Statement by the South Centre

At the high-level panel on Trade, at the LDC-IV conference

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Trade has been at the centre of discussion of LDCs improving their economy and social conditions.

It was said that LDCs are not integrated into the world economy; that is why they are marginalized. This is not true. Many LDCs have higher exports to GNP ratio than some developed countries. It is the way in which the LDCs are integrated in trade that has been a disadvantage. LDCs are too dependent on raw materials export, and prices of commodities have had a long-term trend decline, thus causing major revenue and income losses for LDCs.

In recent years when commodity prices increased, the exports and GNP of many LDCS improved. This was suspended during the global recession, but commodity prices have risen again in the past year. However the great volatility in commodity prices is due not so much to basic demand and supply, which however does give a direction, but by speculation in the commodity markets. Between 2003 and 2010 the investments in commodity index trading rose from $13 billion to $320 billion, and outstanding contracts in commodity futures and options rose from 13 million to 66 million.

If there is a deeper economic slowdown, or investors move out of commodities, there may be another bust in commodity prices. The volatility of commodity prices has serious effects on the economies of LDCs, whose fate should not be dependent on speculation. **Commodity markets should therefore be regulated to reduce speculative forces. The old objective of stabilizing commodity prices and ensuring decent levels should be pursued again. Ideally there should be agreements among suppliers and consumer countries. Otherwise suppliers of commodities should share their experiences and attempt to align supply with demand**.

Attempts have been made to assist LDCs in multilateral and bilateral trade to increase their exports. However the LDCS face the fundamental problem, that without adequate productive capacity, they will be unable to take advantage even if markets are open to them. Thus the exports of LDCs, outside of commodities, remain small. It is thus vital that LDCs be assisted to increase their capacity to produce in agriculture, industry and services. They must be allowed and assisted to grow their own food and expand manufacturing, including through processing and manufacturing based on natural resources.

An important aspect of trade is imports. Liberalisation of imports before the country is ready can damage local producers. This is the lesson from the many years of structural adjustment, when many LDCS were asked to lower their applied tariffs to very low levels, far below their WTO bound rates. Governments were also asked to withdraw support to local farmers such as marketing boards, procurement of goods and subsidies to inputs such as fertilizer and machines. Cheap imports, often artificially cheapened by high subsidies in rich countries, swamped the local markets, displacing local produce, and transforming many LDCs to net food importers. Many local industries also closed. These wrong policies that arose from structural adjustment should be reversed; otherwise it would be difficult or impossible to expand productive capacity. **LDCs must be allowed to raise their applied tariffs to the bound WTO rates. LDCs themselves can review their tariff policies and align these to their national development strategies.**

In the WTO, it is recognized that LDCs have weak economies and thus need not reduce their bound tariffs in the Doha negotiations. However if LDCs are part of regional trade arrangements especially customs unions that also contain non-LDCs, then if the non-LDC developing countries have to cut their tariffs, the LDCs will also be affected. Examples are Southern African LDCs affected by tariff reduction obligations of South Africa, and Kenya in the East African Community.

Since it may take more time for the Doha negotiations to conclude, the call by the LDC Group for an early harvest for LDCs or an early harvest for development generally should be supported. This is in line with the Doha mandate that developing countries' interests are at the centre. Among the early harvest elements can be: duty free quota free market access for all products for LDCs; major reduction of cotton subsidies; simplification of rules of origin and phasing out of non-tariff barriers for developing countries' products; progress in services Mode 4 for LDCs; progress on implementing TRIPS and public health amendment of TRIPS, and amendment of TRIPS to prevent bio-piracy; reform of article 24 of GATT to incorporate strong SDT treatment for developing countries in the rules regarding bilateral/regional trade agreements; and Aid For Trade resources focused on boosting supply capacity of LDCs.

Another issue is the FTAs that LDCs are negotiating, such as the Economic Partnership Agreements between Africa and Pacific countries with the EC. LDCS are used to FTAs that are non-reciprocal, such as the Everything But Arms initiative of the EU. In the EPAs, there is little SDT and the agreements proposed are largely reciprocal. The LDCs face a dilemma. They do not want a reciprocal deal in which they have to open their economies to much stronger partners, but they also want to retain the integrity and operability of their regional trade agreements with their neighbours, such as EAC, COMESA, ECOWAS, SADC, etc. However the EC demand in the EPA is zero tariff for 80% of products. The proposals also include prohibition of export restrictions including export taxes, which poses difficulties for LDCs that want to process and manufacture based on their natural resources. They include TRIPS plus elements, and WTO-plus obligations on investment and government procurement. All these would severely limit policy space of the LDCs.

The LDCs should not be placed in such a dilemma. They should be allowed to continue to enjoy non-reciprocal trade preferences. At the same time they should also be allowed to maintain or enter regional trade arrangements with their neighbours that include non-LDC developing countries. One solution is for the EU and other developed countries to offer similar non-reciprocal arrangements with non-LDC African and Pacific countries.