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Enhancing LDCs Exports to OECD Markets

Challenges and Opportunities

Efforts toward enhancing export opportunities of least developed countries (LDCs) acquired a fresh impetus during the Third United Nations Conference on Least Developed Countries (UNLDC-III), held in Brussels in May 2001.

Prior to this, there were two initiatives by the rich countries, which intend to offer better market opportunities for the LDC exports. The US introduced the Africa Growth and Opportunity Act (AGOA), while the European Union (EU) came out with the Everything But Arms (EBA) initiative.

This Policy Brief provides an objective assessment of the marginalisation of the LDCs in the global trading system by citing suitable examples and highlighting the need for sustained global actions for strengthening the LDC exports. An effort has been made to understand the possible outcomes of the EBA by examining its weaknesses, challenges and opportunities from the political economy perspective.

Background

The Least Developed Countries (LDCs) constituted about ten percent of the world's population in 1997. Their share in world imports was only 0.6 percent and in world exports a negligible 0.4 percent. These shares represent declines of more than 40 percent since 1980 and are a testimony to the increasing marginalisation of LDCs. A majority of them are in sub-Saharan Africa and witnessing widespread poverty. (see Table 1)

A critical review of data on the value of exports by LDCs in the period 1995-1997 shows two distinct characteristics in the pattern of their export trade. First, merchandise trade continues to dominate LDC exports. This means that only a quarter of LDCs derives a greater part of their foreign exchange from exporting services. Second, the majority had a highly concentrated merchandise export structure, with one dominant, usually agricultural or mineral, export product accounting for more than half of the total value of exports of goods. For example, coffee constitutes about 80 percent of Uganda's exports. The bulk of LDC merchandise, therefore, is exported with little or no value added.

The most critical factor behind the LDC's failure to improve their exports is poor productivity. This is evident in agriculture, which is a major foreign exchange earner for most LDCs and employs the majority of the working population. Generally speaking, the 1990s have been characterised by stagnation in productivity for agricultural commodities. Figures on yield for the major LDC agricultural commodities up to 1997 indicate that productivity in respect of sugar cane, coffee and tobacco was stagnant from 1990 to 1997. Productivity in respect of cotton and cocoa began to stagnate from the late 1980s and did not record appreciable improvement during the 1990s. Productivity in tea was stagnant throughout the first half of the 1990s and only began to pick up in 1996.

In addition to fluctuations related to price incentives, the stagnant or falling agricultural productivity is related mostly to their inability to improve agricultural technologies. This is mainly due to lack of necessary investments and technical support services, including the market of inputs and outputs. In addition to this, there are problems related to the provision of credit, research, environmental management and extension services to farmers.

Many farmers are experiencing declining profits in their activities. Some farmers have responded by shifting resources into the production of better-paying food crops, provided domestic markets are available. While it makes economic sense for individual farmers to shift resources away from less profitable export crops into more profitable staples, in LDCs that are not net food importers, this might lead to reduced export revenues and the accompanying foreign exchange problems.

Within the minerals sector and with the exception of gold, whose annual output increased by about 15 times between 1986 and 1997, output of other major minerals, especially diamonds, iron and copper, was marked by declining trends during the same period. The worst decline was recorded in copper, Zambia's main export. The output of which in 1997 were only around 40 percent of that in 1986. The decline in the production of minerals during the 1990s reflect inadequate investment in the mining sector, probably due to investment policies in the producing countries, issues pertaining to security and political stability, and the downward trend in mineral prices.

The problems outlined above are generally well understood. The problem appears to be how to mount an appropriate response to these issues. Thus, it is necessary to examine some of the international communities' responses to some of these LDC problems.

Special and Differential Treatment

The Preamble of the Agreement establishing the World Trade Organisation (the Marrakesh Agreement) recognises the special needs of LDCs as outlined above. Efforts designed to ensure that LDCs secure a share in the growth in international trade commensurate with their economic development needs was envisaged. It is stipulated that LDCs will only be required to undertake commitments and concessions to the extent consistent with their individual development, financial and trade needs or their administrative and institutional capabilities. The challenge, however, is that there are few provisions attempting to translate these broad objectives into concrete action.

A number of WTO provisions aim at increasing trade opportunities for developing and least developed countries. Provisions that allow developed countries to provide trade preferences to developing countries include the following:

- Article IV (1) of GATS, which aims to increase the participation of developing countries in trade in services through the liberalisation of trade in services in sectors and modes of supply of export interests to them.
- Provisions in the Agreement on Textiles and Clothing for more favourable growth rates in quotas for small exporters, new entrants and LDCs.
- Provisions in the Decision on Measures in favour of LDCs for the consideration of improving preferential treatment for products of export interests to LDC, as well as the adoption of positive measures that facilitate the expansion of trading opportunities for LDCs.

A number of developing countries, particularly in South East Asia, have achieved substantial growth through export-led development strategies and increased their share of the value of world merchandise exports from 11.7 percent to 17.6 percent in the period 1985-1996. However, many developing countries, particularly in Africa and Latin America, have experienced a decline share in the total value of world merchandise exports over the last decade.

For example, in the period between 1985 and 1996, the share of Africa in the value of world merchandise exports declined from 4.2 percent to 2.3 percent, the share of Middle East, from 5.3 percent to 3.2 percent, and the share of Latin America, from 5.6 percent to 4.9 percent. The challenge is, therefore, how to translate these commitments into concrete action and how to enforce the same since most Special and Differential Treatment provisions are not binding to the developed countries.

Everything But Arms Initiative

The European Commission announced the adoption of a plan to introduce duty free access to the EU (European Union) market for all exports 'originating' in least developed countries, with the exception of arms. This landmark decision was made on September 20th 2000. This proposal was the first step towards "across the board" access for least developed countries to the EU market.

The initiative for least developed countries will be introduced through the modification of the EU's generalised system of preference (GSP). The proposal would see duties eliminated on a further 919 tariff lines, all of which are either agricultural or processed agricultural products. Only 25 tariff lines (all arms related) would be excluded from duty free access.

For the vast majority of the products, tariffs would be eliminated as soon as the proposal received the agreement of the EU Council. Full liberalisation of sugar and rice was deferred until 2009. In the interim period, limited increases in the size of quotas will be made available to LDC exports but these will be accompanied by safeguard measures to protect the EU from a sudden flood of imports from the LDCs.

As Pascal Lamay, European Trade Commissioner put it, *"There has been plenty of talk about market access for poor countries is critical if we are to tackle their growing marginalisation in the globalising economy. Every one seems ready to make the commitment at the political level. But talk is cheap. We now need to move beyond opt out clauses. Its time to put access to our markets where our mouth is. That means opening up across the board for all the poorest countries."*

The European commission's proposals are put forward in the expectation that other developed economies, especially the OECD (Organisation for Economic Cooperation and Development) will follow the EU example and open up their markets to all exports from developing countries.

The World Bank projections suggest that the implementation of the EBA initiative would have increased export revenues for LDCs by approximately US$185mn, which would be an increase in the region of one percent. It is

Table 1: How Long will the LDCs Take to Reach $900 Per Capita Income

Already there	18-25 Years	25-50 Years	50-100 Years	> 100 Years	Stagnant
Cape Verde Equatorial Guinea Maldives Samoa Vanuatu	Bhutan Lao PDR Lesotho * Sudan	Bangladesh Guinea Mozambique Uganda	Benin Cambodia Eritrea Ethiopia Mauritania Nepal	Burkina Faso Malawi Mali Yemen	Angola Burundi Chad Comoros Congo # Gambia Guinea-Bissau Haiti Madagascar Niger Rwanda Sao Tome and Principe Sierra Leone Solomon Islands Togo Tanzania Zambia

Notes: $900 income target, which is one of the criteria for graduation from the LDC category, is set at 1997 US dollars, projections are based on the trend growth rates of 1990-98 and the figure is currently under review; Stagnant means negative growth as well; * Lesotho reaches $900 threshold in 15 years, all other countries in this group are above 18 years; # Democratic Republic of Congo

Source: UNCTAD, The Least Developed Countries 2000 Report interesting to note that the benefits would have been concentrated in a small number of products, with sugar accounting for over 60 percent of the total and rice, bananas and beef accounting for the bulk of the remainder.

According to a study of the United Nations Conference on Trade and Development (UNCTAD) and the Commonwealth Secretariat, all beneficiary countries gain from the EBA while the EU stands to lose slightly from non-reciprocal liberalisation. The largest source of welfare changes for individual countries are due to the terms of trade component. (see Table 2)

Table 2: EU EBA — Welfare Changes (in US$ million)

Region	Percentages	Total	ToT Effect	Allocative Effects
Australia-New Zealand	0.001	2.346	2.364	0.86
China	-0.001	-7.518	-2.362	-1.531
Rest of Developed	0.006	28.874	22.774	7.013
Japan	-0.001	-33.621	-24.431	-1.04
Rest of Asia	-0.002	-31.977	-14.158	-11.875
Bangladesh	0.02	8.194	3.629	3.342
Canada	0	1.03	1.1	0.503
USA	0	-31.86	-18.669	2.213
Latin America *	0	-6.568	-3.152	1.614
European Union	-0.004	-249.677	-248.916	0.503
Eastern Europe #	0	2.348	3.183	1.057
Middle East	0.004	23.966	20.896	3.831
Rest of Africa	-0.003	-9.975	-4.994	-4.471
Malawi	1.137	29.588	25.717	6.042
Tanzania	1.052	67.145	39.229	11.235
Zambia	0.791	30.189	37.623	-5.514
Uganda	0.03	1.982	1.307	-0.058
Rest of SSA	0.184	263.323	156.635	75.182
19 RoW	-0.001	-1.413	-0.193	0.307
Total		**86.376**	**-2.418**	**89.213**

Notes: ToT: Terms of trade; RoW: Rest of the World; ToT and allocative effects do not match the total welfare changes due to intermediate good prices effect; * Including Caribbean; # Including former Soviet Union states

Source: Duty and Quota Free Market Access for LDCs: An Analysis of QUAD Initiative; UNCTAD and Commonwealth Secretariat, 2001

Controversy over the EBA Initiative

Modest as EBA may appear in terms of potential impact, it has provoked vociferous opposition, notably from the European sugar industry. It is claimed that EBA will result in a substantial increase in imports, to the detriment of other developing countries and EU producers. This worry appears unjustified, considering that the supply capacity of LDCs is very limited.

The Zambia Association of Chambers of Commerce and Industry (ZACCI) feels that the opening of export markets can act as an incentive for producers to expand their production capacities. The Malawi delegate to the Third United Nations Conference on Least Development Countries (UNLDC–III), held in Brussels in May 2001 said that free market access on its own will not help the LDCs. What the LDCs require is upgrading their production capacity. In general, their exports already receive duty-free access to the EU, and so only a very small number will be affected by EBA.

On the other hand, the British sugar beet lobby, using the National Farmers Union in the UK has expressed concern over the implications of duty free access for least developed countries in the sugar sector. It fears that the new scheme could result in between two to five million tonnes of additional sugar entering the EU market. This, it is felt, would result in the UK sugar industry suffering the impact of over supply of sugar. (see Box 1)

Box 1: Bitter Truth about Sugar Exports

According to the World Bank, the price of protectionist policies followed by the biggest sugar producers is paid by the international market as a whole through increased volatility and significantly lower prices. Virtually all countries intervene in domestic sugar markets, and only the smaller share of these countries keep their individual interventions from affecting global markets.

The subsidy to this sector is high. On an average, from 1993-95 producer subsidies in OECD countries were around 49 percent of the world price. The consumer subsidy equivalent was 46 percent, i.e. the implicit tax on consumers was equal to 46 percent of the average world price.

The WTO hasn't been of much help either. As part of the Uruguay Round, several countries pledged to reduce subsidised sugar exports. The promised reduction, to be in place by 2004, equal 1.3mn tonnes – approximately the same amount as exports from the ACP (Africa, Caribbean and the Pacific) nations to the European Union.

The Bank argued that because interventions by large countries depress world prices, international prices undervalue the domestic resources employed in sugar production. To address this imbalance, countries generally ignore the opportunity to consume cheap sugar and erect protective tariffs that more than compensate the domestic producers for the effects of the policies of large economies.

In trade negotiations, countries also tend to aggressively defend their capacity to increase protection. In 1995, sugar exporters, on an average, bound their tariffs at 92 percent and sugar importers' tariff bindings averaged 117 percent. By 2004, the tariff bindings will average 79 percent for sugar exporters and 98 percent for importers.

Source: The Economic Times, New Delhi, India, 3.7.2001

It is difficult to see how concessions to least developed countries could have such a devastating effect on the EU sugar sector. Total sugar production within least developed countries is only 2,275,000 tonnes, with domestic consumption needs of sugar producing least developed countries exceeding 2,807,000 tonnes.

In most sugar producing least developed countries domestic sugar prices are above world market prices. Since the duty free access proposed for least developed countries would likely to be granted for imports at world market prices (rather than internal EU prices), it is difficult to see why sugar produced in least developed countries would suddenly flood the EU market.

Concerns of Non-LDC Exporters

The non-LDC developing countries do have legitimate concerns about EBA. The ACP (Africa, Caribbean and the Pacific) countries in particular have plausible grounds to fear that any increase in sugar exports from LDCs will be at their expense. This is because the EU is already in surplus supply. Even if the imports initially displace domestic EU production rather than ACP exports (which is unlikely, given the high cost of Caribbean cane sugar), the result will be an increase in EU dumped exports onto the world market which will lower prices still further for ACP states.

It has been argued that the legitimate concerns of non-LDC developing countries are sufficiently grounded although limited, and that it ought to be possible to deal with them through positive measures rather than by an EU retreat from the EBA proposal.

Technicalities of the EBA Initiative

There are some major issues that need to be addressed if the spirit of the EBA proposal is to be realised.

The first relates to the rules of origin provisions applied to least developed countries. These rules of origin will be crucial in determining the benefits derived. The EU has made a commitment to reviewing and simplifying its rules of origin considerations. However, it may be for administrative convenience rather than based on the needs of least developed countries. Rules of origin are likely to be particularly important in the area of value added food products, where packaged materials constitute a significant component of the final product cost. Rules of origin will therefore need to be structured in such a way that least developed countries are allowed to import packaging materials, to enable them to compete effectively in sophisticated European consumer markets.

The second significant issue is the safeguard measures. They provide for temporary suspension of tariff concessions in the case of fraud, failure to apply to rules of origin, or huge and unusual increases in exports from least developed countries. While these provisions are in many respects legitimate in order to prevent third countries routing products through least developed countries, there are inherent risks for LDCs. There is a need to ensure that while safeguard provisions protect the EU against abuse by third parties they are not unduly restrictive of the indigenous development of least developed country exports.

The third issue relates to sanitary and phyto-sanitary measures. The EU has a long tradition of using these measures to block imports from developing countries on the basis that the products pose health and environmental risks to its inhabitants. Improper application of these measures will derail the EBA initiative.

In her speech to the UNCTAD (the United Nations Conference on Trade and Development) Trade and Development Board in Geneva on 27th February 2001, E. Herfkens, the Netherlands Minister for Development Cooperation stated that "…Technical regulations and health standards throw up new barriers all the time. Our food safety standards - for aflatoxins for example - are so high that exporters in LDCs risk losing their market share…" Uganda has already fallen victim to these measures. The Ugandan press has warned that the country risks losing 80 percent of the food exports to the EU unless an acceptable, and very expensive, system of monitoring chemical residues is introduced. (see Box 2)

Critical Analyses of the EBA

Critics of the EBA initiative, particularly its potential impacts on the agricultural sectors of LDCs, state that the EBA amounts to nothing more than a facade. The real positive impact for the least developed countries will be very limited while the long-term consequences will reinforce

Box 2: Trade Effects of Food Safety Standards on African Exports

There is a growing concern over health risks associated with food products, which prompted revisions in sanitary and phyto-sanitary standards in many industrialised countries. There are attempts to quantify the impacts of such standards on exports from developing and least developed countries.

One of them was to quantify the impact of standards on aflatoxins (a group of structurally related toxic compounds which contaminate certain foods and result in the production of the acute liver carcinogens in the human body) implemented by the European Union on food exports from African countries. The results suggest that the implementation of the aflatoxin standard in the EU will have a negative impact on African exports of cereals, dried fruits and nuts to Europe.

The new EU standard (2 part per billion, i.e. ppb), which would reduce health risk by approximately 1.4 deaths per billion a year will decrease these African exports by 64 percent or US$670mn in contrast to regulation set at an international standard (9 ppb, as per the Codex Alimentarius guideline).

This estimated reduction of liver cancer is small compared to the total number of liver cancer in the EU. WHO (the World Health Organisation) estimates approximately 33,000 people die from liver cancer every year in the EU which has population of half billion.

Source: Otsuki, T., John S. Wilson and Mirvat Sewadeh, 2001; Saving two in a billion: A case study to quantify the trade effect of European food standards on African exports, Development Research Group, The World Bank, Washington DC, USA dependency. The aim of the initiative is merely to placate those sectors of the European public opinion who are demanding that real efforts be made by rich countries to correct the imbalances affecting the world trading system.

And, on the other hand, provide carrots to the LDCs so that they give in at the WTO and stop the resistance they have been putting up for nearly two years now since the Seattle Ministerial Conference against a new round of negotiations before the existing agreements are evaluated and changed, which are necessary for reforming the WTO. This was manifested in a comment made by the EU's Swedish presidency: that the initiative is "an important signal to the LDCs in view of the upcoming WTO negotiations."

The critics say that firstly, the proposal will be implemented through progressive phases, which will extend through to 2009. Particular modalities have been included for bananas (for which the European market will be opened sometime between 2002 and 2006), for rice and sugar (the opening for these products has been phased between 2006 and 2009). LDCs are being asked to follow the proposals of the EU at the WTO as from this year. Yet, for the main bulk of their exports, LDCs will in return receive the benefits in eight years time!

As regards the three products for which the opening is delayed, the European Commission's initiative annals the agreements and mechanisms established with the ACP countries. The mechanisms offered a European price guarantee for their products. Even though the Cotonou agreements were signed only a few months ago, they are already being transgressed unilaterally by the EU. In the name of development, the EU will replace imports from ACP countries benefiting from a price guaranteed by imports with no price guarantees. For the same quantities, ACP countries will sell their products more cheaply. In short, they will lose out.

The EBA initiative invalidates the sugar protocol, the only instrument, which regulates the market for this product. Sugar, like other agricultural products, cannot be left to the erratic - but by no means innocent - market fluctuations if the aim is to protect the revenues of farmers (producers rather than traders). The latter are the only real beneficiaries of the European initiative.

By eliminating quotas, production is left without a framework. The absence of quotas will result in over production. This in turn leads to a fall of prices, which will mean that sugar-producing LDCs sugar will lose out. The price in the global market for a product like sugar is extremely unstable and, on average, inferior to the production cost for most countries. This means that the only law applicable is that of free trade with the potential effect of a collapse of prices.

Farmers everywhere, those of LDCs as much as European farmers, will lose out. LDCs will be incited to export agricultural products at a loss only to re-import them afterwards from the global market. This is exactly the opposite of what sustainable development is meant to be. It means an increasing dependency on Europe.

Box 3: Proactive Agenda for LDC Exports

The following agenda is based on the recommendations adopted during the South-South Seminar entitled "From Brussels to Doha: Integrating LDCs into the Multilateral Trading System" held in Kathmandu, Nepal during the 14th and 15th of July 2001 and organised by the CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE) and the South Asia Watch on Trade, Economics & Environment (SAWTEE).

- *Tariff escalation and tariff peaks should eliminated by the developed and developing countries.*
- *There should be clear understanding of the basis for invoking precautionary principles on health and environmental grounds.*
- *Developed countries should modify the provisions on the rules of origin to allow greater flexibility for the LDCs to avail of the benefits of preferential trade regimes.*
- *EBA (Everything But Arms) initiative should be expanded by all the OECD countries and should also apply to regional markets.*
- *WTO and UNCTAD should analyse the problems of lower price realisation of LDC exports.*
- *Make special and differential treatment provisions binding with proper provisions for notification and monitoring.*
- *Provide technical assistance on trade facilitation in LDCs.*

Prospects for An OECD-wide EBA Initiative

Challenges

The sustained collapse of most LDC economies means that income levels in most of these countries do not make them effective markets for Europe's industrial goods. Europe's target markets are the so-called high performing economies. In these markets, European countries are in competition with other industrial countries such as the United States and Japan.

Thus, it is not very surprising that the main preoccupation of the EU is to strengthen and position itself in such a manner that it can compete well with the United States of America and other key players on the world scene. The needs and demands of the LDCs are far removed from the needs of the EU and the OECD. Pushing the EBA type of initiative at the OECD (the Organisation for Economic Cooperation and Development) and WTO levels will face the challenge of altering and softening the priorities of the major economic players.

The internal controversy surrounding the EBA initiative within the European Union is quite strong considering the minimal impact of the initiative on the EU. The introduction of an EBA like initiative in the OECD countries and at the WTO will provoke a more veracious debate. This is because there are more players at these levels and that the traditional relationship that exists between many of the LDCs and the EU do not exist at the OECD and WTO levels.

The experiences of the LDCs on issues such as debt cancellation, poverty eradication and other problems in the global negotiations do not leave one with a strong feeling that the OECD and the WTO are really willing and able to make significant decisions in favour of the LDCs.

The negotiations tend to be slow, half-hearted and the final outcomes not satisfactory for LDCs. The implementation of the agreed activities is even less encouraging. This means that an EBA initiative at the OECD and WTO levels will be painfully slow.

The calls by the developed countries for the inclusion of new issues such as the labour and environmental standards in a comprehensive round of negotiations in the WTO, often posed in very deceptive positive terms, constitute a serious threat to exports from LDCs to the OECD countries. While accepting the importance of core labour and environmental standards, their presence in the WTO as opposed to the specialised UN agencies fuels fears within the LDCs that these new issues are merely being used by the developed countries to discriminate exports from LDCs and other developing countries.

Opportunities

The EBA initiative itself is an outcome of the sustained demand by the LDCs and other developing countries for a through review of the WTO implementation. It is thus conceivable that if the developing countries can stand united, they can achieve something from the world trading system, including an extended EBA covering all OECD countries.

There are other pressures that can be brought onto the OECD countries by the developing countries. The Plan of Action for the LDCs recently agreed at the UNLDC-III calls for improved market access for all LDCs. The LDCs can push for this market access from all the OECD countries.

An additional opportunity is the special and differential treatment for developing and least developed countries. This avenue constitutes an already agreed framework and the parties need to be made aware of their commitments to the agreements. There has been a demand for a standalone agreement at the WTO on special and differential treatment provisions of the Uruguay Round agreements.

A further opportunity arises from many civil society organisations both in the South and North, who are vigorously campaigning for a fairer world and a just system of distributing the world's resources. These voices, together with the more friendly leaders of the industrialised world can be harnessed to ensure that LDCs get a chance to benefit from world trade and globalisation. (see Box 3)

Conclusions

To conclude, it can be stated that the road to an equitable distribution of the benefits of globalisation in favour of LDCs is long and hard. The EU has taken a first and initial step in the recognition of the legitimate needs of the LDCs by coming up with the EBA initiative. This initiative needs to be followed by other players on the world scene such as the OECD.

The UNLDC-III Plan of Action offers an opportunity for the world to address serious trade and development challenges facing the LDCs in particular and the developing countries in general.

Trade is an engine for growth and trade liberalisation and openness can be and is a key part of development policies. However, trade liberalisation is not an end in itself. Liberalisation and openness do not themselves automatically lead to desirable growth and poverty outcomes. Lessons of experience, and particularly the mixed experience of a number of trade liberalisation efforts, show that trade policy needs to one part of an overall set of integrated and mutually reinforcing development strategies, including social safety nets.

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