LDCs and the International Trade

How Inclusive is the Engagement?

Introduction

This contribution is being made to join the trade and development fraternity around the world to celebrate the 65th anniversary of my dear friend Pradeep S. Mehta, who views trade as an engine of growth and poverty reduction. One of the ways through which this objective can be achieved is by integrating the poorest countries, or say, the least-developed countries (LDCs) in the mainstream of international trade. For this to happen, there is need for safeguarding the interests of these countries. I recall when Pradeep and I, together with other friends from South Asia, were preparing the Constitution of South Asia Watch on Trade, Economics and Environment (SAWTEE),¹ he intentionally included “safeguarding economic, social and ecological interest of South Asian countries, with special consideration to land-locked and least developed countries” as one of the objectives of the organisation. This makes me feel that it would be a fitting tribute to a man, who incessantly worries about enhancing participation of LDCs in international trade, if I devote this contribution to discuss the dynamics of LDCs’ engagement in international trade.

LDCs as a group were first recognised in 1971, primarily on three criteria, namely: low gross national income (GNI) per capita; low human assets index; and high economic vulnerability

¹. Pradeep is a co-founder of SAWTEE and he currently chairs the Advisory Board of the organisation.
index. Although there were 25 such countries at the time of their creation, this number currently stands at 48 because several new countries continued to get added to the list subsequently while only three countries (Botswana, Cape Verde and the Maldives) having graduated out of the list.

LDCs, housing 12 per cent of global humanity collectively accounts for less than 2 per cent of global gross domestic product (GDP), less than 0.97 per cent of global merchandise exports, and 0.42 per cent of global services exports in 2009. These countries’ shares in global imports of goods and services were 1.18 and 1.36 per cent respectively. Studies conducted in the past have shown that LDCs are marginalised from the multilateral trading system, and there are reasons to suspect that nothing much has changed in the past two decades or so.

Against this backdrop, this short essay traces the history of the LDCs’ participation in the international trade and discusses whether or not there has been any qualitative change in the level of their engagement with global trade in the recent past against the backdrop of several initiatives undertaken to arrest their marginalisation. Although this essay touches up on the issue of participation of LDCs in general, the major focus is on South Asian LDCs.

**LDCs’ Engagement with International Trade**

It is a well-known fact that a majority of LDCs undertook rapid unilateral trade liberalisation measures in the late 1980s and throughout the decade of the 1990s, mostly under the conditions of structural adjustment programmes (SAPs). These prescriptions were made to help the LDCs not only better integrate themselves into global trade but also to reap benefits of globalisation and liberalisation. The understanding was such efforts would contribute towards the economic growth and help LDCs trade their way out of poverty.

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As a result of these conditionalities, the degree of trade integration of the LDCs—whether measured by trade protection (such as existence of tariff and non-tariff barriers) or by trade openness (measured by trade-to-GDP ratio)—is higher than several bigger economies. Besides, the LDCs’ commitment to trade liberalisation can also be seen from the way a large majority of them have ‘mainstreamed’ trade in their development strategies.\(^5\)

It may be recalled that in 1995, when the liberalisation epoch was at its apogee, the LDCs’ share in global merchandise export was 0.48 per cent, more than six times lower than the share of LDCs in the early 1950s (3%). Although LDCs’ share in global trade has increased in the recent past peaking at 1.04 per cent in 2008 to fall to 0.97 per cent in 2009, this is mainly because of increase in exports of primary commodities. Import figures show a slightly erratic trend. In 1990, LDCs’ imports were 0.75 per cent, decreasing to 0.65 per cent in 1995, and 0.62 per cent in 2000. It has been steadily increasing since 2005 to reach 1.18 per cent in 2009, but even now it is below 1980 level of 1.21 per cent.

Over the decade 2000-2009, the total exports of LDCs increased at an average annual rate of 14.6 per cent—nearly twice the global average export of 7.8 per cent. However, this is due to increased exports of primary commodities such as mineral fuels, mineral oils and products of their distillation which accounted for 66.6 per cent of LDCs’ exports in 2008. These products together with the exports of textiles & clothing (T&C) constituted almost four-fifth of LDCs’ exports in that year.

This is reflective of a precarious level of concentration of LDCs’ exports, exacerbating their vulnerability as witnessed in the aftermath of the fall in oil and commodity prices in 2008-2009 following the global financial crisis. During the decade of 2001–2010, export concentration of LDCs witnessed an overall increase. It is also observed that during the given period, export concentration among the LDCs was evenly split with half of them experiencing an increased concentration and another half witnessing a decreased level of concentration.

\(^5\) See, for example, OECD and WTO (2009).
The figures presented above, however, may not be sufficient to establish that the LDCs are being marginalised from the global trading system. In order to gauge the extent of their marginalisation, one can examine the evolution of international trade, particularly in the past two decades (1990–2009). Data show that although the share of developing countries (that include the LDCs) in global exports increased from 29 per cent to 47 per cent between 1990 and 2008, LDCs’ share in global exports as a percentage of developing countries’ share in global exports between 1990 and 2009 has largely remained unchanged, hovering around 2.8 per cent.\(^6\) This is despite the fact that LDCs’ exports did increase from US$18 bn in 1990 to US$125 bn in 2009.

The stagnant share coupled with a virtual absence of structural transformation and a lack of improvement in productive capacity, is evidence that the LDCs are being increasingly marginalised from global trade. This is because of LDCs’ excessive dependence on a few primary export commodities and the volatility of global prices which depresses their export income and further pushes them into the margin of the global economy.\(^7\)

LDCs in South Asia face a slightly different predicament because of three main reasons: they are not heavily dependent on primary products and have somehow managed to graduate to the status of manufactured exporters; they are not accorded preferential market access for the products of their export interest (mainly T&C) to the US market; and they are not amongst the ‘donor darling’ countries, which has implications for the quality of development assistance, including aid for trade.

**Initiatives Taken So Far**

To arrest and reverse the trend of marginalisation of the LDCs, several measures have been introduced. One of the measures is to provide preferential market access to these LDCs. Now almost all LDCs enjoy preferential market access under the generalised

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7. See, for example, UNCTAD (2010: 108).
system of preferences (GSP). They also benefit from the regional or bilateral trade agreements with their trading partners. Some of the widely used preferences include the EU’s GSP to the LDCs; and the US’ preferential market access to the African LDCs through the African Growth and Opportunity Act (AGOA). In addition, several developing countries, notably Brazil, China, India and Turkey, provide duty-free, quota-free market access to the LDCs.\(^8\)

In South Asia at the bilateral and regional level, LDCs such as Bhutan and Nepal have signed bilateral free trade agreements (FTAs) with India, which provides zero tariff access to practically all the products exported from these LDCs. Similarly, Afghanistan, Bangladesh, Bhutan and Nepal enjoy preferential access in India, Pakistan and Sri Lanka by virtue of their membership of the Agreement on South Asian Free Trade Area (SAFTA). Unilateral pruning of sensitive list by India to 25 products and providing LDCs zero tariff market access has further bolstered the opportunities for the LDCs.\(^9\)

Despite some significant developments, several issues remain in the form of non-tariff barriers. Besides, ease of market access also varies from one country and region to another, as indicated by the market access sub-index of the \textit{Global Enabling Trade Report} (WEF, 2012). In South Asia also, trade enabling environment differs from country to country. The report is based on assessment of three indicators, namely foreign market access, tariff barriers faced, and margin of preference in destination market.

The results are different for different countries in South Asia. While in case of foreign market access, Nepal has the best foreign market access indicator followed by Bangladesh, Sri Lanka, Pakistan and India; in terms of tariff barriers faced, Bangladesh fares better than Nepal; and in terms of best margin preference, Nepal appears to be in a relatively better position. The reason for this is that the latter has a bilateral trade agreement with India, which allows the former to export all the products (except for alcohol, perfumes of

\(^8\) See WTO (2011b: 54-59) for the detailed preferential market access measures.

\(^9\) By virtue of this, barring alcohol and tobacco all the products manufactured in LDCs in the region, can enter duty free into the Indian market. See, for example, Kelegama \textit{et al.} (2012).
non-contracting party origin and tobacco) into the Indian market free of ‘basic’ customs duty.\textsuperscript{10}

Besides, there are evidences to suggest that significant under-utilisation of preferences exists, both in case of the EU and the US. There is however, more to this. The existing preferences utilisation rates represent an extraordinary improvement in the utilisation rate, compared to the beginning of the century. For example, the preference utilisation rate for the Quad economies (Canada, the EU, Japan and the US) in 2001 for all the LDCs was 67.3 per cent. The present figure is due to high utilisation rates of US preferences to the LDCs (96\%) resulting from expanded preferences offered to the LDCs, since 1997. Contrast this with other products of export interest to the LDCs, such as T&C and footwear, which collectively account for 99 per cent of the exports from the LDCs that are not eligible for US GSP.

Although the situation has improved after the inclusion of these products under the AGOA, which includes even T&C items under the US GSP for eligible sub-Saharan African countries, Asian LDCs, are excluded from utilising this facility. Overall situation seems to be not so impressive, as an attempt made in the case of Bangladesh shows the preference utilisation rates in the EU for 14 HS categories of products for the year 2006 varied from 0 per cent (carpet) to 100 per cent (fillet/salmon and shawls/scarves/muffler).\textsuperscript{11}

The main problem of under-utilisation of preferences is non-tariff barriers in the form of Rules of Origin (ROO) and regulatory barriers.\textsuperscript{12}

\textsuperscript{10} Although Nepalese exports faces a whole host of para-tariff and non-tariff barriers in the Indian market, what needs to be noted is that customs duties are not imposed provided Nepal fulfills certain rules of origin-criteria, hence, the emphasis on the word “basic” above. See, Adhikari and Sapkota (2012) for further details.

\textsuperscript{11} While some of them are at the lower end (27\% for men’s/boys’ shirts/vests and 53\% for men’s/boys’ trousers/underpants), others are at the higher end (99\% for jersey/pullover/cardigan and 91\% for women/girls’ jerseys/west-coats). See Rahman (2007).

\textsuperscript{12} ROO mainly includes standards related to health, safety and environment, which, although mostly internationally recognised, are set at a very high level. Exporters from the LDCs find it difficult to comply with these standards. This is further exacerbated by a plethora of private standards and climate-related standards, which pose significant barriers to LDCs’ exports.


**Conclusion**

The marginalisation of LDCs continues despite the seemingly robust export growth they have been able to achieve over the past decade. This can be ascribed to two factors: a high content of exportable commodities (mainly fuels and minerals) in the LDCs’ exports and a high level of export market concentration of the LDCs, especially in general and the fuels and mineral exporting LDCs. In addition, the preference utilisation rates of the LDCs in products of their export interest and in which they supposedly possess ‘comparative advantage’ are low. The emerging opportunities require LDCs to develop vertical integration and be able to manufacture inputs they require in the production of exportables. Similarly, for a greater penetration of international market, it is also required that LDCs organise their production process adhering to global standards and establish testing and accreditation facilities. Further, the LDCs need to adhere to the principle of ‘good enough governance’ and mobilise sustainable aid for trade. While work needs to be done mainly at the domestic level to achieve the former, international negotiations as well as effective domestic ownership are vital to achieve the latter.

It is hoped that under the visionary leadership of Pradeep, Cuts, which primarily focuses on good governance, trade and development and regulatory reform agenda, will be able to make a major dent on ensuring qualitative improvement in the LDCs participation in international trade in the future.

**References**


