STUDY

Support for Post-graduation Soft-landing of LDCs

Implications in the context of the WTO

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Published by:

CUTS INTERNATIONAL, GENEVA
Rue de Vermont 37-39
1202 Geneva, Switzerland
www.cuts-geneva.org

This paper was undertaken by Taffere Tesfachew (PhD). It is published under CUTS International Geneva's project "Keeping Pace with Trade Developments", undertaken with funding support from the Ministry of Foreign Affairs, Sweden.

Citation: TESFACHEW, T. (2018). *Support for post-graduation soft-landing of LDCs: Implications in the context of the WTO.* Geneva: CUTS International, Geneva.

Disclaimer: The views expressed in this publication represent the opinions of the author, and do not necessarily reflect the views of CUTS or its funders.

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Table of Contents

Acronyms

CDP	Committee for Development Policy
DFQF	Duty-Free and Quota-Free
DTIS	Diagnostic Trade Integration Study
ECOSOC	United Nations Economic and Social Council
EIF	Enhanced Integrated Framework
EU	European Union
FERDI	Fondation pour les études et recherches sur le développement international
GA	General Assembly
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
GSP	Generalized System of Preferences
GVC	Global Value Chains
IF	Integrated Framework
ILO	International Labour Organization
IMF	International Monetary Fund
IPoA	Istanbul Programme of Action
ISMs	International Support Measures
ITC	International Trade Centre
LDC	Least Developed Country
MDGs	Millennium Development Goals
NGOs	Non-Governmental Organizations
NQI	National Quality Infrastructure

NTBs	Non-Tariff Barriers
ODA	Overseas Development Aid
OHRLLS	Office of the High Representative for LDCs, LLDCs and SIDS
SDGs	Sustainable Development Goals
SDT	Special and Differential Treatment
SPS	Sanitary and Phytosanitary Standards
STDF	Standards and Trade Development Facility
TRIPS	WTO Agreement on Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department for Economic and Social Affairs
UNDP	United Nations Development Programme
WTO	World Trade Organization

Abstract

In November 1971, the United Nations General Assembly established a special category for the “least developed” of developing countries with a view to supporting their development through specifically targeted International Support Measures (ISMs). The decision signalled the commitment of the international community to ensure that countries that suffer from structural impediments, and lack of resources and skills are not disadvantaged in their efforts to attain growth, diversify their economies and integrate into the global economic system. The support to LDCs is framed through a decennial Programme of Action that identifies priority areas and the goals to be achieved by LDCs within a decade. In 2021, the UN will organize the Fifth UN Conference on Least Developed Countries (LDCs) to review the current Programme of Action for the period 2011-2021 (the Istanbul Programme of Action - IPoA) and decide on the next programme covering the period 2021-2030. This event will provide an opportunity to review achievements under the IPoA, particularly the most ambitious but seminal goal of “enabling half the number of least developed countries to meet the criteria for graduation by 2020”. It will also be an occasion for celebrating the fiftieth anniversary of the establishment of the LDC category and reviewing the progress made in five decades of international support to the LDCs.

Drawing from the wide range of literature available on LDCs, this paper sheds light on LDC graduation record and the effectiveness of the existing trade-related support measures for graduating and graduated countries, particularly in the context of the WTO. The paper argues that LDCs’ record on graduation from the category has been generally poor, especially in the four decades of the category’s existence. However, there has been some improvement in the current decade, although it is evident that the target of enabling half the number of LDCs to meet the criteria for graduation by 2020 set in the IPoA will not be achieved. More worrying is the reluctance of some countries to graduate from the LDC category despite meeting the criteria for graduation and the recommendation by the UN General Assembly (GA) that they should exit the list of LDCs. The paper argues that a key factor behind their reluctance is the fear of losing LDC-specific ISMs and the lack of clarity and a systemic approach to the existing mechanism for smooth transition. It argues, furthermore, that supporting graduating countries with additional and targeted measures would create the incentive to graduate and enable graduating countries to adjust to the withdrawal of LDC-specific ISMs and achieve a soft-landing as middle-income economies. To that end, the paper suggests a set of principles that could be used to guide the formulation of the support measures required for post-graduation soft-landing.

SECTION 1

Introduction

Graduating from the Least Developed Country (LDC) category is the most coveted desire of every LDC as it signifies economic and social progress and the shedding of the stigma often attached to remaining the least developed among developing countries. From this perspective, it was significant that the last United Nations Decennial Conference on LDCs held in Istanbul, Turkey, in May 2011 decided to set – for the first time – a quantitative target on the number of LDCs to become eligible for graduation by the end of the decade. The Istanbul Programme of Action (IPoA) comprised a multitude of development goals and targets, including the most ambitious but seminal goal of "enabling half the number of least developed countries to meet the criteria for graduation by 2020" (IPoA, P.6). The emphasis on graduation as a priority goal was timely, particularly in view of the slow progress towards graduation in the four decades prior to the Istanbul conference. Only three countries (Botswana, 1994; Cabo Verde, 2007; the Maldives, 2011) were able to graduate between 1971 and 2011 – on average about one country per decade. As 2020 approaches, it is becoming increasingly clear that the graduation target established by the IPoA will not be met. Currently two countries are scheduled to graduate in 2020 and 2021 (Angola and Vanuatu respectively). If these projections for graduation by 2021 hold, the total number of countries graduating from the LDC category since Istanbul will be three - significantly less than half the number of LDCs (24 countries) envisaged in the IPoA.

The objective of this paper is three-fold: (a) to shed some light on the poor track record of LDCs in meeting the criteria for graduation and the prospect for advancing the graduation agenda in the coming decade, particularly in view of the changing global economic environment for trade and development; (b) to review the effectiveness of the existing trade-related International Support Measures (ISMs) for LDCs, particularly in the context of the World Trade Organization (WTO); and (c) to explore the additional ISMs that the WTO can introduce to facilitate post-graduation 'soft-landing' or what the United Nations Conference on Trade and Development (UNCTAD) calls "graduation with momentum". [1]

The persistent challenges facing the LDCs and the issues of graduation and smooth transition into lower middle-income status have been extensively studied in recent years, particularly by organizations within the UN system that have regular work programme on LDCs such as UNCTAD, the Committee for Development Policy (CDP), the Office of High Representative for LDCs, LLDCs and SIDS (OHRLLS) and the International Labour Organization (ILO). [2] Outside the UN system, the only major multilateral agency that

[1] UNCTAD (2016), *Least developed Countries report 2016*, Geneva, Switzerland, p.77

[2] The three most important bodies within the UN system that regularly produce reports and conduct studies on LDCs include: the CDP, which is mandated to conduct a triennial review of the LDC list and annually address issues that are important for LDCs; UNCTAD, which produces the Least Developed Countries Report annually and has done so since 1981; and the OHRLLS, which is mandated by the GA to assist LDCs in the preparation of their decennial programme of action and monitor its implementation. Outside the UN system, only the WTO has a work programme on the LDCs. Other major international organizations such as the World Bank and the IMF do not recognize the LDC category as country classification. In fact, for World Bank and the IMF, 18 countries out of the 47 LDCs are already middle-income and the rest are classified as

recognizes the LDC category is the WTO and it conducts annual reviews on the effectiveness of trade-related ISMs, particularly those offered by the WTO.[3] The evidence and country experiences presented in this paper are drawn largely from these studies.

low-income countries. Valuable work on LDCs is also conducted by non-governmental organizations such as FERDI (Fondation pour les études et recherches sur le développement international).

[3] The annual report by the WTO Sub-Committee on LDCs reviews the market access opportunities for products and services of export interest to LDCs. See, for example, WTO (2017), WT/COMTD/LDC/W/65.

SECTION 2

Nearly fifty years of international support for LDCs and still counting ...

The idea of classifying low-income and structurally weak developing economies as least developed originated in the first session of UNCTAD held in Geneva, Switzerland, in 1964. Special attention was given to what was then called the "less developed" among developing countries and the challenges they faced in international trade and the need to rebalance the disparity between countries through targeted ISMs. However, at that time, there was no consensus on the idea of country classification due largely to concerns by developing countries that such differentiation among developing countries would harm the unity of the group. Four years later, at the second session of UNCTAD in New Delhi, India, there was less objection to identifying the least developed and most disadvantaged countries in the developing world as a special group that require tailored and targeted support by the global community. A consensus was reached, including within the G77, to pass a resolution advocating for "special measures in favour of the least developed among developing countries".[4] It was on the basis of this resolution that the General Assembly (GA) established the LDC category in November 1971.

Subsequent to the GA's decision, UNCTAD was requested to assemble an expert group to deliberate on what was then called the "typology" of developing countries and to assess the "general situation" of the countries that could be characterized as the least developed among developing countries.[5] Drawing upon the findings of the expert group and on the recommendation of the Committee on Development Planning (CDP)[6], the GA approved a list of 25 countries – sixteen of them African - to be included in the LDC category.[7] Since then, the number of LDCs has increased steadily reaching a peak of 51 countries in 2003. At a time of writing this paper, the number of LDCs is 47, nearly double that of the original list; thirty-four of them are African.[8] Also noteworthy is that while LDCs comprise approximately 13 per cent of the world's population, they account for less than 1.3 per

[4] The final outcome document of UNCTAD II (1968) states, "special measures to be taken in favour of the least developed of developing countries aimed at expanding their trade and improving their economic and social development" (Resolution 24(II)).

[5] "Special measures in favour of the least developed among developing countries", (TD/B/288). UN publication, Sales No. E.71.ILD.I.

[6] When the LDC category was first established in 1971, the CDP recommended the following criteria for admission to the LDC category: per capita gross domestic product (GDP) of $100 (in 1968 USD) or less; share of manufacturing in total GDP of 10 per cent or less; and adult literacy rate of 20 per cent or less. The criteria and specific indicators used to determine graduation has evolved over the years. For current criteria and indicators, see Annex I. For a detailed discussion on the LDC criteria, see United Nations CDP and United Nations Department for Economic and Social Affairs (DESA) (2015).

[7] The original list included the following countries: Afghanistan, Benin, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Guinea, Haiti, Lao PDR, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Samoa, Somalia, Sudan, Uganda, Tanzania and the Yemen Arab Republic.

[8] Not all multilateral institutions recognize the LDC category. For example, the World Bank and the IMF do not use this category in their technical assistance or other support programmes. However, the WTO recognizes the UN category of LDCs.

cent of world gross domestic product (GDP) and for approximately 0.9 per cent of world trade.

From this brief historical synopsis, it is axiomatic that despite nearly fifty years of international support to LDCs, the challenges facing this group of countries remain as pervasive and constricting as it was when the United Nations first established the list of "least developed" among developing countries for special and targeted support. The expectation at the time was that as countries developed with the assistance of ISMs, the number of LDCs would shrink to a point where there would not be any "least developed" countries in the world. In practice, however, this has not been the case. Not only has the number of LDCs increased over time and only four have graduated to date, the list still comprises countries with low income, low levels of economic and human development, limited economic and export diversification, and underdeveloped productive capacity. In recent decades, the gap between LDCs and other developing countries has also increased in areas such as skill formation, technological development, energy use, infrastructure development, financial depth, and inclusion and social development in general. As UNCTAD notes, "The 2030 Agenda for Sustainable Development and Sustainable Development Goals have the avowed aim of 'leaving no one behind'. The LDCs are the epitome of those left behind in the global economy, both economically and in human development".[9]

In two years from now (2021), the UN will celebrate the fiftieth anniversary of the introduction of the LDC programme. The anniversary will coincide with the fifth LDC Conference where, once again, the global community will gather under the auspices of the United Nations to evaluate progress in the implementation of the IPoA, reflect on the lessons learned and decide on the priorities for the LDC Programme of Action for the decade 2021-30. The forthcoming conference provides a timely opportunity for re-evaluating the effectiveness of existing ISMs and for reviewing the changes in the global economic environment and their implications for LDCs, particularly in the context of graduation and the post-graduation transition phase. There are a number of important factors that LDCs and their development partners need to take into consideration as they deliberate on the priorities, goals and policy targets for the LDC programme of action for the decade 2021-30. These include the following:

2.1 Post-graduation transitional arrangement

The issue of a soft landing or post-graduation transitional arrangement has become a major concern among LDCs and should be given special attention at the next LDC Conference. The CDP is already conducting studies and discussions on this issue, along with assessing the effectiveness of the existing 'smooth transition' process. The governments of LDCs have also been vocal in expressing their concern about lack of effective, systemic and binding support during the post-graduation transition period. The latest was during the Ministerial-level meeting of LDCs held in New York in September 2018 to review progress in the implementation of the IPoA and to provide strategic guidance for the full and effective implementation of the programme. While acknowledging that graduation from the LDC category symbolizes socio-economic progress, the LDC Ministers noted that it also brings a lot of challenges due to loss of LDC-specific benefits and waivers from compliance with international obligations and commitments. In their Ministerial Declaration, they called upon development partners "to agree on a package of benefits that

[9] UNCTAD (2016), P. 32

the graduated countries will continue to enjoy in some critical areas of their economy for a certain period of time consistent with their development situations and needs. This can serve as a safeguard measure for the graduated countries to sustain their development path and not to relapse to the category of LDCs".[10] The Ministerial Declaration identifies a series of measures that development partners could introduce in support of graduating countries during the transition period, including "in costing, mobilizing resources and monitoring the implementation of the SDGs".[11]

The concern regarding lack of systemic support to graduating countries expressed by LDCs Ministers is legitimate in view of the recent experiences of resistance by LDCs to graduate even when they are eligible to do so. In fact, several countries that have met the criteria for graduation at some point in the past are either still not graduated or only graduated after some time. For example, Samoa graduated 23 years after having met the criteria for the first time, Maldives 14 years after and Cabo Verde 13 years after. As shown below, the same delayed graduation timeframe also applies to Vanuatu, Tuvalu and Kiribati. In some cases, for example Vanuatu, Maldives, Tuvalu and other small economies, graduation had to be postponed for legitimate reasons, most notably the massive destruction created by the Tsunami that hit the Asia Pacific region. However, in other cases, the hesitation to graduate is policy driven. Angola and Equatorial Guinea are two examples, among others, of countries that have chosen to remain in the list of LDCs, even though they met the income-only criteria for graduation as far back as the 1990s. At first glance, the reluctance of countries to exit the LDC category even after meeting the criteria and their preference instead to remain in the LDC list may appear perplexing given the pride and prestige attached to meeting the graduation threshold by achieving significant and measurable economic and social progress. But, there are valid reasons for LDCs concern and the global community needs to address these issues upfront if the graduation target agreed in Istanbul is to be achieved by, at least, the end of the next decade.

The key factor behind the resistance to graduate is the fear of losing ISMs and the fact that there are no alternative support programmes that would mitigate the potential negative economic and social effects of the withdrawal of LDC-specific support measures. In fact, as yet, there are no formal guidelines or a roadmap to help LDCs navigate through the transition period and cope with the immediate challenges that graduated countries may face as middle-income economies. The transition to non-LDC status is currently focused on withdrawing or winding down international support measures rather than preparing the graduating countries for the challenges ahead and supporting them in their quest to succeeded as middle-income economies and avoid the "middle-income trap".[12]

In recognition of the need to give graduated LDCs the time and space needed to adjust to post-graduation status, the GA has introduced a 'smooth transition' principle.[13] The Resolutions passed by the GA advocate that LDC-specific support should be phased out in a gradual and predictable manner following the final exit of countries from the list so as not to disrupt the development progress of the graduating country. While the intervention by the GA has helped to

[10] Ministerial Declaration of the Least Developed Countries, New York, 26 September 2018, Para. 47.

[11] Ibid para 47 (a). For details of the specific measures proposed by LDC Ministers, see Annex II.

[12] For a lucid analysis of the "Middle-Income Trap" phenomenon, see Pierre-Richard Agenor (2017).

[13] Since 2003, the General Assembly (GA) has passed two resolutions on smooth transition strategy for countries graduating from the list of least developed countries, the latest in 2013. http://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/67/221

ease the concerns of graduating LDCs, unfortunately, to date, there is no clarity on the length of time for the transition period;[14] and, as currently applied, the smooth transition arrangement lacks formal procedures that are applicable to all LDC-specific international support measures across the board. In the context of the WTO, for example, with the notable exception of access to support through the Enhanced Integrated Framework (EIF), there are no formal procedures for smooth transition in relation to the Special and Differential Treatment (SDT) provisions that the WTO grants to LDCs.

The absence of formal and binding processes has meant that the ability of graduating countries to retain access to ISMs during the 'smooth transition' period is heavily dependent on each country's ability to negotiate with development partners - at bilateral and multilateral levels - and the willingness of the partners to grant extensions on the ISMs they provide. Unfortunately, not all LDCs have the capacity to engage with each development partner and secure the support necessary for a soft landing. While arrangements for soft-landing are important to all graduating countries, they are particularly critical for two types of LDCs: island LDCs because of their greater dependence on Overseas Development Aid (ODA), technical assistance and exposure to external shocks, particularly climate change-related disaster; and export-oriented LDCs, especially those that have diversified into manufacturing activities by tapping into the trading opportunities created through Duty-Free and Quota-Free (DFQF) market access in major economies. The latter, for example, includes countries such as Bangladesh, Cambodia, Lao PDR and Lesotho that rely on exports of light manufactured goods for their growth and development and that benefit from the trading opportunities and competitiveness created through preferential market access. Interestingly, all four countries have already met the criteria for eligibility for graduation in the first triennial review in 2018 and are expected to be recommended for graduation in the next review in 2021. By 2024, they will exit the list of LDCs. Unfortunately, at present, there are no ISMs aimed at preparing these countries for post-graduation soft-landing and assisting them to build solid foundations for remaining competitive in international markets, without requiring the maximum concessionary treatment from development partners.

Table 1: Graduated Countries and Schedule for Graduating Countries

Graduated Countries	Year Of Graduation
- Botswana	1994
- Cabo Verde	2007
- Maldives	2011
- Samoa	2014
- Equitorial Guinea	2017

Countries Recommended For Graduating	Year Of Graduation
- Angola	2020
- Vanuatu	2021
- Tuvalu*	

Coutries Expected To Graduate In 2021
- Bhutan
- Kimbati
- Sao Tome & Principe
- Soloman Islands

Coutries Expected To Graduate In 2024
- Bangladesh
- Lao PDR
- Myanmar
- Nepal
- Timor-Leste

Source: UNCDP
**ECOSOC will decide on Tuvalu's graduation date no later than 2021*

[14] Except that the few systematic provisions that have been granted, pursuant to GA Resolutions, were offered for three years and it is generally assumed that the transition period is for that length of time.

2.2 The Africanization of the LDCs

As shown in Table 1, since the Istanbul Conference in 2011, only Samoa (2014) and Equatorial Guinea (2017) have graduated from the LDC category. Two additional countries - Angola and Vanuatu - are recommended for graduation in 2020-2021. In fact, Vanuatu, along with Kiribati, met the criteria for graduation more than a decade ago and were recommended by the CDP for graduation in 2012. However, after considering Vanuatu's and Kiribati's appeal for postponement of their graduation due to cyclone-related devastation of their economies, the ECOSOC decided to defer consideration of their graduation to a later time, but no later than 2021. Unless the Pacific region is once again hit by cyclone or other forms of climatic episodes in the coming two years, Vanuatu will graduate in 2021. The last triennial review of the list of LDCs by the CDP in 2018 found four additional countries – Bhutan, Kiribati, Sao Tome & Principe and the Solomon Islands – to be eligible for graduation. If these countries continue to meet the criteria for graduation in the next triennial review of the list of LDCs in 2021, they will be recommended for graduation. In addition, five other countries – Bangladesh, Lao PDR, Myanmar, Nepal and Timor-Leste – have also met the criteria for graduation and will be reviewed in 2021 in line with the established triennial review process and recommended for graduation if they continue to meet the criteria for graduation.

This brief overview of the graduation status since the IPoA highlights two important points:

First, there has been much more progress towards meeting the criteria for graduation since Istanbul than in the first forty years of the existence of the LDC category. To an extent, therefore, the IPoA's ambitious goal of enabling half the number of LDCs to meet the criteria for graduation by 2020 has been an important driving or motivating force, although as already noted above, by the end of this decade the actual number of countries meeting the criteria for graduation will be a small proportion of the number envisaged in the IPoA. Nevertheless, a new momentum has started and the next LDC Conference should build on this impetus, including by agreeing on a set of additional support measures that will make graduation an attractive option.

Second, if the current projections for LDC graduation by 2024 hold - which include mainly LDCs in the Asian and Pacific region (with the exception of Angola and Equatorial Guinea), the nature of the LDC category will change significantly. The group will become more homogeneous geographically (concentrated in Africa) and will consist of countries that are considerably poorer and that exhibit more features associated with earlier stages of development such as weak productive capacity, larger shares of agriculture in output and employment, severe structural impediments, more limited urbanization, higher export concentration, greater aid dependency and lower access to social services, etc. These are also countries that have made very little progress in their economic and social development in the last four decades. They are, therefore, unlikely to transform their economies and meet the criteria for graduation in a single decade unless alternative and more decisive support measures are introduced that will enable them to develop the productive capacity needed to diversify their economies and produce an increasing range of higher-value goods and services that they can trade competitively.

2.3 Uncertainty in the global economic environment

In a highly globalized and interdependent world economic system, the trade and economic performance of countries are highly interconnected. It has been a decade since the last major global financial crisis but the recovery of the global economy, particularly in developed economies, still remains tentative and fragile, and the return to greater market confidence is taking time. The slump in commodity prices is expected to remain the new normal until there are clear signals of sustained growth in large economies like the United States and the European countries, and a rise in exports from major trading partners such as China. This has a direct impact on LDCs, particularly those in Africa. It is estimated that over eighty per cent of African LDCs depend on commodity production for over half of their export earnings, and there are some 600 million people at the lowest income level who depend on commodities and commodity-related jobs for their livelihood. While commodities can be important sources of income and wealth creation, dependence on commodities can intensify vulnerability to exogenous shocks – since commodity price changes are essentially exogenous to most African LDCs - with serious and wide-ranging macroeconomic impacts. Thus, for commodity dependent LDCs, graduation from the LDC category is all but impossible without solving the problem of commodity related vulnerability.

In addition, the tendency towards protectionism observed in recent years signals a potential threat to the future of multilateralism and the functioning of a rule-based and open international trading system. Although it is difficult to say at this point whether this is a temporary phase or not, it could, nevertheless, have negative implications for LDCs' aspirations to achieve growth through economic diversification and export-led development. It could also have repercussions for the sustainability of the preferential market access and special and differential treatment established in favour of the LDCs. Increasing numbers of LDCs are following the economic development model that the successful East and South East Asian economies pursued in the 1970s and 1980s. The outward-oriented development approach enabled these countries to diversify their economies, and achieve sustained and high-level growth and catch-up with more advanced economies within a period of four decades. Many LDCs believe that this model will also enable them to diversify their economies, produce higher-value products for export, promote structural transformation and graduate from the LDC category with the momentum necessary to overcome the 'middle-income trap'. Examples of countries pursuing such a strategy include Bangladesh, Cambodia, Ethiopia, Lao PDR, Lesotho, Rwanda and Tanzania to name but a few.

An important motivation behind the export-led industrialization strategy is the DFQF market access to major developed markets, and the SDT at WTO which enables LDCs to benefit from the policy space that such a waiver offers. LDCs' industrialization strategy is anchored in the manufacturing sector, particularly the production of light manufacturing goods such as ready-made garments. These are relatively easier industrial activities that build production capacity, attract investment and create linkages with other sectors in the economy. Moreover, such activities generate employment opportunities for both the skilled and semi-skilled labour force. The margin of preferences in the garment sector is also substantial, as non-LDC developing countries face average tariffs between 6 per cent and 11 per cent in Australia, Canada, Japan, the Republic of

Korea and the European Union (EU).[15] The relaxed rules of origin have also been beneficial to LDCs since they allow them to source inputs from non-LDC suppliers.

However, export-led industrialization is becoming increasingly harder to achieve than when the newly industrializing countries in the East and South East Asian economies embarked on this path about five decades ago. Today, the global economy is much more open, governed by more complex multilateral trade rules, and more crowded with a large number of countries simultaneously trying to realize the promise of export-led industrialization by exporting their manufactures - in most cases the same types of products being exported to the same markets (UNCTAD, 2016b). Today's international trade is also dominated by global value chains (GVCs) and controlled by leading global corporations involving complex relationships and governance structures. Consequently, the reliability of external markets and the sustainability of the GVCs cannot be guaranteed. In short, while encouraging LDCs to pursue export-led industrialization as a strategy for economic diversification and creating the momentum for graduation in the coming decade, it should – at the same time - be recognized that they are doing so at a time when the global economy is fragile and facing challenges, and when the future of GVCs is in doubt because of new technologies and trade wars.

2.4 Mainstreaming the 2030 Agenda for Sustainable Development

In addition, LDCs will have to mainstream the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) into their programme of action for the decade 2021-30. In contrast to the previous Millennium Development Goals (MDGs), the SDGs are more ambitious and have raised the bar by insisting on the balanced treatment of the economic, social and environmental dimensions of sustainable development. This, in effect, will require accelerating the development of productive capacity in LDCs and creating productive jobs that pay decent wages and enable LDCs to eliminate poverty and promote structural transformation.

[15] See, for example, Rahman (2014) for a discussion on trade benefits for LDCs with special focus on Bangladesh.

SECTION 3

Trade-related ISMs in the context of the WTO

As already noted, this paper will focus largely on trade-related ISMs in the context of the WTO. It begins, however, with a brief overview of existing ISMs in favour of LDCs, their diversity, scope and effectiveness.[16]

ISMs, as alluded above, are the outcomes of the growing recognition, by the global community, of the severe constraints facing LDCs and the need to establish LDC-specific support measures going beyond those available to other developing countries. Typical characteristics of least developed countries include severe structural impediments, lack of resources, low skills base, limited productive capacity, low productivity, poor infrastructure and low-level of technological development. They are also countries that have an undiversified economic structure and that rely on primary products for growth and exports (sometimes on one or two commodities). The ISMs are intended to enable LDCs to overcome these deficiencies and cover areas as diverse as trade-related support measures, concessional financing, technology-related international support, climate change, capacity building, special and differential treatment, and technical assistance[17]

The introduction of a multitude of ISMs in favour of LDCs is a clear sign of the commitment by the global community to address - in a more direct and serious manner - the structural impediments and capacity deficiencies of the poorest and the most disadvantaged economies in the world. However, the impact and outcomes of ISMs are not consistent due to their diversity and the lack of clarity in the design of some of the support measures. The heterogeneity of LDCs - comprising countries as small as Tuvalu with a population of less than 12,000 and large agrarian economies like Ethiopia with a population of 108 million - also means that the impact, relevance and effectiveness of ISMs can vary between countries. For example, trade-related ISMs such as preferential market access for goods are more relevant for larger LDCs with the productive capacity to produce a diverse range of products for export than for small and service-oriented LDCs such as island economies in the Pacific. Similarly, some ISMs are clearly defined and easily implementable by both LDCs and the development partners, while other ISMs require the existence of institutional capacities including legal and technical skills and effective policy coordination and negotiating experience within the LDCs for their implementation. ISMs such as preferential market access and LDC-specific initiatives such as the LDC Fund and the EIF fall into the first category, while many of the SDT provisions at the WTO fall into the second.

For some ISMs, especially those that are indicative or symbolic in nature with no definite process or timeline for implementation - such as

[16] This paper does not pretend to present a detailed analysis of trade-related ISMs which is already discussed exhaustively elsewhere, for example UNCTAD, 2010.

[17] The CDP has established a portal showing all the support measures in favour of LDCs and lists about 136 such measures across the fields of trade, development finance, technology and technical assistance. See, www.un.org/ldcportal.

article 66.2 of Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement of WTO - effective implementation requires the commitment and active involvement of development partners. However, this is not always guaranteed as demonstrated, for example, by the lack of progress in the implementation of Article 66.2 and the failure of development partners to implement their long-standing pledge to raise ODA to LDCs to 0.15-0.20 per cent of their gross national income (GNI). In short, ISMs are undoubtedly helpful and necessary, especially when they are defined clearly and designed to be easily accessible. However, given the heterogeneity of the LDCs, the relative importance of different ISMs in promoting economic growth and facilitating progress towards graduation varies across countries depending on each country's economic structure, resource endowment, macroeconomic policy environment and its ability to leverage the support into beneficial outcomes.

This, in effect, means that there is no one-size-fits-all approach to international support to LDCs. Given their heterogeneity, understanding the specific needs of countries and tailoring support accordingly will be essential. This approach is relevant particularly during the post-graduation transition period when specifically tailored support packages will be needed to ensure that the graduating countries build on their comparative advantages and reinforce the sectors or economic activities that propelled the graduating country's drive towards graduation. Thus, although all ISMs add value, their relative importance differs widely among LDCs. In general, however, trade-related ISMs, in particular trade preferences are regarded as the most important and readily accessed ISMs. The main reason for the reluctance of resource rich countries like Angola and Equatorial Guinea to graduate from the LDC category is their concern about losing the privilege of preferential market access. Such special and preferential tariff arrangements on their exports help them to offset the higher production and trade costs associated with their structural impediments and allow them to attract foreign investment aimed at export-oriented activities. Thus, the value of preferential market access is not only to enable LDCs to integrate into the international trading system, but also to help them develop their capacity to export diversified products into highly competitive markets in developed economies.

Trade-related ISMs in favour of the LDCs include four major areas: (a) preferential market access, particularly the DFQF market access provided to LDCs by major trading partners; (b) SDT provisions in WTO; (c) support for accession of LDCs to the WTO; and (d) trade-related technical assistance. The key components of these support measures are discussed in turn in the following four subsections, highlighting their scope, relevance for LDCs' development and the role of the WTO in sustaining trade-related ISMs. This will be followed by a discussion on additional support measures, safeguards and incentives that can be introduced to ensure that graduating LDCs have a soft-landing in the post-graduation transition period.

3.1 Preferential market access in favour of LDCs

Preferential market access is one of the most important and multidimensional ISMs available to LDCs. It entitles exporters from certain countries to pay lower tariffs or even to enter the market without obligation to quota restrictions that apply to other exporters. In developed countries, such preferential schemes are granted under the Generalized System of Preferences (GSP), which is non-reciprocal. In principle, therefore, preferential market access schemes are granted to disadvantaged economies such as LDCs to enable them to export competitively to more developed markets without incurring the costs associated with import tariffs. In practice, however, it has become evident that gaining access to developed markets through special and preferential tariff arrangements does not necessarily mean that LDCs will export to these markets. The ability to take advantage of market access opportunities is dependent on LDCs' capacity to produce goods at the required quality and standards and to deliver them to the final markets on time. Not all LDCs have such capacities but more and more are attracting foreign investment and are also using their own resources to build the production and exporting capacities needed to benefit from DFQF access to markets in developed and emerging economies. The success of Bangladesh's textile exports and the emergence of LDCs such as Cambodia, Ethiopia, Lesotho, Rwanda and others as important exporters of light manufacturing products, particularly textile and leather products, is due largely to the preferential market access opportunities available to them as LDCs.

The idea that the priority task of the international community in assisting LDCs should be to help them integrate into the international trading system by enabling them to penetrate more developed markets through specifically targeted schemes originated in the context of trade and development discussions in the early 1970s.[18] One suggestion was to assist LDCs to maximize their utilization of the GSP scheme by improving the scheme through extension of its product coverage, duty- and quota-free treatment, and offering more flexible rules of origin in favour of LDCs. In addition, it was suggested that these improvements should be complemented by greater liberalization of non-tariff barriers affecting products of particular export interest to LDCs, and by other international support measures aimed at increasing the capacity of LDCs to produce and export a diversified range of products.

However, in more recent years, an important force behind the promotion of preferential market access for LDCs has been the WTO which, since the 1996 Ministerial Conference in Singapore, has been advocating for a binding agreement on preferential market access for LDCs. The 2001 Doha Ministerial Declaration, which launched the Doha Development Agenda, included an explicit commitment "to the objective of duty-free, quota-free market access for products originating from LDCs" (WTO, 2001). Four years later, another WTO Ministerial Conference in Hong Kong reinforced and further clarified the commitment urging developed countries, and those developing countries in a position to do so, to "provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs ... [or] at least 97 per cent of products originating from LDCs, defined at the tariff line level, by 2008 or no later than the start of the implementation period" (WTO, 2005: annex F).

In spite of these efforts and the emergence of the LDCs as a united force within the WTO, however, it has not been possible to make headway and achieve satisfactory agreement in WTO on DFQF market access. In fact, the last time the subject was discussed at a WTO Ministerial was in Bali, Indonesia, in 2013. According to UNCTAD, in contrast to previous Ministerial declarations, the "Bali Ministerial Declaration — weakened previous commitments and also remained in non-binding language" (UNCTAD, 2016a).[19] Thus, a binding agreement on DFQF in the WTO, which is essential for making the preferential market access for LDCs long-lasting, stable and predictable, remains an unfinished agenda. The assumption is that stability and the predictability of market access would encourage investments

[18] The discussions took place in the context of deliberations at the UNCTAD Special Committee on Preferences which organized a series of meetings to explore ways in which the GSP scheme could be improved in favour of the LDCs.

[19] For the Bali WTO Ministerial Declaration see (WTO 2013). No further progress on DFQF was made in both the tenth and eleventh WTO Conferences held in Nairobi and Buenos Aires respectively.

by both domestic and foreign investors in sectors that have export potential for LDCs.

However, luckily for LDCs, there has been significant progress in terms of preferential market access on unilateral terms. Starting from the EU, which adopted the Everything-but-Arms Initiative in 2001 and became a model for other countries to emulate, a large number of developed and developing countries have followed by adopting unilateral preferential market access schemes for merchandise exports originating from LDCs. While the schemes vary in terms of coverage, they nevertheless give LDCs a wider market access options for their exports, although unfortunately, most LDCs tend to export only to a few developed countries missing the opportunities for market diversification.[20] A list of preferential market access initiatives in favour of LDCs taken by developed and developing countries and reported to the WTO indicates that since 2000, at least 17 countries have taken bilateral decisions to improve market access for LDCs.[21] This is impressive and shows that there has been determined efforts by development partners – both developed and developing – to provide preferential treatment to LDCs. But the critical question is, how many LDCs have made use of these market access opportunities and, in fact, how many of the potential exporters from LDCs are even aware of the existence of special market access offered by a wide range of countries? In 2015, LDCs exported the highest number of products (in terms of national tariff lines) to the EU, followed by China.[22] In 2013, the EU, Canada, Japan and the United States accounted for some 40 per cent of LDCs total merchandise exports.

An ongoing concern of LDCs regarding market access initiatives is that the preference margin may be diminished or offset by the costs of compliance with the schemes' rules, regulations and administrative procedures. The issue of compliance with rules and procedures is also a major anxiety to graduating LDCs as they prepare to operate in a world where preferential rules no longer apply to them. One issue in particular, notably the rules of origin, has been a major preoccupation for LDCs including in the context of the WTO. It has been argued that a combination of low preferential margins and high compliance costs can undermine the appeal of preferential schemes, resulting in a low rate of preference utilization (Inama, 2009). The Rules of Origin and other Non-Tariff Barriers (NTBs) are of particular importance for LDCs for the following reasons:

First, LDCs have limited productive capacity and their domestic supply chain is still underdeveloped and, therefore, their ability to source locally the inputs and raw materials that they need to produce exportable goods is limited. Restrictions on the amount of imported inputs they can use to produce for exports could undermine the usefulness of the preferential schemes.

Second, LDCs have weaker National Quality Infrastructure (NQI) and the institutional frameworks necessary for quality control and standard setting. Consequently, it is hard for LDCs to comply with the plethora of quality and standard requirements operating in developed economies.

Third, with the emergence of GVCs as the dominant form of global trade, production processes have become increasingly more fragmented and trade in intermediate products plays a critical role. It is estimated, for example,

[20] See, WTO, WT/COMTD/LDC/W/65.
[21] The list includes, Australia, Canada, China, EU, Iceland, India, Japan, Kazakhstan, Republic of Korea, New Zealand, Norway, Russia, Switzerland, Thailand, Turkey, the United States and Uzbekistan.
[22] See, WTO, WT/COMTD/LDC/W/65

that about 60 per cent of global trade consists of trade in intermediate gods and services that are incorporated at various stages in the production process of goods and services for final consumption (UNCTAD, 2013). In this context, stringent rules of origin are likely to be particularly burdensome in the manufacturing sector, especially apparel and clothing, which are the products that LDCs expect to see as a launching pad for their export-led industrialization drive.

Finally, these challenges are further exacerbated by the lack of harmonization in the rules of origin which gives rise to different compliance requirements across different export markets with additional costs and inefficiencies. In fact, it was this specific problem that the WTO tried to address in recent years recognizing that the above problems will have a detrimental impact on LDCs' utilization of preferences and integration into global markets.

At the Ninth WTO Ministerial Conference in December 2013, WTO members agreed on a set of guidelines for preferential rules of origin for LDCs which were further elaborated at the Tenth WTO Ministerial Conference in Nairobi in 2015. These guidelines are based only on best-endeavours clauses and thus not legally binding. However, the fact that a series of meetings was held at the WTO through the Committee on Rules of Origin indicates the level of importance both LDCs and the WTO attach to the rules and their implications. In a recent meeting of the Committee (October 2018), WTO members further reviewed the use and application of preferential rules of origin programmes for LDCs, in particular the utilization rates of the preferential schemes by LDC exporters and how members granting preferences have applied the change of tariff classification criterion in drafting their rules of origin. If the ideas outlined in the Nairobi guidelines are translated into action, they will make a substantial different to LDCs since they will allow up to 75 per cent of value added to be imported from outside the exporting LDC and also facilitate 'cumulation' across LDCs and other beneficiaries of preferential schemes. They will also simplify documentation requirements which is critical in the context of LDCs.

Unfortunately, no preference-granting country has yet implemented the Nairobi guidelines and thus their effectiveness and impact remain unrealized. LDCs will need to pursue this matter further at the WTO and through bilateral negotiations because the evidence from reforms on rules of origin undertaken by some developed countries, notably Canada and the EU, suggests that introducing additional flexibilities in the rules of origin is likely to increase the effectiveness of LDC-specific preferential market access by increasing utilization rates (UNCTAD, 2016a).

Another market access-related issue that will require further work at the WTO is preferential arrangements for trade in services for LDCs. Although the modalities for Special Treatment of LDCs in the negotiations on Trade in Services was accepted by members as far back as 2003, it was only in 2011 that WTO members adopted a waiver enabling developed and other developing-country members to grant preferential treatment to services and service suppliers from LDCs. Initially, the waiver was valid for 15 years, then the Nairobi WTO Ministerial Conference extended it by four years to the end of 2030.

It is difficult to say, at this stage, how far the ongoing review process will go and whether it will lead to the operationalization of the services waiver and translate into concrete economic gains. However, the fact that up to 23 members including some large developing countries such as Brazil, Chile, China, India, South Africa, Thailand, Turkey and Uruguay have notified the WTO of their willingness to offer services preferences for LDCs is encouraging. What is clear is that preferential treatment of LDCs in respect of services would likely be highly beneficial for LDCs, particularly those that rely exclusively on services for their exports and national income. Furthermore, enhanced services trade from LDCs is less likely to cause trade diversion for other developing countries since the scale will be relatively small. Although services account on average for 47 per cent of LDCs GDP (for some countries up to 70 and 80 per cent), the contribution of LDCs to world trade in services is approximately 0.7 per cent (OHRLLS, 2018). This indicates that the bulk of services activities in the LDCs are non-tradeable, although with the emergence of ICT-related services and the expansion of tourism and transport services, trade in services is likely to become an important component of LDCs' export package.

3.2 Special and Differential Treatment

In the context of multilateral trade negotiations, the principle of SDT was borne out of the recognition that trade liberalization by itself does not automatically lead to economic development and welfare gains for all countries. The starting points, level of development and capacities of countries to take advantage of opportunities created by trade liberalization differ widely among countries. Hence the introduction of SDT during multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT). The principle continued after the formation of the WTO which upheld the norm and provided preferential provisions in various agreements of the WTO for developing and least developed countries. In fact, with the rapid globalization and greater integration of poorer economies into the global economic system, it became increasingly evident that the trade rules and regulations framed in the context of the new multilateral trading system could not be expected to apply to all countries – advanced economies as well as developing countries – equally. The latter includes weak economies that suffer from lack of technical capability, lack of financial resources and weak capacity to take advantage of the opportunities emanating from the WTO system. Based on this reasoning, developing countries and LDCs were given flexibility on the application of multilateral trade rules and regulations.

In its latest compilation (12 October 2018), the WTO lists a total of 155 provisions in the WTO agreements that provide SDT to the LDCs and developing countries in general (and/or other subgroups of developing countries). [23] As developing countries, most SDT provisions apply to LDCs but in addition there are 12 additional provisions that are specifically aimed at LDCs.[24] The WTO classifies SDT into five categories: (a) provisions aimed at increasing the trade opportunities of developing county members; (b) provisions under which WTO members should safeguard the interests of developing country members; (c) flexibility of commitments, of action, and use of policy instruments; (d) transitional time-periods; and (e) technical assistance. From this classification, it is apparent that SDT provisions in the WTO have different degrees of reach, scope and impact. In the context of graduation and the impact in the post-graduation transition period, the range of SDT provisions provided in the WTO could be regrouped into three categories:[25]

The first category includes provisions that express good will and understanding towards disadvantaged and weaker economies. As UNCTAD notes, these are SDT provisions that "do

[23] See, WT/COMTD/W/239. These latest figures include SDT provisions from the Bali Trade Facilitation Agreement. The total number of listed provisions is 183, but this figure includes provisions that are classified in more than one category. Without double counting, the total number is 155.

[24] For the typology used by the WTO to classify SDTs and the specific provisions aimed at LDC, see WT/COMTD/W239.

[25] For detailed discussion, see UNCTAD, 2016a.

no more than reaffirm, in broad terms, the necessity of taking into account the interests and/or needs of developing countries, including LDCs" (UNCTAD, 2016a, p.105). A good example is article XXXVI of GATT, which basically reinforces an accepted principle as SDT by stating "That the facilitation of economic progress by developing country Members requires more favourable access to world markets without reciprocity for commitments made by developed Members. This is in the form of Special & Differential (S&D) treatment for developing countries under the Generalized System of Preferences (GSP)". Other provisions that fall in the same category are those that seek to simplify reporting to WTO bodies (for example, on trade policy reviews) or make the procedures for consultations simpler (for example on balance of payment consultations). As already noted above, there are provisions that call for support to developing countries or LDCs, for example article 66.2, without binding arrangements that are necessary to ensure that the objectives of the provisions are realized. In short, while wellmeaning, these types of SDT provisions are unlikely to contribute significantly to LDCs' progress towards graduation. Thus, their impact on LDCs during or after graduation is likely to be marginal.

Another group of SDT provisions that may have an equally negligible impact on graduation and on graduating countries are those that are either more complex to implement or that require technological knowledge, institutional capacity and financial resources for their effective implementation. The uneven utilization of SDT provisions partly reflects the lack of awareness and lack of technical capacity on the part of developing countries, particularly LDCs. The results of a survey conducted by the CDP on "the use and benefits of SDT by LDCs" show, for example, that within the LDC category, some countries use the SDTs more often than others. According to the survey results, the uneven utilization "reflects differences in awareness and knowledge of the measures within the group as well as in capacity to access the measures. Generally, the better informed a country is of WTO matters, the more it uses SDT provisions. At the same time, coordination and communication failures within the government, within the private sector, and between the private sector and the government constrain the use of the support measures".[26]

In the third category are SDT provisions that are designed to provide transitional periods and flexibility from commitments (categories c and d according to the WTO classification of SDT provisions). These SDT provisions are critical because they allow LDCs, on temporary or permanent bases, to enjoy the 'policy space' that they need to protect infant industries and subsidize export-oriented activities without restrictions from the multilateral trading system. By having 'policy space' that other competitor developing countries do not have, LDCs gain advantage and time to build their economies. Examples of provisions that give greater flexibilities in commitments to LDCs include the Agreement on Agriculture which exempts LDCs from commitments to reduce tariffs and subsidies; the Trade Facilitation Agreement which allows LDCs to group commitments into categories, some of them to be implemented after a transitional period and contingent on capacity-building support; the exemption of LDCs from the TRIPS Agreement which is now extended to 2033. SDT provisions in this category can have a greater impact on LDCs' ability to attain the criteria for graduation. These are also the types of SDT provisions that will be missed by graduating LDCs, especially if they have not yet developed

[26] For a summary of survey results, see https://www.un.org/ldcportal/

the productive and technological capacities needed to supply goods competitively in the international markets.

The development of the pharmaceutical industry in Bangladesh is a good example of how an LDC can use the 'policy space' afforded to it - through exemptions from implementing WTO Agreements - to pursue an active industrial policy and protect and build a dynamic industry.[27] Bangladesh implemented several policies which have allowed it to protect infant industries, control the prices of medical goods and devices, ban imports and expand its own pharmaceutical manufacturing capabilities. Bangladesh's pharmaceutical industry is now the largest employer of white-collar workers, generating $2 billion in output and exports to over 100 countries including 27 other LDCs. The important point is that Bangladesh has been able to achieve these goals through strategic implementation of industrial policies that would not have been possible if it did not have the exemption from TRIPS obligations. The question is, can Bangladesh's pharmaceutical industry continue to grow and thrive when the country becomes TRIPS compliant after graduating? The general view is that while Bangladesh's success in meeting the criteria for graduation should be celebrated, the reality is that it may have to "seek an extension to the WTO waiver" if it is to continue with the current policies that propelled the development of the pharmaceutical industry.[28]

3.3 Accession of LDCs to WTO

An important point to note about LDCs accession to WTO is that there are only 3 LDCs (Eritrea, Kiribati and Tuvalu) that are not in the process of accession to WTO. The rest are either full members of the WTO (36 countries) or negotiating to join the WTO (8 countries). Between 2012 and 2016, a total of 6 LDCs acceded to WTO (Afghanistan, Lao PDR, Liberia, Samoa, Vanuatu and Yemen). Eight more (Bhutan, the Comoros, Ethiopia, Sao Tome and Principe, Somalia, South Sudan, Sudan and Timor-Leste) are negotiating their accession at the time of writing. The negotiation process is long and complex, involving negotiations both with the working party on the country's trade regime and with each of its bilateral partners on its tariff schedule for trade in goods and on offers in trade in services. Acceding countries are expected not only to "pay" for joining the WTO by making market-access commitments on both goods and services but also to make numerous other changes to their laws and policies in order to bring them into compliance with WTO norms.

It remains an open question as to just how far the incumbent WTO members will go in accommodating the special challenges and needs of the LDCs. The formal procedures by which the negotiations are conducted might appear to favour LDCs, with WTO members having adopted guidelines in 2002 and again in 2012 that are intended to facilitate and accelerate the accession of these countries. LDC officials view the 2012 guidelines in particular as a useful basis for the terms of a deal, providing benchmarks for the commitments that LDCs are expected to make. However, even a cursory review of the duration of past and current accessions indicates that these talks are often quite elongated, and that the pattern has been for each new wave of accessions to take longer than those that came before. The average time elapsed for the first ten accessions to the WTO (all of them completed during 1995-2000) was five years, eight months. By contrast, the seven LDCs that acceded between 2004 and 2016 namely Cambodia (2004), Nepal (2004), Samoa (2012), Vanuatu (2012), Lao PDR

[27] For an excellent analysis of the development of the pharmaceutical industry in Bangladesh, see, Gay (2018).

[28] See, Ibid.

(2013), Yemen (2014) and Liberia (2016) have taken an average of 13 years to complete. In general, the LDCs that have sought to join the WTO since its creation have faced difficulties in the accession process.

From the brief synopsis above, it is difficult to see a link between accession to WTO and progress towards graduation and the implications for graduating countries that have not yet acceded. What is clear is that while the guidelines represent a significant step towards facilitating LDC accession to the WTO, the process remains cumbersome. Furthermore, the fact that it is taking as long as the time it took for other non-LDCs countries to accede suggests that being an LDC does not carry special favour when it comes to accession to WTO. In this respect, graduating countries that are still negotiating for accession may not lose much from graduating.

3.4 Trade-related technical assistance

In recognition of the structural impediments of LDCs and the challenges they face in leveraging trade-related ISMs, several technical assistance initiatives have emerged over the years focusing mainly on capacity building, policy advice and supporting LDCs during negotiations. They include major initiatives taken by development partners as donors such as the Aid-for-Trade initiative, while others have been initiated by international organizations and/or Non-Governmental Organizations (NGOs) that have work programme on LDCs. The nature and activities of these initiatives are discussed elsewhere[29] and, therefore, will not replicated here. Instead, this section will focus on the EIF which is an LDC-specific, WTO-based, multi-donor, multi-agency and multilateral trade-related technical assistance programme. It will be argued that the design of the EIF programme is ideally suited for LDC's trade-related technical support needs and the challenges they face as weak and institutional deficit economies.

The origin of the EIF is the Integrated Framework (IF) programme that development partners in collaboration with a number of international organizations launched in 1997 to assist LDCs to build their capacity to trade. The finances for the programme was managed by the United Nations Development Programme (UNDP) and implemented by six core agencies namely, UNDP, the International Monetary Fund (IMF), UNCTAD, the International Trade Centre (ITC), the World Bank and the WTO. In recognition of the need to upgrade trade-related support to LDCs, the 6th WTO Ministerial Conference held in Hong-Kong in 2005 upgraded the IF into the EIF with a more ambitious agenda and a new and more coherent structure. Subsequently, a secretariat was established at the WTO to oversee the operation of the programme and to coordinate support activities among the core partner agencies. The EIF's support to LDCs focuses on three key objectives:[30]

- Undertaking a diagnostic study – through the Diagnostic Trade Integration Study (DTIS) - in each beneficiary LDC and mainstreaming trade into national development strategies;
- Establishing structures at country level to coordinate the delivery of trade-related technical assistance, thereby enhancing the national ownership of the trade-related support provided;

[29] See, for example, OHRLLS (2018), and the LDC IV Monitor, an independent non-governmental initiative for monitoring progress in the implementation and outcome of the Fourth UN Conference on the LDCs. This initiative is supported by several think tanks and academic institutions from LDCs and partner countries- http://www.ldc4monitor.org.

[30] For details, see https://www.enhancedif.org

- Building LDCs' capacity to trade, including by addressing critical supply side constraints with a focus on productive capacity.

The combination of activities that the EIF programme undertakes in support of the LDCs are uniquely devised to build capacity where it matters - at enterprise and public sector levels - and enable LDCs to establish trade-related policy coherence and gain ownership of the trade policy reforms and regulatory adjustments needed for effective integration into the global economy. Typically, the processes of the EIF's support programme begins with a diagnostic study through the DTIS and with the assistance of partner agencies. This process involves active consultations at national and local levels focusing on the identification of the key binding constraints to trade promotion and prioritizing them in line with the national development agenda. In most cases, these activities contribute to capacity building at national level since they are taken in close collaboration with key stakeholders in the country. The results of the diagnostic study and the recommendations serve as the basis for national stakeholder consultation and the selection of priority areas for further action and implementation. To kick-start the capacity building programme, the EIF provides seed money to help convert specific recommendations from the DTIS into a concrete capacity building project. Other recommendations of the diagnostic are also used to leverage additional resources from bilateral donors or other multilateral donors. At every stage, including after implementation has begun, the EIF monitors progress with a view to providing additional assistance and identifying potential lessons for other LDCs.

The EIF is now moving into a different stage of its development in line with the evolving nature of LDCs, especially with current projections for graduation by 2025, and changes in the global economic system. Aware of the growing importance of new technologies in global trade and the implications for GVCs, the EIF has recently launched (February 2019) a new Strategic Plan (2019-2022) aimed at accelerating support to LDCs and enabling them to better position themselves in the global economic system.[31] As already noted above, in the coming decade, LDCs will need to mainstream into their next programme of action the 2030 Agenda for Sustainable Development and Sustainable Development Goals. The EIF's new strategic plan is designed to facilitate support that improves the trade environment for LDCs so that they are able to benefit from market access opportunities and achieve inclusive and sustainable growth in line with the Agenda 2030.

The EIF currently works with 51 countries which includes graduating LDCs as well as countries that have already graduated but within the three-year smooth transition period. The nature of technical support that the EIF provides is essential not only for countries that have not yet met the criteria for graduation but also those that have and need to consolidate their achievement by strengthening their capacity to trade without needing special international support measures. How the successful EIF programme can be used as an effective instrument for supporting the soft-landing that graduating countries need to sustain their achievement is discussed in the last section.

[31] See, https://www.enhancedif.org/sites/default/files/eif-strategicplan-2019-2022.pdf

SECTION 4

Support for post-graduation soft landing

This section will explore the additional support measures needed to ease the concerns of graduating countries and enable them to build on the development momentum that empowered them to meet the criteria for graduation. This paper has highlighted already that the existing smooth transition arrangement remains 'ad hoc' and dependent on the will of each development partner despite two resolutions from the GA supporting a more predictable and systemic smooth transition arrangement. When an LDC meets the criteria for graduation and eventually graduates after the brief transition period, the credit to this success goes not only to the country itself but also to development partners who accompanied the country's efforts to graduate through LDC-specific ISMs. It is critical, therefore, that development partners see the process to the end by ensuring that LDCs graduate and continue to improve rather than fall back or regret graduating because of the hasty withdrawal of ISMs. In other words, development partners should view graduation as a first step in a long and challenging development trajectory rather than reaching the winning post. As UNCTAD points out, "the goal is not graduation per se, but graduation with momentum, which will allow the development trajectory to be maintained and pitfalls to be avoided far beyond graduation: in the long term, how a country graduates is at least as important as when it graduates. This indicates a need to move beyond graduation strategies oriented to the achievement of the graduation criteria, towards "graduation-plus" strategies directed to graduation with momentum and establishment of the conditions for a viable long-term development process" (UNCTAD, 2016a, p.v).

This is the sprit in which the arrangement or strategies for smooth transition should be designed, particularly in view of the new global trends and the emerging challenges highlighted in this paper. The rethinking of the smooth transition or soft-landing arrangement should be guided by the following four principles:

- A programme for smooth transition/soft-landing should begin not after the country has already been recommended for graduation, but when the country is first found by the CDP to be eligible for graduation. This will give the country a total of nine years of transition which could be used as a preparatory period before full graduation.[32] However, this paper believes that the transition period could be extended further by at least three years giving countries a total of twelve years from the point of first eligibility to prepare themselves for the eventual withdrawal of LDC-specific ISMs.
- In designing new and additional support measures for graduating and graduated countries, the lessons from the experience in implementing the existing smooth

[32] See Annex 1 for the stages in the graduation process. The CDP is already exploring the idea of early start of the transition process, including early assessment of the impact and country vulnerability.

transition provision should be taken into account. Its major flaw, apart from the absence of clearly defined objectives, is the lack of a systemic approach to its implementation. It is left to graduating countries to negotiate bilaterally in securing extension for support measures.

- There is no one-size-fits-all approach to supporting graduating LDCs. The momentum driving progress towards graduation differs among countries. For some, it could be tourism or other activities in the services sector; for others, it could be natural resource wealth, while some countries may have derived their growth and development from manufactures. It is evident, in these cases, that supporting graduating countries will require a targeted approach, which, in some cases, may have to go beyond the existing ISMs.
- In supporting graduating and graduated LDCs, it is important to prioritize support measures aimed at building their institutional framework and productive capacity. The importance of the latter in particular cannot be emphasized enough. The ability to create productive jobs and produce a diverse range and higher-productivity and higher-value goods is an essential requirement for effective integration into the international trading system. In this respect, direct technical support and enabling graduating and graduated countries to retain the space they need to pursue industrial policies will be critical.

Based on these principles, there are a number safeguards and incentives that can be considered in the context of the WTO to help graduating LDCs achieve post-graduation soft-landing. The September 2018 LDC Ministerial Declaration (Annex 2) has already identified a number of measures that can be taken to support graduating LDCs and enable them to exit the list of LDCs without concerns about their future.

4.1 Preferential market access:

Currently, the WTO sub-committee on LDCs routinely monitors and evaluates WTO's work programme on LDCs focusing mainly on market access and the utilization of preferences. In fact, the examination of LDCs' market access is a central feature of the work programme. Experience from recently graduated countries shows that lack of information and technical knowledge is one of the obstacles to negotiating with development partners for an extension of preferential market access for a specific period beyond the smooth transition period. Even developing the arguments for extension backed by relevant evidence can be a daunting task for some graduating economies. WTO's vast knowledge in these areas could be used to develop a special "graduation-plus" programme aimed at preparing and assisting graduating and graduated countries. The scope of this support and the timeframe could be decided by the sub-committee.

4.2 Special and Differential Treatment

The focus of support for graduating and graduated countries in SDT-related areas should be on provisions that protect the policy space of LDCs and that enable them to pursue policies that otherwise they could not. As shown above, including in the case of the pharmaceutical industry in Bangladesh, the SDT provisions that are most relevant for building productive capacity and pursing infant industry policies are those that allow flexibility from commitments or actions and use of policy instruments and those that grant a transitional time-period. Strategically, therefore, these are the provisions where graduating and graduated countries may need some understanding in the timeframe used to remove them from entitlement after graduation. The point here is not to say that LDCs should have such ISMs after graduation indefinitely. To the contrary, graduation is a signal that countries have reached a certain threshold in their development process and should not need special support. But, sustaining the development process takes time; if an additional five or seven years of support could help countries to solidify their gain, that more than justifies the extended period of time.

4.3 Trade-related technical assistance

While the WTO has progressively expanded its trade-related technical assistance programme over the last two decades, its primary role and responsibility remains multilateral trade negotiations, providing overall governance for the implementation of multilateral rules and regulations and dispute settlement. Some of its capacity building programmes such as the Standards and Trade Development Facility (STDF) which assists countries in building their capacity to analyse and implement international sanitary and phytosanitary (SPS) standards, for example, are undoubtedly relevant for graduating and graduated countries. However, for post-graduation support in the context of a 'graduation-plus' strategy, the EIF could package the support necessary to assist graduating and graduated countries in sustaining their development gain after graduation. As shown above, in principle, the design of the programme has all the elements necessary to support trade-related capacity in low-income economies. In practice, the ability of the EIF to undertake additional support measures in favour of graduating and graduated countries will depend on donors' willingness to continue to finance the programme. However, with the support of the WTO, including by mobilizing resources, the EIF could take a lead in coordinating country-specific capacity development programmes for graduating and graduated countries. Currently, EIF is supporting four graduated countries (Cabo Verde, Equatorial Guinea, Maldives and Samoa).

SECTION 5

Conclusion

Four key points emerge from the above analysis.

First, the current graduation projections imply significant changes in the nature of the LDC group by 2025. The LDC group will become more homogeneous geographically (concentrated in Africa) and will consist of countries that are considerably poorer and that still have some time to go before meeting the criteria for graduation. In this respect, graduation will become relatively harder than it has been in recent years.

Second, despite nearly fifty years of international support to LDCs, the challenges facing this group of countries remain as pervasive and constricting as it was when the category was first established. While recent progress in the number of countries graduating is encouraging, as we approach 2020, it has become clear that the IPoA goal of enabling half the number of LDCs to meet the criteria for graduation will not be achieved. In effect, therefore, graduation will remain a priority goal well into the next decade and perhaps after that.

Third, the resistance by some LDCs to graduate from the LDC category even when they are eligible to do so has brought the issue of support for graduating and graduated countries into the forefront of the LDC agenda. As shown in this paper, despite two GA resolutions, the smooth transition arrangement, as currently applied, lacks formal procedures that are applicable to all LDC-specific international support measures across the board.

Fourth, the paper introduces basic principles that will guide the designing of ISMs for graduating and graduated countries. The importance of starting support for smooth transition as early as possible is highlighted. In addition, the need for an extended smooth transition period so that hard landing is avoided is stressed. More importantly, there is no one-size-fits-all approach to support measures for graduating countries. Tailoring support to the specific conditions and needs of countries is essential. Equally important is the strategic approach to ISMs for graduating and graduated countries.

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Annex 1: Graduation criteria and indicators

The list of LDCs is reviewed every three years by the Committee for Development Policy (CDP), a group of independent experts reporting to the United Nations Economic and Social Council (ECOSOC). The CDP, in its report to ECOSOC, may recommend countries for addition to, or graduation from, the list of LDCs. The following three criteria are currently used by the CDP to determine countries eligible for graduation:

(a) Per-capita income, based on a three-year average estimate of the gross national income (GNI) per capita, with a threshold of $1,035 for possible cases of addition to the list, and a threshold of $1,242 for cases of graduation from LDC status;

(b) Human assets, involving a composite index (the Human Assets Index) based on indicators of (i) nutrition (percentage of undernourished population); (ii) health (child mortality ratio); (iii) school enrolment (gross secondary school enrolment ratio); and (iv) literacy (adult literacy ratio);

(c) Economic vulnerability, involving a composite index (the Economic Vulnerability Index) based on indicators of (i) natural shocks (index of instability of agricultural production; share of victims of natural disasters); (ii) trade- related shocks (index of instability of exports of goods and services); (iii) physical exposure to shocks (share of population living in low-lying areas); (iv) economic exposure to shocks (share of agriculture, forestry and fisheries in GDP; index of merchandise export concentration); (v) smallness (population in logarithm); and (vi) remoteness (index of remoteness).

For all three criteria, different thresholds are used for identifying countries that should be added to the list and those that should graduate. A country will be included into the LDC category if it meets the admission thresholds on all three criteria and does not have a population greater than 75 million. Countries meeting the thresholds for inclusion into the LDC category will be admitted only if the government of the relevant country accepts this status. A country will normally qualify for graduation from LDC status if it has met graduation thresholds under at least two of the three criteria in at least two consecutive triennial reviews of the list. However, if the three-year average per-capita GNI of an LDC has risen to a level at least double the graduation threshold, and if this performance is considered durable, the country will be deemed eligible for graduation regardless of its score under the other two criteria. This rule is commonly referred to as the "income-only" graduation rule.

Source: UNCTAD (2016)

Annex 2: Ministerial Declaration of the Least Developed Countries, New York, 26 September 2018

47. We therefore call upon the Member States to agree on a package of benefits from development partners that the graduated countries will continue to enjoy in some critical areas of their economy for a certain period of time consistent with their development situations and needs. This can serve as a safeguard measure for the graduated countries to sustain their development path and not to relapse to the category of LDCs, thereby facilitating the achievement of the SDGs by 2030. This may include:

a) Support to graduating countries in costing, mobilizing resources and monitoring the implementation of the SDGs, covering all 17 Goals.

b) More in-depth analysis of the potential impacts of graduation and identification of additional support to address the challenges of graduation.

c) Capacity-building support to enhance access to new sources of financing, including blended financing of domestic and international resources.

d) Facilitating increased access to other means of financing, including private finance, green bond financing and GDP-indexed bonds. Credit ratings and risk management measures, including through the Multilateral Investment Guarantee Agency, could be helpful in this respect.

e) Bringing together various stakeholders, including development and trading partners and the private sector to provide a platform for countries about to graduate to showcase progress and investment opportunities, for example an improved business environment and increased institutional capacity.

f) Extension of the preparatory period to five years from the current three years before effective graduation in order to anticipate and adapt to the trade-related effects of preference loss with a view to providing greater flexibility, for example to ensure workers are retrained and can achieve productivity gains to counteract any adverse effects related to increased competition.

g) Legal assistance to transition from the EU's Everything But Arms to the enhanced Generalized Scheme of Preferences to mitigate abrupt loss of preferences as the GSP+ offers an additional preference (in some cases comparable with the EBA).

h) A transitional services waiver arrangement: The LDC services waiver is a new mechanism made available to and yet barely utilised by the next wave of graduates. Given the importance of services to trade nowadays, as organised within GVCs, a particular transitional arrangement could be secured for forthcoming graduates from LDC status for this preference.

i) More targeted Aid for Trade support: To improve the effectiveness of Aid for Trade disbursements pre- and post-graduation, the GVC approach towards assessment of needs for trade-related adjustment must be adopted. Investments in infrastructure can further reduce trade costs in view of heightened competition after graduation.

j) Enhanced technical assistance to LDCs to build and strengthen their intellectual property rights systems would enable them to comply with obligations related to intellectual property after graduation. The implementation of the intellectual property regime should be an integral part of the national smooth transition strategy, taking into account national circumstances, and assistance in this regard should be extended to the graduating country at an early stage;

Source: Ministerial Declaration of the Least Developed Countries, New York, 26 September, 2018.