at least three ways, namely, by taking an active part in negotiations which are part of the built-in agenda, making specific suggestions to improve certain agreements, and taking an active interest in the current debate on new issues.

With regard to the built-in agenda, one way in which LDCs can contribute to the rule-making process is by identifying their strategic interests in the negotiations which are due to start in 1999. Considering the importance of agriculture as a source of food and livelihood in the economies of LDCs, they may need to seek a review of those provisions in the Agreement on Agriculture that at present constrain the production of food for domestic consumption. LDCs should be able to provide subsidies and take import control measures to improve their agricultural production. There is also a case for redressing the present weaknesses in the provisions as regards the food needs of net food-importing LDCs. In the area of services, the effective liberalization of labour-intensive services in the developed countries and the movement of labour from LDCs should be the subject of serious negotiations. If combined with a full relaxation of limitations and conditions in sectors in which the developed countries have made commitments for market access and national

treatment, LDCs should be in a position to derive significant benefits from the liberalization of the services sector.

There is room to improve certain agreements so that they take into consideration the structural constraints facing LDCs. For example, there is a need to redress the imbalance between rights and obligations in the Understanding on Rules and Procedures Governing the Settlement of Disputes, and the cumbersome and costly dispute settlement procedure itself needs to be reviewed. The balance-of-payments provision in article XVIII B of GATT 1994 needs to be reviewed so that it takes into account the structure and nature of reserves and flows in determining whether a country is facing a balance-of-payments problem. In the choice of measures to control imports in the event of a balance-of-payments problem, LDCs need to be in a position to exercise full flexibility, under the scrutiny of the Balance-of-Payments Committee, in view of the fact that price measures are less effective in their relatively undeveloped economic systems. The Agreement on Trade-Related Aspects of Intellectual Property Rights needs an operational provision on the promotion of technological innovation and transfer of technology if its objectives are to be attained.

LDCs have to be active participants in the current process of debating and formulating negotiating positions on new issues, not only to safeguard potential benefits, but also to protect against possible risks and losses. In the area of the environment, LDCs' initiatives need to be aimed at acquiring the necessary technology and resources for environment-friendly process and production methods. They need to be fully involved in the WTO debate on investment, to ensure that any future course of action takes due account of their vital interests. They need to insist that any future course of action on investment should be focused on development; that is, it should combine the twin objectives of the development of host countries and adequate protection for investment. In the area of competition policy, a flexible policy is needed that accommodates the development objectives of each country. It may, however, need to be supplemented by an operational guideline for foreign firms to ensure that their activities are consistent with a country's development process, as well as to safeguard against possible restrictive

business practices by both foreign and local firms; in this way, the ground can be laid for firms to become internationally competitive. LDCs need to follow closely the exercise on government procurement, to ensure that they are not overburdened with the dissemination of information on bids and the evaluation process, and that domestic suppliers are not disadvantaged in competitive terms.

MAKING THE MOST OF THE GATT/WTO SYSTEM


The principles of reciprocity and mutual advantage which underscore the GATT/WTO system mean that a weak economy may not automatically receive the full benefits of the system. Several corrective measures were taken in the past within GATT/WTO in recognition of this problem. Part IV of GATT 1994, the differential and more favourable treatment granted to developing countries, particularly LDCs (as contained in the so-called “enabling clause”), and the specific special treatment provisions in the various WTO agreements are evidence of these measures.

In the past, however, LDCs have not been spared from very strict import controls in sectors such as textiles and clothing. In the field of agriculture, LDCs have not been spared from the obligation of binding all tariffs; in the field of subsidies, LDCs are required to eliminate their import substitution subsidies by the end of the year 2002; and there is no special provision for exemptions for LDCs in the area of anti-dumping.

As weak trading partners, LDCs face a considerable handicap in a multilateral trading system based mainly on reciprocity. It therefore becomes imperative that an effective system of special provisions for them should be made an integral part of GATT/WTO. Far from being an exercise in generosity, this should be treated as a corrective measure to deal with the structural weaknesses of LDC economies as well as to ensure a balance in the distribution of the benefits of the system. In this regard, effective surveillance of the implementation of the special and differential treatment measures becomes necessary. A WTO body, such as the Committee on Trade and Development, could have periodic consultations with individual members, particularly the developed-country members, to examine the implementation of these measures.

The GATT/WTO system at its best can only provide a healthy and helpful environment; it is up to LDCs themselves to implement policies that will enable them to derive the benefits from it, while at the same time minimizing any losses. Similarly, they themselves have to improve their institutional capacity to identify their trade and development interests in the multilateral trading system. For this purpose, they need to upgrade their domestic institutions and establish an appropriate consultative mechanism that takes into account the interests of all groups affected by any issue being dealt with in WTO, in order to arrive at an overall national position. All stakeholders need to be involved in this exercise. After the country's interests have been identified, there is a need for careful preparation before pursuing them in the relevant WTO bodies. In this process, coordination with other LDCs and other developing countries will be of the utmost importance, as their interests will very often be similar. Moreover, the combination of the efforts of LDCs and other developing countries will strengthen their capacities to prepare and negotiate.

One thing is clear: WTO will have a wide-ranging impact on the economies of countries and the global trading system. It is important for LDC members to participate in it effectively if they are to maximize their benefits from it and minimize any associated adverse effects, and it is the duty of the international and multilateral organizations to provide them with all possible support to facilitate their participation.

A handwritten signature in black ink, reading "R. Ricupero", with a long horizontal flourish underneath.

Rubens Ricupero
Secretary-General of UNCTAD