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on the Mid-Term Global Review of the
Implementation of the Programme of Action
for the Least Developed Countries for the 1990s
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Contribution by the International Trade Centre UNCTAD/GATT (ITC) */

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INTRODUCTION

The second United Nations Conference on Least Developed Countries, held in Paris in September 1990, adopted a "Programme of Action for the Least Developed Countries for the 1990s". This Programme provides for, inter alia, trade promotion and export development activities at the country level to be complemented by international support measures. The International Trade Centre UNCTAD/GATT (ITC), as the focal point for trade promotion in the United Nations system, was invited to provide technical assistance to LDCs in export development, promotion and diversification as well as in import procurement.

In its Resolution 49/98 of 19 December 1994, the General Assembly decided to convene a "High-level Intergovernmental Meeting" in New York from 26 September to 6 October 1995 to carry out a mid-term global review of progress made in the implementation of the Programme of Action and to consider new measures to ensure full and effective implementation of the Programme over the second half of the decade.

This report has been prepared by ITC as a background document for the mid-term review in the area of trade promotion and export development in the LDCs. It is divided into three parts. Part I reviews the technical cooperation measures ITC has undertaken since 1990 to implement the programme of action for the LDCs and the problems encountered in its implementation; Part II examines the problems and constraints in LDCs and provides an overview of trade development problems and of the outlook for the second half of the decade; Part III outlines ITC's strategy to implement the programme of action for LDCs in the second half of the decade.

PART I

A. REVIEW OF ITC TECHNICAL COOPERATION ACTIVITIES IN THE IMPLEMENTATION OF THE PROGRAMME OF ACTION

With a view to facilitating a greater participation of LDCs in international trade, the Paris Declaration of 1990 recommended a series of measures to be adopted by national authorities and supported by specific programmes of co-operation with by United Nations agencies.

Recommended measures in the area of trade promotion and export development included policies to enhance export diversification and to improve the competitiveness of non-traditional exports. Technical co-operation needs were identified in the areas of quality control, packaging, trade fairs and advertising, export marketing and training. Cooperation with the Common Fund for Commodities was underlined as a means of providing needed support to commodity exporters in LDCs, while emphasis was laid on the development of exports of services and other new exportable products, areas in which LDCs might have a comparative advantage. Furthermore, in recognition of the importance of making optimum use of scarce foreign exchange resources, the programme recommended the simplification and streamlining of procurement and tendering procedures in LDCs.

Within the above indicative framework, ITC was invited to undertake further sectoral appraisal and technical assistance activities in co-operation with LDC governments.

ITC activities within the context of this Programme of Action were designed to contribute to trade promotion and export development while facilitating the achievement of key sustainable human development goals of poverty elimination, job creation, environmental regeneration and advancement of women. Programme methodology emphasized national capacity building as a means of replicating and sustaining the development process and creating a tangible impact.

B. HIGHLIGHTS OF ITC ACTIVITIES DURING 1990-1995

During the period 1990-1995, ITC had technical cooperation programmes at the country level with 34 LDCs¹ while a number of regional and interregional projects included LDCs as target beneficiaries.

Perhaps the most important technical cooperation activities of ITC with LDCs was in the area of international purchasing and supply management (IPSM), carried out in more than half the above-mentioned countries. One of the most significant contributions of ITC to the Programme of Action, IPSM activities helped to strengthen the capacity of local institutions to train procurement officials in both the public and private sectors, to establish units providing information on market supply to staff responsible for international procurement, and to improve supply systems for essential goods such as pharmaceuticals and construction materials. ITC assisted in reviewing import systems and procedures, in the formulation of proposals to improve procurement procedures, regulations and practices and generally, to establish effective procurement services in key buying agencies in the countries concerned.

Another major technical co-operation activity was export product and market development; activities were implemented at country level and through regional and interregional programmes. The main product sectors were commodities, such as coffee, cocoa, oil seeds, jute and sisal, and other agro-based products such as fish and fresh horticultural products. In undertaking technical co-operation activities in commodities, ITC cooperated closely with the Common Fund for Commodities as well as with FAO and other international institutions. Other product sectors in which activities were undertaken for the benefit of some LDCs were textiles and garments, artisanal products, leather and leather products, gum arabic and silk. Finally, ITC initiated a programme of export promotion of consultancy services in computer software, which benefited several LDCs.

¹Afghanistan, Angola, Bangladesh, Bhutan, Botswana, Burkina Faso, Burundi, Cape Verde, the Comoros, Djibouti, Ethiopia, the Gambia, Guinea, Haiti, the Lao People's Democratic Republic, Lesotho, Madagascar, Malawi, Maldives, Mauritania, Mozambique, Myanmar, Nepal, the Niger, Rwanda, Samoa, Sierra Leone, Somalia, the Sudan, Tuvalu, the United Republic of Tanzania, Vanuatu, Yemen, Zambia.

In pursuing its human resource development activities in the framework of trade development, ITC provided training materials, trained trainers, organized workshops, conducted dissemination seminars and carried out on-the-job training for the benefit of many LDCs. During 1990-1995, approximately 6,600 participants from LDCs benefited from ITC training programmes. These programmes have helped transfer skills, encourage new ideas and facilitate an exchange of experience in good business practices with export and import enterprises.

ITC's activities in trade information helped to strengthen and establish trade information units and networks such as TINET in the COMESA (former PTA) region. ITC also provides price and market information direct through its Market News Service. Finally, a number of LDCs benefitted from various trade support services provided by ITC in quality control, packaging, export financing, trade fairs and publicity, and assistance to institutions dealing with small- and medium-sized exporting enterprises. ITC also carried out special programmes for the benefit of women in trade development, which took place mainly in LDCs.

ITC's technical cooperation activities in LDCs contributed to increased exports, the establishment of functioning export support services and to improved procurement in several countries. In the COMESA region, ITC's regional trade expansion programme, covering the identification of mutual trade opportunities and the organization of buyer-seller meetings helped create additional trade worth several hundred million dollars. Cardamom exporters in the United Republic of Tanzania were able to more than double their foreign exchange earnings through an ITC export development project; as a result of quality improvement measures carried out within the framework of an ITC project in the Sudan, the export price for gum arabic rose by 25 per cent and led to additional foreign exchange earnings of \$16 million in 1993/94; in Lesotho, an ITC project led to the creation of an export finance and guarantee scheme that is much appreciated by the local export community, while it is believed that as a result of ITC assistance in international purchasing and supply management, many LDCs were able to effect significant savings of valuable foreign exchange.

C. LESSONS LEARNED FROM ITC'S TECHNICAL COOPERATION ACTIVITIES WITH LDCS

ITC's experience in LDCs has highlighted several areas of concern: unresolved structural and regulatory problems, which created operational difficulties at the enterprise level; insufficient resources, which resulted in programmes of shorter duration than that required to produce a tangible impact together with lack of confirmed funds over the entire planned cycle; insufficient commitment by the private sector; and lack of concentration of activities in a limited area where they might have been managed more efficiently. Finally, it became evident that programme design and project-related recipient country decision-making could have profited from a more comprehensive, joint needs analysis.

A review of ITC's experience over the last five years showed that in order to improve its impact, ITC cooperation activities with LDCs should be of longer duration with better assured financing. Programmes should focus more on capacity building of export enterprises and institutions, emphasizing the use of local expertise, and should create a network of partner service organizations, especially in the private sector, to support and sustain the trade development process. They should be adapted to meet the special needs, circumstances and capacities in LDCs, and should pay particular attention to the scarcity of qualified counterparts.

The availability of sufficient resources will be a determining factor in the success of ITC's approach during the next five years. Resources available for ITC programmes declined precipitously during the period 1990-1995. This was the result both of an overall reduction in UNDP funds allocated to trade promotion programmes and to a drastic fall in voluntary contributions from donors, which traditionally financed ITC projects in LDCs.

PART II

A. PROBLEMS AND CONSTRAINTS IN TRADE PROMOTION AND EXPORT DEVELOPMENT IN LDCs

Since 1990, several LDCs have made significant progress in establishing policies conducive to increased participation in world trade. Some such key policy elements are exchange rate adjustment, liberalization and deregulation of import and export trade, promotion of the private sector and foreign direct investment, and removal of disincentives in fiscal and monetary policies. This progress has not always extended fully to regulatory and procedural reforms.

For LDCs as a group, these policy reforms have largely failed to achieve one of the key objectives: expansion and diversification of the export trade. Declining exports from LDCs are attributed, among other reasons, to insufficient policy, regulatory and procedural reform as well as to several constraints of a structural nature such as lack of financial resources, poor infrastructure, a weak technological base, lack of trade supporting institutions and scarcity of trained human resources. The efforts of LDC governments and their international development cooperation partners to remove these basic impediments have met with limited success in the face of declining external resources. The problems that LDCs faced in trade promotion and trade diversification in 1990 remain basically the same today; indeed, many of them may have become more acute, due to often inconclusive policy reforms and a rapid change in the world trading environment.

A series of empirical studies on the experience of small- and medium-sized export enterprises has highlighted problems such as the failure of public sector institutions to address concerns at the enterprise level, lack of access to investment and trade finance, scarcity of trained personnel, dearth of information on potential business opportunities abroad, lack of experience in market penetration and development techniques, absence of meaningful policy dialogue, insufficient development of strategic alliances between government agencies and the private sector, and lack of transparency in policy development and implementation and in managing import and export procedures.

In the area of trade promotion, LDCs continue to lack coherent strategies and programmes that would enable them to translate policy initiatives into organizational tools and services for the promotion and support of the small and medium sized enterprises in their efforts to participate in international trade. In many LDCs, trade has yet to be recognized as a powerful engine that can drive economic growth, create new job opportunities and contribute to the reduction of poverty. Typically, the budget allocation for trade promotion activities remains meagre. Trade service organizations do not exist, or, when they do exist, are too weak to provide information, guidance and training to enterprise managers in such key areas as business prospects, trade regulations, quality control, packaging and marketing. Only a handful of LDCs have managed to establish an effective export financing system.

LDCs remain acutely vulnerable to the price fluctuations of their traditional commodity exports. Efforts to diversify the export structure by developing non-traditional products achieved a degree of success, as a result of foreign direct investment, in a few LDCs only, such as for textiles and garments in Bangladesh, Nepal, Lesotho and Haiti. Elsewhere, progress in this area was impeded by an inability to attract investment, and a lack of infrastructure and promotional efforts.

It appears that the creation of an enabling policy environment, albeit an essential prerequisite, has not been sufficient to enable many LDCs to increase their participation in the world trade. Regulatory and procedural aspects need to be taken into account. Moreover, trade development strategies must address the various structural constraints on the supply side that inhibit the willingness and ability of the private sector to respond to policy initiatives. In this respect, the creation of efficient trade support services for the benefit of exporters is essential. A comprehensive approach will call for strong national commitments and adequate allocation of budgetary resources, complemented by international support in developing national technical capacities and more advantageous market access for LDC exports.

B. THE NEW WORLD TRADING ENVIRONMENT AND THE EMERGING CHALLENGES AND OPPORTUNITIES FOR LDCS.

Trade perspectives for LDCs have to be viewed within the context of recent developments in the world economy and the likely trends during the rest of this decade. The following three main elements will have a decisive influence on the trade promotion and diversification efforts of the LDCs:

- Policy reforms in LDCs will result in a more propitious environment for exports but also in much greater competition on the domestic market from imported goods. Furthermore it has also been observed that policy reforms in LDCs encourage an expansion of the informal sector, requiring new approaches to assist micro-enterprises.

- The conclusion of the Uruguay Round has created new opportunities and challenges for LDCs. Although the full implications of the Marrakesh agreements for this group of countries are not yet known, it is anticipated that there will probably be both positive and negative effects and that they will vary considerably from one case to another. For this reason, all LDCs need tailor-made assistance to enable them to take advantage of the new opportunities that have been created and to cope with possible adverse effects of these agreements.

The conclusion of the Uruguay Round has also opened the door for enhanced technical co-operation with LDCs in trade promotion and export diversification. The Ministerial Decision on Measures in Favour of Least-Developed countries, adopted by the Trade Negotiations Committee in December 1993 states that "*Least-developed countries shall be accorded substantially increased technical assistance in the development, strengthening and diversification of their production and export bases including those of services, as well as in trade promotion, to enable them to maximize the benefits from liberalized access to markets*".²

²The results of the Uruguay Round of Multilateral Trade Negotiations, published by the GATT Secretariat, Geneva, June 1994.

- Changing structure of international trade

In recent years, the structure of international trade has been rapidly changing as a result of overall liberalization and the globalization of markets as well as the development of modern telecommunications. Trade in finished products has diminished while that in intermediary products and components has increased rapidly. The new structure of trade might offer fresh opportunities to LDCs to produce intermediary products requiring simple technology at low cost and to provide labour-intensive services such as accounting and computer software.

At the same time, foreign direct investment has emerged as an essential instrument of trade development. It is estimated that between one third and one half of world trade consists of intra-firm transactions.

LDCs will also find new trade opportunities, especially in regional markets, in other developing countries and in those countries with economies in transition. It is expected however, that industrialized countries will continue to be the major destination of LDC exports of commodities, agro-based products and simple labour-intensive manufactured products for some time to come.

This new, demand-driven environment may offer interesting opportunities to LDCs to increase their participation in world trade. Concrete measures are needed, however, to identify new export products and services and to attract foreign direct investment as a complement to the measures required to address constraints on the supply side.

PART III

A. NEW MEASURES FOR A FULL AND EFFECTIVE IMPLEMENTATION OF THE PROGRAMME OF ACTION

(a) National trade development strategies

It is recommended that LDC governments should plan and implement a coherent trade development strategy for the second half of the decade, combining macro-level policies, regulatory and procedural reform with the establishment of related support services and institutional capacity building in partnership with the private sector. Trade development should be assigned a higher priority in national development programmes, given clear policy guidelines and provided with sufficient budgetary resources. The strategy should aim at promoting new investment and trade, aiming at higher earnings from current exports, export diversification and reduction of loss of foreign exchange through better import practices.

(b) Alleviation of structural constraints

Trade development strategies should take into account the adverse effects of structural constraints on the supply side, e.g., poor physical infrastructure, old technologies, insufficient investment and lack of trained manpower, all of which inhibit diversification and competitive efficiency. LDCs should adapt their strategies accordingly and should draw upon the experience of other developing countries in resolving similar problems.

(c) Institutional capacity building

The development and strengthening of private sector service organizations should be encouraged. In the meantime, public sector agencies, including trade promotion organizations, development banks, small enterprise development corporations, national standards boards and training institutions have a crucial role to play in the provision of support services required to encourage the predominantly small LDC enterprises to participate more aggressively in trade. LDCs should strengthen the technical capacity of these agencies and provide them with adequate financial resources, and incentives, to orient their activities better to serve the practical needs of enterprises on a regular basis and to attract foreign direct investment.

(d) Establishment and strengthening of trade support services

Among the most critical services needed by LDC enterprises are those dealing with business information, trade finance, quality management, packaging, product adaptation, export marketing, international purchasing and supply management, and training. Some of these essential services should be handled by the private sector on a self-financing basis as this tends to ensure a correct market orientation. Experience shows, however, that in the majority of LDCs, the demand for such services has not reached the minimum critical mass required for them to become commercially viable, while their continued scarcity and high costs act as a serious disincentive for LDC firms in a climate of growing competition driven by dynamic changes in product and market requirements. One possible means of resolving this problem would be the formation of public and private partnerships and the cofinancing of services until the desired economies of scale can be achieved.

(e) Special plan of action on the follow-up to the Uruguay Round

A smooth transition to the post-Uruguay Round trading environment will require the establishment of institutional mechanisms and focal points in both the public and private sectors to monitor and analyse the impact of the agreements at country level, adopt appropriate measures to adjust to the new trading system, and identify and exploit new trade opportunities. LDCs would be advised to take advantage of the technical co-operation opportunities foreseen as a result of the Uruguay Round.

B. ITC's STRATEGY OF TRADE DEVELOPMENT COOPERATION WITH LDCs

ITC has reviewed its technical cooperation strategy for LDCs, taking into account their specific problems, needs and resource situation, and building on ITC's past experience of work with them.

The evolving, new, ITC strategy endeavours to address problems identified in the first five years of the Programme of Action. A more in-depth needs assessment and programme design with the full involvement of partner countries, institutions and enterprises will be undertaken. ITC will work with the private sector as the best means to promote increased participation of SMEs in international trade, in partnership with a network of public and private sector trade service organizations. Broad impact and replicability will be assured through enterprise servicing institutions. Institutional capacity building will be emphasized as an integral part of all ITC activities in LDCs in both public and private sector institutions,

utilizing, as much as possible, low-cost methodologies, local expertise and drawing on the experience of other developing countries under comparable circumstances.

In all its activities, ITC will focus on the enterprise. Activities both at the country level and within the framework of special regional and interregional programmes will be mainly oriented towards SMEs and will take into account the specific problems of women entrepreneurs and economic operators in the rural areas, as well as those of the informal sector. Special attention will be given to programmes that contribute to employment generation and poverty alleviation.

ITC has an active programme to promote cooperation in respect of its technical assistance support to LDCs, and particularly to those with a low per capita income. Cooperation agreements have been signed with FAO, UNCTAD, UNESCO, UNIDO and WHO (the latter relating to an information service on generic products on the WHO model list of essential drugs of relevance to LDCs). ITC is in the process of establishing similar cooperation agreements with ILO and related agencies on a joint approach to LDCs.

With regard to the lower income group of LDCs, ITC has an agreement of cooperation with UNESCO to facilitate a coherent framework of technical assistance and support for the international craft industry. Within this framework, an international Symposium on "Crafts and the Internal Market, Trade and Customs Codification" will be held in India by mid-1997 with the association of ILO, UNCTAD, WCO, WIPO and WTO. This forum is aimed at giving full recognition to the importance of the sector to LDCs and at improving the capacity of this group to benefit from the opportunities created by the new international trade environment.

Similar initiatives have been developed with UNIDO with respect to specific groups of least developed countries (the first target group being Mali, Guinea and Nepal and focusing on traditional textile and handicraft development). The experience will be replicated in other LDC regions in manageable groups of two or three countries.

ITC intends to expand its existing databases to include information of priority interest to LDCs, to develop simple and low-cost training modules for entrepreneurship training in the LDCs and to develop a roster of experts with skills and experience particularly appropriate to meet LDC requirements.

ITC technical cooperation programmes will deal with the specific needs and requirements of each country. Based on aggregate needs already identified, several programmes will be initiated for LDCs, subject to availability of funding.

(a) Dissemination programme for the benefit of LDCs on the Uruguay Round

In close co-operation with the World Trade Organisation, ITC will undertake a broad dissemination programme on the Uruguay Round for the benefit of LDCs aimed at assessing their priority assistance needs. The programme will then assist LDCs to undertake country studies on the effects of the Uruguay Round at sectoral and product levels and to adopt policies, strengthen institutions and implement plans to meet its challenges and realize the benefits of new opportunities. It will also identify the areas in which individual countries have the right to request bilateral or multilateral assistance following the provisions of the Marrakesh agreements.

(b) Programme for the diversification of LDC exports

With the expansion of modern telecommunications, the production process is becoming increasingly fragmented and intermediary products now constitute a growing share of traded goods, while an increasingly large proportion of international trade consists of intra-firm trade of transnational corporations (TNCS). This growing fragmentation presents a new opportunity for developing countries and particularly LDCs trying to diversify their exports but lacking in resources and technical know-how.

ITC will endeavour to design a new programme to identify those intermediary products based on relatively simple technology and labour intensive processes that could be exported by the LDCs. It will seek to identify the economic entities in industrialized and in other developing countries that are considering relocating parts of their domestic production processes, either through the establishment of subsidiaries, by subcontracting or by other business partnerships. This research would be demand driven and focus at the enterprise level. As a next step, the programme would identify the LDCs having a comparative advantage for possible relocation purposes, as well as markets and potential investment partners for them.

On completion of the identification stage, ITC would provide assistance for the promotion of business partnerships and further dissemination of the existing opportunities. It is hoped that this will be undertaken in co-operation with UNIDO and FAO.

c) Special programme of South/South trade for LDCs

Regional trade between developing countries often amounts to only a fraction of their overall foreign trade. For example, trade among countries in the SAARC subregion (with four LDCs out of seven members) amounts to 3.5 per cent of total trade and intra-African trade accounts for only 6 per cent of total trade in Africa. ITC research has shown that a low level of intraregional trade does not necessarily imply the absence of market potential, but rather lack of information and of trade promotion mechanisms necessary to take advantage of existing opportunities.

ITC proposes to undertake a programme of trade development support to LDCs aiming at exploring comparative advantages on both on the supply and demand sides. The programme will be particularly suited to economic co-operation and integration groupings which include both least developed and other developing countries, where the more prosperous markets provide the "pull" for LDC output. The programme will identify market opportunities through trade flow analyses focusing on the export products of the concerned LDCs. This programme could cover not only existing products but also export diversification possibilities through foreign investment and the production of new intermediary products.

d) A central trade information facility for, and on, LDCs

ITC has already a service that provides trade information in response to specific inquiries from its beneficiaries. It intends to enlarge this service to focus on LDCs (which will benefit from it free of charge) and to develop it further so that it can follow up on requests from LDCs with a view to establishing business partnerships. In order to achieve this, ITC is envisaging a programme that will also provide information to importers in industrialized countries who are looking for suppliers and outsourcing facilities in developing countries and more particularly in LDCs.

Based on its past experience in technical co-operation activities, ITC will make an inventory of producing and exporting firms in LDCs and establish a data base by product specialisation giving full details of the firms concerned. Extra-budgetary resources will be needed for the initial compilation and for the employment of national consultants who will collect the data and establish the data base. Once established, the service could run using ITC's regular budget resources although some limited extra-budgetary resources might be required every year for updating purposes.

Such a facility would also contribute to the Trade Efficiency Programme, undertaken by UNCTAD with the co-operation of ITC, for the establishment of the Trade Point Global Network and could benefit from the additional information available at the Trade Points on other aspects of trade such as transport, customs and finance, in order to promote trade between LDC enterprises and their partners in industrialized and other developing countries.

C. RESOURCE REQUIREMENTS

Implementation of the proposals for technical assistance contained in this paper, both for comprehensive, individual country-level programmes and for the special programmes targeting LDCs, will require more extra-budgetary resources and donor contributions. Details of the costs of the proposed programmes can be provided. ITC firmly believes that the realization of the proposed programmes would make an important contribution to the implementation of the Programme of Action for the remainder of the decade.