PART FOUR
Making International Support Measures Work for Developing Productive Capacities and Graduation from LDC Status

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UN-DESA CDP Capacity-building Workshop on Productive Capacity and the Use of Trade-Related International Support Measures (ISMs) for LDC Graduation

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Palais des Nations, Geneva


VISION:
WHY
WHAT
HOW
STRATEGY:
TACTICS:

The Two Sessions this Afternoon

- Provide a general overview of international support measures and some ideas on how to make them work in developing productive capacities and graduation (this PPT). HOW…
- Presents latest findings of LDC IV Monitor on the working of trade preferences and aid for trade within the Istanbul Programme of Action. HOW…
- Presents the results of CSEND studies of the how Inter-Ministerial Coordination and policy coherence between national and international instruments affects success in tourism development. HOW…
- Brainstorm on how to make international support mechanisms work. HOW…

Organization of this Powerpoint

1. An Introduction to International Support Measures

2. Limitations of ISMs

3. Some Ideas on How to Make Them Work in LDCs for Developing Productive Capacities and Graduation. HOW…HOW…HOW
   A. Aid for Trade
   B. TRIPS Article 66.2
   C. Services Waiver

1. Introduction to ISMs

CDP LDC PORTAL IS THE GO-TO INTERNET SITE

- CDP (2008) *Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures*

→A little dated but still the best single summary

- *Information Manual Responses: International Support Measures related to WTO provisions & preferential market access in favour of LDCs.*

→Over 100 pages on what WTO provisions for LDCs are and how they are being used

- Ana Cortez UNDESA *International support measures for LDCs*. Powerpoint presentation to delegate in New York, June 25, 1915

INTERNATIONAL SUPPORT MEASURES

- International Trade
  - Preferential market access
  - Special and differential treatment related to WTO obligations
  - Aid for trade (Enhanced Integrated Framework)
  - Support for WTO accession
- Finance
  - DAC donors bilateral commitment: 0.15 to 0.20% of GNI to LDCs
  - DAC donors commitment to untie aid to the maximum possible
  - Technical assistance by UN system to LDCs
- Technology
  - TRIPS Article 66.2
  - Technology Bank and New Mechanism for Technology Transfer
- Climate Change

CLIMATE CHANGE

- Article 4(9) of the UNFCCC commits all parties to the Convention to “take full account of the specific needs and special situations of the least developed countries in their actions with regard to funding and transfer of technology”.
- An LDC work programme was established to implement the provisions of Article 4(9), including:
  - Supporting preparation and implementation of national adaptation programmes of action (NAPAs),
  - Development and transfer of technologies, particularly adaptation technologies.
- A special fund, the Least Developed Countries Fund (LDCF), was also established to support the LDC work programme, notably for the preparation of NAPAs, and a Least Developed Countries Expert Group (LEG) was created to support LDCs in the preparation and implementation of their NAPAs.

Commitments to ISMs Affirmed in Major UN Conferences on Special Needs of LDCs

- These conferences occur every ten years

- They agree a ten-year programme of action for LDCs, including goals, targets and actions.

- UNLDC III. Brussels Programme of Action 2001-2010. *Commitments to 156 actions by LDCs and 178 actions by development partners*

→Everything but Arms Initiative was a key deliverable at this conference

- UNLDC IV Istanbul Programme of Action.

→ Key target is to move towards a world without LDCs. Half the LDCs to meet graduation criteria by 2020.

LDC Status Strongly Recognized in WTO System

But Trade ISMs for Preferential Market Access More than Productive Capacities Development

- **The 1979 Enabling Clause**: “Special treatment of the least developed among the developing countries in the context of any general or specific measures in favour of developing countries.”

- **Preferential tariff treatment of LDCs:** *“The provisions of Article 1 of the GATT 1994 shall be waived until 30 June 2009, to the extent necessary to allow developing country Members to provide preferential treatment to products of the least developed countries [...]”* [adopted in 1999, extended to 2019]

- **Hong Kong Ministerial** (2005): Duty-free quota free; all products, at least 97% of tariff lines

- **Services Waiver (2011):** “*Members may provide preferential treatment to services and service suppliers of least-developed countries with respect to the application of measures described in Article XVI* [MFN market access, adopted in Dec 2011, valid for 15 years]

Selected non-reciprocal duty-free, quota-free (DFQF) schemes in favor of least developed countries, as of October 2014 (from Cortez)

Preference granting country	Tariff line coverage (per cent)	Entry into force
Developed countries		
Australia	100.0	1 July 2003
Canada	98.6	1 January 2003
European Union	99.0	5 March 2001
Japan	98.0	1 April 2007
New Zealand	100.0	1 July 2001
Norway	100.0	1 July 2002
Switzerland	100.0	1 April 2003
USA	82.6	Expired 31 July 2013
Developing countries		
China	95.0	1 July 2010
Chile	99.5	28 February 2014
India	85.0	13 August 2008
Korea, Rep. of	90.0	1 January 2000
Taiwan, POC	31.7	17 December 2003
Turkey	79.7	31 December 2005

2. Limitations of ISMs

How have successive POAs worked

- UNLDC I. Ideologically sidelined. State-led development model. Obsolete after introduction of implementation of SAPS

- UNLDC II. Asymmetrical implementation. LDCs undertook deep economic liberalization BUT real aid per capita fell 45% 1990-2000, very little debt relief

- UNLDC III. More effective partnership (aid doubled in real terms 2000-2008, LDCs continued to implement economic reforms and improve governance) BUT
    A. Incomplete recognition of LDCs as a category
    B. LDC-specific international support measures had symbolic rather than practical developmental effects. UNCTAD LDC Report 2010

- UNLDC IV. ??? Difficult global environment after global financial crisis
    - LDC IV Monitor Analytical Report. Lagging behind achievement of graduation target and “progress in building productive capacities…has been unsatisfactory” (p.xiii)

A. Incomplete Recognition of LDCs as a Category

- A major problem is that the World Bank and IMF do not recognize LDCs as a category. Therefore no LDC-specific measures.

→Fragile states are defined in terms of good governance not structural weaknesses.

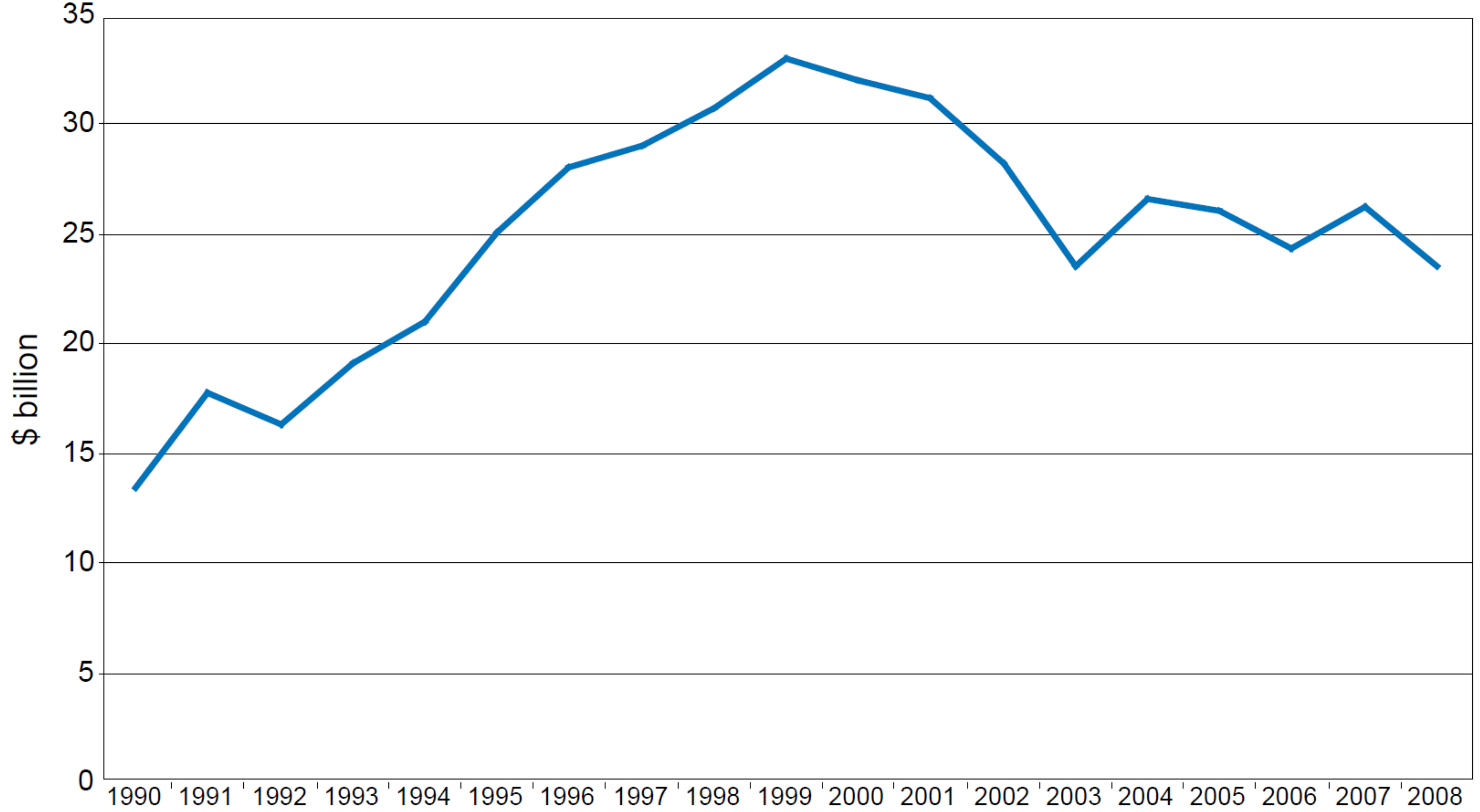
→ BUT CDP GNI per capita criterion for inclusion as LDC related to definition of low-income country by World Bank

- Bilateral donors. Being an LDC is not a major consideration when selecting priority countries

→FACT. 2011 Among 26 OECD member counties, LDCs comprise a majority of among top ten ODC recipients in only 11. France and Spain have no LDCs in top ten recipients; Germany, japan and Greece have only one LDC – Afghanistan.

BOTTOM-LINE: There is NO SYNERGY between TRADE, FINANCE AND TECHNOLOGY ISMs

B. Annual delivey gap on DAC donors' aid to LDCs
($ billion)



BUT UN system prioritizes LDCs

- Expenditures on operational activities for LDCs up from $2.4 billion in 2000 to $7 billion in 2008. In 2008 38 per cent of expenditure on operational activities targets LDCs

- Share of UN in-country expenditure on operational activities in LDCs up from 39% in 2003 to 50% in 2008

- UNDP, UNICEF and WFP have targeted budget set asides for LDCs

- UN has special travel funds to enable LDC Representation at General Assembly and LDC contributions to the regular budget are capped

B. Symbolic rather than Practical Development Effects (UNCTAD LDCR 2010)

- Design failings – exclusions eg market access preferences, failure to take account of LDC characteristics (untying aid)
- Very little action on WTO accession
- SDT in WTO agreements can provide additional policy space but
  - Some expired, not all binding, ambiguous, dispersed and complex and require technical capacity to implement (Cortez)
- Development benefits stymied by inertia in existing practices (aid untied de jure but not de facto)
- Many studies but little financial follow-through
- BUT (painfully slow) learning process (eg EIF)

Preferential Market Access
% imports admitted duty free
excluding arms and oil

- Developing countries
  - 1996: 54%
  - 2008 80%
- Least developed countries
  - 1996 78%
  - 2008 81%
  - 2012 Approx. 83% (53% DQF and the rest zero MFN tariff) Cortez

Issues: Coverage; rules of origin; costs of compliance; export supply capacities

Technology: TRIPS Article 66.2

- “Developed country members shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to LDCs in order to enable them to create a sound and viable technological base”

- Problems
  - “Technology transfer” not defined
  - No institution to enable LDCs to create a “sound and viable technology base”
  - Only 22% of reported programmes actually promoted technology transfer specifically targeted at LDCs

Aid Untying

- Donors have made rapid progress in the ***formal untying*** of their aid by removing legal and administrative impediments to the procurement of goods and services outside the donors’ own markets.
- BUT the ***de facto tying*** of aid continues to be widespread.

→“Even where procurement is being handed over to partners, most donors try to influence project implementation, through long term technical assistance or management consultant from their home country” (Evaluation p.ix).

- Technical cooperation excluded from original untying of aid.

→FACT. In 2000, Denmark argued that against untying of tech cooperation aid to LDCs because it would threaten the competitiveness of its consultancy service export industry.

3. Making ISMs Work for the Development of Productive Capacities and Graduation

MAKING THINGS WORK

The Key Insight: LDCs Must Operationalize ISMs

- LDC Programmes of Action are negotiated as a balance between actions by LDCs and actions by development partners.

- International support measures are understood in the Programmes of Action as «action by development partners».

- BUT THIS IS A BAD MISCONCEPTION. ISMs are given by development partners; but their effective operationalization depends on action by LDCs
  - Action by individual LDCs
  - Collective action by LDCs to promote effective utilization of ISMs

EXAMPLE 1: Aid for Trade

1.*Technical assistance for trade policy and regulations* (e.g. helping countries to develop trade strategies, negotiate trade agreements, and implement their outcomes) →→a) trade policy and administrative management; b) trade facilitation; c)regional trade agreements; d) multilateral trade negotiations; e) trade education/ training

2. *Trade-related infrastructure* (e.g. building roads, ports, and telecomunication networks). →→ a) communication; b) energy; c) transport and storage

3. *Productivity capacity building, including trade development* (e.g. supporting the private sector to exploit their comparative advantages and diversify their exports) →→ a) Banking and financial services; b) Business and other services; c) Agriculture, forestry and fishing; industry and mining; tourism

4. *Trade-related adjustment* (e.g. helping developing countries with the costs associated with trade liberalisation)

5. *Other trade-related needs* (if identified as trade-related development priorities in partner countries´ national development strategies)

Problem of Global-Local Disconnect

- The Geneva- and Paris-based aid for trade discussions do not correspond to the organisation of government-donor interactions in-country.
- A surprising finding from the case studies is that there is an abject lack of awareness about AFT and on AFT projects, even in implementing agencies. Aid for trade enjoys no local counterpart outside the narrow ambit of the trade ministry.
- Many of the DTISs are born orphans because they cover issues that are outside the span of control of their host agency, the trade ministry.
- Unless the full policy matrix has the endorsement of the economic cabinet, these studies fall short of having full impact.

→Source Newfarmer in Cadot and de Melo (2014) *Aid for Trade. What Have We Learnt? Which Way Ahead?*

Action for More Effective Utilization

- The EIF process needs to be viewed as a national endeavour rather than simply a «project» of Ministries of Trade
- LDCs need to mainstream DTIS Action matrix into their development strategies and the design of DTIS needs to be embedded within the development strategy
- Ownership can be enhanced through greater use of independent think tanks and university researchers in trade analysis (LDC-LDC exchange)
- Active participation of private sector
- Donors need to be encouraged to put Action matrix recommendations into their country strategy papers early enough in the funding cycle to ensure predictable and secure funds. Part of an aid management policy.

→FACT. In 2013, 60% of aid for trade went to Afghanistan, Bangladesh, Ethiopia, Dem.Rep Congo, Mozambique, Uganda, Myanmar, B.Faso, Nepal

EXAMPLE 2: TRIPS 66.2

- “Developed country members shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to LDCs in order to enable them to create a sound and viable technological base”

- PROBLEM: Incentives for technology transfer cannot be effectively monitored or accounted because there is lack of definition of what might constitute «incentives for technology transfer».

- Possible types of incentives:
  - Financing for the purchase of technology,
  - Incentives for FDI in technology related fields;
  - Matching businesses in developed countries with those in LDCs for skills building purposes;
  - Providing venture capital;
  - Sending skilled nationals to volunteer in a technical capacity in an LDC;
  - Providing insurance against risk of doing business for technology related firms.

EXAMPLE 2: TRIPS 66.2

→→→Proposal of Suerie Moon 2011 Meaningful Technology Transfer to the LDCs

- Establish **a more robust monitoring mechanism** to enable full implementation of TRIPS 66.2 . LDCs have asked for this but to date none has been established.
- Establish a Monitoring Mechanism Group. 7-10 people from WTO – developed countries, developing countries and LDCs – and including 2-4 Independent Experts. This would have:
  - An informational function
  - An evaluative function

A MORE ROBUST MONITORING MECHANISM

a) With an Informational Function:

i. Establish a uniform, simplified reporting format, with information entered into a digitized, searchable database for use by LDC Members and their enterprises and institutions which tracks incentives for technology transfer.

ii. Specify which countries are obligated to report.

iii. Provide a regularly-updated list of which incentives should and should not qualify as fulfilling Article 66.2 obligations.

b) With an Evaluative Function:

i. Solicit reports from LDC Members on their technology transfer priorities and needs. Assist in the preparation of such reports, as requested. Assess how well the supply of technologies from developed countries meets demand articulated by the LDCs.

ii. Assess how well existing incentives function in practice through research, analysis and case studies.

iii. Learn from experiences implementing techno-logy transfer obligations in other international agreements, and contribute to global debates on how to improve the functioning of such instruments.

EXAMPLE 3: THE SERVICES WAIVER

WTO Members may now grant LDC services/suppliers exclusive market access in otherwise closed sectors and modes of supply, or provide them with incrementally relaxed market access vis-à-vis other Members.

EXAMPLES. WTO members can

- Allow LDC midwifes to provide services (mode 4) under an LDC-only quota, while not admitting midwifes from other countries;
- Waive for LDCs the otherwise applicable ENT for restaurant or hotel licenses;
- Allow LDC contractors to use up to 25 qualified LDC building professionals, while service suppliers from other countries can only bring in up to ten of their own staff;
- Grant LDC service providers, for example tour operators, the right to maintain a local presence (mode 3) in the form of representative offices while providers from other countries must establish full branches or subsidiaries.
- Regulatory preferences (e.g. facilitated licensing procedures for LDC providers; facilitated vehicle registration for LDC cross-border road ops.

PROBLEMS OF SERVICES WAIVER

- Lack of technical clarity of what preferences would be desirable and could be done
- Lack of political will to implement them.
- →BUT Eleven WTO members notified Council of Trade in Services the preferential measures that they would offer to services and service providers of LDCs August 2015.

WAYS FORWARD ON SERVICES WAIVER

- · ***Concretising demands:*** LDCs, individually and collectively, should pro-actively and systematically identify preferences which would meaningfully benefit their services exports, and translate these into concrete demands to WTO Members, both developed and developing.
  · ***Concretising (potential) offers:*** All WTO Members should pro-actively consider possibilities for granting preferences to LDCs. Members should be encouraged, through available political channels, to conduct this analysis with an open mind. LDCs and their supporters can help by identifying and communicating feasible measures.
  · ***Securing preferences politically and/or legally:*** LDCs and their supporters should seek firm commitments wherever possible to enhance predictability and reliability for their service providers, allowing them to take solid investment decisions for the future. (Waiver expires 2026).

ESTABLISH NATIONAL «SERVICE COALITIONS»

- ·A service coalition is an organization of stakeholders related to the services sector who may have diverse sub-sectoral interests, but who share common industry-wide objectives – namely the development of the service industry. E.g. Malaysia created two national public sector bodies to develop services in the country
- Malaysia Professional Services Development Corporation (PSDC) is focused largely on services related to construction (e.g. engineering, architects, surveying, legal and accounting) and is an internal capacity-building organisation: it offers training (e.g. on ISO certification, project management, financial management, and on relevant trade and mutual recognition agreements) and also provides procurement notices, facilitates funding and grants, and undertakes trade missions.
- Malaysia National Professional Services Export Council (NAPSEC) covers a wider range of businesses, advising on “matters pertaining to the export of professional services”: public and private sector members meet quarterly to review services export development strategies (including incentives and funding initiatives), and identify export opportunities and market access issues.

THE BOTTOM LINE

- LDC action is necessary at global and country level to operationalize existing ISMs.

- LDCs should also continue to negotiate to improve ISMs oriented towards developing productive capacities at the mid-term review of the IPOA.

- The aim should be to increase synergies at the country level between ISMs for trade, finance and technology, as well as between ISMs for climate change and development

Some Good Proposals of ISMs to Develop Productive Capacities

- UN Secretary General High Level Panel Feasibility Study of a United Nations Technology Bank for LDCs (2015)
- UNCTAD 2011. An ISM to harness migrant remittances for developing productive capacities in LDCs
- UNCTAD 2011. Foreign Direct Investment in LDCs: Lessons Learned from the Decade 2001-2010 and the Way Forward.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Thank You