

# GENERAL AGREEMENT ON

## TARIFFS AND TRADE

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Sub-Committee on Trade of  
Least-Developed Countries  
6 May 1993

### NOTE ON PROCEEDINGS OF THE FOURTEENTH MEETING

Prepared by the Secretariat

1. The Fourteenth Meeting of the Sub-Committee on Trade of Least-Developed Countries was held on 6 May 1993 under the Chairmanship of H.E. Ambassador E.C. Selmer (Norway). The Sub-Committee adopted the agenda contained in GATT/AIR/3419. In the discussion, the Sub-Committee took up items I and II together. No matters were proposed under "Other Business".

Items I and II: Review of recent developments in the external trade and payments situation of least-developed countries and of recent trade policy measures relating to them; and issues of interest to the least-developed countries in the context of the Uruguay Round.

2. Introducing Agenda item I, the Chairman drew attention to the background note (COM.TD/LLDC/W/51) prepared by the Secretariat which had originally been issued for the Fourteenth Meeting of the Sub-Committee initially scheduled on 6 October 1992. Section I contained a summary of economic developments with particular emphasis on trade; Section II contained a list of measures taken in favour of least-developed countries outside the framework of the Uruguay Round, and unilateral trade liberalization measures taken by least-developed countries since the start of the Uruguay Round; Section III contained a summary of technical cooperation activities carried out by GATT in favour of least-developed countries. He also drew attention to the addendum to this document containing up-dated information on recent trade policy developments relating to least-developed countries and on technical cooperation activities in their favour (COM.TD/LLDC/W/51/Add.1).

3. In relation to Agenda item II, the Chairman recalled that in accordance with the mandate given by the Committee on Trade and Development, the Sub-Committee had carried out regular reviews of the issues in the Uruguay Round of particular interest to least-developed countries in the light of Part I, Section B(vii) of the Ministerial Declaration of Punta del Este. The last such review had been undertaken by the Sub-Committee at its Thirteenth Meeting in October 1991. He also recalled that in January 1993 Bangladesh, on behalf of least-developed countries, had addressed a communication to the Chairman of the Trade Negotiations Committee, containing a number of concerns and proposals by the least-developed countries in relation to the Uruguay Round (MTN.TNC/W/107).

4. The representative of Bangladesh, speaking also on behalf of other least-developed countries, pointed out that during the last decade, while the developed economies had continued to increase their share in world trade, the share of the least-developed countries (LDCs) had declined from 0.6 per cent in 1980 to 0.3 per cent in 1991. This poor trade performance of the least-developed countries could be attributed to a variety of factors such as structural constraints, low supply elasticity and dependence on few exportable commodities. The current economic recession and the continued decline in world prices of primary commodities also had serious negative implications for least-developed countries. In addition to this difficult trade situation, the Official Development Assistance (ODA) to the LDCs had declined to 0.08 per cent of GDP in 1991 as compared to the average of 0.09 per cent of GDP during the 1980s, while the external debt of the LDCs had continued to impose a very heavy burden on their economies, halting the efforts to adjust and reactivate these economies. During the past three years, population growth in the LDCs had been faster than the growth of output; as a result, per capita GDP had fallen in each of these years. Foreign direct investment (FDI) in the least-developed countries represented only 0.1 per cent of FDI flows; this had had a negative impact on the technology transfer to least-developed countries. Nevertheless, despite the unfavorable external environment, the LDCs had embarked on very ambitious economic reforms. Given the increased protectionist tendencies in industrial countries against products of export interest to developing countries, these reforms might be frustrated unless adequate and timely support to the developing countries, including enhanced trading opportunities, was made available.

5. The least-developed countries were disappointed that the political commitment made by all Uruguay Round participants in Punta del Este to give special attention to the particular situation and problems of least-developed countries had not been adequately translated into the Draft Final Act (DFA) and that the DFA contained a decision which seemed to constitute the illusion of an overall enabling instrument for special and differential treatment for LDCs. Moreover, the provisions of special treatment in specific negotiating areas had not been clearly defined. It was therefore necessary to reconcile the contradictions in principles and commitments in a way that would specifically provide for the legitimate and major concerns of LDCs in the final outcome. Reiterating the key elements of the proposals by the least-developed countries in document MTN.TNC/W/107, he stressed that the DFA did not specify the compensation to the LDCs for losses associated with the changes in market access conditions, and that welfare losses stemming from the erosion of existing preferences had not been addressed. Due to the special situation of LDCs, all MFN concessions on tariffs and non-tariff measures agreed in the Uruguay Round on products originating from the least-developed countries should be implemented in advance, without staging and on a non-reciprocal basis. A general relaxation of the discipline of rules of origin would considerably help these countries. The LDCs should also be exempt from the prohibition on subsidies aimed at import substitution in order to enable them to maximize the use of local raw materials for their industrial development. In the area of TRIMs, TRIPs and Services, the

LDCs' concerns had not been duly reflected in the DFA. In the area of textiles, it was crucial to provide special supportive measures to LDCs and to exempt them from safeguard measures in this area. Furthermore, the net food-importing LDCs needed a clear commitment of additional and new resources in order to overcome the serious difficulties associated with changed world market parameters in trade in agriculture. The least-developed countries were entitled to receive a response from their trading partners to these proposals which had been formally put forward for consideration.

6. The marginalization of LDCs in the trading system could only be reversed if the emerging trade rules guaranteed special and differential treatment in favour of LDCs. Bangladesh proposed that a high-level group be established to examine the provisions of the DFA in order to provide concrete measures for inclusion in the Final Act of the Uruguay Round. He reiterated the need for special consideration for the problems of the LDCs in the context of the Uruguay Round. If these problems were left unresolved, there was a danger that the number of economic refugees would increase, thus threatening world economic and social stability.

7. The representative of Tanzania supported the statement made by Bangladesh. He further highlighted two points central to the agenda of the meeting, namely, the deterioration of the economic and trade situation of many of the LDCs and some of the outstanding concerns of the least-developed countries in the Uruguay Round since the last meeting of the Sub-Committee in 1991. As documented in the GATT analysis (COM.TD/LLDC/W/51 and Add.1), the economic and trade performance of many LDCs had been poor. Although the overall real income had increased in 1991 by 2.5 per cent, in a number of cases growth on a per capita basis had either stagnated or declined altogether, particularly in Sub-Saharan LDCs. In addition, the terms of trade and balance of payments of the majority of the LDCs had worsened mainly on account of externally induced factors. Moreover, depressed demand had contributed to maintaining the downward trend in primary commodity prices. The slow pace of growth of most OECD countries suggested little prospect for recovery on the demand side of most commodity markets in 1992 and the near future. Given the severe trade and payments situation of the least-developed countries, it was difficult to understand why a proposal by the Managing Director of the IMF for an allocation of SDR 36 billion had been so much resisted by some developed countries on the grounds that it would fuel their own inflationary forces, although the proposal would benefit developing countries and in particular the least-developed among them as well as the global economy.

8. With respect to the concerns of the least-developed participants in the Uruguay Round, the representative said that the current stalemate could be overcome if the necessary adjustments were made in order to conclude the Round in a balanced manner, on the basis of the Punta del Este mandate. Referring to the evaluation of the Uruguay Round results from the point of view of developing countries, he recalled that the LDCs had consistently reminded participants in the Round to ensure that the commitment made at Punta del Este should be fully translated into

concrete and specific elements of special and more favourable treatment for the least-developed countries in the final outcome of the Uruguay Round. It was in this spirit that Tanzania, together with other LDCs, had recently conveyed to the Chairman of the TNC (MTN.TNC/W/107) their main concerns with the DFA. The LDCs had rightly emphasized that in the new areas their development options should not be jeopardized through the establishment of arbitrary and short time periods for implementation. It was essential to ensure, inter alia, that: (a) in the area of TRIMs, the LDCs were totally exempt from all obligations on a non-reciprocal basis and were allowed to use TRIMs for developing a domestic export base, for balance-of-payments reasons, and for the protection of their infant industries for as long as they remained LDCs; (b) in the area of TRIPs, as long as a particular country did not cease to be least-developed, it should be exempted from undertaking new obligations; (c) in the area of Services, LDCs should not be required to make any initial commitments as a condition for acceding to the General Agreement on Trade in Services (GATS) which should also provide maximum flexibility to these countries to promote their domestic services sector. Finally, he recalled that the least-developed countries had already pointed out their difficulties in relation to the proposal for the establishment of a Multilateral Trade Organization (MTO). So far no serious negotiations had taken place on that proposal which should not be presented as a "fait accompli". The idea that in order to qualify for MTO membership countries had to make commitments on market access for both goods and services overlooked the LDCs' difficulties to undertake commitments in regard to services and was inconsistent with the Punta del Este Declaration which had established that negotiations on goods and services should be seen as legally distinct exercises.

9. The representative of Madagascar supported the statement made by Bangladesh. She stressed that without any special measures the LDCs might become even further marginalized in the world economy and in the financial and trading systems. She recalled that requests of the LDCs concerning special treatment in the Uruguay Round negotiations had been spelled out in MTN.TNC/W/107 and she urged contracting parties to take the adequate and necessary measures to meet those concerns.

10. The representative of Nepal, speaking as an observer, presented a brief review of the current situation of his country's economy. Nepal had been making great efforts to create a more liberal and competitive environment and since 1991 the country had experienced a period of stability and improved external environment induced by economic reforms in the region. His Government had taken some bold market oriented policy initiatives aimed at enhancing the private sector which had included full convertibility of the rupee, new trade and industrial policies, and progress in improving public sector management. However, Nepal's economic performance in 1992 had been mixed. Despite satisfactory performance of the non-agricultural sector which had grown by 7 per cent, GDP had declined by 3 per cent in 1991-1992. Inflation had risen to 21 per cent from less than 10 per cent in the previous year as a result of the manufacturing sector demand and the rupee devaluation. The real rupee depreciation had boosted merchandise exports and individual

earnings and imports had slowed down in anticipation of the announced tariff cuts. As had been stated by Bangladesh, the marginalization of LDCs in the multilateral trading system and their concerns should be taken into account.

11. The representative of the European Community acknowledged the severe economic difficulties facing the least-developed countries and stressed the importance it attached to their problems. Their solution required continued efforts in the trade area as well as in other areas. However, he could not agree with the idea that the least-developed countries should be granted a general waiver that would exempt them from any obligations. This would be against the interest of these countries, whose main difficulty in the trade area was insufficient competitiveness that could not be remedied through import substitution or anti-export biased policies.

12. The representative of Norway, speaking on behalf of the Nordic countries, said that he recognized the particular problems facing the LDCs. The Nordic countries had supported several initiatives to improve the possibilities of the LDCs in international trade and had all implemented far-reaching preferential trade measures. They fully shared the view of Bangladesh that trade was a more appropriate instrument for economic growth than aid, and they believed that in the DFA specific needs of LDCs had been explicitly recognized and their interests adequately reflected.

13. The representative of the United States stressed the importance of trade and its effects on development as opposed to direct aid. The DFA had created rules and disciplines which could provide increased stability and predictability in the world trading system. Improved business conditions, a stable investment environment, predictable tariffs, adequate protection for intellectual property rights and rules for services would foster economic growth and increase trade. The United States believed that LDCs should participate in this growth and should not be left outside the multilateral trading system. However, it did not believe that this objective could be achieved through exemptions from the new trading rules, but through a fuller integration in the multilateral system of rules and obligations. While the United States appreciated the concerns of LDCs regarding market access, food aid and overall special and differential provisions, it believed that the LDCs must accept obligations in the trading system if they were to graduate from LDCs status.

14. The representative of Tanzania shared the view expressed by the European Community with respect to the importance of competitiveness and said that the LDCs were fully aware that, as long as they were not competitive in the world market, it was not possible to obtain any positive results. However, in order to grow and become competitive, LDCs needed a longer period of time before undertaking new commitments in the multilateral trading system.

15. The representative of the International Trade Centre (ITC), speaking as an observer, said that the ITC had been closely following the recent developments related to the external trade and payments situation of LDCs. The new trade opportunities that had been provided as a result of recent trade policy developments were of specific interest to the ITC, as outlined in COM.TD/LLDC/W/51 and Add 1. The ITC had followed actively, and had encouraged, the positive and outward looking policies adopted by developing countries and it had assisted LDCs in export development and import management. He said that the ITC would intensify its efforts to help LDCs to take maximum advantage of any new trade opportunities.

16. The Chairman recalled that the concerns and proposals of least-developed countries were still on the table for consideration. He expected that they would be addressed in due course in the appropriate negotiating fora. The discussion at this meeting would be reflected in a Note by the Secretariat which would be made available to the Committee on Trade and Development. That Committee could also serve as a means for the least-developed countries to voice their concerns and present their views.