World Trade Organization

EIF Enhanced Integrated Framework
Trade for LDC development

LDCs and the multilateral trading system

A COLLECTION OF ESSAYS

VOLUME 2

Designed by JT Quirk

Acknowledgements

The Doha Programme of Action for LDCs for the decade 2022-2031 recognizes the role of trade for realizing the socio-economic development ambitions of least developed countries (LDCs). This second volume of essays on LDCs and the multilateral trading system covers topics on agriculture and food security, trade in services and trade measures affecting LDCs' trade.

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I.

LDCs, agriculture and food security

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According to the United Nations, least developed countries (LDCs) account for 13 per cent of the world population but only about 1.3 per cent of global GDP and less than 1 per cent of global trade and foreign direct investment[2]. About 40 per cent of the world's population living in extreme poverty can be found in LDCs. Most are suffering conflict or emerging from one.

LDCs are among the most food-insecure nations in the world, accounting for 33.1 per cent of the world's undernourished, 24.7 per cent of those children under five years who suffer from wasting, and 34.9 per cent of those children under five who are stunted[3].

Yet while LDCs are countries that have low levels of income and face severe structural impediments to sustainable development, they vary significantly as to their agricultural trade profiles. Some LDCs are large net importers of agricultural products and highly dependent on imports to meet food needs, while other LDCs are significant agricultural exporters. Some members may be both. For this reason, their strategic interests in negotiations may sometimes vary from each other's, and from other negotiating groups within the WTO.

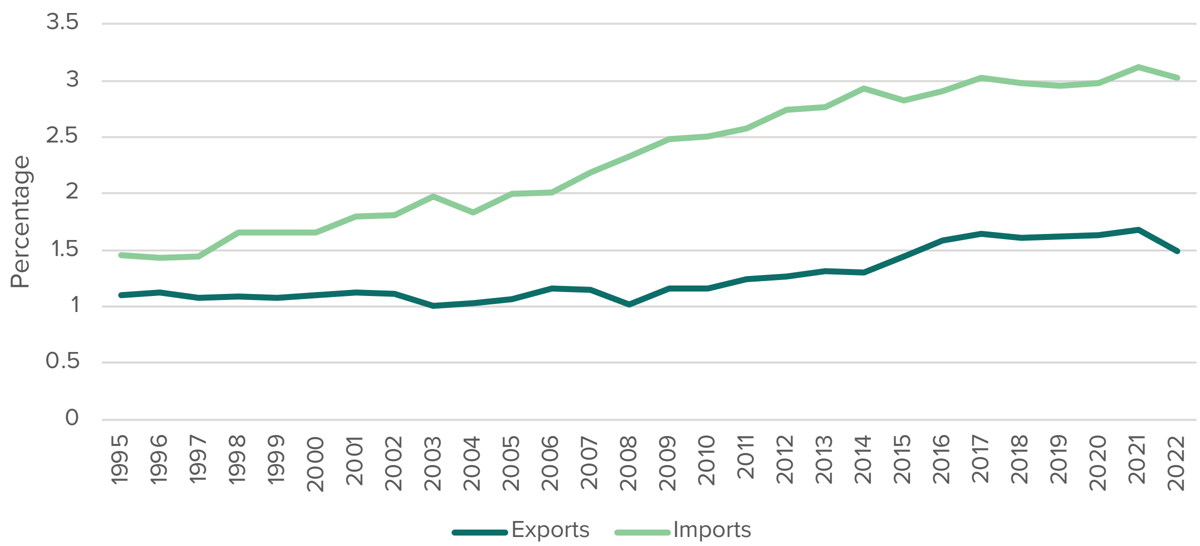
Can trade rules help improve food security for LDCs? This brief examines current trade topics in that light. The paper first examines the growth of LDC food trade since 1995 and shows the heterogeneity among its members regarding their trade profiles. The report then turns to a brief review of the provisions of the WTO's Agreement on Agriculture (AoA) and its current treatment of LDCs. It then considers several issues facing LDCs in the upcoming negotiations for the 13th Ministerial Conference, scheduled to take place in Abu Dhabi from 26 to 29 February 2024.

Evolution of LDC food trade

Since 1995, LDCs' share of global food trade by value[4] has grown but remains small (Figure 1). In 1995, LDCs accounted for 1.1 per cent of global food exports and 1.5 per cent of global food imports; by 2021, LDCs' share of global food exports had increased to 1.7 per cent. Over the same period, LDCs' share of global food imports roughly doubled, to over 3 per cent in 2021.

Around 67 per cent of LDCs' food exports went to developed countries in 1995 (Figure 2a). Between 1995 and 2022, LDCs' exports to developed economies

Figure 1: LDCs' share of global food trade



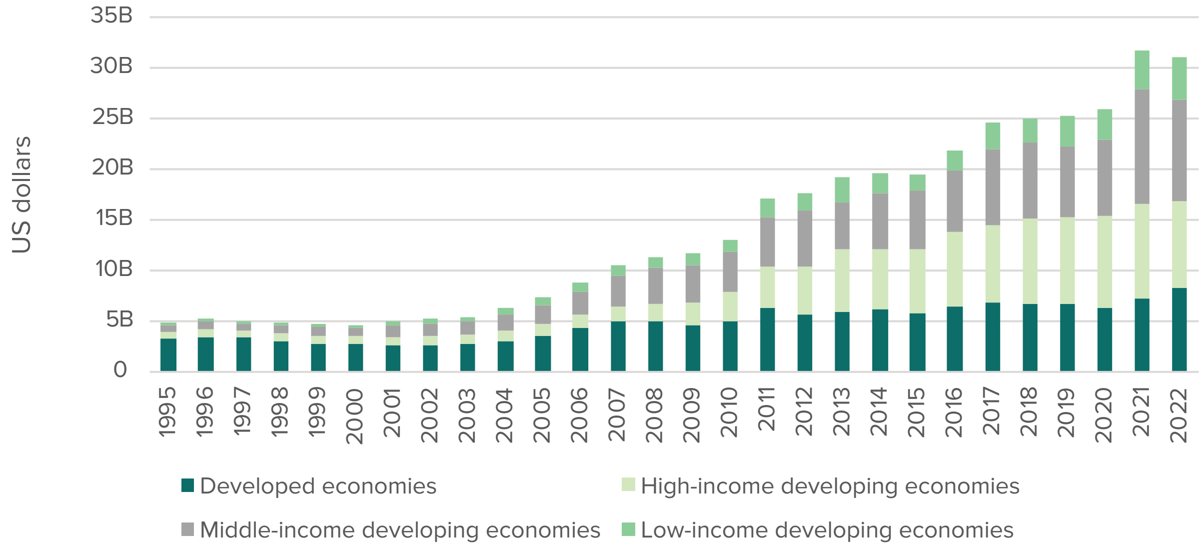
Source: *UNCTAD.*
Note: *All food items (SITC 0 + 1 + 22 + 4).*

grew by 3.4 per cent annually, but developed economies' share of total LDC food exports fell to less than 27 per cent due to the growth of trade to developing countries. In aggregate, LDCs' food exports to developing countries grew by over 10 per cent annually between 1995 and 2022.

Similarly, LDCs imported proportionately more from developing countries in 2022 than they did in 1995 (Figure 2b). While LDCs' imports from developed countries grew by 6.6 per cent annually from 1995 to 2022, developed countries' share of total LDC food imports fell from 45 per cent in 1995 to 27 per cent in 2022. Thus, while developed countries remain important trading partners for LDCs, most of the growth in both LDCs' imports and LDCs' exports has been with developing countries, including other LDCs. By 2022, LDCs supplied about 6 percent of total LDC imports and absorbed 14.6 per cent of total LDC exports.

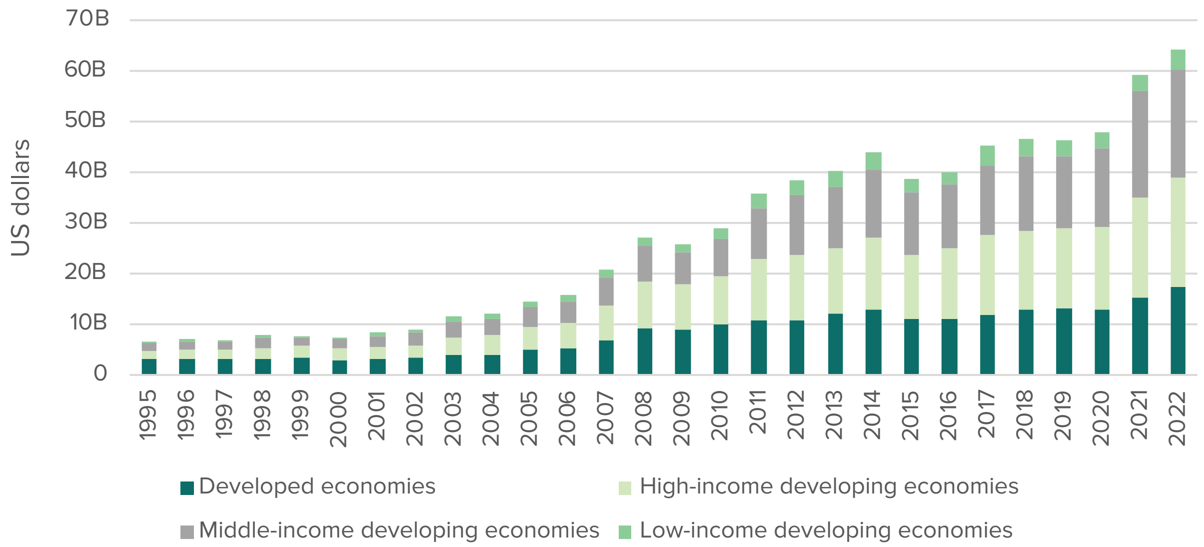
LDCs are generally net food importers, with important exceptions (Figure 3). Of the countries reporting the largest net food export balances, Uganda and Malawi also were in the top three food exporters among LDCs. But some countries are both significant food exporters and importers. For example, Nepal and Myanmar were among the top five food exporting countries among LDCs in 2021, but also had the largest negative food trade balances.

Figure 2a: LDC food exports by destination



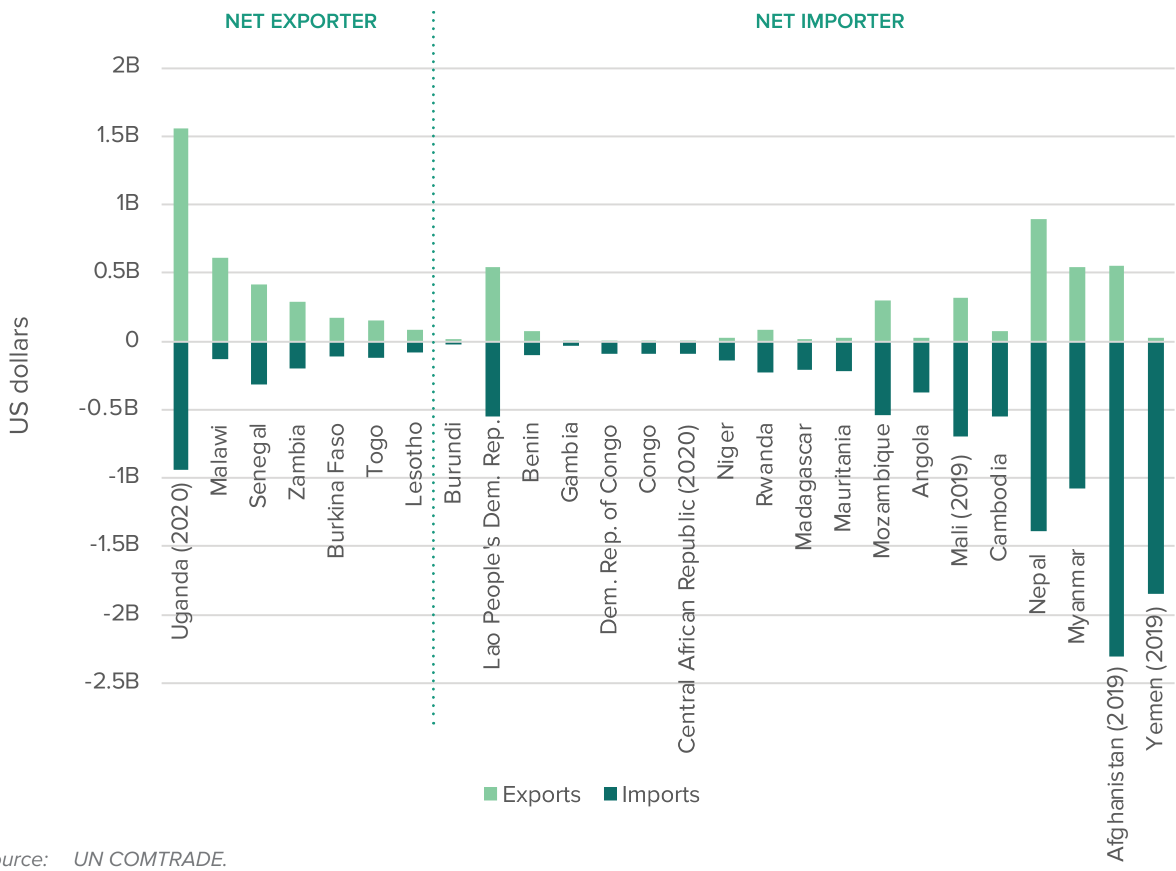
Source: *UNCTAD.*
Note: *All food items (SITC codes 0+1+22+4).*
Chart: *Joseph Glauber.*

Figure 2b: LDC food imports by source



Source: *UNCTAD.*
Note: *All food items (SITC codes 0+1+22+4).*
Chart: *Joseph Glauber.*

Figure 3: Food exports and imports, selected LDCs, 2021



Source: UN COMTRADE.
Note: All food items (SITC codes 0+1+22+4). 2021 unless noted otherwise.
Chart: Joseph Glauber.

Thus, while there is much commonality among LDC members, there is also considerable variability in their individual trade profiles. As a result, the trade interests of individual LDC members sometimes vary as well. For example, exporting LDCs may share offensive trade interests (for example, improved market access) with export-oriented developing countries.

Current treatment of LDCs under the WTO Agreement on Agriculture

WTO members recognize that LDCs need special treatment and assistance for their development. WTO agreements include provisions aimed at increasing LDCs' trade opportunities through market access; provisions requiring WTO members to safeguard the interest of developing countries; provisions allowing LDCs flexibilities in the implementation of WTO rules and commitments, including longer implementation periods; and provisions for technical assistance.

As with other WTO agreements, LDCs are awarded special and differential treatment under the AoA[5]. For example, under the market access provisions of the AoA, LDCs were required to bind all agricultural tariffs, but were exempt from tariff reduction commitments. Since the adoption of the Hong Kong Decision in December 2005, WTO members have made significant progress towards the goal of providing duty-free and quota-free (DFQF) market access for all products originating from all LDCs. Nearly all developed members provide either full or nearly full DFQF market access to LDC products. Nonetheless, access to key commodities in key markets (for example, sugar and dairy in the United States, dairy in Canada, and rice in Japan) remains excluded for DFQF access[6]. A number of developing-country members, such as Brazil, China and India, have also granted a significant degree of DFQF market access to LDC products, but again with some significant exclusions.

Similarly, under the domestic support provisions, LDCs must bind their aggregate measurement of support (AMS) level if applicable, but are not required to reduce it. To date, no LDC reports an AMS binding, but LDCs, like other members with no AMS binding, must maintain product-specific and non-product-specific amber (i.e. production-distorting) support at de minimis levels.[7] For LDCs, the de minimis threshold is equal to 10 per cent of the value of agricultural production.

Under the 2015 Nairobi Package, WTO members agreed to eliminate export subsidies. Least developed countries and net food-importing developing countries shall continue to benefit from the provisions of Article 9.4 of the AoA until the end of 2030.

MC13 provides LDCs an opportunity to improve trade and enhance food security

The 13th Ministerial Conference in Abu Dhabi in February 2024 will provide LDCs an opportunity to make progress on a number of issues that are critical to their trade and food security interests.

Market access

Despite efforts to enhance LDC market access through initiatives such as DFQF, tariff and non-tariff barriers remain impediments to LDC exports. While LDCs' share of global food trade remains small, their export market share has more than doubled over the past 25 years, with substantial growth in middle-income countries. Unfortunately, much of the tariff reduction currently happening in the world has been in the context of preferential trade agreements, from which LDCs are mostly absent. MC13 would be an opportunity for LDCs to improve market access for agricultural exports.

In addition to tariffs, market access is hampered by non-tariff barriers and the relatively high trade costs incurred by LDCs. For example, LDCs may lack adequate infrastructure to export agricultural products at competitive prices due to the high costs of transportation and refrigeration, and other costs incurred in moving product to export locations. Other countries may have difficulty meeting sanitary and phytosanitary (SPS) standards of the importing countries. Initiatives like Aid for Trade and the Trade Facilitation Agreement provide potential mechanisms to address these barriers, and MC13 could provide a forum for further commitments on the part of more developed members to provide such assistance[8].

Domestic support

Domestic support has been another area in negotiations that have failed to make much progress since the collapse of the Doha Round negotiations in 2008. Numerous proposals have been put forward to reduce and harmonize trade-distorting domestic support[9]. Despite domestic support reform being high on the agenda in recent ministerials, some members have opposed reforms in domestic support in absence of reforms in other areas of negotiation, such as market access. Significant reforms in domestic support disciplines are long overdue, but they will likely have to be linked in a more comprehensive undertaking.

There has been much discussion about the need to "repurpose" support towards public goods like improved environmental, climate or nutritional outcomes[10]. While studies generally show positive benefits for LDCs, most of the impacts are small and indirect, based on reforms in developed or large emerging developing economies like Brazil, China or India . The reason is that LDCs have little fiscal domestic support to "repurpose" and often market price support in LDCs is negative as prices received by producers are below market prices (Table 1)[11].

Table 1: Support to the food and agricultural sector as a share of value of production, by country income group, average 2013–2018.

COUNTRY INCOME GROUP	PRICE INCENTIVES	FISCAL SUPPORT (PUBLIC EXPENDITURE)
High-income countries	9.5%	12.6%
Upper-middle-income countries	10.8%	4.9%
Lower-middle-income countries	-7.6%	4.1%
Low-income countries	-9.5%	0.6%

Source: FAO, IFAD, UNICEF, WFP, WHO. The State of Food Security and Nutrition in the World 2022.

How can MC13 encourage members with large levels of domestic support to shift such support to expenditures on public goods that would benefit LDCs? Currently, investments in research and development in orphan crops, infrastructure development, and trade facilitation are exempt from reduction commitments, provided they conform with criteria under Annex 2 of the AoA, but there are no additional incentives for members to provide such support. MC13 would provide an opportunity for members to consider whether there are opportunities to encourage repurposing, perhaps through crediting those investments against new disciplines on domestic support.[12]

Cotton

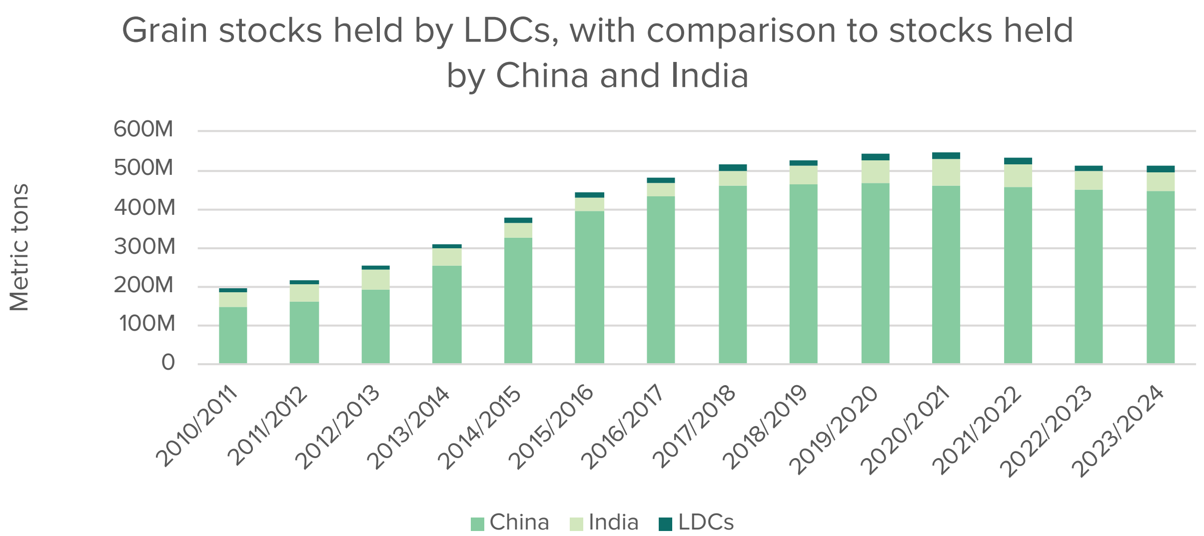
LDCs generate 13 per cent of global cotton exports, and cotton is an important export commodity for West African countries such as Benin, Burkina Faso, Chad and Mali. Tariffs remain significant barriers in many import markets and trade-distorting domestic support for cotton remains high, particularly in China and the United States. Progress in the negotiations will likely be linked to progress in market access and domestic support, but mandates agreed to by members in Hong Kong, Bali and Nairobi should push members in MC13 to address cotton in an ambitious, expeditious and specific manner.

Public stockholding for food security purposes

The Nairobi Ministerial saw WTO members reaffirm their commitments to engage constructively to negotiate a permanent solution on public stockholding for food security purposes, as well as previous decisions that commit members to refrain from bringing trade disputes under WTO rules on farm subsidies until a lasting agreement can be found. However, positions have not changed much between WTO members since an interim compromise was agreed to at the Bali Ministerial in 2013. Developing countries, led by the G-33 coalition, argue that the way in which farm subsidies are currently calculated at the WTO fails to consider the impact of price inflation that has occurred since reference prices were established in the AoA 30 years ago.[13] Developed countries and many developing country exporters are concerned that such programmes may distort production and trade and are thus reluctant to exclude food purchases from domestic support calculations.[14]

LDCs hold a very small share of global food stocks. The US Department of Agriculture estimates that LDCs currently hold roughly 15 million metric tonnes (MT) of wheat, maize and rice, compared to almost 500 million MT of grain held by China and India combined (Figure 4). LDC stocks are largely held for emergency humanitarian purposes and likely have little significant impact on prices. One potential outcome for MC13 would be to exempt LDC stocks held for emergency humanitarian purposes from domestic support disciplines.

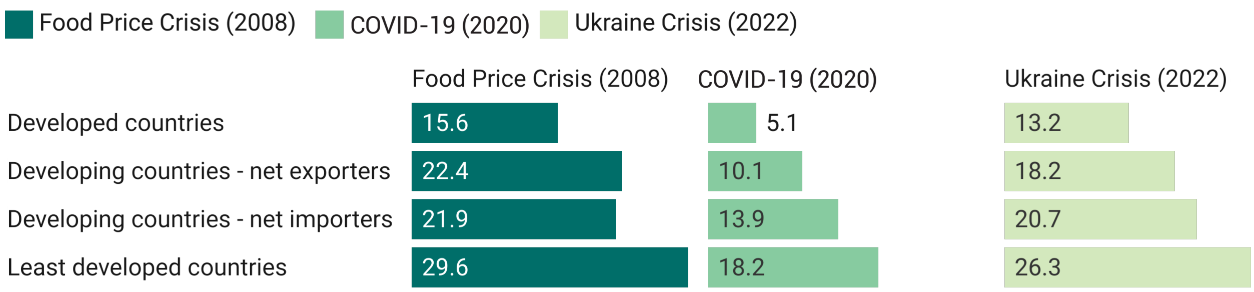
Figure 4: LDC grain stocks



Maize, rice and wheat

Source: *US Department of Agriculture, Foreign Agricultural Service, PSD database, 12 July 2023.*
Note: *All food items (SITC codes 0+1+22+4). 2021 unless noted otherwise.*
Chart: *Joseph Glauber.*

Figure 5: Share of imported calories impacted by export restrictions



Source: Export restriction tracker.
Note: Numbers include products used for food, feed or energy. Intra-EU trade excluded from computations.
Chart: Abdullah Mamun.

Food security concerns have often prompted countries to adopt trade measures in pursuit of food self-sufficiency. As we saw during the food price crises of 2007/08 and 2010/11, and more recently during the COVID-19 pandemic and the war in Ukraine, countries often apply export restrictions that may dampen prices at home but, by shorting global supplies, cause global prices to rise. That can encourage other countries to follow suit by banning exports in exporting countries or by panic buying in importing countries. As a group, LDCs are particularly adversely affected by such measures (Figure 5).

One of the singular achievements of MC12 in the area of food security was the agreement of members to not impose export prohibitions or restrictions on foodstuffs purchased for non-commercial humanitarian purposes by the World Food Programme (WFP)[15]. A number of LDCs are significant importers of cereals and often depend on commercial imports. Further reforms in MC13 could be to expand this. Members could agree to not impose export prohibitions or restrictions on foodstuff imports by LDCs.[16]

Conclusions

Agriculture is a vital sector for most LDCs. Enhanced integration of LDCs in world markets can foster economic growth and development, and improve livelihoods for many households currently in extreme poverty. MC13 provides an opportunity to address trade rules that can help remove barriers that hinder LDC integration into the global market. Improved integration can come through a combination of improved market access with technical assistance to facilitate trade. At the same time, progress must be made in reducing trade-distorting domestic support. Repurposing trade-distorting support towards more public goods such as research and development or improved infrastructure may offer “win-win” solutions, but any repurposing solution must also include LDCs and other developing countries that may have scarce public resources to repurpose. As many LDCs are net food importers, they must be assured, to the extent possible, that cereal imports will not be disrupted by export restrictions. Lastly, public stocks held by LDCs for emergency humanitarian purposes should be exempt from domestic support disciplines.

II.
LDC services trade: a story in differentiation and supply-side constraints

Pierre Sauvé, World Bank Group and Anirudh Shingal, S.P. Jain Institute of Management and Research and European University Institute[17]

The Director-General of the WTO is often heard describing services as the future of trade. Yet services are already a driving force shaping the economic landscape of economies. And they are doing so at all income levels. The rapid pace at which the world economy is becoming ever more service-centric has even spawned a vigorous debate in academic and policy circles over the risks that poorer nations may de-industrialize and shift towards services prematurely (Rodrik, 2015).

Services account for the largest share of global economic activity, generate more than two thirds of output, employ the most workers, and are the source of most new job and firm creation, especially for female and young workers and entrepreneurs. Services trade, long the fastest component of cross-border exchange, has significant and multifaceted development impacts. It offers a direct route for developing economies to diversify their exports away from the limited range of products and commodities characterizing many developing and least developed countries (LDCs). Services-led export diversification can also boost resilience by reducing exposure to commodity price volatility. Improved access to high-quality modern services is critical to the operation of – and greater participation in – cross-border production networks and is fundamental to economy-wide productivity gains. The trade-facilitating role that services play as intermediate inputs is a key determinant of improved export performance of other sectors, such as manufacturing, agriculture and extractive activities, where the comparative advantage of many LDCs tends to be found.

Services are also key to addressing the most pressing challenges the world faces. Advancing the United Nations Sustainable Development Goals is hard to imagine without effective access to a host of services, ranging from health and education to finance, transport and logistics services. Policy measures governing trade and investment in telecommunications and computer services hold the key to enhanced digital connectivity, while increased trade and investment in a host of environmental services is needed to combat climate change and improve environmental stewardship. Meanwhile, the COVID-19 pandemic illustrated how services, both logistics and those supplied digitally, were critical both to reaching populations in need and sustaining economies in times of arrested face-to-face interaction.

For all the above reasons, increased recognition of the development dividends associated with more vibrant service ecosystems and increased services trade is leading countries at all income levels to pay greater attention to the quality of their services infrastructure, the strength of their regulatory frameworks, the skills of their workforce and the competitiveness and e-readiness of their services exporting firms.

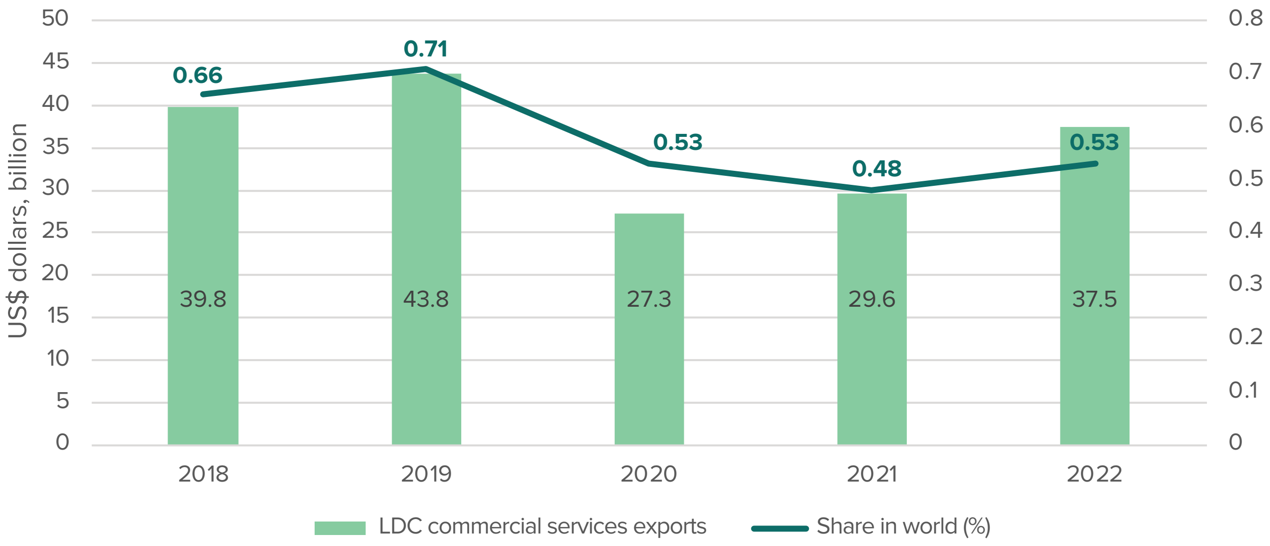
The aim of increasing the participation of developing countries, particularly LDCs, in world services trade is enshrined in the preamble to the WTO's General Agreement on Trade in Services (GATS). Much of the conversation surrounding LDCs and services trade has in recent years centred on the question of the waiver affording LDC services and service suppliers non-reciprocal terms of access to the markets of non-LDC members. Such a measure flows from a Decision taken at the WTO's 8th Ministerial Conference, held in Geneva in December 2011. Responding to the limited traction generated by the 2011 Decision, trade ministers agreed to a further Decision at the WTO's 9th Ministerial meeting held in Bali in 2013 with a view to giving operational impetus to the LDC waiver. Set to last 15 years from the date of its adoption, the waiver has anchored policy discussions around services trade and LDCs within the multilateral trading system, arguably at times to the detriment of discussions of alternative or complimentary means of enhancing the participation of the world's poorest countries in global services trade and of reaping the development dividends associated with doing so.

This note situates the world's least developed countries in global services trade. It chronicles the recent services trade performance of LDCs and the various forces shaping the heterogenous trajectory of the country grouping. It further ponders whether and how the services waiver has impacted LDC services exports to date. Drawing attention to the supply-side constraints that continue to weigh heavily on the competitiveness of a majority of LDC service providers and the limited traction that trade policy (and commitments in trade agreements) tend to have in key sectors of priority export interest to LDCs, the note highlights alternative approaches to boosting LDC services exports and the critical role that aid for trade can play in leveraging the services trade potential of the world's poorest nations.

Recent trends in LDC services exports

A grouping marked by considerable heterogeneity, LDCs have on the whole made inadequate aggregate headway in integrating into world services markets in recent decades. LDC services exports accounted for 0.53 per cent of world services trade at year-end 2022, a steep drop over the level prevailing prior to the COVID-19 pandemic, when it stood at a still negligible

Figure 6. Value and share of LDC commercial services exports in total services exports, 2018-22

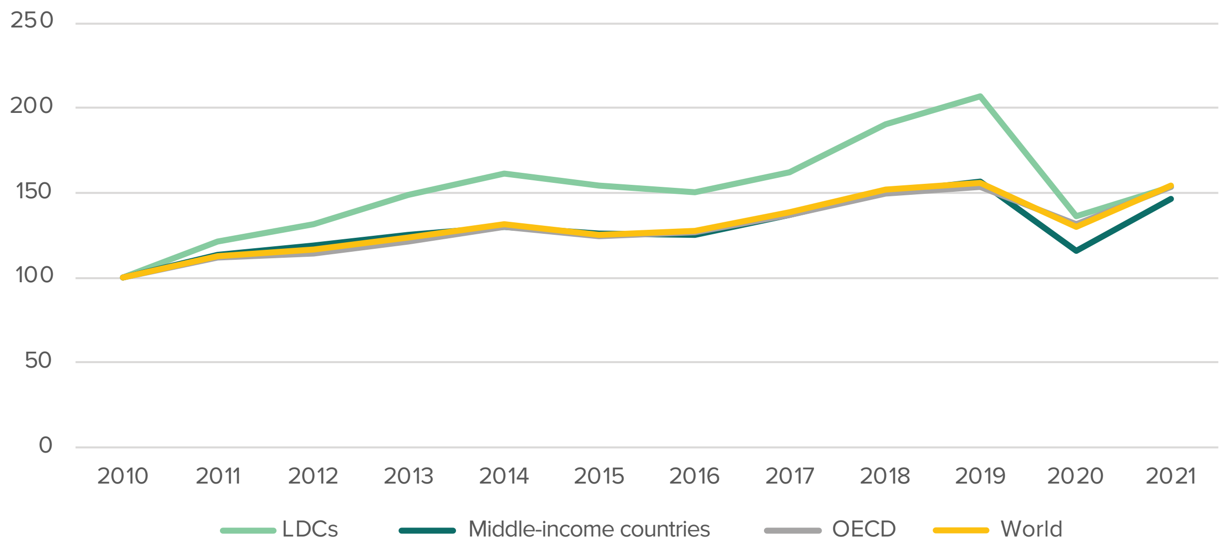


Source: WTO-UNCTAD estimates.

0.71 per cent (Figure 6). LDCs account for an even smaller share – 0.2 per cent – of digitally delivered services. This offers tangible evidence of the digital divide affecting conditions of access to – and productive use of – digital technologies and the underlying regulatory and business climate attributes and skill levels required for sustained digital trade uptake.

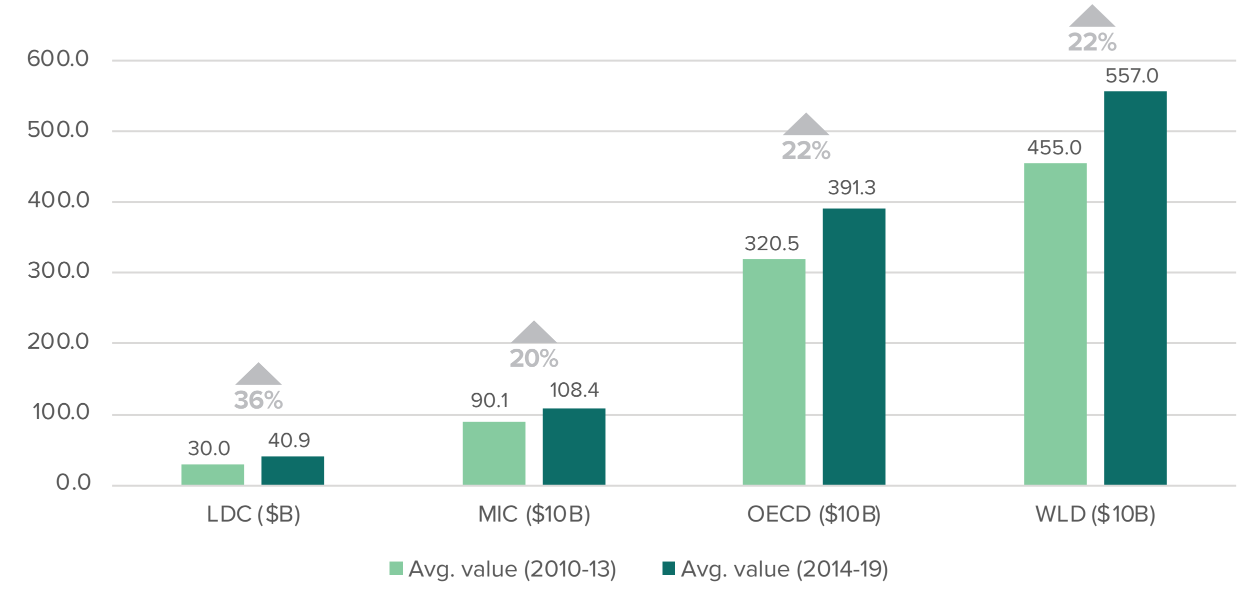
The aggregate trends depicted above nonetheless belie some encouraging signs. For one, LDCs have registered average export growth exceeding that of other developing countries and the world as a whole over the 2010-21 period (Figure 7). Up to the onset of the COVID-19 pandemic, LDC services exports almost doubled in value, growing from US$24 billion in 2010 to US$43.8 billion in 2019. Over the same period, middle-income, OECD and world services exports increased 1.5 times.[18] A closer look at the periods prior to (2010-13) and after the operationalization of the LDC waiver (2014-19) further reveals that LDCs registered the largest gains in export value – 36 per cent, albeit from a low aggregate basis (Figure 8).

Figure 7. Services export trends, LDCs and comparators, 2010-21



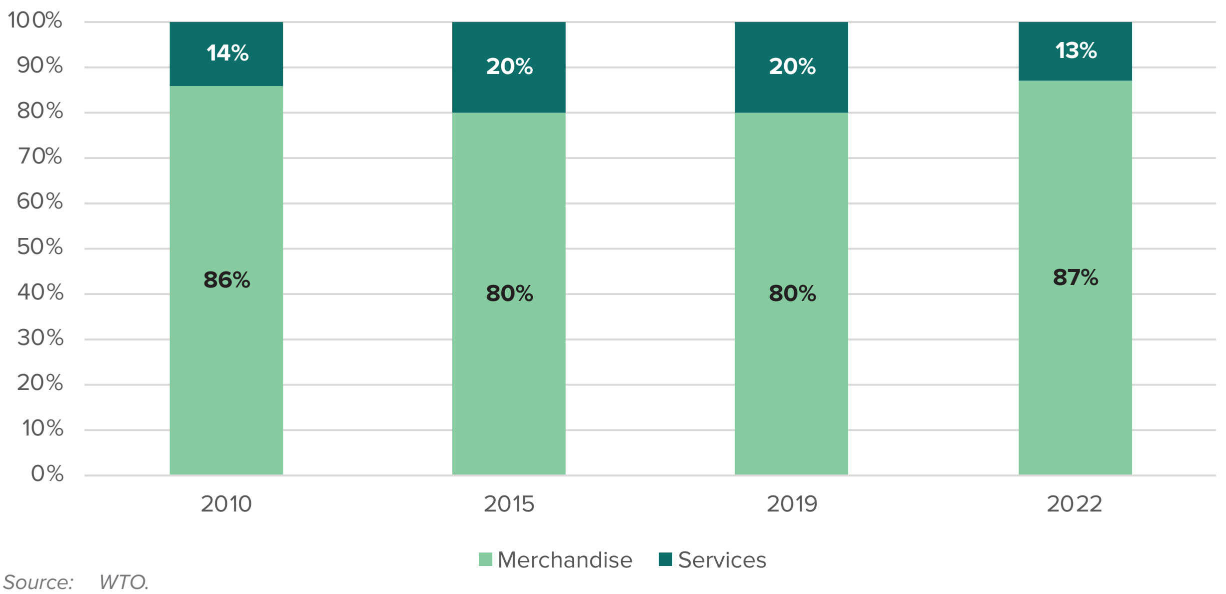
Source: World Bank WDI; own calculations.
Note: Services export value of all groups is indexed to 100 in the year 2010.

Figure 8. Pre- vs post-LDC waiver comparison of services trade exports, LDCs and comparators



Source: *World Bank WDI; own calculations.*
Note: *MIC = Middle-income countries as per World Bank classification. The unit of measurement on the left-axis is $1 billion for LDC services exports and $10 billion and for all other groups.*

Figure 9. The relative share of merchandise and services exports in total LDC exports, 2010-2022



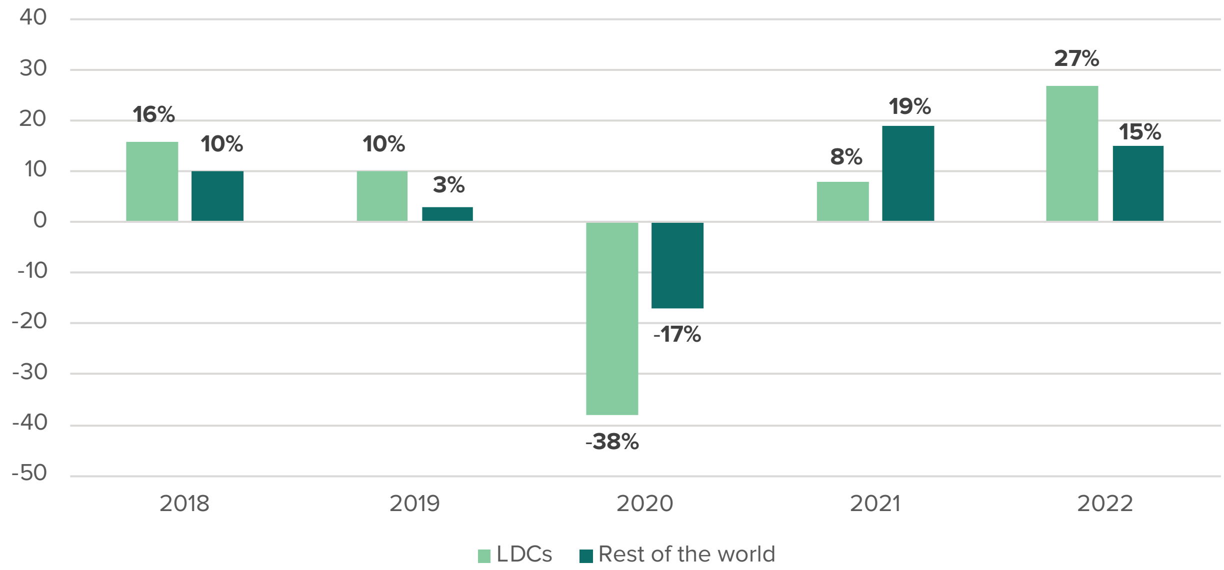
Source: *WTO.*

The steepness of the drop in LDC services export growth revealed by Figure 7 recalls the heavy toll exacted on LDC services exports by the COVID-19 pandemic. These fell by 38 per cent in 2020 from their 2019 value. After growing by 43 per cent from 2010 to 2019, the share of services in total (e.g. goods and services) LDC exports registered a major post-pandemic decline, standing at 13 per cent at year-end 2022. Such a reversal of fortune offers a stark reminder of the grouping's diversification imperative (Figure 9).

Still, while the recovery of LDC services exports in 2021 was half as fast as that of the world as a whole in 2021 (8 per cent vs 19 per cent), the marked rebound in travel and tourism in 2022 resulted in a significant recovery, with LDC services export growth outperforming the rest of the world by a considerable margin (27 per cent vs 15 per cent; Figure 10).

The advances in aggregate LDC services exports noted above mask the more preoccupying story

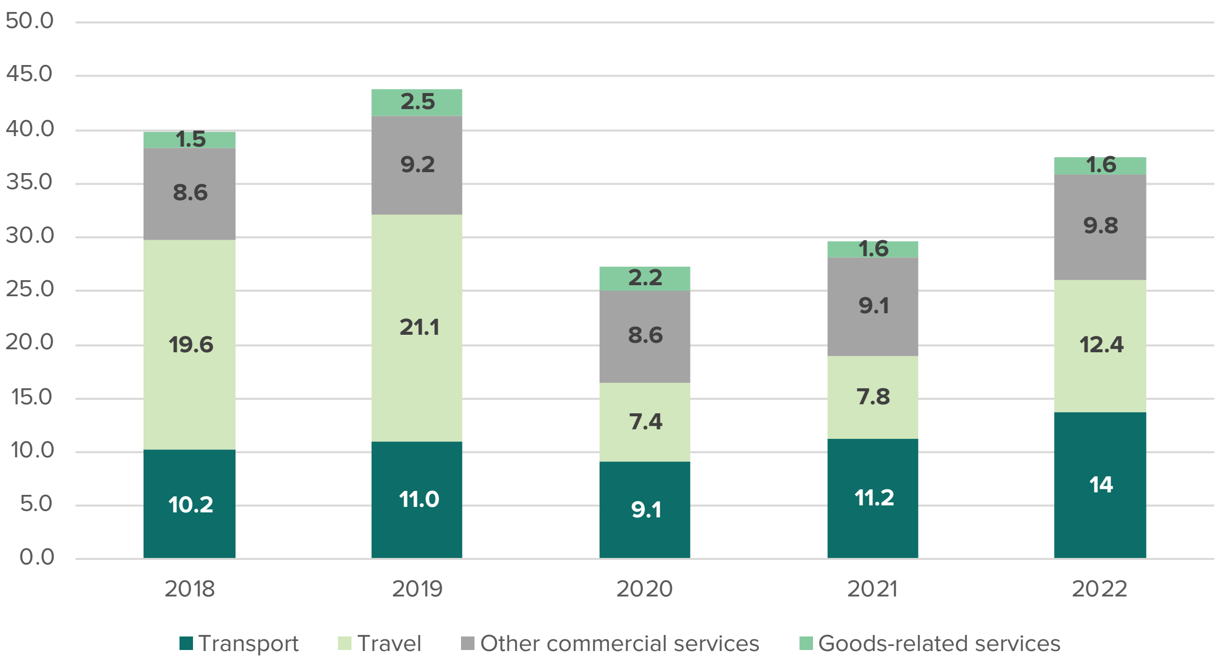
Figure 10. Trends in the growth of services exports, LDCs and the rest of the world, 2018-22



Source: WTO-UNCTAD estimates.

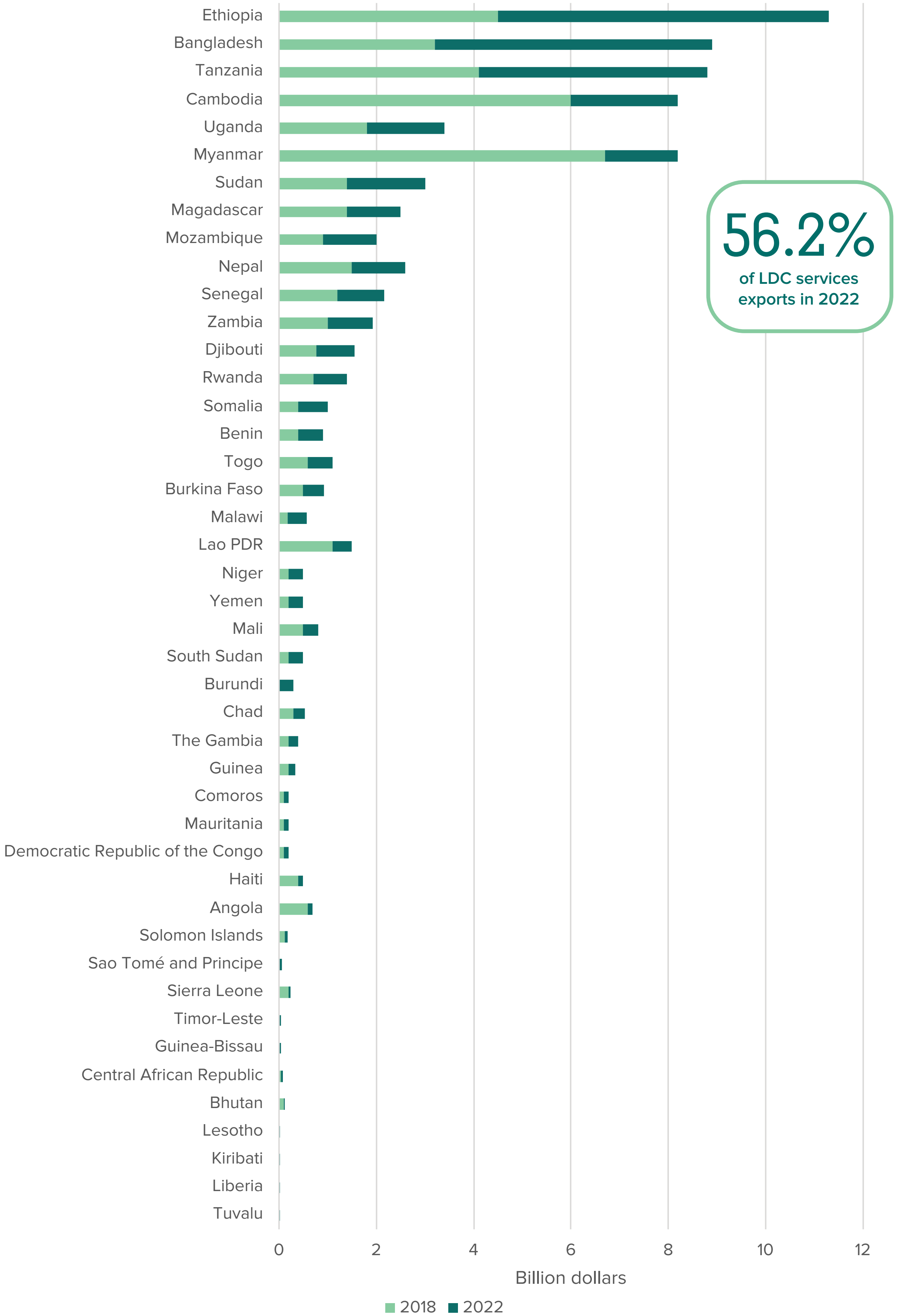
of significant and persistent sectoral and country concentration levels. These are depicted in Figures 11 and 12 which show, on the one hand, the continued dominance of transport and travel in the aggregate LDC services export basket. These two categories accounted for 69.6 per cent of LDC services exports in 2022, a level that has hardly budged since 2018. While the category of 'other commercial services', comprising a range of more modern and digitalized business and professional services, offers signs of post-pandemic recovery, its share of aggregate LDC exports remained broadly unchanged at 26.2 per cent over the 2018-22 period, evidencing limited diversification in the LDC services export basket (Figure 11). Equally worrisome is the fact that five countries – Ethiopia (led by air transport), Bangladesh (IT, business services and transport), Tanzania (tourism), Cambodia (tourism) and Uganda (tourism) – accounted among them for 56.3 per cent of total LDC services exports at year-end 2022 (Figure 12). This means the 41 other countries in the LDC grouping accounted collectively for less than one quarter of one percent (0.248 per cent) of world services exports at year-end 2022.

Figure 11. Structure and value of LDC services exports, 2018-22



Source: WTO-UNCTAD estimates.

Figure 12. Leading LDC exporters of commercial services, 2019 and 2022



Source: WTO-UNCTAD estimates.

A weak LDC harvest of GATS commitments

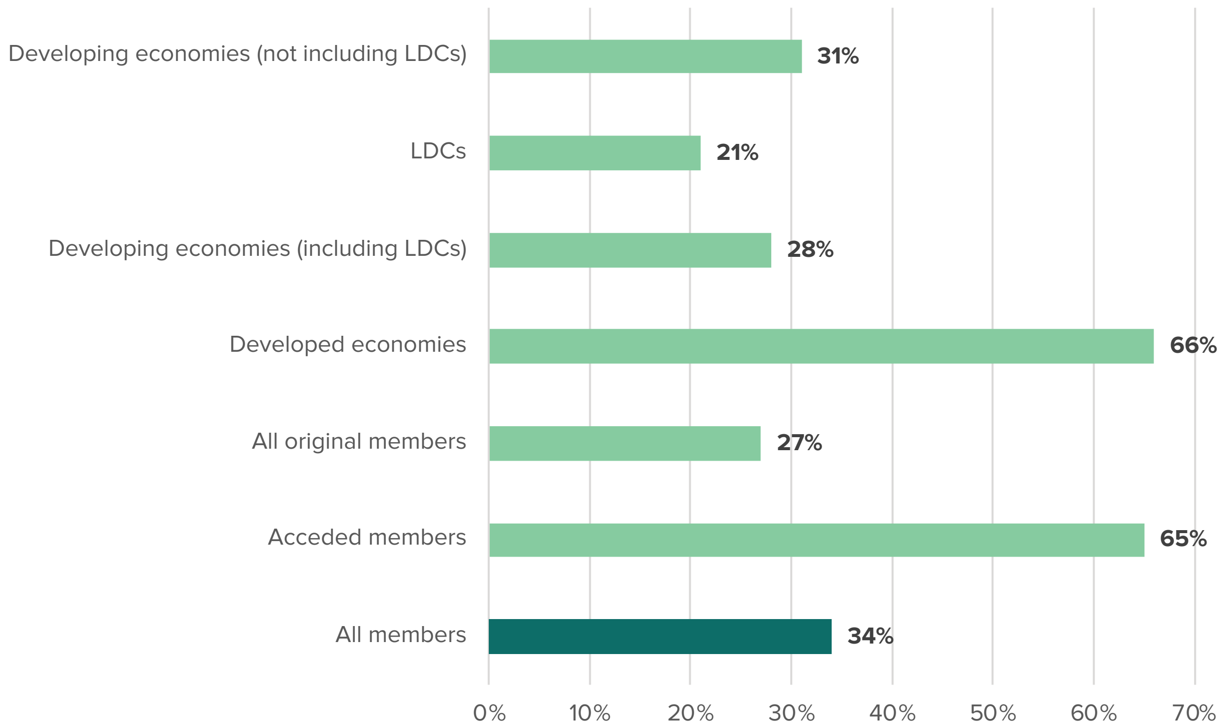
The services commitments scheduled by LDCs under the GATS stand out for their low level and nature. With the exception of the nine LDCs that joined the WTO through Article XII accession negotiations[19] and whose level of GATS commitments is significantly higher on average than the majority of founding WTO members (reflecting in part the asymmetrical nature of the accession process), LDCs on the whole remain the least committed of all country groupings, with just over a fifth (21 per cent) of services subsectors covered by the GATS subject to binding commitments (a figure that includes the commitments of acceded LDCs, Figure 13). The Uruguay Round commitments of LDCs, moreover, show a marked proclivity to bind less than the regulatory status quo (Roy, 2016).

Such a limited level of multilateral engagement, and the consequentially limited reciprocal benefits LDC commitments have arguably produced, owe to various factors. These include the limited negotiating capacity that characterized LDCs during the Uruguay Round, a constraint that continues to weigh on the voice exercised by many LDCs in the WTO today; the export pessimism that has long permeated developing and least developing country attitudes towards services trade negotiations; and the level of policy precaution induced for most members – developed and developing – by the sheer novelty and regulatory complexity of the subject matter when it was first placed on the global trade agenda (World Bank and WTO, 2023).

LDC specialization patterns and negotiating priorities

A final contextual consideration relates to the nature of the service sectors in which LDCs have tended to specialize and/or in which their quest for improved market access in preference-granting countries has concentrated. These concern transportation (all modes, but especially maritime and air transport), travel and tourism as well as services rendered through the temporary movement of service suppliers – so-called Mode 4 trade in services – at various skill levels. While these are sectors or forms of trade in which a number of LDCs have made significant inroads, all are arguably

Figure 13. Average proportion of subsectors subject to GATS commitments, various country groupings



Source: World Bank and WTO.

sectors or modes of supplying services in which trade policy, trade agreements and the commitments scheduled therein and, thus, a GATS waiver, have to date exerted limited traction and appear to show limited promise (Sauvé and Ward, 2016).

In the case of transport services, and despite its centrality to merchandise trade, the maritime subsector remains among the most weakly committed under the GATS, owing in large measure to the reluctance of a leading member to engage in the sector. Greater progress in addressing trade in maritime transport has proven possible within a number of deep preferential trade agreements (Roy, 2016; Sauvé and Shingal, 2011).

Meanwhile, the bulk of air transport, a sector of considerable importance to trade in goods generally and a key vector for tourism growth, is all but excluded from trade agreements, whether the GATS or preferential agreements. While travel and tourism represent the world's single largest sector, contributing 11 percent of global GDP and a source of inclusive employment opportunities, it ranks among sectors that are least affected by trade policy measures, including an LDC waiver.

Apart from air transport's *de facto* exclusion from trade agreements, the limited traction of trade policy in tourism owes to the motivations for choosing a travel destination, which have little to do with the nature or level of commitments scheduled under trade agreements. Here again, regional and bilateral tourism cooperation agreements targeting specific tourism-related impediments to trade and investment in the sector (e.g. visas, work permits, skills upgrading, land use) may hold greater potential for providing tourism service providers with expanded trade opportunities.

The ability of LDCs to grow their services exports via the establishment of a commercial presence in a foreign market is generally constrained by the capital scarcity that characterizes most of them. Rather than relying on the waiver to boost Mode 3 trade, LDCs have focused instead on attracting greater volumes of sustainable FDI by improving their investment climates. An important number of them have done so by participating actively in the recently concluded Joint Statement Initiative (JSI) on Investment Facilitation for Development. Given prevailing weaknesses and gaps in domestic regulatory frameworks, including in the digital realm, LDCs have paradoxically professed significantly lessened interest in the JSIs on services domestic regulation (which not a single African LDC has joined) and e-commerce. This is so despite the fact that both areas are the focus of determined domestic reform efforts in most LDCs while also featuring in the preferential trade agreements they have entered into or are currently negotiating.

As regards Mode 4, a form of services trade in which the comparative advantage of developing and least developed countries trade often resides and which features prominently in LDC requests for expanded market access, negotiations have persistently run up against the political sensitivities and revealed preference of most WTO members to eschew commercially meaningful commitments, a policy stance that shows few signs of abating. Mode 4 remains the least committed and most restricted of all modes of service supply, including by LDCs themselves, with commitments significantly biased towards the mobility of more highly skilled workers, intra-corporate transferees linked to Mode 3 trade and professionals whose relative abundance strongly correlates with higher per capita income and educational levels.

Much Mode 4 trade takes place through informal channels among LDCs, particularly in Africa, where such trade often goes unreported. Not surprisingly, the LDC waiver has largely failed to produce hoped for results, reaffirming a pattern of modal imbalances long bemoaned by developing and least developed members. By contrast, and because Mode 4 trade confronts the twin challenge of extending preferences on a non-discriminatory (e.g. MFN) basis in a multilateral setting and contends with the inherently cyclical nature of labour market demand, alternative settings, such as bilateral guest worker programmes, bilateral and regional temporary migration pacts and some preferential trade agreements, have shown a greater ability to secure development-enhancing advances on labour mobility related issues (Panizzon, 2010; Sauvé and Ward, 2014).

Has the waiver boosted LDC services exports?

The general paucity of services data, particularly the dearth of bilateral trade data in LDCs and other countries, singularly complicates attempts at measuring the impacts that the waiver has exerted on the services export performance of LDCs. Such a gap makes it next to impossible to assess whether trade takes place through the preferences notified under the LDC services waiver. Still, in depicting the recent services export performance of LDCs, this note reviews available evidence by splitting the period from 2010 to 2019 into the pre- (2010-13) and post-(2014-19) LDC waiver periods.

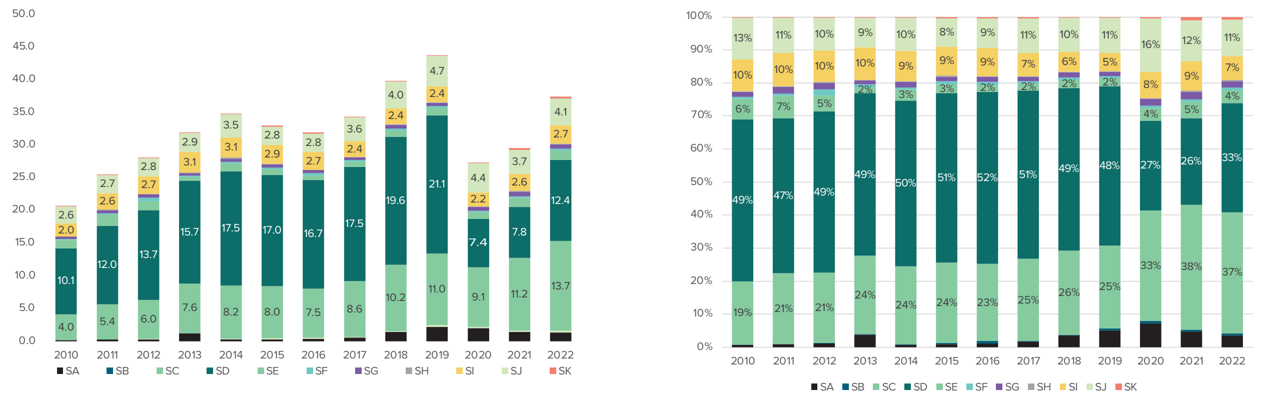
The value of LDC services exports grew by 36.3 per cent in the post-waiver period, reaching an average annual value of $41 billion relative to the period prior to the waiver, when the average annual value of services exports stood at $30 billion. While such growth was higher than the corresponding increase observed in the services export values of comparator groups, the LDC share of world services exports remained roughly unchanged at 0.7 per cent both prior to and after the waiver was operationalized. Moreover, services exports grew much faster on average in the pre-waiver period for all groups compared to the post-waiver period. For LDCs in particular, the average annual growth in services exports witnessed a significant post-waiver slowdown, standing at 5.8 per cent over the 2014-19 period as compared to 13.6 per cent per annum over the 2010-13 period.

Services form a highly heterogeneous set of activities with varying trade intensities. These comprise both traditional sectors like transport, travel, construction and hotels and restaurants as well as modern, digitally deliverable services such as finance and insurance, ICT and a growing set of business and professional services. It should come as no surprise that the LDC services export story exhibits significant sectoral and cross-country variance.

As noted above, travel and transport services have tended to dominate the LDC services exports landscape, accounting between them for almost three fourths of total commercial services exports on average over the 2010-19 period (Figure 14). While travel services alone contributed nearly half of LDC services exports before the pandemic, both their value and shares have plummeted post-2019, given the impact of COVID-19 induced travel bans and containment measures on business and leisure travel.

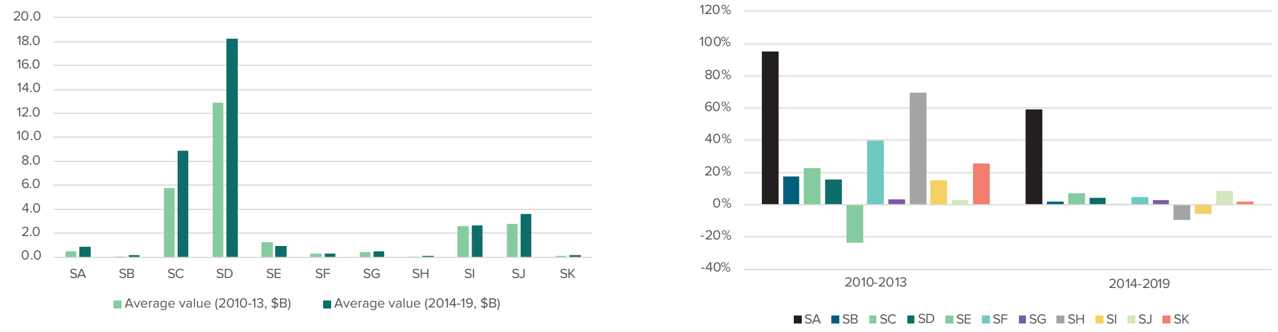
At the same time, both transport and digital services have become relatively more important in the services export basket of LDCs since 2019 though their export value has not picked up noticeably. Still, the sectoral distribution of LDC services exports remains highly concentrated, with a Herfindahl-Hirschman index of 0.6 on average during both the pre- and post-waiver periods. This suggests that the post-waiver period has not on the whole been associated with a diversification of LDC services exports.

Figure 14. Sectoral composition of LDC services exports over 2010-22: value in USD billion (left panel) and percentage shares (right panel)



Source: WTO Services Database; own calculations.
Legend: SA – Manufacturing services on physical inputs; SB – Maintenance and repair services; SC – Transport; SD – Travel; SE – Construction; SF – Insurance and pension services; SG – Financial services; SH – Charges for the use of intellectual property; SI – Information, computer and telecommunications; SJ – Other business services; SK – Personal, cultural and recreational services.

Figure 15. Comparison of sector-level LDC services exports in the pre- and post-LDC waiver periods: average value (left panel) and growth rates (right panel)

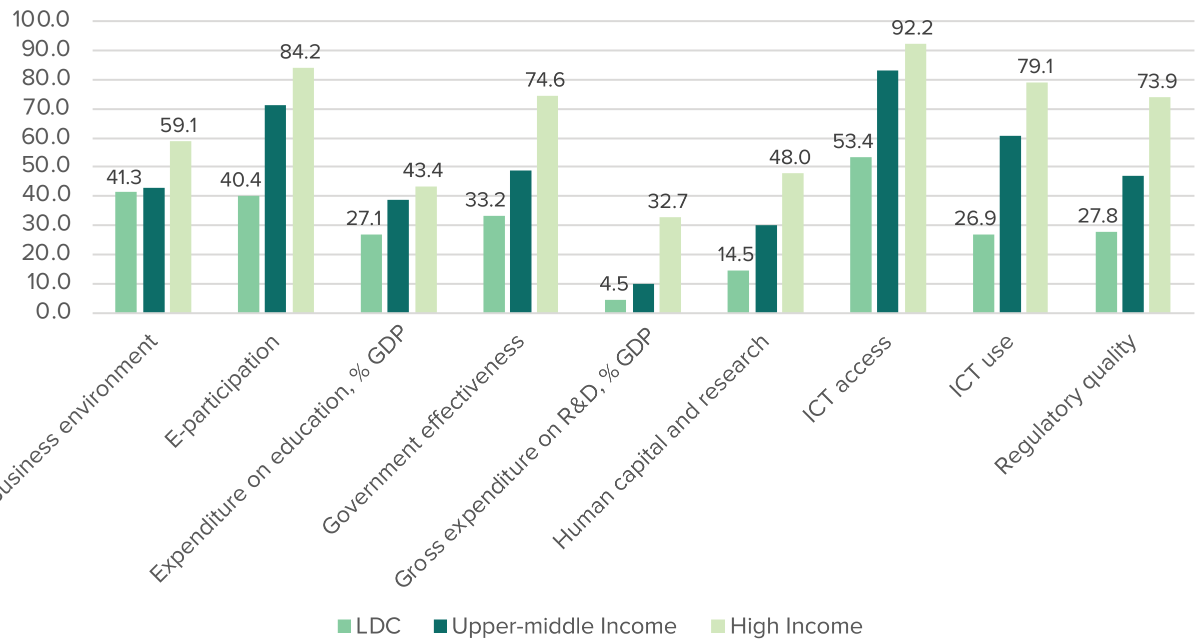


Source: WTO Services Database; own calculations.
Legend: SA – Manufacturing services on physical inputs; SB – Maintenance and repair services; SC – Transport; SD – Travel; SE – Construction; SF – Insurance and pension services; SG – Financial services; SH – Charges for the use of intellectual property; SI – Information, computer and telecommunications; SJ – Other business services; SK – Personal, cultural and recreational services.

Corroborating the above trends, only LDC transport and travel services exports report a large increase in value over the pre- and post-waiver periods. Most modern services exports – insurance, finance and ICT services in particular – registered only marginal changes in value (Figure 15; left panel). The category of 'other business services' was the only one in which LDCs registered faster average annual export growth in the post-waiver period. For all other sectors[20], there was a considerable slowdown in LDC export growth compared to the pre-waiver period. The contrast is especially stark for LDC exports of ICT services that report negative growth in the post-waiver period compared to an average annual growth rate of 15 per cent before the waiver (Figure 15; right panel).

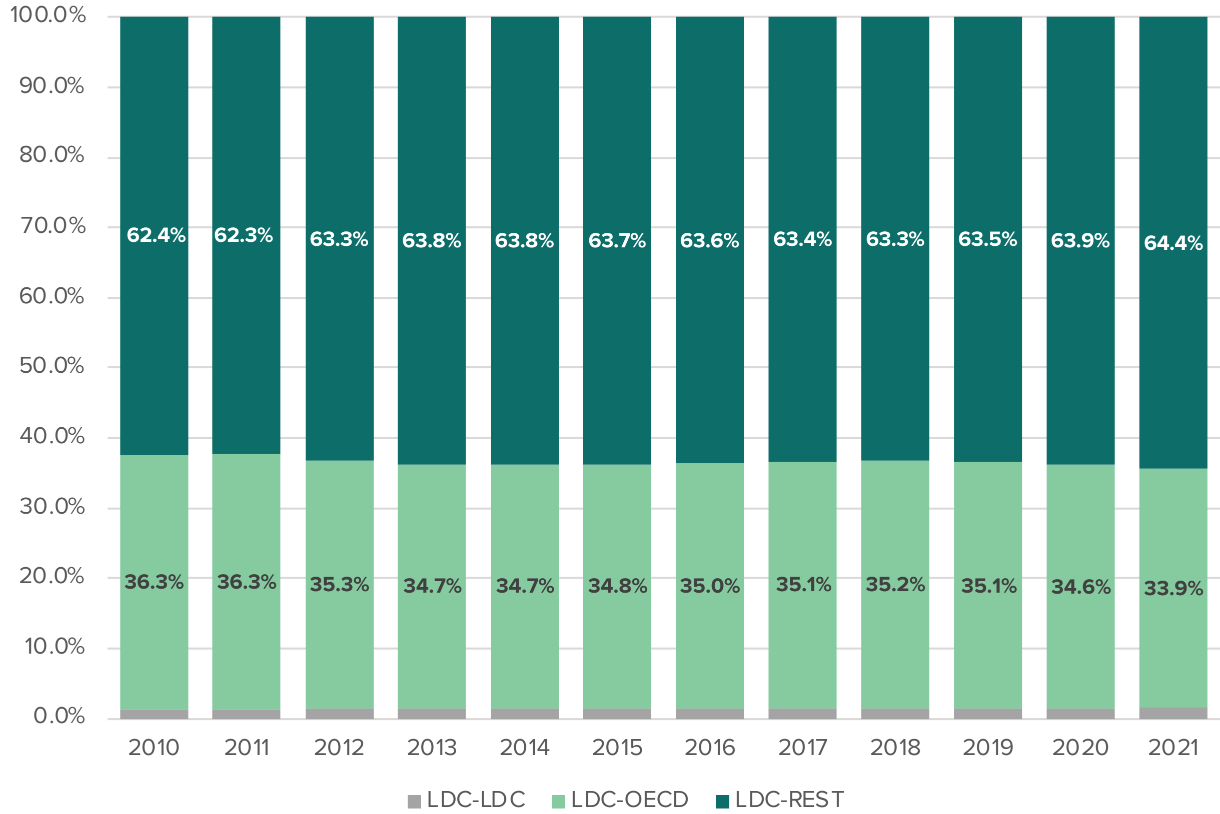
The slowdown in LDC ICT services exports in the post-waiver period is particularly disconcerting and impinges on these countries' ability to leverage on the pandemic-induced spurt in digitalization to enhance their participation in global trade and benefit from the resulting gains. This inference is corroborated by the relatively low ranking of LDCs in terms of e-participation and ICT access and ICT use in WIPO's Global Innovation Index 2022 database. LDCs fare equally poorly relative to comparator groups on metrics of government effectiveness, regulatory quality, business environment and human capital, all of which are key determinants of service sector performance (Figure 16).

Figure 16. Metrics of service sector performance: LDCs and comparators (2022)



Source: WIPO, Global Innovation Index Database.

Figure 17. Destination of LDC services exports by income group (2010-2021, % shares)



Source: OECD-WTO BATIS Database; own calculations.

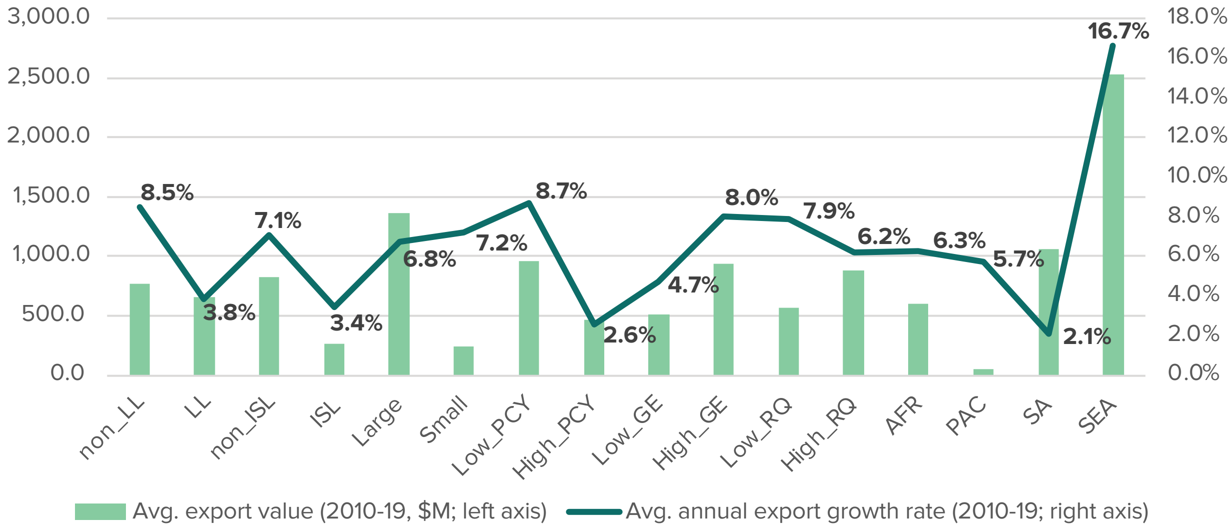
The low diversification of LDC services exports also extends to the choice of partner countries as destination markets. The bulk of LDC exports are destined for middle-income country markets. The latter absorbed almost two thirds (63.3 per cent) of LDC services exports in 2019, followed by OECD countries with 35.3 per cent and intra-LDC trade with 1.4 per cent. Such a distribution shows no significant change over the 2010-19 period, with the intra-LDC share increasing marginally by 0.1 per cent and that of the OECD declining slightly from 36.3 per cent in 2010 to 35.3 per cent in 2019, while that of middle-income destinations stood 1.1 per cent higher in 2019 relative to 2010 (Figure 17). Thus, the waiver period has also not been associated with a diversification of LDC exports by destination market.[21]

Considerable heterogeneity characterizes the services trade performance of LDCs by geography (e.g. continent of location, landlocked vs others, island economies vs others), market size, per capita income, government effectiveness, regulatory quality, PTA-intensiveness, GVC-integration and e-readiness. These metrics lend the LDC services export story yet another dimension of marked differentiation.

Over the 2010-19 period, the services export value of the average landlocked, island, small, relatively high-income and low regulatory quality LDC were lower than those of the average non-landlocked, non-island, large, relatively low-income and high regulatory quality LDC (Figure 18).

However, in terms of average annual growth rates over the last decade, the services exports of the average small and low regulatory quality LDC grew faster. Meanwhile, the average Southeast Asian LDC exported services worth US$2.5 billion on average over 2010-19. This compares to US$1 billion for the average South Asian LDC and to US$600 million for the average African LDC. Meanwhile, the services export value of the average Pacific LDC amounted to less than US$50 million. Such trends further highlight the significant heterogeneity in the LDC services export landscape. The services exports of the average Southeast Asian LDC registered the fastest growth over the last decade, with an impressive average annual growth rate of 16.7 per cent, a starkly stronger performance than the 2.1 per cent average annual growth reported by the average South Asian LDC over the same period.

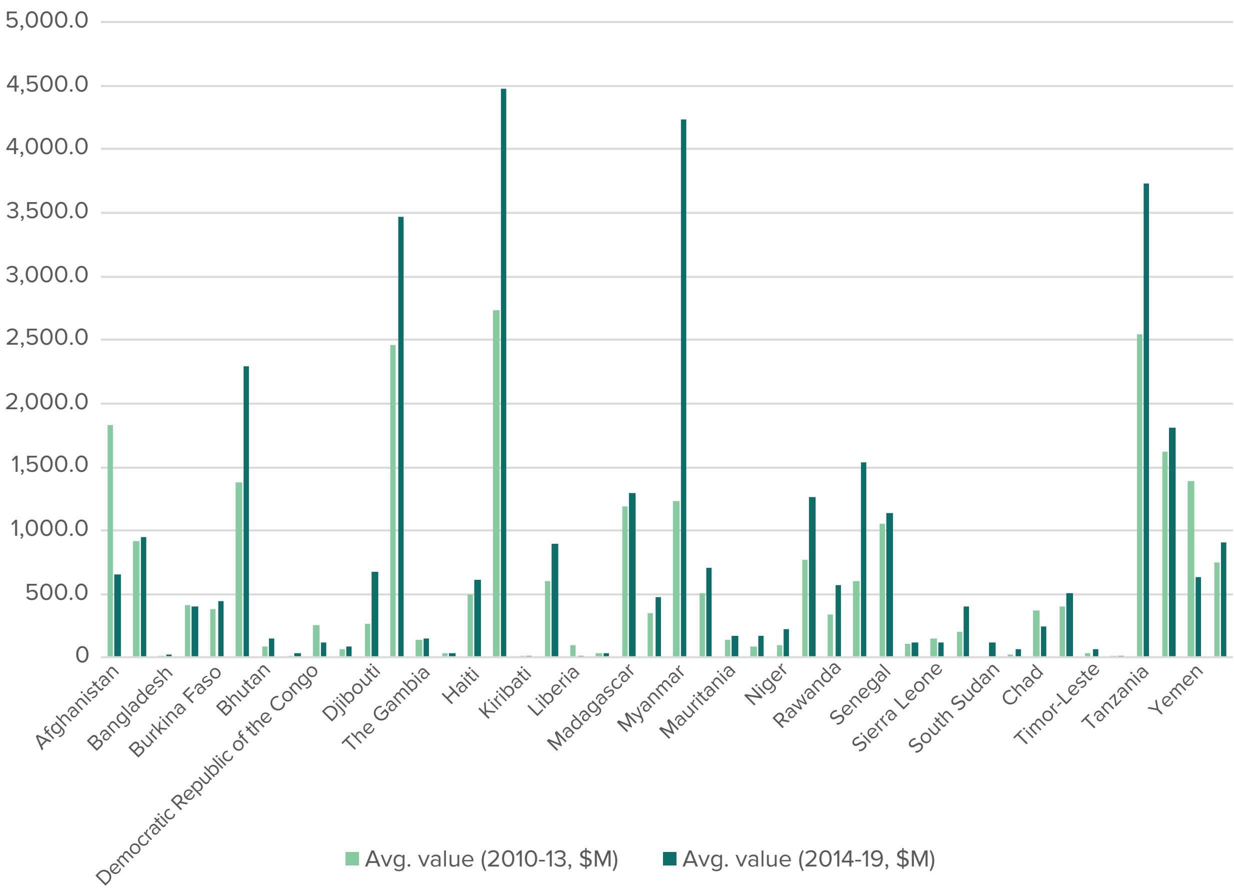
Figure 18. LDC services exports by geography, size, income and regulatory quality



Source: WTO Services Database; own calculations.

As noted above, marked heterogeneity can be seen at the individual country level. Breaking the 2010-19 period down between pre- and post-waiver sub-periods shows that the services exports of the top five LDC service exporters – Bangladesh, Cambodia, Ethiopia, Myanmar and Tanzania – increased significantly in the post-waiver period, while the reverse was true for Afghanistan and Yemen (Figure 19). Such results suggest that the LDC services export distribution by country became even more concentrated in the post-waiver period. In the absence of bilateral trade data, it is not possible to establish the role that the LDC waiver may have played in such outcomes, though it seems probable that a number of larger countries endowed with strong competitive advantages in specific sectors were likely better placed to take fuller advantage of the non-reciprocal market access offers put forward by 51 WTO members.

Figure 19. LDC services export value by country in pre- and post-LDC waiver periods



Source: WTO Services Database; own calculations.

Where next?

This note's closer look at key trends in LDC services exports reveals significant but uneven overall growth over the decade leading up to the COVID-19 pandemic. Despite the services waiver, the LDC services export distribution remains highly concentrated by geography, country, sector and destination market. The fact that concentration levels at the country level have risen since the waiver was enacted raises difficult questions over the waiver's efficacy for the most challenged LDC economies. Further questions over the waiver's usefulness arise given the prevailing structure of LDC services exports and the grouping's stated priorities under it, many of which relate to sectors that are either weakly affected by trade policy measures or hinge on advances on the most contentious mode of supplying services (Mode 4).

Particularly disconcerting is the slowdown witnessed in LDC ICT services exports in the post-waiver period. According to WTO estimates, and despite the pandemic-induced boost to remotely supplied services, LDC exports of digitally delivered services were up only marginally in 2020 and declined by 4 per cent in 2021, while other economies recorded a 14 per cent rise over the same period. Such a performance, which points to significant supply-side constraints in digital capacity, impinges on the ability of LDCs to leverage the pandemic-induced spurt in digitalization to enhance their participation in global services trade and reap the associated gains in inclusive growth.

LDCs have much to gain by boosting their e-readiness since geographical remoteness or smaller domestic markets are lesser drawbacks for exports of digitally delivered services than they are for manufacturing. There is also significant potential for youth and women to be involved in such trade, mitigating the chronically high outward migration pressures found in many LDCs. Yet so long as the growth of digitally delivered services is held back by weaknesses in the overall regulatory and business ecosystems of LDCs, one may yet again question the scope that exists for a majority of LDCs to reap significant benefits from non-reciprocal market-opening commitments on Mode 1 (cross-border supply) trade in services.

This inference is further corroborated by the weak overall performance of LDCs on a range of service sector performance metrics, including their ability to digitalize, suggesting that this is one important dimension along which LDCs must improve individually and collectively. Seen this way, the weak participation of LDCs in the WTO's e-commerce JSI, if ultimately only for learning purposes, is puzzling, all the more so as much the same digital trade provisions are at play within preferential confines such as the African Continental Free Trade Area (AfCFTA), in which all African LDCs take part.

A number of policy insights flow from the analysis on offer in this note.

First is the recognition that, despite its legitimate intentions, the LDC services waiver has not on the whole moved the needle significantly in sectors and modes of supply of priority interest to the WTO's least developed members. Twelve years after the LDC waiver was enacted, the aggregate share of LDC services exports stands today at an all-time low. Aggregate trends may well obscure country and sector-specific advances that this note has not delved into. Yet in the absence of bilateral trade data, establishing a causal link between the waiver and the services export performance of individual LDCs remains as elusive as ever.

In charting a way forward, it is important to bear in mind that, with two thirds of LDC services exports destined for other developing and least developed country markets, a significant share of the export difficulties faced by LDCs have a distinctly regional or neighborhood character. This makes them amenable to neighborhood solutions, notably through the pursuit of deep PTAs such as the AfCFTA, the Association of Southeast Asian Nations (ASEAN) or the Pacific Agreement on Closer Economic Relations (PACER) Plus. Technical assistance targeted at helping LDCs implement with greater efficacy the various regional public goods produced by economic integration schemes and promoting greater connectivity – both physical and digital – between parties to such regional groupings, may well yield greater and more sustainable development dividends than a WTO waiver is likely to.

Due consideration must also be given to recourse to non-trade instruments in pursuing LDC export priorities in services. This is clearly the case for Mode 4 trade, where development-enhancing advances have proven possible under various bilateral instruments of temporary mobility governance. This is also arguably the case with mutual recognition agreements for more skilled professions, whose trade-facilitating properties have shown a far greater tendency to be secured within preferential settings, both bilateral and regional, rather than on a multilateral basis.

In operationalizing the waiver until its expiry, greater efforts need to be directed towards experimenting with policy approaches liable to reap economies of scale in design and implementation. Formulaic approaches to market opening – to the extent that the WTO membership is still keen to open services markets – appear particularly attractive in this regard. Two formulas come to mind. First, non-LDC members could extend most or all of their 'best PTA' commitments to LDCs on a non-reciprocal basis. A second formula could involve signatories of the WTO's plurilateral Government Procurement Agreement (GPA) bestowing non-reciprocal market-opening privileges to LDC suppliers in services-related procurement markets. Formulaic advances are also feasible in lowering the fee-based aspects of licensing and accreditation regimes, affording reduced compliance costs to LDC suppliers in non-LDC markets.

Still, there is no escaping the stark reality that many LDCs confront crippling supply-side constraints, holding back their ability to leverage preferences for development gains. This is notably the case with LDCs confronted by conflict-induced fragility. A case in point is Liberia, whose level of education remains one of the lowest in the world. The country's civil war deprived an entire generation of education and skills, with an estimated 80 per cent of the country's schools destroyed. The first order of business in restoring productive capacity in the large (and growing) number of LDCs afflicted by fragility involves investing in human capital and rebuilding war-ravaged infrastructure. Waiver-induced enhanced access can do little to address such pressing needs. In such settings – as in many other LDCs with weak institutional capacity, fledgling regulatory frameworks and institutions, and limited export competitiveness – targeted aid-for-trade support represents a first best response.

Stepped up levels of aid-for-trade support need to be directed to strengthening the capacity of LDCs to design and implement services trade reforms and supply competitive services to global markets. Three decades after the curtain fell on the Uruguay Round, many developing and least-developed economies continue to be challenged in conducting domestic policy reforms and trade negotiations in services – not least because of the highly diverse nature of the service economy, the regulatory intensity that characterizes it, and political economy constraints in policy formulation and regulatory enforcement, as well as in supply-side capacities.

An approach in which aid-for-trade support underpins efforts to enhance international cooperation, reduce trade costs and improve the transparency and predictability of trading conditions could provide much needed momentum to the services trade policy agenda, especially within the WTO's more inclusive architecture. There is empirical evidence supporting the notion that the WTO's Aid for Trade Initiative launched in 2005 can contribute to an improvement in the export performance of LDCs (Hoekman and Shingal, 2020; Gnangnon, 2023). But more, and more targeted, technical assistance is needed to durably enhance the export competitiveness of LDC service suppliers and the regulatory ecosystems in which they operate. Delivering this would help a larger subset of LDCs make fuller use of the services waiver.

In a recent joint publication aimed at reviving long-dormant international cooperation on services trade, the World Bank and the WTO called for a Trade in Services for Development Initiative aimed at mobilizing resources for a coherent Aid for Trade package in services (World Bank and WTO, 2023).

Such an initiative targets five key challenges, all of which are particularly salient in LDCs:

i. addressing data gaps in services trade, particularly data on bilateral trade flows, trade in services by mode of supply and trade in value-added;

ii. affording LDCs greater voice by scaling up their technical and analytical capacity to design and implement domestic reforms in service markets and supporting their greater participation in international policy deliberations and negotiations in services;

iii. strengthening domestic regulatory frameworks and the institutions governing them;

iv. promoting more diversified services export baskets, particularly digitally delivered ones; and

v. addressing what in a majority of LDCs is the most binding constraint to expanded services exports – improving the services-related skills of workers and boosting competitiveness at the firm level.

Rather than focusing unduly on the services waiver, LDCs may be better served by focusing priority attention on their aid-for-trade needs and partnering with development partners to address the key hurdles, both domestically and in foreign markets, that stand in the way of their increased participation in global trade in services, as called for by Article IV of the GATS.

III.
Stalled LDC integration into global markets – GSP wasn't enough

Simon J. Evenett, University of St Gallen[22]

Introduction

According to the World Development Indicators database, in 2022 a total of 1.13 billion people, or a seventh of the world's population, resided in least developed countries (LDCs). Given the unacceptably low levels of per capita income in LDCs, it is critical that ways are found to raise living standards.

Therefore, it is worrying that annual growth in inflation-adjusted GDP per person employed in LDCs has slowed to 2.8 per cent since the onset of the global financial crisis, from 3.7 per cent during 2000 to 2008. Simply put, if this slower growth rate sustains throughout this century, productivity in LDCs will only double every 22 years.

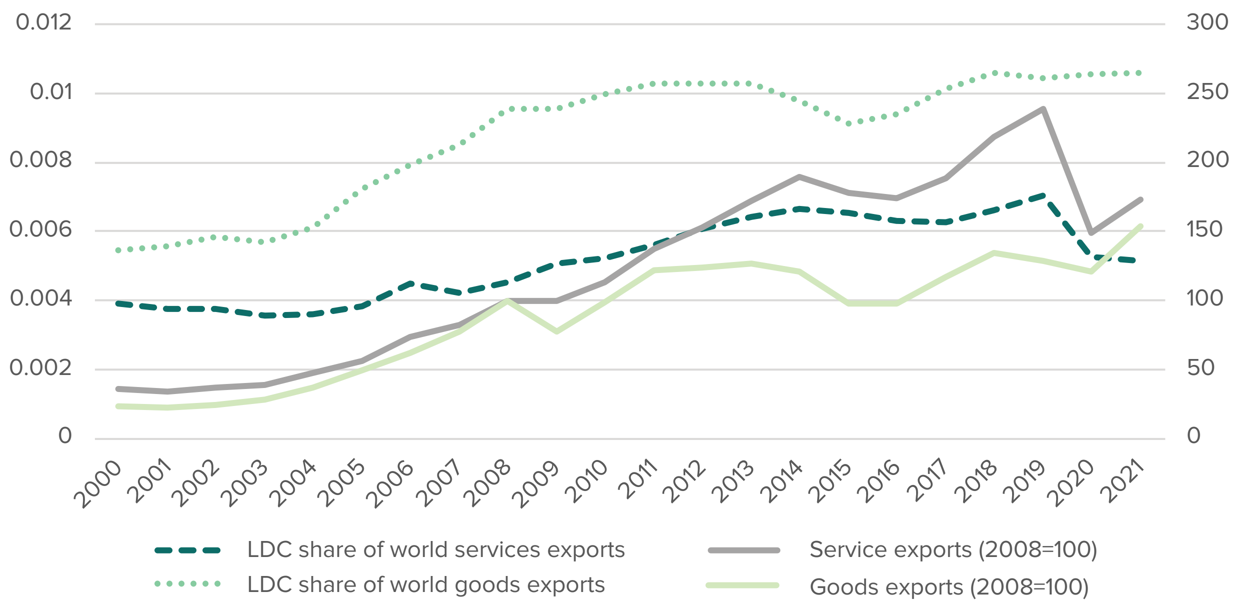
A tried and tested route to accelerate rates of economic growth is to increase integration into global markets. Having started the century well – especially through exporting more goods – LDCs have stopped gaining global market share. For goods exports, the turning point appears to have been the start of the global financial crisis in 2008 (Figure 20). For services, LDCs' global market share has barely advanced for almost a decade, since 2014. In short, the nominal value of LDC goods and services exports has grown in line with the world economy's trade and not faster.

Many factors affect export competitiveness and two-way causation cannot be ruled out either. For example, the willingness of firms in LDCs (or foreign firms thinking of setting up shop in LDCs) to invest in new machines and thereby increase labour productivity may be affected by expected improvements in access to foreign markets. This is just one way in which trade policy changes – both actual and expected – can affect the growth of living standards. Access to parts and components at prices that have not been inflated by import tariffs is another example and is particularly relevant in an era of cross-border supply chains.

The purpose of this essay is to describe the principal changes in LDCs' access to foreign markets since the global financial crisis. This essay draws upon the granular data on trade, investment, and other commercial policy decisions classified as affecting LDCs in the Global Trade Alert (GTA) database.[23] The GTA database includes information on 61 different types of commercial policy intervention, including some border-related and many so-called behind-the-border measures, such as government procurement measures, trade-related investment measures, and other so-called localization measures. A particular feature of the GTA database that arose not by design, but as a consequence of sustained monitoring of government commercial policy practice, is its extensive coverage of different types of selective corporate subsidy interventions. Some valuable trade policy databases are best thought of as summarizing certain aspects of national trade policy stances. In contrast, the GTA database captures trade policy practices as manifested by the thousands of commercial policy decisions taken by governments every year.

A unique feature of the GTA database is that – where hard data supports the connection – the countries affected by the imposition of a trade policy measure are identified on a systematic basis. This means that, along with dates for when trade measures in LDC trading partners come into effect and when they lapse, it is possible to systematically track the commercial policy interventions likely to affect LDC exports and the billions of dollars of LDC exports covered by those

Figure 20: LDC goods and service exports have stopped gaining global market share



Source: World Development Indicators.

policy interventions.[24] As goods trade data (through the UN COMTRADE database) are available on a more granular basis than services trade data, the findings that follow, in so far as they relate to export exposure, relate to LDC goods trade.[25]

From 1 November 2008 to 9 August 2023, a total of 6,617 policy interventions in foreign markets have blunted the competitive advantage of LDC exporters. In contrast, 1,772 foreign trade policy acts have created commercial opportunities for LDCs.

To put the following discussion in context, recall that the Generalized System of Preference (GSP) schemes – which allow LDCs to export selected goods to certain trading partners at zero or low tariffs and without facing import quotas – represent a pervasive trade policy intervention in favour of LDCs. The pursuit of duty-free and quota-free access to the world's largest economies has long been a goal of LDC members of the WTO. Consequently, the existence of GSP regimes is often the first policy item that comes to mind when assessing LDC market access abroad.

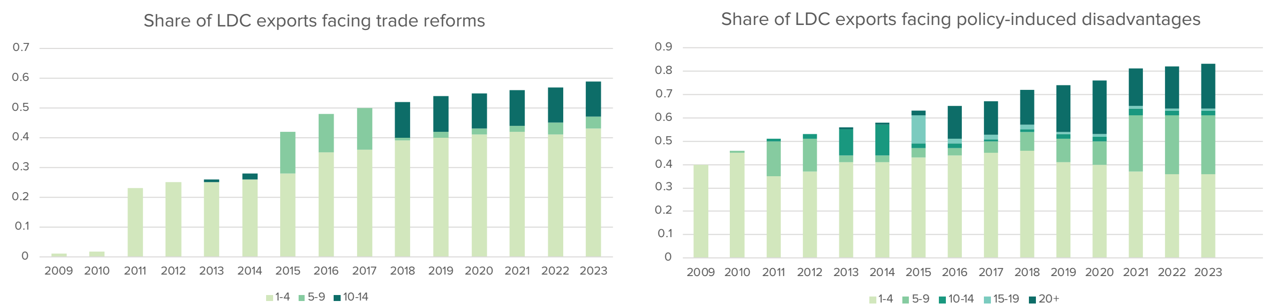
Perhaps one of the most important points to be borne in mind when assessing the evidence presented in this essay – beyond the longstanding one that the generosity of GSP regimes can change over time and is entirely at the whim of the preference-granting nation – is that many non-tariff commercial policy interventions can erode or add to GSP preferences. If a preference-granting government decides to subsidize local producers, this undercuts the competitive position of all rival importers. In such situations, LDC importers are not spared because they can avail themselves of GSP tariff preferences. The implication is clear: a comprehensive picture of commercial policy interventions affecting LDCs is required to properly assess policy-related market access developments abroad.

Risks to market access for LDC goods exports

Since information is available on the dates when foreign governments introduce and phase out commercial policy interventions, it is possible to trace out over time estimates of the shares of LDC goods exports that face improved market access conditions abroad as a result of changes in government policy. Moreover, it is possible to decompose those export exposure shares into the number of times foreign economic policies have affected LDC exports. These calculations – for which there are established techniques to implement developed by international trade economists – put hard numbers on trade policy dynamics. And to be clear, threats to LDC market access can be tracked in this manner as well.

Figure 21 displays two sets of data. In the left-hand panel is the share of LDC goods exports facing improved market access conditions since the onset of the global financial crisis. The estimate for each year is duration adjusted, so if a market-access improvement lasts only ten days then the relevant underlying annual trade flow is given a weight of (10/365) or 2.7 per cent, reflecting the number of days the measure was in effect. As of 2023, 59.5 per cent of LDC goods exports face improved market access when compared to 1 November 2008, taken here to be the start of the global financial crisis.[26] Forty-three percent of LDC exports benefited from one to four policy changes abroad that improved market access. Encouragingly, 11.8 per cent of LDC goods exports currently benefit from ten or more commercial policy improvements implemented by trading partners. Overall, while LDCs' share of world goods trade has stagnated since the onset of the global financial crisis, it cannot be argued that no commercial opportunities abroad were created for LDC goods exporters.

Figure 21: Since the global financial crisis, market access threats outweigh market access opportunities for LDCs



Source: Global Trade Alert database. Data extracted 7 August 2023.

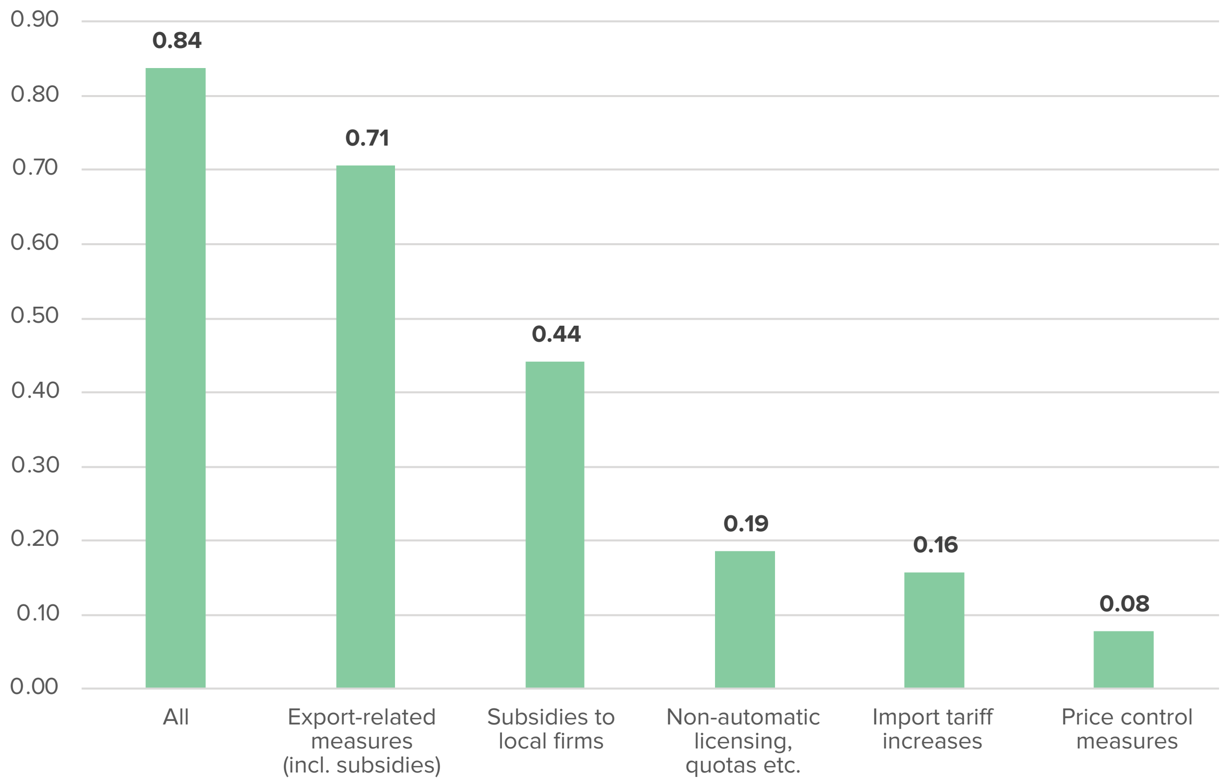
Sadly, the right-hand side of Figure 21 reveals that LDC goods exposure to policy-induced competitive disadvantages abroad is greater. By 2023, more than 83.7 per cent of LDC goods exports faced some type of import barrier or other state-created competitive disadvantage that was not present at the start of the global financial crisis. In fact, the build-up in negative competitive conditions abroad for LDC goods exports has been sustained. Worse, the number of times LDC goods exports have been "hit" by foreign trade distortions is growing. Nearly 20 per cent of LDC goods exports face 20 or more government hurdles to competing in foreign markets. Overall, of the 83.7 per cent of total LDC goods that are exposed, just under 36 per cent are exposed to four or fewer government trade distortions.

These findings suggest that the headwinds facing LDC goods exports are more prevalent than the tailwinds, a state of affairs that has become progressively worse at the same time as LDC goods exports have been unable to expand their global market share. Indeed, given the extensive exposure of LDC exports to foreign trade distortions, that the LDC global market share of goods exports has remained constant may actually be a testament to their competitiveness.

Traditional import restrictions are not the biggest problem

So what policies are responsible for the build-up of barriers facing LDC exports? Using the GTA database, it is possible to calculate the shares of LDC exports that face different types of commercial policy hurdles abroad on a specific date. For the purposes of this essay, the date taken was 1 August 2023, so any commercial policy interventions that came into force after this date or had lapsed before this date do not contribute to the calculations reported in Figure 22. Figure 22 reports the share of LDC goods exports covered at the start of August 2023 (the month this essay was drafted) for five broad classes of commercial policy intervention. Sixteen percent of LDC goods exports face higher foreign import taxes[27] – less than a fifth of the LDC goods export exposure to all foreign trade distortions. Exposure to harsher import licensing requirements or to tighter import tariff quotas covers 19 per cent of LDC goods exports.

Figure 22: Subsidized foreign competitors are the most pervasive threat to LDC exports



Source: Global Trade Alert database. Data extracted 7 August 2023.

In contrast, much larger shares of LDC exports compete against subsidized foreign rivals. Some 44 per cent of LDC exports compete in foreign markets in product lines where one or more local firm has been subsidized. Those subsidies may have been awarded in the past but that does not stop the competitive advantage conferred from lingering. For example, that competitive advantage may result in an LDC exporter being undercut by lower prices or because a foreign rival can offer a better non-price offering or better goods financed by state-provided loans, etc.

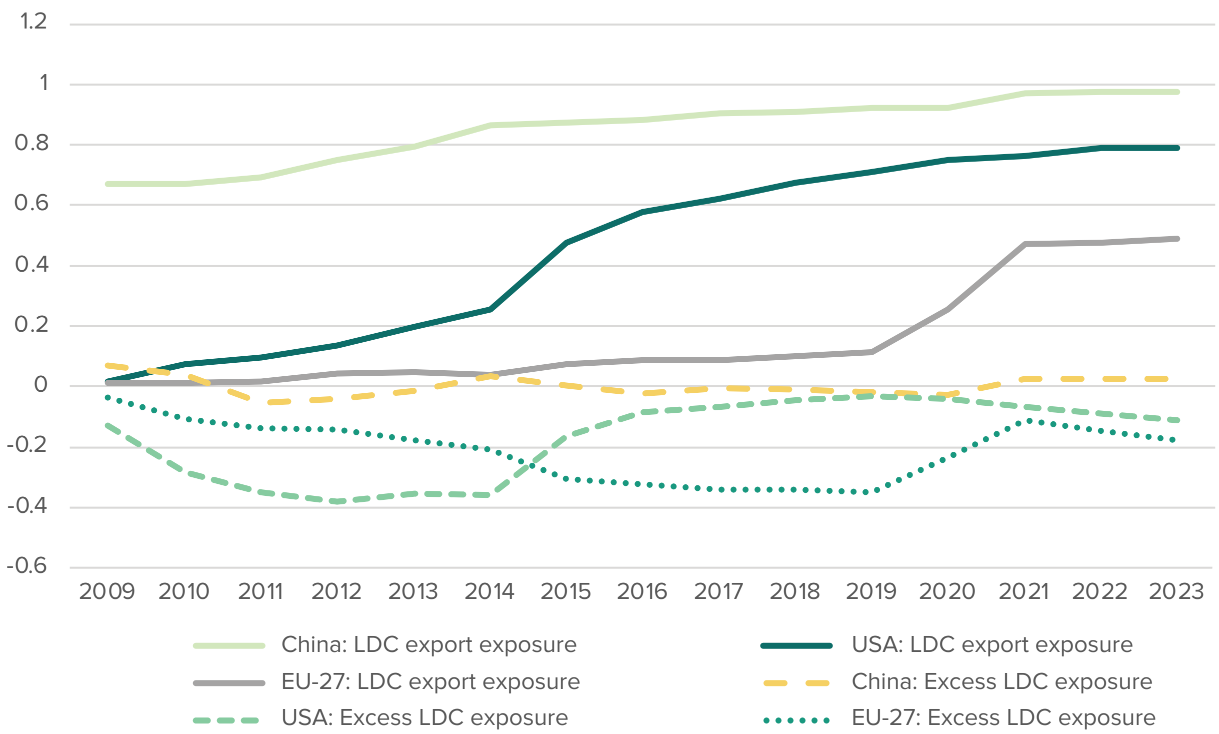
Even more of a problem – at least measured in terms of LDC goods export exposure – is competition in third markets from subsidized exporters from other countries. LDC governments can't afford export incentives but economies with higher per-capita incomes can. Before the pandemic,[28] 71 per cent of LDC goods exports competed in third markets against a subsidized foreign rival. Often those subsidies took the form of tax rebates available only to exporting firms.[29]

Taken together, these findings imply that changes to GSP regimes and other import tariff changes are not the biggest trade policy hurdle facing LDC exporters since the onset of the global financial crisis. Indeed, as other research with Johannes Fritz has shown, LDCs are not alone in seeing their export competitiveness eroded by foreign corporate subsidies (Evenett and Fritz, 2021).

Access to hubs of global economic activity is worsening

When officials hear that large percentages of their nation's exports face new market access hurdles, some interpret that as deliberate attempts to target their firms' overseas sales. In fact, many governments offer subsidies to local firms without regard to the identities of foreign rivals. This point is important in interpreting changes in LDC access to the markets of the United States, China and the European Union since the global financial crisis. In all three destination markets there has been significant resort to corporate subsidies, even in non-crisis years (Evenett and Fritz, 2021). What is little appreciated is how much market access is put at risk by state support for local firms.

Figure 23: LDC non-agricultural market access eroded in the largest three trading economies



Source: *Global Trade Alert database. Data extracted 7 and 8 August 2023.*

Figure 23 presents two pieces of evidence relevant to this discussion. In the upper part of the chart, estimates are presented by year of the total LDC non-agricultural export exposure to all measures implemented by China, the European Union, and the United States that are likely to reduce sourcing from abroad. These shares have grown over time – jumping further and faster in the case of China but with both the European Union and the United States catching up in later years.

The lower part of Figure 23 shows the degree to which LDC export exposure to policies curbing imports into these three global hubs of economic activity exceeded the comparable exposure of non-LDC exports. In the case of China, there is no evidence of systemically higher export exposure of LDCs to Chinese measures. In the case of the United States and the European Union, in the early years LDC exports were less exposed to competitive disadvantages than non-LDC exports. However, as years go by, in both cases LDC export exposure catches up with non-LDC export exposure to US and European measures that tilt the commercial playing field in favour of local firms. In all three jurisdictions, most of these measures take the form of corporate subsidies (not fiscal transfers to individuals or to different levels of government).

Implications of these findings for the LDC group of WTO members

There are at least three implications of these findings that the LDC group of WTO members might consider. The context, as I noted at the beginning, is the stalled integration of LDCs into the world trading system. Figuring out how to reverse that ought to be a priority for national, regional, and multilateral trade policies of individual LDCs, and of the group as a whole.

Most fundamentally, the evidence presented here is based on actual trade policy actions taken by governments that affect LDC exports. Over 97 per cent of this information was based on official sources. Unfortunately, neither the WTO's trade policy monitoring initiative nor its Trade Policy Reviews collect and report this type of information. That needs to change if LDCs are to better identify threats to market access and to act on them. The Global Trade Alert team has started to share this type of granular information with those LDCs that are part of the Swiss-funded Capacities for Trade Policies (C4TP) initiative. LDC participation in that initiative could strengthen, and our team has ideas as to how to make this information even easier to access and to interpret by time-pressed diplomats in Geneva and officials in capitals.

The second implication is that an exclusive focus on duty-free and quota-free market access from higher income countries – that is, on the generosity of others – as well as on LDC graduation criteria overlooks the fact that trading partners can erode LDC market access in other ways. Indeed, as shown here, the generosity of trading partners to their own firms in the form of subsidies of different types now covers significant shares of LDC goods exports.

The third implication is that LDCs ought to actively engage in the upcoming deliberations on the role and regulation of corporate subsidies in the world trading system. It would be a first-order mistake to assume that trade tensions associated with corporate subsidies are only relevant to the hubs of global economic activity. In fact, many nations, not just LDCs, are caught in the crossfire as larger players resort to more and more corporate subsidization.

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Abbreviations

AfCFTA	African Continental Free Trade Area
AMS	aggregate measurement of support
AoA	Agreement on Agriculture
ASEAN	Association of Southeast Asian Nations
C4TP	Capacities for Trade Policies
DFQF	duty-free and quota-free
EIF	Enhanced Integrated Framework
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
GPA	Government Procurement Agreement
GSP	Generalised System of Preferences
GVC	global value chain
ICT	information and communications technology
JSIs	joint statement initiatives
LDC	least developed country
MC13	13th WTO Ministerial Conference
PACER	Pacific Agreement on Closer Economic Relations
PTA	preferential trade agreement
SPS	sanitary and phytosanitary measures
WFP	World Food Programme

Endnotes

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2 United Nations, Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States. 2023. About Least Developed Countries (LDCs). https://www.un.org/ohrlls/content/about-least-developed-countries. The WTO recognizes as least developed countries (LDCs) those countries that have been designated as such by the United Nations. There are currently 46 least developed countries on the UN list, 35 of which to date have become WTO members. These are: Afghanistan, Angola, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, the Central African Republic, Chad, the Democratic Republic of Congo, Djibouti, The Gambia, Guinea, Guinea-Bissau, Haiti, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Senegal, Sierra Leone, the Solomon Islands, Tanzania, Togo, Uganda, Yemen, and Zambia. Eight more least developed countries are negotiating to join the WTO. They are Bhutan, Comoros, Ethiopia, São Tomé and Principe, Somalia, South Sudan, Sudan, and Timor-Leste.

3 Food and Agriculture Organization of the United Nations. 2023. FAOSTAT. Suite of Food Security Indicators. https://www.fao.org/faostat/en/#data/FS

4 Food is defined as SITC commodity codes 0, 1, 22, and 4.

5 A description of the special and differential treatment provisions for LDCs is laid out in WTO document WT/COMTD/W/135.

6 World Trade Organization. 2016. Duty-Free and Quota-Free (DFQF) Market Access for Least Developed Countries: A report by the Secretariat. WT/COMTD/W/222.

7 Bangladesh is the only LDC which has thus far notified support falling under "AMS" and claimed *de minimis*.

8 Mavroidis, P. 2023. "No time for old time religion: next steps towards integrating LDCs into the world trading system."

9 Glauber, J., D. Laborde, and V. Piñeiro. 2021 "New disciplines for domestic support" in The Road to the WTO Twelfth Ministerial Conference: A Latin American and Caribbean Perspective. V. Piñeiro, A. Campos and M. Piñeiro (eds). IICA and IFPRI. Washington, DC. https://repositorio.iica.int/handle/11324/19221

10 See: FAO, UNDP and UNEP. 2021. A multi-billion-dollar opportunity – Repurposing agricultural support to transform food systems. Rome, FAO. https://doi.org/10.4060/cb6562en

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11 FAO, IFAD, UNICEF, WFP and WHO. 2022. The State of Food Security and Nutrition in the World 2022. Repurposing food and agricultural policies to make healthy diets more affordable. Rome, FAO. https://doi.org/10.4060/cc0639en.

12 Of critical importance would be the "exchange rate" for public good investments and credits on domestic support obligations.

13 Orden, D. and L. Brink. 2023. Agricultural Domestic Support under the WTO. Cambridge University Press.

14 These issues are discussed in greater detail in Sinha, T. and J. Glauber. 2021. "MC12: An Opportunity to Find an Enduring Solution on Public Stockholding." IISD Trade and Sustainability Review, Volume 1, Issue 4. Manitoba, CA: International Institute for Sustainable Development.

15 World Trade Organization. 2022. Ministerial Decision on World Food Programme Food Purchases Exemption from Export Prohibitions or Restrictions. WT/MIN(22)/29 WT/L/114.

16 Unfortunately, imports from LDCs are small and thus an exemption would likely have only negligible impacts on world prices.

17 The authors are respectively Senior Trade Specialist in the Trade and Regional Integration unit of the World Bank and Associate Professor of Economics at the S.P. Jain Institute of Management and Research in Mumbai, India. The views expressed in this note are those of its authors and should not be ascribed to the World Bank or its shareholders. The authors are grateful to Barbara d'Andrea Adrian for supplying a number of the data inputs used in this note.

18 The 2010-19 period saw LDC services exports outperform the rest of the world by registering an average annual growth rate of 6.7 per cent over the 2010-19 period (Figure 2, left panel), a level higher than the corresponding growth of middle-income countries (4.6 per cent), OECD economies (4.2 per cent) and the world as a whole (4.5 per cent).

19 Afghanistan (2016), Cabo Verde (2008), Cambodia (2004), Lao PDR (2013), Liberia (2016), Nepal (2004), Samoa (2012), Vanuatu (2012) and Yemen (2014).

20 LDC construction services exports fell by 24 per cent over 2010-13 while remaining virtually unchanged during 2014-19, making it the only sector reporting a negative average annual growth rate over the 2010-19 decade.

21 Data on the destination and source of LDC services trade is very scant in publicly available databases. We thus carry out the analysis of the direction of LDC exports using a "constructed" database, the OECD-WTO BATIS, which uses the gravity model to estimate missing services trade flows between partner countries.

22 Simon J. Evenett is Professor of International Trade and Economic Development at the University of St.Gallen, Switzerland, and Founder of the St.Gallen Endowment for Prosperity Through Trade. The latter is the institutional home of the Digital Policy Alert and Global Trade Alert, two leading independent monitors of commercial policy intervention. Professor Evenett was educated at Cambridge and Yale universities, has taught at Oxford University, and is the author or editor of over 250 publications. He thanks Fernando Martin Espejo and Sven Glinz for support preparing this essay.

23 For a description of that database and its evidence-collection methodology, see Evenett (2019) and Evenett and Fritz (2022).

24 Following the international trade literature, we distinguish between the amount of cross-border trade covered by a measure versus the amount of trade affected. The former refers to the extent to which trade is exposed to a commercial policy intervention and the latter to the extent to which the level of trade is changed (either increased or decreased) by a commercial policy intervention.

25 However, the data on commercial policy interventions harming LDC commercial interests today in Figure 3 covers all types of trade, not just goods trade.

26 In trade policy terms, November 2008 is a sensible month to start tracking commercial policy changes associated with the global financial crisis because during this month the leaders of the G20 group of nations declared that they would eschew protectionism in response to the crisis.

27 Taken here to be regular most favoured nation (MFN) tariff increases, not tariffs associated with contingent protection measures or import tariff quotas.

28 That is the 2019 pattern of world trade flows. The bilateral trade observed during that year was taken as the base year for all of the export exposure calculations reported in this chapter. A base year must be chosen to avoid the endogeneity of trade flows distorting the goods export exposure calculations.

29 The legality of such subsidies can be contested under WTO subsidy rules. As I am not a trained lawyer, I do not take a position on this matter. My reading of those better qualified to judge is that, as I wrote, the matter is contested.

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