

MINISTERIAL MEETING OF LANDLOCKED DEVELOPING COUNTRIES ON TRADE AND TRANSPORT

Session 2: Promotion of Structural Transformation, Diversification and Value-Addition in LLDCs

The session will discuss and share experiences on the progress that the LLDCs have made on structural transformation, diversification and value-addition. It will identify the challenges, opportunities and best practices and suggest recommendations to foster structural transformation.

How can LLDCs create and sustain competitive industries, encourage value-addition and promote deeper integration into the global economy and share ITC's experience in supporting the promotion of private sector development as a driver of structural change and economic and trade growth in LLDCs.

We would propose that you please target your intervention on: "Please share ITC's experience in supporting the promotion of private sector development as a driver of structural change and economic and trade growth in the LLDCs."

Speaking notes

Investments in 'hard' physical infrastructure alone are not enough. Connectivity, especially in the case of LLDCs, needs corresponding soft infrastructure, including policies, institutions, systems, procedures, rules, laws and regulations, to make the physical assets that make up hard infrastructure work effectively. To successfully promote greater physical connectivity, it is necessary to develop effective national, subregional, and create an appropriate institutional framework for effectively identifying, designing, and implementing projects and policies through proper coordination among various stakeholders. On a broad level, all government policies, such as trade, investment, industrial, financial, agricultural etc. should be aligned with one another and ensure that they follow a common national and/or regional strategy.

LLDCs require technical assistance for not only domestic policies mentioned above but also for acceding, ratifying and effectively implementing international conventions and agreements (including on transport and transit)

The LLDCs need assistance to reinforce local market integration into value chains and to develop regional industrial chains. They will need support to address issues such as regional integration bottlenecks and the need to increase transparency of trade facilitation information and predictability in the application of laws and regulations. There must be greater transparency for border agencies and higher levels of compliance by SMEs and the private sector. LLDCs will need assistance in adapting current trade and investment policies by promoting and further developing competition policies and a greater degree of willingness to trade. Not only that, they also need assistance in formulating, negotiating and implementing trade agreements and resulting policies in line with national strategic objectives and inputs from all stakeholders including the private sector.

ITC builds the capacity of policy makers to formulate trade and investment policies with enhanced inter agency coordination and inputs from the private sector. Institutionalized public private dialogue mechanisms are established and position papers are used to form common positions on key national, regional and multilateral issues. Such approaches have been used in various countries including LLDCs such as Afghanistan where such approaches usually focus on trade facilitation, transport and logistics.

For sustainable economic growth, it is important that LLDCs diversify their export structures and increase value-added manufactured component of exports in order to link into regional and global value chains and enhance their competitiveness

Integration of SMEs into regional and global value chains is a pressing need in an increasing globalising economy; SMEs in LLDCs are particularly affected by their reality and increased transit costs. Figures show that 85% of manufactured products are produced in three or more locations. The structure of the current market effectively excludes LLDCs and developing countries. Excluding these countries from regional and global value chains elevates social and economic risks and instabilities; it also effectively stunts the development of non – commodity producing industry in LLDCs. Therefore, the exclusion from lucrative value chains has limited these countries to producing commodities as their principle export. However, commodity production can provide an opportunity for industrialisation and diversification at different levels with the proper support.

This strategy was implemented and successful in Zimbabwe. The ITC helped Zimbabweans in some sectors to reach new markets with transformed, value added products. This success was achieved through the Zimbabweans increased access to trade information in addition to an improved understanding of trading procedures and branding.

ITC has also developed export management guides for selected sectors and target markets and trained SMEs to comply with them to access regional and global markets. Recently, ITC implemented a project in Asian LDCs (many of them LLDCs such as Nepal, Laos, Afghanistan) to enhance their capacities to export to China. ITC selected sectors with most potential in the Chinese markets and developed guides to document all export and import procedures. As a next step, B2B events were held to connect suppliers from Asian LDCs with buyers from China and other countries.

As tariffs have continued to fall and LLDCs benefit from preferential schemes, the key to unlocking value-added regional and global markets is by addressing the non-tariff trade barriers such as rigorous requirements, red tape, time spent at customs, certification procedures, arbitrary behaviour of officials or informal payments.

These add an added and unnecessary cost for businesses and hurts their competitiveness against regional and global competitors. These are particularly harmful for SMEs as they lack the resources to navigate the complex web of procedures and prefer to focus on the domestic markets only.

ITC has conducted NTM business surveys in over 30 countries, many of which are landlocked developing countries (including Burkina Faso, Kazakhstan, Paraguay, Uganda, Mali, Malawi, Nepal, Kyrgyzstan among others) which included over 15,000 interviews with exporters of varying sizes and from different sectors. The key challenges reported by exporters in these countries are related to quality requirements (conformity assessment in agriculture and rules of origin and manufacturing), supporting compliance infrastructure such as laboratories and regulations, and trade facilitation issues in domestic and transit countries (such as long delays at borders, complex documentation, informal payments etc.).

ITC is implementing a number of current and forthcoming projects to improve the business (and investment) climate and address NTMs. These include projects such as CEFTA, Laos PDR, EAC, PIGA.

LLDCs are highly dependent on regional markets for export and generally on regional integration for their connectivity with the world.

Regional integration is imperative for LLDCs as it can help in harmonizing policies and programmes particularly in the areas of information sharing, transport, quality and customs. As LLDCs depend on mandatory transit points for foreign trade through neighbouring countries, policy reforms that standardize border procedures and promote mutual collaboration between countries are particularly important. The TFA also provides LLDCs with a great opportunity to mainstream regional integration through implementation of measures such as Article 11, on freedom of transit, and Article 8, on cooperation between national and international border agencies (including establishment of joint controls).

ITC seeks to address the competitiveness challenges (related to non-tariff measures) faced by SMEs in developing countries, including LLDCs, to access regional and global markets. ITC is currently implementing one such project to support the facilitation of trade between Central European Free Trade Agreement (CEFTA) parties by addressing the non-tariff trade barriers in regional trade. The project takes a bottom up approach and mobilizes the private sector of the selected value chains (edible vegetables and iron & steel) to identify and prioritize issues and indulge in public private dialogue to brainstorm solutions. Since three of the six participating CEFTA parties are land-locked in nature (Serbia, Macedonia and Kosovo), the focus of the project is to build regional value chains that can then integrate into global value chains. In order to do that, ITC will be conducting studies to analyze:

- *The national quality frameworks (standards, compliance infrastructure such as laboratories, regulations etc.) to harmonize quality management procedures*
- *The business process analysis of customs and other trade and transport procedures to identify and pinpoint bottlenecks and inefficiencies and recommend trade facilitation issues*
- *Other possible studies such as regulatory assessment of transport and distribution services sectors, analysis of VAT payback schemes etc.*

Due to their landlocked nature and the associated added costs, it is paramount that assistance is provided to LLDCs to implement the WTO TFA as efficiently as possible. Overall, LLDC costs to trade is around 60% higher than LDCs average and double than world average (Doing Business report). That's why the Trade Facilitation reforms will play a key role in providing LLDCs with new opportunities by increasing the flow of investment in the region, which will encourage diversification.

The overall purpose of trade facilitation reforms is to achieve greater efficiency in international and regional cross border trade. It is important to extend public private dialogue mechanisms at the national and regional levels to promote efficiency and productive partnerships and standardise trade procedures. To achieve this goal it is crucial to set up the priorities in terms of trade facilitation policy and reforms. To this end, the WTO TFA has outlined a set of measures that work as rules to provide LLDCs with the tools to efficiently restructure their national trade sectoral plans to align with the best global practices.

The WTO Trade Facilitation Agreement Facility is designed to specifically address LLDCs trade needs, such as specific simplified and priority access to landlocked and least developed countries. This agreement will establish special measures for required technical assistance. Special and differential treatment for LLDCs is a full reality in WTO law. There are several provisions specifically designed for LLDCs. For example:

- There is a separate provision on **freedom of transit** (Article 11 WTO TFA)- which offers facilitated, transparent and non-discriminatory treatment offered to the goods in transit passing through the national territory. *It also contains a prohibition of the imposition of voluntary restraints on traffic in transit. Goods cleared for transit should also not be subject to any further charges, delays, restrictions or the application of technical barriers to trade measures.* According to OECD this measure could contribute to reduction in costs by 2.3%
- Another measure that should be of special benefit to LLDCs, whose trade is mostly conducted by overland freight, is **increased border agency cooperation**. This should ensure cooperation and coordination between authorities and agencies responsible for border controls on issues such as alignment of working days, hours, procedures and formalities; joint controls and sharing of common facilities; and establishment of one-stop border post controls. According to OECD this measure could contribute to 1.9% decrease in costs.

There is also much more that could be achieved and facilitated; for instance, a differential “tag” could be established to set up priorities from LLDCs to be addressed on urgent basis with the technical assistance facility created at the WTO or any new development assistance.

The ITC has successfully implemented several trade facilitation initiatives, including;

- **Successfully assisting more than 55 countries in completing the categorization process of the WTO TFA measures.** (ITC working with UNCTAD). ITC helps countries to sequence their commitments and factor business perspective in this process. As for the land-locked countries in particular, ITC held these activities in Zimbabwe, Tajikistan, Mongolia and is currently continuing this work in CAR and Afghanistan
- Recognising that it is crucial that stakeholders are better equipped to understand the challenges and opportunities contained in the TFA, the ITC has **hosted over fifty (50) awareness events and private sector trainings to increase knowledge of more than 600 public and private sector stakeholders**, including in land-locked countries such as Rwanda, Mongolia, Burundi, Zimbabwe. Participants, mainly small traders and border agencies officials, took part in exercises based on real-life examples, with special attention paid to enabling businesses to understand technical trade facilitation issues and advocate for concrete policy recommendations that reflect the border issues they deal with on the ground.
- **Establishing and operationalizing National Trade Facilitation Portals** in Uganda, Kenya, Tanzania, Rwanda, Tajikistan, etc. to ensure more transparency and predictability for traders in cross – border procedures. The portals are populated with procedural and regulatory requirements to export and/or import the chosen products. The platforms provides a user-friendly description of all the practical steps required to import or export a consignment. It also maps all the forms, documents and fees required by border regulatory agencies to clear the goods. This portal could also include transit requirements, which is particularly important for the land-locked countries.
- **Developing sector-specific guidelines to facilitate export of manufactured products from SMEs in developing countries and LLDCs** (National Trade Procedures Guides)

Like all WTO members, LLDCs also need to establish a National Trade Facilitation Committee (NTFC) which is essential in connecting to other Member States for knowledge sharing and coordination, fostering the implementation of TF reforms, and bringing private sector's views through formal public private dialogue mechanism.

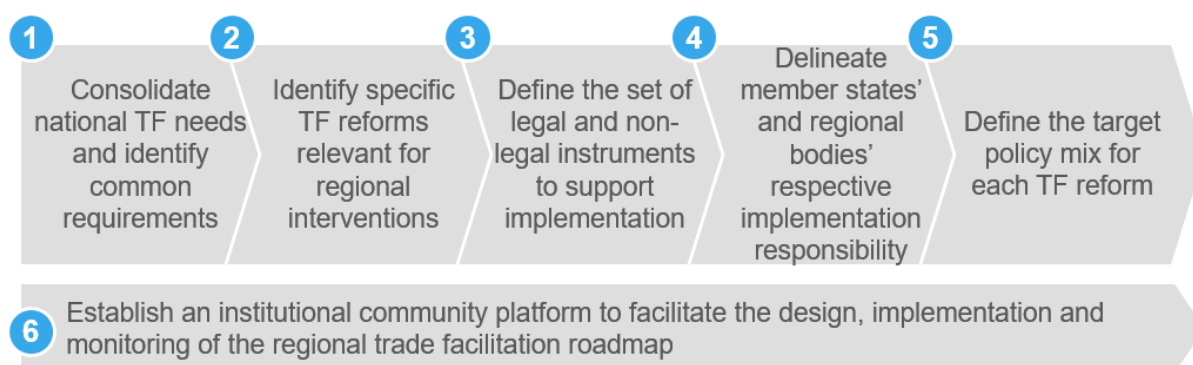
LLDCs will need assistance in establishing and operationalizing their NTFCs including the mechanisms for surveillance, monitoring and following up on the progress of national (or regional) TFA implementation. Its functioning of a public-private mechanism may be leveraged to improve the business environment and to create public-private investment partnerships to build sufficient infrastructure. Such a jumpstart is required for LLDCs to introduce structural reforms to enhance trade and investments and achieve economic development goals.

ITC has established and/or operationalized five NTFCs, including two landlocked ones in Afghanistan and Tajikistan. ITC is currently establishing a Permanent secretariat with dedicated staff in the NTFC in Tajikistan, which is one of the key success factors of NTFC. Secretariat will reach out to the working group, private sector and relevant border agencies to collect and present their views during the Committee meeting. In this way, ITC aims at increasing private sector involvement in the reform implementation to bring maximum benefits for cross-border traders.

Additionally, ITC is also setting up a Regional Trade Facilitation Committee in UEMOA which includes 3 landlocked countries in Mali, Niger and Burkina Faso. As the committees are mandated to coordinate and implement the implementation of WTO TFA, ITC has been able to develop and document a wide range of technical assistance services for NTFCs and RTFCs in technical and operational subjects.

As LLDCs rely on their neighbours and regional partners for trade, regional implementation of TFA makes a lot of sense for them as lack of territorial access to the sea, isolation from international markets and high transit and transportation costs impose serious constraints on their trade competitiveness. Such cooperation at the regional level can also allow them to share knowledge and best practices as a way of technical assistance in implementing reforms.

A six-step regional trade facilitation roadmap



Finally, TF measures will only bear fruit if complementary efforts are made to improve the logistics services sector as well. International agencies should support a comprehensive reform agenda to open the sector in LLDCs and make it sustainable. This includes the coordination and coherence of approaches and methods among public and private actors. In many countries, international disciplines and agencies guide and support

reform. This typically requires liberalizing the sector, opening it up for foreign investment, reducing discrimination against foreign services providers and increasing transparency.

To improve competitiveness, ITC's four-step methodology encourages reform of the logistics regulatory environments. It calls for an enhanced public-private sector dialogue and stronger organization of private-sector associations. ITC helps developing countries design and execute effective reform of the logistics sector by mapping regulatory barriers; creating a menu of policy options for each country; helping build capacity for effective regulation; and helping implement reform through new regulations and monitoring progress.