

LDC graduation and emerging priorities

Event for the WTO LDC Group

9.30 – 17.30, 11 November 2021, Room E, WTO and Zoom

Summary

The capacity-building event on LDC graduation and emerging priorities was held on 11 November 2021, in hybrid format (Room E and Zoom). Close to 100 participants joined the event, including Secretary of State of Angola, Commerce Secretaries of Bangladesh and Nepal, Deputy Director of Trade of Senegal, Ambassadors and delegates in Geneva, several LDC trading and development partners, trade scholars and several International Organizations (EIF, ITC, UN DESA, UN-ESCAP, UN-OHRLLS, UNCTAD).

The event was organized to disseminate the findings of the analytical work conducted over the past two years under the aegis of the EIF-WTO LDC Graduation project. It served as a knowledge and experience-sharing platform on LDC graduation with a view to enhance understanding of the issues involved with the topic of LDC graduation. The event also offered an opportunity to explore forward-looking perspectives for LDC participation in the multilateral trading system.

Ambassadors of Angola, Bangladesh and Cambodia moderated the discussions on the impact of LDC graduation on WTO rules, market access and development cooperation. The discussion on forward-looking perspectives was moderated by Dr. Joëlle Noailly of The Graduate Institute.

H.E. Ahmad Makaila, Ambassador of Chad, Coordinator of the LDC Group in the WTO, opened the event and noted that LDC graduation was a key priority for the LDC group. He recalled the latest proposal on LDC graduation aimed at encouraging LDC trading partners to extend LDC trade preferences to graduated LDCs over a certain time period. He also welcomed the support provided by the WTO Secretariat through the EIF-WTO LDC graduation project in helping LDCs better understand trade-related impacts of graduation.

Mr. Stephen Fevrier, Senior Advisor to the WTO Director General, noted the progress made under the EIF-WTO LDC graduation project, including the publication of two reports on Trade Impacts of LDC graduation and the organization of over 20 capacity-building activities benefitting over 700 participants. He recalled the latest submission of the WTO LDC group and welcomed LDCs' constructive approach and engagement, including the flexibility on the length of the transition period that the group was seeking for graduated LDCs. He noted that there were good practices available in other institutions for WTO members to draw upon.

Session 1. LDC graduation: market access

Mr. Remco Vahl, Minister Counsellor, European Union, provided the context of the adoption of the Everything but Arms (EBA) initiative of the European Union during the launch of the Doha Round and the commitment of the Trade Commissioner to extend duty-free quota-free market access to all products originating in LDCs, except arms and ammunition. He recalled several EU initiatives to facilitate LDC exports to the European market, including rules of origin and EU's aid for trade. He also noted the importance of Economic Partnership Agreements (EPAs). In closing, Mr Vahl pointed to the EU proposal for a new GSP scheme which reconfirmed EBA scheme for LDCs, including its three-year transition period for LDC graduates and ensured easier access for GSP+.

H.E. Ms. Pimchanok Pitfield, Ambassador of Thailand, noted that Cambodia, Lao PDR, and Myanmar were important trading partners for Thailand, accounting for over 80% of LDCs' exports to the country, followed by Angola (6%) and Zambia (2%). Thailand's imports from LDCs were concentrated in a few products, mainly minerals, metals and manufactures. Thailand was currently updating its DFQF scheme which would allow 66% DFQF coverage until 2026. She highlighted several factors for underutilization of preferences under the previous scheme, including the use of preferences offered under the regional trade agreements, including ASEAN trade arrangements. She stressed the importance of improving the competitiveness of

LDC firms and pursuing economic diversification. Additional market access could be pursued through free trade agreements (FTAs).

Dr Patrick Low, Senior Advisor, Tulip Consulting and former WTO Chief Economist noted that several factors had been affecting preference utilization, including the use of alternative preferential agreements, as well as rules of origin conditions. He noted that LDC preferences might ultimately benefit importing companies more than LDC exporters. He also stressed the importance of domestic policy for growth and development, highlighting the need to reduce the risks arising from product dependency, importance of digital economy and the potential of services.

During the discussion it was clarified that the three-year transition period under EU EBA was aligned with the UN system. The importance of investments in both hard and soft infrastructure for sustainable development and graduation was underscored.

Session 2. LDC graduation: WTO rules

Mr. Taufiqur Rahman, Head of the LDC Unit, Development Division, provided an overview of LDC-specific special and differential treatment (S&D) provisions in WTO agreements. He highlighted several aspects requiring examination by graduating LDCs, including in the area of trade-related aspects of intellectual property, the use of non-agricultural export subsidies, and to a less extent agriculture. He recalled that in the area of agriculture, the Nairobi Decision on Export Competition allowed LDCs and net food-importing developing countries (NFIDC) to provide certain export subsidies until 2030, while developing countries could do so only until 2023. In addition, he noted that LDCs had longer timeframes for providing domestic support notifications, i.e. every two years. Upon graduation, the flexibility for LDCs contained in the Nairobi Decision would not be available, unless a graduated member could be included in the WTO list of NFIDCs after graduation. In addition, domestic support notifications requirements would have to be provided on an annual basis. In closing, Mr Rahman noted that that LDC graduation would not bring any changes in member's schedule as a result of graduation nor in its contributions to the WTO budget. In addition, the needs of graduated members could be addressed through the WTO's technical assistance.

Mr. Wolf Meier-Ewert, Counsellor in the Intellectual Property Division, Secretary of the WTO TRIPS Council, recalled that LDCs were benefitting from the general transition period under the TRIPS Agreement until 1 July 2034. Under the general transition period, LDCs were exempt from implementing the TRIPS Agreement, except core non-discrimination provisions. In addition, LDCs were exempt from providing patent protection and undisclosed information for pharmaceutical products until 1 January 2033. Upon graduation, minimum standards for IP protection and enforcement would need to be implemented; Mr. Meier-Ewert noted that it would be a forward-looking exercise and no retroactive action was required. He also recalled the notifications obligations under the TRIPS Agreement and highlighted that graduated LDCs would have to notify their IP laws and regulations. In closing, he encouraged graduating LDCs to start the process early to take TRIPS consistent measures, through national stakeholder consultations. In this regard, the technical assistance can be provided by the WTO Secretariat upon request.

Ms. Clarisse Morgan, Director of the Rules Division, recalled that the SCM Agreement prohibited two types of subsidies, i.e. subsidies contingent upon export performance and subsidies contingent upon the use of domestic over imported goods; she noted that while the transition periods for the latter had expired, LDCs were allowed to use export subsidies (Annex VII of the SCM Agreement). In addition, Annex VII contained a list of other members, defined by a threshold of a GNI per capita of \$1000 (1990 constant dollars), that were allowed to use export subsidies. In this context, Ms Morgan recalled the LDC proposal aimed at requesting WTO members to allow graduated LDCs, with income per capita below US\$ 1,000 (in constant 1990 dollars at the time of graduation), to remain eligible for providing non-agricultural export subsidies. She noted that a recurrent question from members on this proposal was linked to the income levels of graduating LDCs. The Secretariat was currently calculating GNI per capita (1990 constant dollars) for a wider set of countries. In addition, limited availability of the notifications from LDCs in the area of non-agricultural export subsidies was frequently raised during the discussion on this proposal. The WTO Secretariat could provide technical assistance to support members' compliance with WTO rules.

During the discussion, it was highlighted that transition periods granted to graduated countries ranged from 3 to 5 years. For example, while UN Capital Development Fund provided for a three-year transition period, UN Technology Bank offered a five-year transition period. However, transition periods granted to LDCs during the Uruguay Round in general ranged from five to ten years.

Session 3. LDC graduation: Development cooperation

Mr. Sandagdorj Erdenebileg, Chief, UN-OHRLLS, noted that under the Inter-Agency Task Force on LDC graduation led by UN-OHRLLS, the UN agencies and other institutions had been working to identify and address the special needs of graduating LDCs. He also referenced a new initiative “Sustainable Graduation Support Facility” designed to respond directly to the needs of graduating and graduated countries, based on country-demand, by providing tailored capacity building and analytical assistance and advisory services towards the formulation of smooth transition strategies. He proceeded outlining the substantive preparations for the Fifth UN Conference for LDCs (LDC5), taking place from 23 to 27 January in Doha, Qatar, where the next programme of action for LDCs would be adopted. Mr. Erdenebileg noted that the LDC group in the UN had already presented a zero draft Outcome Document centered around six key priority areas, including international trade. He also noted that the draft PoA contained a package of support measures for graduated countries to ensure sustainable graduation. In closing, Mr. Erdenebileg noted that the negotiations were expected to be concluded by mid-December.

Dr Junior Davis, Head, Policy Analysis and Research Branch, UNCTAD, highlighted UNCTAD’s efforts in assisting the work of the Committee for Development Policy (CDP) and the Economic and Social Council of the United Nations (ECOSOC) in the examination of progress towards graduation of LDCs, including by preparing the Vulnerability Profiles, undertaking Productive Capacities Gap Assessments, and providing advisory services on national smooth transition strategies. He also recalled UNCTAD’s novel approach to evaluate the consequences of LDC’s special vulnerabilities, through i) situation analysis, including the impact of the COVID-19 pandemic and an assessment of countries’ current productive capacities; ii) an in-depth risk-assessment of vulnerabilities allows a deeper understanding of key considerations for LDC’s graduation with momentum; and iii) policy options in the areas of domestic resource mobilization, private sector development, and building resilience against natural disasters.

Mr. Ashish Shah, Director, Division of Country Programmes, ITC, acknowledged that over half of the technical support under ITC’s Country Programmes went to LDCs. He highlighted several practical steps that graduating governments could take to ensure sustainable graduation, including early preparation process and awareness-raising and by maximizing the impact of available support to mitigate graduation-related impacts. He also provided specific examples of ITC support, i.e. stakeholder-engagement in Lao PDR and impact assessment in Nepal. He also offered some perspectives for the consideration of development partners. In particular, he encouraged greater synergies of development interventions and experience sharing.

Dr Ratnakar Adhikari, Executive Director, EIF, highlighted the EIF graduation policy which had allowed LDC graduates to access EIF benefits for a period of five years. He recalled a successful implementation of development work in Cabo Verde, the Maldives and Samoa and noted that Equatorial Guinea and Vanuatu continued benefitting from the EIF support. He also noted that the topic of LDC graduation had been included either as a cross cutting issue or a chapter in the DTIS of all the graduating countries. He noted that two thirds of the support provided for e-trade readiness assessments and all the support on paperless trade went to the graduating LDCs. In addition, with the support from EIF, Vanuatu had developed its smooth transition strategy.

Session 4. LDC priorities: Forward-looking perspectives

Dr Marcelo Olarreaga, Professor of Economics, University of Geneva, recalled the progress made on LDC topics and offered some forward-looking perspectives. He noted that preference margins granted to LDCs under the duty-free quota free market access most often had limited value. In many instances importers in LDCs trading partners, and not LDC exporters, were capturing most of the preference rents, leaving the LDC exporters with a very limited preference margin.

He emphasized the need to strike a balance on rules of origin (RoO) conditions, highlighting the challenges associated with RoO being too stringent or too lenient. He quoted several studies highlighting that lenient RoO had benefitted producers in developing countries, rather than LDC exporters. He cautioned that more lenient rules of origin could result in increase in exports, but not necessarily the increase in domestic value-added. Dr Olarreaga indicated that the existing evidence on the use of LDC trade preferences should serve as an indication for the direction of LDC negotiating priorities.

Dr Olarreaga highlighted several potential opportunities for LDCs. He encouraged LDCs to engage more fully in the WTO discussions, so that the outcomes of the WTO negotiations could reflect the interests of LDCs. He noted that in services granting mode 4 and mode 1 preferences to LDCs could potentially offer large gains. Dr Olarreaga proceeded outlining the potential benefits of digital trade for growth and development of LDCs. He noted that exporters in low-income countries, especially those in remote areas, stood to benefit the most from the use of global platforms, as a result of the reduction in trade costs. While expressing concerns around the market power associated with global platforms, he encouraged LDCs to closely monitor competition issues associated with them. He noted that these would be best addressed at the multilateral level.

Dr Olarreaga also encouraged LDCs to actively engage in the discussions on environment. He recalled that while most of the goods under consideration of the potential environmental goods negotiations were goods related to environmental management, low-income countries had a comparative advantage in environmentally preferable products that had higher level of protection. In closing, Dr Olarreaga cited empirical evidence suggesting that introduction of labour clauses in trade agreements could help exporters from low-income countries. He also noted that lack of engagement on this topic at the government level would lead to the standard-setting at the private level.

Dr Bernard Hoekman, Professor and Director, Global Economics, European University Institute, noted that based on the economic literature the benefits of LDC trade preferences might not be significant, in part due to significant reduction in trade barriers around the world. He also recalled that non-tariff barriers, including different regulations and standards, would need to be met for LDC exporters to get into markets of their trading partners. In this context, it was important to help firms in LDCs to meet those standards through technical assistance and capacity building. With respect to the rules of origin, Dr Hoekman was of the view that lenient rules of origin were useful for increasing economic activity and employment generation.

He concurred with Dr Olarreaga that significant trade potential of LDCs was in the area of services and digital economy more broadly. He encouraged LDC governments to start asking the firms about their constraints in terms of market access such as data privacy, cross-border data flows, local content requirements for storing the data. Dr Hoekman noted that there was scope for advanced economies to help firms in LDCs meet those requirements. He also noted that these reforms would require a lot of investment and at the same time they would bring higher returns. Some of the development assistance funding could be channeled to reduce trade costs associated with LDC participation in global platforms.

With respect to the environment, Dr Hoekman noted that this could be another area of priority to LDCs, especially in the context of the imposition of carbon border tax adjustment mechanisms by LDC trading partners. Prioritization of investment with high rate of return (i.e. infrastructure and skills upgrading) was an important element to support LDCs in preventing trade costs from rising.

In closing, Dr Hoekman encouraged LDCs to be more active in the ongoing discussions in Joint Initiatives, including e-commerce and services domestic regulation, so that LDCs could better address the issues of particular interest to them. He also encouraged LDCs to explore new initiatives that could help to address LDC priorities.

Mr. Pierre Sauv , Senior Trade Specialist, World Bank Group, provided an overview of the support offered by the World Bank, including private sector diagnostics and its support to countries in the process of accession to the WTO. He noted that graduation from LDC status should be welcomed even if the transition was associated with some challenges. He noted that in the context of the COVID-19 pandemic, an outcome on LDC graduation at MC12 would be a positive sign. He noted that the international community should be considering a more tailored response, as graduation challenges of Angola would be very different from those of Bangladesh. He also noted that some of those issues were intrinsically linked to a broader debate on special and differential treatment.

Regarding the possible trade impacts of LDC graduation, Mr Sauv  acknowledged more discussion was warranted concerning the value of preference margins. He encouraged LDCs to engage more forcefully in the ongoing WTO discussions. He noted that except for the joint initiative on Investment Facilitation for

Development that included the participation of half of the LDCs, the LDC participation in other JSIs remained limited.

In closing, he noted that the case for transitional arrangement for graduating LDCs was a compelling one as LDCs were among the hardest hit by the COVID-19 pandemic and at a time when the international community should be concerned about the aid-for-trade budgets. He expressed hope that the pragmatism of the WTO LDC Group in recalibrating their level of ambition would meet the empathy of their trading partners, so that the WTO members could find an acceptable solution that would address real development issues in a meaningful way at MC12.

Closing Session

DDG Xiangchen Zhang, Deputy Director General, WTO highlighted several takeaways and noted that the impact of LDC graduation would vary in scope and magnitude from one LDC to another. He recalled that the continuation of LDC preferences had been a key priority for the WTO LDC Group. He noted LDC graduation should be considered in the light of greater alignment with WTO rules and the following areas required close monitoring - TRIPS, the use of non-agricultural subsidies and agriculture. He also noted that the impact of LDC graduation would depend on the domestic development and economic policies of each country. He reassured that WTO's technical assistance would remain available to support graduating LDCs as well as other LDCs. DDG Zhang also expressed hope that WTO members would positively consider the LDC graduation proposal resulting in an outcome at MC12. In closing, he noted that LDC graduation was a defining moment for reflecting on the emerging priorities in an evolving trading landscape.

H.E. Mr. Tapan Kanti Ghosh, Commerce Secretary, Government of Bangladesh, emphasized the need to shift into a solution-finding mode to continue with the pragmatic approach in pursuing an outcome on LDC graduation. He reiterated that the proposal of the WTO LDC group sought to encourage LDC trading partners to extend LDC trade preferences over a certain time-period. He concluded by bringing attention to the proximity of MC12 and encouraged LDCs to continue the proactive engagement for a successful MC 12 outcome.

H. E Ms. Kirsti Kauppi, Ambassador, Finland, Chair, Sub-Committee on LDCs, noted that Finland was a strong supporter of helping LDCs become more active players in global trade. She recognized that the challenges faced by the LDCs remained daunting and they needed continued support to increase their participation in global trade. She appreciated the deep insights from the senior officials from the LDCs which enriched the experience of knowledge-sharing from LDCs' trade and development partners, international organizations and academia. She expressed her hopes for an outcome on LDC graduation at MC12. She recalled the challenges faced by LDCs in implementing WTO rules and the untapped potential of LDCs, including in the area of services and digital economy. In closing, she indicated that the insights from the discussions would be important for the work of the Sub-Committee on LDCs.
