Euro-Asia Regional Mid-term Review of the Vienna Programme of Action for LLDCs for the Decade 2014-2024

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(Session 4) International Trade and Trade Facilitation: Recent trends, challenges and opportunities with policy implications
Structure of the presentation

I. Performance of LLDCs’ in international trade
II. Key issues in trade facilitation and trade cost
III. Concluding remarks
IV. Some policy recommendations in the context of MTR and beyond
A. On International Trade
i. LLDCs’ trade (exports and imports) have increased by about 6 folds during 2000-2017. **(Such an impressive growth in trade has not reversed the marginalization of LLDCs. They still account for 1% of the global output, less than 1% world trade and FDI flows)**;

ii. LLDCs’ exports are driven by primary commodities, while their imports are predominantly light-manufactures, intermediate goods and/or consumer products;

iii. Not only their share in global exports is minuscule but their **negative trade balance** has also continued to expand with imports surging over exports;

   (A large negative trade balance means that imports are **financed by external reserves, loans or ODA**, entrenching external indebtedness of LLDCs);

iv. Low value-high volume primary exports also mean an increase in **trade cost** (**high trade cost of LLDCs is not only the result of distance or being landlocked**);

v. Economic growth in LLDCs has followed commodities’ boom-bust cycle

   ➢ **The need for fostering export diversification has become more urgent today than ever before.**
B. ...Key message on trade facilitation

Trade facilitation should be **development- oriented** (i.e. it should advance the trade and development objectives for LLDCs.

Therefore, it should be:

- Modern, efficient, regionally interconnected and ICT-driven;
- Rule-based with flexible regulations, rules and procedures;
- Consistent with regional and multilateral agreements such as WTO-TFA;
- Facilitate participation of the private sector, including through PPP; and
- Promote bilateral, regional and international cooperation and partnerships
I. LLDCs’ Trade Performance (Merchandise)
b. LLDCs’ trade balance (millions of US$) and rates of growth in exports and imports (2000-2017)
c. Growth performance under commodities’ boom-bust cycle

LLDCs’ average annual growth per capita (2000-2008)

LLDCs’ average annual per capita (2009-2017)
Growth Performances: LLDCs and other Developing Economies (2000-2016)
d. Share of Manufacturing Value Added in decline...

Manufacturing Value Added as Percentage of GDP (2000-2016)

Manufacturing Value Added in Constant 2010 US$ million (2000-2016)
e. Merchandise Export Concentration Index: LLDCs and Other Developing Economies (2000-2017)
f. Number of Export Products: LLDCs and Euro-Asian LLDCs (2000-2016)
Trade Facilitation: A brief recapitulation of LLDCs’ high trade costs

Transport costs breakdown on the northern corridor (Mombasa-Kigali)

- **Cost of delays**: 44%
- **Inland route costs**: 35%
- **Shipping route costs**: 9%
- **Sea Freight shipping charges**: 8%
- **Clearing fees and VAT**: 3%
- **Port handling charges**: 1%

**Total**: 100%

Source: Analytical Comparative Transport Cost Study Along the Northern Corridor Region, CPCS, June 2010
Concluding remarks

• Export diversification (horizontally and vertically) is key to:
  ✓ build economic resilience, reduce trade cost, create jobs and reduce poverty (help to achieve VPoA Goals and SDGs)
  ✓ mitigate and withstand impact of external economic shocks;
  ✓ make growth more inclusive and sustainable;
  ✓ Structurally transform economies and increase technological sophistication of exports

*However, export diversification and trade facilitation should go hand in hand with:*
✓ Streamlined, simplified and harmonized customs procedures; and
✓ Efficient, modern and automated trade logistics
Some policy recommendations in the context of MTR and beyond

- Policies and strategies in LLDCs should focus more on economic diversification with a focus on export orientation;
- Within existing export structure, LLDCs need to look for intensive margin for value addition, including to participate in RVCs and GVCs;
- Sectorally - agriculture, agri-processing and tourism- hold huge potential for economic diversification in LLDCs; they need to exploit such a potential;
- There is a need to incentivize the private sector especially in sectors of comparative advantages;
- Improving connectivity and physical infrastructure need to be given due emphasis;
- Managing commodities rents and investing these in socioeconomic transformation would have multiplier effects;