



## **SECOND UNITED NATIONS CONFERENCE ON LANDLOCKED DEVELOPING COUNTRIES**

**3-5 NOVEMBER 2014, VIENNA, AUSTRIA**

### **HIGH-LEVEL THEMATIC DEBATE**

## **“Harnessing International Trade and Investment for LLDCs’ Development and Facilitating Transit Transport”**

**Wednesday, 5 November 2014, 10am – 1pm**

**Lead Organizers: OHRLLS and WTO**

#### **Introduction**

Landlocked Developing Countries (LLDCs) face special challenges that are associated with their lack of direct territorial access to the sea and remoteness and isolation from world markets. Their seaborne trade unavoidably depends on transit through other countries thereby making them dependent on the political stability, infrastructure and institutional quality of coastal transit countries. Additional border crossings and the long distance from major markets, coupled with cumbersome transit procedures and inadequate infrastructure, substantially increase the total expenses for the transport services and other transaction costs that erode the competitive edge of landlocked developing countries. As a result the LLDCs are disadvantaged from fully utilizing trade for their development.

LLDCs lag behind the other groups of developing economies on most of the development indicators. In particular, LLDCs are generally less rich (in terms of average per-capita income), have worse health outcomes, and a higher poverty headcount than coastal developing and transit developing economies. They also tend to perform worse than the other groups in terms of trade facilitation (e.g. transport costs, infrastructures for trade, logistics) and diversification of their export structure.

The Almaty Programme of Action adopted by the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation, held in Almaty, Kazakhstan, in 2003, recognized the special needs and challenges faced by the LLDCs in achieving their

development goals. The objective of the Programme is to establish a global framework for developing efficient transit transport systems, taking into account the interests of both landlocked and transit developing countries that will help LLDCs to overcome their inherent geographical difficulties and provide support for their efforts to eradicate poverty, sustain economic growth and better integrate into the world economy.

Ten years of the implementation of the Almaty Programme of Action, it is noted that LLDCs continue to suffer from supply-side constraints which limit their capacity to expand trade, to diversify and to shift to higher-value added products. Although a number of countries have managed to address some of these constraints and experienced positive impacts on their growth and development, for the majority of LLDCs, a huge challenge remains in developing their transport and telecommunications systems, human resources, institutional and regulatory frameworks, and financial institutions, among others. These limitations are further compounded by market access and trade facilitation issues that continue to impede LLDCs' wider and meaningful participation in the global trading system.

In that context, greater integration of LLDCs in world trade and into global value chains is vital for increasing their competitiveness and ensuring their economic development. The export structure of LLDCs continues to be increasingly characterized by reliance on a limited number of export products, in particular agricultural and mineral resources. More efforts are needed to diversify the production and export structure of LLDCs, and enhance their productivity in order to take advantage of the multilateral trading system and enhance competitiveness of LLDC exports through improved market access.

With the growing inter-linkages in world trade, investment and production, global value chains account for a rising share of international trade, offering new opportunities for many developing countries. LLDCs have not been able to fully participate in regional and global value chains. Linking into global value chains presents an opportunity for LLDC to achieve greater integration into world markets and allow them to become important links in the production and distribution chain. There is a need for doubling the share of LLDC exports in world trade, by promoting their competitiveness and reducing the barriers to trade.

During the period 2003-2013, total merchandise exports from landlocked developing countries grew from US\$44 billion in 2003 to US\$228 billion in 2013, due in large part to an increase in world commodity prices. Imports have also increased to some extent. Although the global share of LLDCs' merchandise export has doubled in the last decade, they still account for a very low proportion of about 1.2%. Disaggregated trade data shows that 65 percent of LLDCs' merchandise export earnings have accrued to just three countries, with two countries accounting for more than half of all LLDCs 2013 merchandise export. This demonstrates a continued marginalization of LLDCs from the global markets. Furthermore, LLDCs rely heavily on a few mineral resources and low-value agricultural products for their exports to a limited number of markets – making them highly vulnerable to commodity price and demand volatility. This situation has caused a growing

trade imbalance and a steady decline in their terms of trade. The problem is further exacerbated by LLDCs' low productive capacities, which limits them from meaningfully adding value to their exports or diversifying their exports and markets. About 20 percent of LLDCs are currently in the accession process to the WTO.

This thematic debate seeks to provide a broader and deeper understanding of LLDCs' trade challenges and propose pertinent recommendations or required actions both at global, regional and national levels, in view to harness trade's contribution to LLDCs' growth and development and the sustained transformation. It will also take stock of the developments in the WTO negotiations that address the effective participation of LLDCs in the multilateral trading system and highlight the remaining challenges. It will also look at other avenues of enhancing LLDC trade such as regional trading arrangements, bilateral market access schemes and South-South cooperation.

### **Situational Analysis**

At several occasions, LLDCs have articulated their common position on trade issues on multilateral Trading System, especially on the framework of the negotiations of the Doha Development Agenda, Aid for Trade and capacity building needs. In particular, at meetings of Trade Ministers of LLDCs in Asuncion, Paraguay, in 2005, in Ulaanbaatar, Mongolia, in 2007, in Accra, Ghana, in 2008, in Ezulwini, Swaziland, in 2009, in Doha, Hong Kong, in 2011, in Almaty, Kazakhstan, in 2013 and in Bali, Indonesia, in 2013, and the respective outcomes of those meetings, LLDC Member States have emphasized the importance of the development dimension of the Doha Development Agenda.

### ***Multilateral Trade Negotiations***

LLDCs have underscored the critical role of international trade and investment for development and growth. At the 9<sup>th</sup> Session of the WTO in Bali, in December 2013, LLDC Ministers called upon the WTO membership to strengthen the negotiation function of the WTO and to reinvigorate work towards a successful conclusion of the Doha Development Round, with an ambitious, balanced and equitable outcome which ensures, *inter alia*, improved market access for agricultural and non-agricultural export products of LLDCs.

For many LLDCs, agriculture remains a key sector which directly impacts the lives of a large portion of LLDCs' population. LLDCs emphasized the need to achieve better access to agricultural markets, through the elimination of all forms of non-tariff barriers to trade. They have called for an expeditious continuation of the reform process in order to promote market access, reduce distortive domestic support measures for agricultural products, especially in developed countries, total elimination of all forms of export subsidies and promote fair rules for the cotton sector. Likewise, special attention should be granted to their interests in the trade facilitation negotiations, especially those related to transit. The DDA also addresses the issue of tariff escalation for higher value and processed products from LDCs.

The reduction or elimination of non-tariff barriers (NTBs) is being negotiated as part of the NAMA negotiations.

LLDCs believed that the principle of Special and Differential (S&D) treatment, technical assistance and capacity building should be accorded to LLDCs to compensate for their geographical disadvantages which erode their competitive edge in the global market.

Unilateral preference schemes such as the EU's everything but arms initiative (EBA), the US' African Growth and Opportunity Act (AGOA), and the generalised system of preferences (GSP) schemes adopted by some developed country governments, have provided beneficial treatment to developing countries, including landlocked developing countries. However, a critical evaluation points to areas of improvements to ensure that these schemes expand trade opportunities for LLDCs. Among the shortcomings often cited are product exclusion of export interest to LLDCs, overly strict rules of origin and the requirement for frequent renewal of these schemes.

The multilateral trading system shall continue reforms towards the development of more friendly and market-oriented rules. While we welcome the Bali Agreement on Trade Facilitation, negotiations in the multilateral trading system should be enhanced in order to deliver substantial market access, with reduction of distortive measures and better predictability. Non- Tariff Measures and Barriers shall be addressed and minimized through market-oriented and scientific-based rules. LLDCs should have an active role in this process to fully benefit from the global trading system.

### ***Importance of Services Sector in Trade and Development***

For landlocked developing countries (LLDCs), service trade is the new frontier for enhancing their participation in international trade and, in turn, realizing development gains. The services sector plays an increasingly important role in the global economy and the growth and development of countries. The wide and deep impact of services on development is affirmed by many studies. Services are becoming crucial in a country's development, including in achieving the Millennium Development Goals, such as poverty reduction and access to basic services, including education, water and health services. World Bank has pointed to the higher contribution of growth in the services sector to poverty reduction than the contribution of growth in the agriculture or manufacturing sectors<sup>1</sup>. An efficient and productive services industry, in particular in the areas of transport, tourism and information and communication technologies, can contribute significantly to productivity growth and for the overall competitiveness of LLDCs' economies. Furthermore, employment gains will be most significant in reducing poverty in LLDCs and will provide employment opportunities for women.

During the period 2002-2012, the trade in services in LLDCs has grown more rapidly than the trade in goods, and the share of trade in services in overall trade of the three groups of countries has been increasing over the last three decades. Exports in services increased from \$8.1 billion to \$34.5 billion, while imports rose from \$13.7 billion to \$54.6 billion. It is therefore imperative to increase the private sector and public advocacy and awareness, to mobilize policy attention and

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<sup>1</sup> World Bank presentation, "Role of Services in Economic Development"; Geneva, July 2012 (Data source: World Bank, 2010)

resources to boost the sector's contribution to growth and development in developing countries and LDCs. Finally, given the multifaceted contribution of services to national economy and trade, it is critically important to design and implement a services-driven development strategy within a coherent and comprehensive policy framework ensuring linkages with other policy areas and overall national development objectives. International organizations, in particular WTO, UNCTAD and others, should support LLDCs to develop their services sectors, through capacity building programmes and the strengthening of appropriate statistical and information tools.

### ***Aid for Trade and other mechanisms to address the supply-side constraints of LLDCs***

Aid for Trade<sup>2</sup> is essential for landlocked developing countries to make effective use of the multilateral trading system. Aid for trade, in combination with complementary policies, is helping to lower trade costs, in the form of additional infrastructure, better border institutions and regulatory procedures. Targeted areas of support include also capacity building for the formulation of trade policies, participation in trade negotiations, implementation of trade facilitation measures and international agreements. Aid for Trade also has the potential to ease the binding constraints that prevent landlocked developing from linking to or moving up value chains. Ultimately, Aid for Trade is essential for countries to make effective use of multilateral trading system.

Aid for Trade disbursements to LLDCs reached \$6.4 billion in 2011, a 70 per cent real increase since 2005. But while LLDC receipts have almost doubled in real terms between the 2002-2005 baseline and 2009, they have largely levelled off in 2010 and increased only marginally in 2011. Beyond their obvious need for trade-related infrastructure, LLDCs stand to reap substantial gains from other Aid for Trade priorities, such as building productive capacity and trade development. Given their reliance on multi-country transit corridors, they also should benefit from the Aid for Trade Task Force's call for greater attention to regional, sub-regional and cross-border issues.

The Enhanced Integrated Framework (EIF) is a platform aimed at addressing developing countries' supply-side constraints and support the diversification of production and export bases. At several occasions, landlocked developing countries have called for an increase in resources of the EIF multi-donor Trust Fund and better allocation to productive sectors.

The Standards and Trade Development Facility (STDF) directly responds to LLDCs' concern relating to lack of capacity in standards and quality control. The STDF, a global programme in sanitary and phytosanitary (SPS) capacity building and technical cooperation, assists developing countries, especially LLDCs, enhance their expertise and capacity to analyze and implement international SPS standards, improving their human, animal and plant health situation, and hence their ability to gain and maintain market access. The STDF has consistently operated in synergy with Aid for Trade and the EIF.

### ***Resource Mobilization to harness Trade and Investment in LLDCs***

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<sup>2</sup> Aid for Trade includes aid for economic infrastructure (transport and storage, communications and energy), building productive capacities (in areas of agriculture, forestry, fishing, industry, mineral resources and mining, banking, financial and business services), and assistance for trade policies and regulations and trade-related adjustment.

LLDCs attach high priority to Official Development Assistance (ODA), as a valuable means to implement priority development programmes and strategies and address special needs and challenges faced by LLDCs. Therefore, there is need to increase the amount of ODA, in a transparent, predictable and sustainable manner.

The role of Foreign Direct Investment (FDI) is important as it may help accelerate development and reduce poverty through employment, transfer of managerial and technological know-how and non-debt creating flows of capital, as well as its key role in providing infrastructure for transport, telecommunications and utilities. It can release much of the untapped production potential of LLDCs, while at the same time opening up new markets for high value-added products and services.

Capital exporting countries should be called upon to support efforts made by LLDCs in attracting FDI. LLDCs should adopt and implement economic, financial and legal incentives to encourage FDI flows.

South-South and triangular cooperation is also important to support the development efforts of LLDCs and enhance their participation in the global economy. This cooperation could be strengthened, particularly in the areas of transit transport, trade and capacity building. These could be scaled up as to help LLDCs address the complex and severe development challenges that they face because of their geographical disadvantages.

Regional integration arrangements' (RIA) contribution to the expansion of trade for LLDCs and boosting their supply-side capacity has been documented. RIAs broaden LLDCs' markets and contribute to strengthening productive capacity. Increasingly, RIAs are embarking on infrastructure development projects at the regional level – extensive road networks, advanced telecommunications technology, energy grids, etc., which, aside from helping address LLDCs' key supply-side constraints, also facilitates trade among and beyond the RIA members, while also boosting productivity.

### ***Accession to the World Trade Organization***

Accession to the WTO has many benefits. At a “macro” level, WTO membership lends added credibility to government policies and sends clear signals to investors about a country's commitment to an open economy. Adopting the multilateral framework of rules and regulations contained in the WTO rulebook can encourage both the inflow of foreign investment and the transmission of technological know-how. At the “micro” level, domestic businesses stand to benefit a great deal from the establishment of a transparent and predictable trade environment, which results from the conclusion of the WTO accession process. Hence, the domestic reforms necessary in WTO accession can provide a foundation and a tool to enhance a country's competitiveness. Accession also facilitates a deeper and a more meaningful regional integration process by ensuring that all Members of a regional integration arrangement are bound by a series of multilateral requirements. Therefore, WTO membership is a catalytic process serving as a vital instrument to lock-in reforms, promote governance and facilitate more structured international cooperation<sup>3</sup>.

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<sup>3</sup> Valentine Rugwabiza, WTO Deputy Director General, at the High-Level Global Thematic Meeting on International Trade, Trade Facilitation and Aid for Trade, Almaty, Kazakhstan, 13 September 2012

Out of 32 LLDCs, only 9 countries are still outside the rules-based multilateral trading system and should be encouraged to accede. Those wishing to accede to WTO should be provided enhanced assistance and appropriate aid for trade resources. All provisions on Special and Differential Treatment reflected in the GATT and all WTO agreements should be granted to all acceding LLDCs.

### **Issues for Discussion on the Way Forward**

LLDCs attach great importance to international trade and investment, as engine for economic growth and poverty reduction. Trade performance is affected by a mix of domestic and external factors. Internally, LLDCs are handicapped by supply-side constraints. Externally, they are constrained by market access and non-market access barriers. For LLDCs to meaningfully benefit from trade and make trade a real vehicle for LLDCs' long-term structural transformation that would lead to durable and sustained growth and development, they need to achieve the following:

- **Strive for the early conclusion of the Doha Round of negotiations with favourable outcomes for LLDCs**

The Doha Round of WTO trade negotiations must be concluded as soon as possible, and must address the development concerns of LLDCs. This should increase market access, generate increased trade flows and focus on the needs of LLDCs. Emphasis should remain on the commitment to make operationally effective the principle of special and differential treatment for developing countries; to the parallel elimination of all forms of export subsidies; and to substantial reductions in trade-distorting domestic support, in accordance with the mandate of the Doha Round.

- **Address supply-side constraints, with the support of the international community**

LLDCs need to diversify and move up the value-chain of production, including by engaging in manufacture and services trade; developing key infrastructure services including in transport, telecommunications, energy and finance; supporting trade facilitation efforts undertaken at the international level and mainstreaming trade in their national development plans; developing their human resources (skills, technology, technical know-how and training); developing and engaging the private sector; and reforming institutions and setting-up appropriate regulatory frameworks.

- **Utilize and explore how to maximize the benefits that other mechanisms/avenues to trade afford, such as unilateral preference schemes, regional integration initiatives and South-South cooperation**

(a) With unilateral preference-giving partners, negotiate for expanded coverage to include all exports; seek for a relaxation of the rules of origin;

- (b) Enhance the benefits from regional integration arrangements and South-South trade or cooperation, including increasing financing from regional development banks to compensate for loss of aid and regional stimulus packages focusing on improvements to infrastructure;
- (c) Strive to diversify trade with the emerging economies to avoid getting trapped in commodity exports only. Continue to engage in the development and enhancement of infrastructure at the regional or sub-regional level to boost supply-side resources and improve competitiveness and productive capacities.
- (d) The support of the international community, including donor governments and agencies are crucial in this regard. Moreover, the stabilization of commodity prices should be a priority at this stage of LDC trade based on the export of raw materials.