WORLD TRADE ORGANIZATION

EIF Enhanced Integrated Framework
Trade for LDC development

Trade impacts of LDC graduation

Acknowledgements

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All graduating LDCs have responded to the questionnaire, which was prepared by the WTO Secretariat to obtain information on country-specific situations. Some LDCs have also provided useful feedback on the report draft. The contributions from a host of UN agencies – including UN-OHRLLS, UN DESA and UNESCAP – are also gratefully acknowledged. The report also benefitted from national and regional consultations with the governments and development partners of graduating LDCs, in particular from Asia and the Pacific.

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Disclaimer

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Foreword by the WTO Director-General

This report on the "trade impacts of LDC graduation" responds to a specific request from the LDC Group in the WTO for an analysis of how graduating from LDC status will impact countries' trade relations. LDCs are accorded special treatment in the WTO, in particular with regard to enhanced market access opportunities and policy flexibilities. Therefore, it is important to ascertain how the loss of such treatment will impact graduating LDCs. The issue has assumed special significance with a quarter of the LDCs on the path to graduation and the associated loss of benefits tied to this status.

The release of this report comes amid the COVID-19 health crisis, which is threatening the lives and livelihoods of people around the world, and having an enormous impact on economies large and small. Early in April, WTO economists projected a steep fall in trade in 2020, with the main question being the sheer depth of the decline. The economic dislocation threatens to reverse hard-won socioeconomic development gains in LDCs, and could potentially delay graduation for some countries. As we monitor the impact that COVID-19 is having on all members, it will be critical to keep a close eye on the evolving situation in graduating LDCs. It is worth noting that the analysis in this paper focuses on how graduation will affect LDCs' trade relations, whether that graduation happens as planned or at a later date.

One of the key findings of this study is that the graduating LDCs have diverse economic profiles, with marked differences in export structure, as well as in their utilization of – and reliance on – preferential market access. Their terms of entry into the WTO are similarly varied. Graduation will thus affect different graduating LDCs differently. Nevertheless, for most of them, the scope and the magnitude of the impact of graduation appears to be rather limited. At the same time, there are a few instances where preference erosion may affect existing export ties, or where the graduating government would need to take certain steps to comply fully with the WTO Agreements. The study explores ways to address these challenges.

It is heartening to note that the cause of graduating LDCs has received due attention from the international community, and governments at the United Nations and in other fora are exploring measures to assist graduating LDCs to ensure smooth transitions. The LDC Group in the WTO is pursuing proposals in relevant WTO bodies. There are instruments and procedures available under WTO rules that offer graduating LDCs paths to engage with members and seek recourse should they face any difficulty in their participation in the WTO. And the full range of technical assistance offered by the WTO Secretariat remains largely unaffected after graduation.

As graduating LDCs cross an important development milestone and begin to enter a more competitive environment, solidarity and partnership from the international community will be vital. This is particularly true in light of the economic dislocation resulting from the COVID-19 pandemic. Trade has significantly contributed to enabling the graduating LDCs to reach the development thresholds set for graduation, and we all have a shared responsibility to ensure that they sustain this growth momentum.

This study is a product of a Secretariat-wide effort coordinated by the Development Division. I wish to thank them, in particular the LDC Unit, as well as other colleagues in the Secretariat for their contributions. My sincere thanks also go to the relevant UN agencies and graduating governments for their valuable inputs and insights. We hope this analysis will help governments in graduating LDCs, together with their development partners, to take appropriate measures to better prepare for the trade-related consequences of graduation. I would like to gratefully acknowledge the financial support received from the EIF to conduct this work.

We remain committed to further supporting the graduating LDCs, with a view to their integration into the global economy, as well as to support the achievement of the goals set by the international community, including through the Programme of Action for the LDCs.

Roberto Azevêdo
Director-General

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Executive summary

At the request of the Group of Least-Developed Countries (LDC Group), the Secretariat of the World Trade Organization, with the support of the Enhanced Integrated Framework (EIF), undertook a project to assess the trade-related implications of graduation from LDC status, in particular the impacts it may have on market access currently enjoyed by the LDCs, as well as their participation in the WTO. This study summarizes those impacts and looks at options for graduating LDCs to smoothly continue their integration into the global economy.

As the analysis on the trade impact of graduation was being finalized, it became clear that the COVID-19 pandemic was placing the global economy in an unprecedented situation. This is likely to have far-reaching implications for all countries, especially the most vulnerable. Trade is set to plummet, with all regions likely to register sharp declines in trade volumes. LDCs, including the ones on the path towards graduation, will also experience unavoidable declines in trade, and abrupt slowdowns and even contractions of their respective GDPs.

Since the duration of the pandemic is uncertain, and because both the severity and timelines of the outbreak differ across countries, it is difficult at this stage to precisely estimate the economic damages caused by COVID-19. Exports of LDCs are likely to be severely hit, as prices for primary commodities have declined sharply, supply chains (e.g. textile and clothing) have been disrupted, export orders are being cancelled, and tourist flows have come to a near-standstill. Moreover, LDCs face financial constraints in their ability to respond adequately to this crisis. The ongoing pandemic thus threatens to derail the socio-economic progress achieved by the graduating LDCs over the past years, thereby constraining their graduation prospects in the near term. This study is thus without prejudice to the possible impact that COVID-19 could have on the graduation status of LDCs.

Notwithstanding the economic and social fallout of the COVID-19 pandemic in graduating LDCs, it is worth highlighting that the focus of this study is on the expected impact on their participation in global trade following graduation. The architecture of international support measures for the LDCs, in particular in the area of trade, can be expected to persist in the aftermath of the

COVID-19 pandemic. In fact, such support will be vital to helping LDCs recover from the ongoing downturn and export volatility. At the same time, the WTO Secretariat is following developments in LDCs and intends to undertake COVID-19 impact analysis for graduating LDCs under the aegis of this project, when more data become available and the implications can be better understood.

LDC graduation is an overarching objective of the international community.

The Istanbul Programme of Action for the LDCs for the Decade 2011–2020 (IPoA) includes as an overarching objective the graduation and smooth transition of the LDCs. Graduation from the United Nations (UN) LDC category is seen as an important milestone in the development path of each LDC. It demonstrates strong performance in key macroeconomic indicators and broad-based social developments. At the same time, the phasing-out of benefits associated with the LDC status could present challenges for graduating LDC governments to integrate into global economy.

At present 12 LDCs are at different stages of their path to graduation from LDC status.

Five LDCs are recommended to graduate over the next five years (Vanuatu in 2020; Angola in 2021; Bhutan in 2023; Sao Tomé and Principe, and Solomon Islands in 2024). Bangladesh, the Lao People's Democratic Republic (Lao PDR) and Myanmar met the graduation criteria for the first time in 2018 and are envisaged to graduate in 2024. The other LDCs on the graduation path are Kiribati, Nepal, Timor-Leste and Tuvalu. The decision regarding graduation from LDC status is taken by members at the UN at the recommendation of the Committee for Development Policy, an advisory body of the United Nations Economic and Social Council (ECOSOC).

Seven of the graduating LDCs are WTO members, and three are in the process of accession to the WTO. These LDCs differ in relation to their status in the WTO.

Angola, Bangladesh, Myanmar and Solomon Islands represent original LDC members (joined in 1995). Lao PDR, Nepal and Vanuatu are among the group of recently acceded members that underwent the accession process under Article XII of the Marrakesh Agreement Establishing the WTO and undertook higher levels of commitments than the original LDC members. Bhutan, Sao Tomé and Principe, and Timor-Leste have observer status at the WTO, as they are at various stages of their accession process. Kiribati and Tuvalu do not have a status with the WTO.

The LDCs are accorded special treatment by the international community, mainly in areas such as trade and development cooperation, which is broadly known as "international support measures". Trade is one of the key areas where LDCs enjoy exclusive preferences, both in the context of market access as well as in the implementation of WTO rules and disciplines. Graduation from the LDC category will eventually result in the loss of this special treatment, although the degree to which this will impact individual graduating LDCs differs.

While the graduating LDCs represent a group of countries meeting certain socio-economic thresholds for graduation, they represent diverse development situations.

All of these LDCs vary in terms of population size (e.g. Bangladesh – 160 million people; Tuvalu – 12,000), size of gross domestic product, export values (Angola – US$38 billion; Nepal – less than US$1 billion). They are qualitatively different in terms of their trade profile or export structure; some are highly integrated in international trade (e.g. with manufacturing exports), while the majority of graduating LDCs export unprocessed or semi-processed products, and some graduating LDCs like Tuvalu do not have consistent export records.

The impact of graduation will be different for each graduating LDC, both in scope and in magnitude – be it participation in the WTO, market access opportunities or development cooperation.

Bangladesh stands out among all graduating LDCs as the largest economy and exporter, and as the graduating LDC that is likely to confront more challenges than others. This disparity among graduating LDCs suggests that support should be tailored to the needs and development strategy of each country.

A. LDC graduation and matters related to WTO agreements

The main trade-related challenges in LDC graduation may stem from a loss of preferences and reduced flexibility in the implementation of WTO rules.

The multilateral trade agreements (MTAs) governed by WTO contain several types of special and differential treatment (S&D) provisions for LDCs, which are over and above the flexibilities accorded to developing countries, such as market access, transition periods, and exemptions from certain rules. In addition, since the establishment of the WTO in 1995, WTO members have taken important decisions to facilitate market access for both goods and services originating in LDCs (i.e. decisions on duty-free and quota-free market access, decisions on preferential rules of origin for LDCs, and decisions on LDC Services Waiver and its operationalization). These are implemented, inter alia, through members' preference schemes designed for the LDCs.

Graduation does not result in changes to the level of concessions and commitments made by the graduating LDCs.

The LDCs that acceded to the WTO during the Uruguay Round have a lower level of commitments, reflected by higher bound rates and lower binding coverage compared to LDCs that acceded to the WTO more recently under the Article XII process. For instance, Lao PDR, which joined the WTO in 2013, offered liberal concessions by binding all of its tariffs (i.e. binding coverage of 100%) and at a relatively low average level (19%). In contrast, Bangladesh has a binding coverage of only 17%, which implies that the remaining 83% of its tariffs are unbound. Myanmar has also a low level of concessions with a binding coverage of only 19% and an average bound tariff of 83%. These graduating LDCs would continue to enjoy this flexibility related to tariff bindings granted at the time of joining the organization in 1995.

Graduation does not lead to any change in the assessed contributions of members to the WTO budget.

The contributions of the WTO members are based on individual members' trade shares. While there are higher requirements in terms of frequency of notifications in certain areas (e.g. domestic support measures in agriculture), the impact on the availability of WTO technical assistance and training would be rather limited.

At present, WTO rules contain no explicit provisions regarding the graduation of LDCs. Upon graduation, LDCs would normally be required to align their participation as for other developing country members. An agreement-wide examination suggests that certain adjustments would require enhancements of administrative or institutional capacity; however, in a number of areas, adjustments would be more substantive in nature, in particular for the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the Agreement on Subsidies and Countervailing Measures (SCM) and, to a lesser degree, on Agreement on Agriculture (AoA).

The transition periods enjoyed by the LDCs to delay the implementation of the TRIPS Agreement have been a defining feature of LDC flexibility in the WTO.

At present, LDCs benefit from a general transition period (until 1 July 2021) as well as a transition period for patents and undisclosed information for pharmaceutical products (until 1 January 2033). Graduated LDCs would not be covered by these decisions, which expressly provide for the transition period to end earlier in the event of such members ceasing to be LDCs, though general WTO processes would allow graduated LDC members to seek a waiver of certain obligations. Most LDC members have at least some intellectual property (IP) laws in place or are covered by regional IP regimes. The degree to which graduation would have an impact depends on the state of IP legislation in each LDC. For instance, recently acceded LDC members – Lao PDR, Nepal and Vanuatu – have already enacted laws and regulations in most areas covered under the TRIPS Agreement; those laws and regulations, and their administration and enforcement, will be subject to a review of implementing legislation in the Council for TRIPS.

Exemption from the prohibition of export subsidies for non-agricultural products, as provided for under the SCM Agreement, is another important policy flexibility for the LDCs.

This represents a carve-out as long as a member remains an LDC, or a member's per capita income remains below US$1,000 (in 1990 constant dollar terms). While a proposal has been tabled by the LDC Group in the WTO to allow graduating LDCs to continue to be exempted from these disciplines, the impact of graduation will depend in large part on the trade policy and practices of individual graduating LDCs. Deriving information from national authorities, it appears that, with the exception of Bangladesh and Nepal, graduating LDCs do not have export subsidy programmes in force.

With respect to agriculture, LDC members and members that were considered Net-Food Importing Developing Countries (NFIDCs) at the time of the December 2015 Nairobi Decision on Export Competition have a longer transition period (until 2030) to continue to benefit from the flexibility under the AoA, with respect to certain agricultural export subsidies (e.g. subsidies to reduce the costs of marketing exports). This flexibility will not be available after graduation, unless graduating LDCs are given specific consideration by members.

Several LDC members have benefitted from the LDC accession guidelines, which were adopted in 2002 and further strengthened in 2012 (i.e. Afghanistan, Lao PDR, Liberia, Samoa, and Yemen). The graduating LDCs that are in the process of accession to the WTO (i.e. Bhutan, Sao Tomé and Principe and Timor-Leste) may not maximize the benefits from these guidelines (e.g. specific benchmarks for acceding LDCs for market access negotiations) if they are unable to conclude their accession negotiations before they leave the LDC category.

B. Impact on market access

Loss of preferences under LDC schemes of developed and developing country members has been one of the concerns of graduating LDCs, though the impact on market access for a large majority of graduating LDCs is rather limited.

The extent to which the loss of preferences after graduation would impact an LDC depends on the export structure (i.e. products exported and destination markets), the trade arrangements under which such exports take place, the degree to which these preferences are actually utilized, and, more broadly, the level of integration in world trade. Hence, the stakes are not necessarily the same across all graduating LDCs.

While most of the graduating LDCs share the typical feature of a narrow export base, they differ substantially in their merchandise export structure.

Exports of Angola, Bhutan, Lao PDR, Myanmar and Timor-Leste are concentrated in primary commodities (including fuels and minerals); Bangladesh is overwhelmingly dependent on clothing, and Nepal's reliance on certain textile items such as carpets is very high. Kiribati, Sao Tomé and Principe, Solomon Islands, Tuvalu and Vanuatu mainly export agricultural and fishing products.

Exports of the 12 graduating LDCs represent close to half of the total exports of the 47 LDCs. Angola, Bangladesh and Myanmar are the three largest LDC exporters, together representing 43% of LDC exports. The other nine graduating LDCs account for only 4% of LDC exports. The market destinations of these graduating LDCs also reflect a diverse situation. A number of graduating LDCs' predominant exports are intra-regional (e.g. Bhutan, Nepal and Pacific graduating LDCs), and a number of other graduating LDCs' exports (e.g. Bangladesh) are concentrated mainly in the European Union (EU) and North America. This direction of exports, to a large extent, determines the market access scenario following graduation. Around 88% of merchandise exports from graduating LDCs go to markets with preference schemes for LDCs.

Most graduating LDCs have been eligible for developed country members' GSP schemes designed for the LDCs. In certain cases, non-reciprocal preferences are not tied to LDC status. For instance, the four LDCs in the Pacific currently benefit from duty-free market access in Australia and New Zealand under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which is expected to be replaced by the Pacific Agreement on Closer Economic Relations (PACER Plus).

In terms of loss of preference margins, the most relevant developed country market for the graduating LDCs is the EU, and to some extent Canada and Japan.

In these markets, most of LDC exports enter duty free. Close to two-thirds of Bangladesh's exports (mainly clothing) are destined for these markets. The European Union is also a key market for other graduating LDCs in a number of products: it accounts for the majority of exports of clothing by Lao PDR, certain textile items by Nepal, tuna loins by Solomon Islands and molluscs by Vanuatu. The loss of preference margins of LDCs in the EU market – transitioning from the EU's Everything But Arms (EBA) scheme to standard GSP – would be around 10% in clothing and in the range of 6–10% in certain fish products, unless arrangements are made to continue maintaining current market access conditions.

The impact on tariffs from the loss of preferences varies substantially across graduating LDCs due to differences in products exported, destination markets, and preferential market access after graduation.

Assuming full preference utilization, graduating LDCs are expected to face a trade-weighted average tariff increase of 4.2% in the various preference-granting markets (i.e. the difference between the LDC duty rate and the next best alternative rate). Average tariff increases for Bangladesh and Nepal would be the highest (8.9% and 8.1%, respectively), while exports of Angola, Kiribati, Sao Tomé and Principe and Timor-Leste are likely to see only marginal increases in tariff rates (below 0.5%).

LDCs are faced with dual erosion of preferences in certain developed country markets – loss of preference margin and loss of favourable rules-of-origin conditions.

The utilization of unilateral preferences by the LDCs also entails compliance with rules-of-origin conditions that are usually more flexible and liberal than in other preference schemes. For example, with regard to clothing exports to the EU, LDC firms are only required to undertake a "single stage transformation" from fabric to clothing under the EBA scheme, while a "double stage transformation" from fibres to fabric to clothing would be required under the standard GSP. The single stage transformation, which was introduced in 2011, had been instrumental for certain LDCs to dramatically improve their utilization of EBA preferences. Loss of this particular flexibility would require LDC clothing exporters to perform more complex manufacturing processes.

For some graduating LDCs, trade is mostly intra-regional and covered by regional trade agreements (RTAs) including bilateral agreements, so that the impact of graduation is likely to be limited. Important developing country markets for graduating LDCs include China, India, and Thailand.

Intra-regional trade is the predominant form of trade for graduating LDCs in Asia. For instance, in terms of merchandise exports, India accounts for 81% of Bhutan's exports and 56% of Nepal's exports; Thailand accounts for 44% of Lao PDR's exports and 20% of Myanmar's exports; and China accounts for 28% of Lao PDR's exports and 27% of Myanmar's exports.

Some LDCs enjoy multiple RTA options to access the same market. For instance, India extends duty-free treatment to LDC participants of the South Asian Free Trade Area (SAFTA) for nearly all products (except tobacco and alcohol). At the same time, India, China and the Republic of Korea provide preferential market access to LDC parties to the Asia-Pacific Trade Agreement (APTA). Thailand provides preferences to Lao PDR and Myanmar under the ASEAN Free Trade Area (AFTA), and to Lao PDR also under a bilateral agreement. Bhutan and Nepal's trade with India is mostly governed by their respective bilateral agreements. Three graduating LDCs – Angola, Sao Tomé and Principe, and Timor-Leste – have so far no RTA in place with members that provide LDC schemes.

Tariff concessions to LDCs under most RTAs are the result of reciprocal negotiations, and in certain cases the margin of preferences is granted through less-than-full reciprocity modalities. Whether the tariff concessions received by graduating LDCs in certain RTAs will be maintained after their graduation remains an open question. However, there are other elements associated with these RTAs that are likely to be affected following graduation. For instance, a majority of these RTAs have longer periods for LDCs to implement tariff concessions. Some RTAs that are currently being negotiated or finalized also contain such provisions for participating LDCs to implement tariff concessions in a longer timeframe than others (e.g. Pacer Plus or the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation Free Trade Area – BIMST-EC). Hence, graduation from LDC status would require some of the graduating LDCs to advance the implementation of tariff concessions.

A number of RTAs have provisions giving special consideration for LDCs in terms of rules of origin conditions. For instance, the minimum requirement for local value content under APTA is 35% for LDCs compared to 45% for other participants. Similarly, under the SAFTA rules of origin, LDC participants are allowed up to 70% of non-originating material, compared to 60% for non-LDC parties. Graduation from LDC status would therefore not allow graduating LDCs to avail of such liberal treatment, although the variations of rules of origin within RTAs for LDCs and non-LDC parties are not widespread.

The data on preference utilization submitted by preference-granting members under the preferential trade arrangement (PTA) transparency mechanism reveal that the exports of graduating LDCs display a limited dependence on LDC-specific preferences.

In the ultimate analysis, preferences – whether non-reciprocal or reciprocal in nature – hold value if they are utilized. Across the 12 graduating LDCs, an average of 12% of exports enter preference-granting markets under LDC schemes. However, there are significant differences across countries. While the share of exports that uses LDC-specific preferences is 70% for Bangladesh, it is between 10% and 20% for Myanmar, Nepal and Solomon Islands, between 5% and 10% for Bhutan and Lao PDR, and below 5% for Angola, Kiribati, Sao Tomé and Principe, Timor-Leste, Tuvalu and Vanuatu. Specialization in primary commodities with low or zero MFN duties, or the use of alternative preferences, could be some of the factors behind the low use of LDC schemes by the majority of graduating LDCs.

The partial equilibrium estimates undertaken for this analysis confirm that the loss of LDC-specific preferences is expected to have a limited and uneven impact on the exports of graduating LDCs.

LDC graduation will have the greatest impact on the exports of Bangladesh, which is estimated to see exports decline by 14%. Other graduating LDCs with expected sizeable reductions in exports (more than 1%) are Bhutan, Lao PDR, Myanmar, Nepal and Solomon Islands. The effects for Angola, Kiribati, Sao Tomé and Principe, Timor-Leste, Tuvalu and Vanuatu (0.3% or less) are negligible.

Graduation is unlikely to cause significant impact on graduating LDCs services and service suppliers.

The graduating LDCs account for 0.22% of world services exports, with a 31% share in LDC exports. As for the area of goods, the service trade profiles of these graduating LDCs are not necessarily identical, although travel services largely represent the most important export category for all graduating LDCs. Due to the limited availability of bilateral statistics, the direction of LDC exports of services is difficult to determine, and a large share of income from services reflects the expenditure of foreign tourists on goods and services in the economies of graduating LDCs.

While there have been notable developments to further enhance the participation of LDCs in the services trade – including through the adoption of the LDC Services Waiver and decisions relating to its operationalization – the assessment of notifications made by 24 WTO members pursuant to the LDC Services Waiver reveals that a large majority of measures notified reflect members' applied MFN regime with little preference margin for LDCs. However, continued support from development partners remains vital for graduating LDCs to build their productive capacity in services.

C. Impact on development cooperation

Another area critically examined in the context of LDC graduation is the impact on development assistance being extended to the graduating LDCs. Aid for Trade, and official development assistance more broadly, have been steadily increasing for the graduating LDCs in recent years.

Broadly, development partners do not consider LDC status as a key determinant for providing support to the LDCs.

There are different considerations by multilateral development banks or bilateral donors. For the graduating LDCs under review, the most important multilateral development cooperation partner has been the World Bank (International Development Association arm), while Japan is the single largest bilateral donor. The World Bank's lending decisions are mainly based on income criteria, while most bilateral donors consider historic ties, income level, and regional cohesion as considerations for allocating resources to LDCs.

With the improvements in income, some LDCs might face rising borrowing costs.

One defining feature of the impending graduation process is that, with the improvements in the per capita income that shift the LDCs from the low-income to the lower-middle-income category of the World Bank, sources of concessional financing dry up, with the consequence of rising borrowing costs. This is often called "dual graduation" (transition from LDC status as well as transition from low income to lower middle-income category) leaving LDCs with access to resources at higher interest rates and with shorter repayment periods. That said, many graduating countries can retain access to International Development Association concessional financing under the exception for Small States.

Another change is the loss of access to some LDC funding managed under the UN system.

However certain LDCs (e.g. Pacific graduating LDCs) will continue to access concessional funding due to the specific constraints they face as small economies. The graduating LDCs will lose access to dedicated technical assistance and capacity building programmes, like the EIF, the Investment Support Programme for LDCs, the UN Technology Bank for Least Developed Countries and the LDC Fund under the UN Framework Convention on Climate Change. Nevertheless, provisions of support for graduating LDCs have been included in programmes such as the EIF (i.e. up to five years of access to EIF following the effective date of graduation) and the UN Technology Bank (i.e. access to the facility for a period of five years).

D. Options for graduating LDCs

Graduating LDCs retain common vulnerabilities even after crossing the required thresholds for graduation.

While graduation represents economic and social progress, the main characteristics of LDC economies continue to remain fundamental features of graduating LDCs. Most LDCs exhibit the dual challenges of having an extremely narrow export base as well as a narrow pool of financial resources to support and sustain their development efforts. Moreover, most of these graduating LDCs (with the exception of Bangladesh and Myanmar) do not meet the Economic Vulnerability Index criterion, reflecting that they will remain vulnerable to economic and environmental shocks even after graduation.

The Pacific region is a particular case in point: it has unique constraints that make the sustainability of growth and diversification of exports more difficult. The small size of most economies in the Pacific results in difficulties in achieving scale economies, and the geographic isolation and distance from markets gives rise to high trade costs. More so than for any other region, economies are overly dependent on natural resources such as fish and forests. Finally, the most daunting of all challenges is the Pacific's vulnerability to natural disasters and climate change, with the most recent cyclone in Vanuatu being a case in point.

The priorities of graduating LDCs are strikingly similar: product development, better integration into value chains, market diversification, increased productive capacity, and access to adequate resources to improve infrastructure and adapt to unforeseen calamities. Sustainable graduation would require concerted interventions on all these fronts to ensure that graduated LDCs can sustain the momentum and not fall behind on their growth path.

Members at the UN and other institutions and forums are exploring measures to assist the graduating LDCs.

The international community is aware of the challenges of graduating LDCs and is making efforts to ensure smooth transitions. The United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) leads the Inter-Agency Task Force on LDC Graduation and coordinates UN system-wide support as well as the support provided by international and regional institutions to the graduating LDCs. At the WTO, there was little discussion of LDC graduation in the past, but recently the LDC Group has made it a priority.

The LDC Trade Ministers' Declaration adopted at the Eleventh WTO Ministerial Conference[1] underlined the need for positive actions for graduated LDCs and called upon development and trading partners to extend to graduated countries the trade preferences they enjoyed as LDCs, or to reduce them in a phased manner to avoid sudden shocks. It also invited all WTO members to extend to graduated countries the existing special and differential treatment related to the implementation of WTO agreements available to LDCs, for a period appropriate to the development situation of that country.

The Declaration also envisaged specific provisions for graduated LDCs in the context of fisheries subsidies negotiations, to the effect that if an LDC graduates during the transition period approved for LDCs, it should be entitled to use the remaining period of delay provided for the LDCs. Pursuant to the Declaration, a specific proposal was tabled at the WTO with a view to permitting graduated LDCs to continue to provide export subsidies for non-agricultural products if their per capita income remains below US$1,000 (in 1990 constant dollar terms).[2] This proposal is currently being considered by WTO members in relevant bodies.

Graduating LDCs need to engage in WTO work while keeping three perspectives in mind: as an LDC, as a graduated LDC and as a developing country member of the WTO.

In the WTO, a member that graduated from LDC status would generally be seen as a developing country member. While one can argue the effectiveness of S&D provisions in WTO Agreements, a graduated LDC would have access to a range of S&D provisions available for developing countries in WTO agreements. In addition, there are areas of work in the WTO that would require special attention for graduating LDCs. Among the 12 graduating LDCs, Bhutan, Lao PDR and Nepal are landlocked LDCs, and the majority will qualify as small, vulnerable economies. These LDCs should follow the implementation of the Trade Facilitation Agreement as well as the Work Programme on Small Economies. In addition, graduation timelines vary across the graduating LDCs. While graduation is imminent for Vanuatu (2020) and Angola (2021), others have five or more years before they exit the LDC Group.

There are instruments available in the WTO that graduating LDCs can have recourse to should they face difficulties in implementing any agreement or certain provisions in any of the MTAs governed under the WTO.

Procedures are available – upon appropriate justification of the underlying circumstances – to negotiate a waiver from any WTO obligation, to seek an extension of a transition period, or to adopt a specific decision by a WTO body to address certain difficulties. There have been instances where member-specific exemptions or special treatments in undertaking (envisaged) obligations have been allowed. Notably, a range of technical assistance products will continue to remain available to the graduating LDCs.

Trade continues to make an important contribution to LDCs' growth prospects. Hence, maintaining the current preferential market access provisions (e.g. LDC duty rates) has been a major preoccupation of graduating LDCs. For example, it is due to the uncertainty following graduation that Solomon Islands has signed an interim Economic Partnership Agreement with the EU to maintain its EBA-like benefits to the EU market; the ratification is expected in early 2020.

Graduation-related provisions are absent in most of the GSP schemes, with the exception of the EU.

The EU's EBA legislation provides for an additional three-year transition for a graduated LDC to receive EBA benefits following its effective date of graduation. Among developing countries, it appears that China has provided a transition period to Samoa for a period of three years to benefit from LDC preferences following its graduation.

Graduating LDCs could actively engage with their trading partners to develop arrangements that could allow them to maintain LDC-like treatment for an appropriate period after graduation.

Most graduating LDCs will be eligible for developed country members' standard GSP programmes designed for developing country members. For instance, accession of graduated LDCs to EU's standard GSP scheme for developing countries is automatic. However, the product coverage as well as the margin of preference under standard GSP would be less than that offered under EBA. This is also the case for several other GSP programmes.

The EU offers a window for the graduating LDCs to consider joining the GSP Plus (GSP+) Programme, for which certain conditions would have to be met, as it represents a special incentive arrangement for sustainable development and good governance. There are other provisions, in particular safeguard clauses in relation to an individual developing country's share of GSP imports, which might not allow all graduating LDCs to benefit from the GSP+ programme. There are some markets such as Canada and Japan where the margin of preferences would be lost by some graduating LDCs for their export items.

The EIF – the dedicated capacity building support programme for LDCs – allows graduated countries to access EIF benefits for a period of five years after graduation. However, the time-bound cycle of the current phase of the EIF programme (currently running until 2022 with the implementation period continuing until 2024) suggests that the remaining graduating LDCs should frontload the identification of their priorities in terms of graduation-related needs that can be effectively addressed prior to their respective graduation dates.

Finding new development cooperation options is not necessarily urgent, as current trends in ODA signal continued access to such assistance in the post-graduation landscape.

However, graduation-related financing requirements for the implementation of graduation strategies should be identified by the graduating LDCs. New ideas for support could be explored at the international level, including under the next LDC Programme of Action 2021–2030. The UN CDP has proposed establishing a graduation support facility to provide technical assistance for graduating LDCs in the preparation and management of graduation from the category and to facilitate South–South knowledge sharing on graduation.

It is widely acknowledged that graduation should not become a force for disruption in the development trajectory of the graduating LDC.

There is a three-year transition period from graduation eligibility to actual graduation. In addition, special extensions have been allowed, depending on the individual circumstances of graduating LDCs. Hence from the moment it meets the graduation criteria for the first time to the year of its actual graduation, a graduating LDC has the required time to prepare strategies and engage with development partners to ensure smooth integration into the global economy following graduation.

2

Introduction

The United Nations least-developed countries (LDC) category comprises the poorest and most vulnerable countries in the world – those that face structural handicaps to their sustainable development. There are currently 47 LDCs, of which 33 are situated in Africa, 9 in Asia, 4 in the Pacific and 1 in the Caribbean. The LDCs account for 12% of the global population, but for less than 2% of world's gross domestic product (GDP) and less than 1% of global exports. So far, only five LDCs have graduated from the category since its inception in 1971, i.e. Botswana (1994) Cabo Verde (2007), Maldives (2011), Samoa (2014) and Equatorial Guinea (2017).

Graduation from the LDC category is an overarching objective of the UN Istanbul Programme of Action for the LDCs for the Decade 2011–2020 (IPoA), and can be key to achieving the Sustainable Development Goals. IPoA has the aim of enabling half of all LDCs to meet the criteria for graduation by 2020. Even though this specific aim has not been met, progress has been made by a good number of LDCs in recent years. At present, 12 LDCs are on the path towards graduation: Angola and Sao Tomé and Principe in Africa; Bangladesh, Bhutan, Lao People's Democratic Republic (Lao PDR), Myanmar, Nepal and Timor-Leste in Asia; and Kiribati, Solomon Islands, Tuvalu and Vanuatu in the Pacific. While five LDCs already have a scheduled date for graduation, the other seven meet the eligibility criteria and are expected to graduate in the foreseeable future (Table 1).

The UN Committee for Development Policy (UN CDP) – an advisory body under ECOSOC – is mandated by the UN General Assembly to review and recommend countries for graduation. The identification of countries for inclusion and graduation from the LDC category is based on three main criteria: income, human assets and economic vulnerability. Income is measured using gross national income (GNI) per capita. The human assets index is composed of five indicators capturing health (undernourishment of population, child and maternal mortality) and education (secondary school enrolment, adult literacy). The economic vulnerability index captures structural vulnerability to economic and environmental shocks through eight indicators: population, remoteness, merchandise export concentration, share of agriculture in gross domestic product (GDP), population living in coastal zones, instability of exports, victims of natural disasters and instability of agricultural production. In a comprehensive review of the LDC criteria, the UN CDP refined the criteria for the 2021 triennial review.[3]

There are two ways to become eligible for graduation: LDCs can either meet two out of three graduation criteria or have a GNI per capita that is at least twice the income threshold for graduation (income-only criterion) in two consecutive triennial reviews.

At the last triennial review in 2018, Bangladesh and Myanmar met all three graduation criteria; eight graduating LDCs met the income and human assets criteria; Angola met the income-only criterion; and Nepal met the human assets and economic vulnerability criterion (Table 1). While the income and the human assets criteria were each met by 11 graduating LDCs, only three LDCs met the economic vulnerability criterion; this highlights the difficulty in trying to improve structural handicaps through policy.

The standard length of the graduation process is six years. When an LDC meets the graduation criteria at two

Table 1. Graduation timeline and graduation criteria

	Scheduled graduation year / earliest possible year	GNI p.c. (≥USD 1,230)	Human assets (≥ 66)	Economic vulnerability (≤32)
Scheduled for graduation				
Vanuatu	2020	3,014	78.5	47
Angola**	2021	4,477	52.5	36.8
Bhutan	2023	2,401	72.9	36.3
Sao Tomé and Principe	2024	1,684	86	41.2
Solomon Islands	2024	1,763	74.8	51.9
Consideration of graduation recommendation deferred by UN ECOSOC to no later than 2021				
Kiribati	*2024**	2,986	84	73.7
Tuvalu	*2024**	5,388	90.1	55.6
Second time eligible in 2018 but not recommended for graduation by UN CDP				
Nepal	*2024**	745	71.2	28.4
Timor-Leste	*2024**	2,656	66.6	56.8
First time eligible in 2018				
Bangladesh	*2024**	1,274	73.2	25.2
Lao PDR	*2024**	1,996	72.8	33.7
Myanmar	*2024**	1,255	68.5	31.7

*Note: The thresholds and values with regard to the graduation criteria are based on the 2018 Triennial Review of the list of LDCs by the UN Committee for Development Policy (CDP). * Earliest possible year for graduation subject to recommendation by UN CDP and endorsement by UN ECOSOC. **Angola meets the income-only criterion (USD 2,460).*

consecutive triennial reviews, it can be recommended for graduation by the UN CDP. The United Nations Economic and Social Council (ECOSOC) endorses the recommendation by the UN CDP, and the UN General Assembly takes note. Graduation becomes effective, following a transition period of three years (i.e. smooth transition period).[4] The process of graduation may take longer than six years, in order to account for specific development concerns or to address requests by governments for longer transition periods. As part of the graduation process, the United Nations Conference on Trade and Development (UNCTAD) prepares a vulnerability profile, and the United Nations Department of Economic and Social Affairs (UN DESA) prepares an ex-ante impact assessment to inform the UN CDP of its decision to recommend an LDC for graduation.

As part of the graduation process, a graduating LDC is invited to prepare a smooth transition strategy to ensure that graduation does not disrupt its development progress. In particular, the smooth transition strategy addresses implications from the loss of international support measures that are available to LDCs. The UN-OHRLLS, which established the Inter-Agency Task Force on LDC Graduation in late 2017, brings together relevant UN agencies, international and regional institutions to support the smooth transition process of graduating LDCs, and coordinates UN system-wide support extended to graduating LDCs.

LDCs benefit from three broad categories of international support measures: development cooperation including Aid for Trade, support for participation in the UN and other international forums, and trade measures such as preferential market access and special and differential treatment under WTO rules. Graduation from the LDC category will eventually result in the loss of the LDC-specific special treatment.

The WTO recognizes LDCs, as defined by the UN, as a sub-category of WTO members, apart from developed and developing country members. At present, 36 out of 47 LDCs are members of the WTO, and 8 LDCs are in the process of accession to the WTO. Since the establishment of the WTO in 1995, only two LDCs – Maldives and Samoa – have graduated while being WTO members. Cabo Verde underwent the accession process as an LDC but graduated before officially joining the WTO in 2008.

Among the 12 graduating LDCs, seven are WTO members (Angola, Bangladesh, Lao PDR, Myanmar, Nepal, Solomon Islands and Vanuatu), three are in the process of accession (Bhutan, Sao Tomé and Principe, and Timor-Leste) and two have no status at the WTO (Kiribati and Tuvalu). The implications of LDC graduation with regard to rights and obligations under WTO rules will be more significant for the seven graduating LDC WTO members. In addition, these seven LDCs differ in their rights and obligations at the WTO; Angola, Bangladesh, Myanmar and Solomon Islands represent original LDC members, while Lao PDR, Nepal and Vanuatu underwent the accession process under Article XII of the Marrakesh Agreement Establishing the WTO.

WTO Agreements do not contain provisions for LDC graduation. Against the background of the looming graduation of an increasing number of LDCs, graduation has become an important issue for LDCs at the WTO. Concerns have been expressed by the LDCs over the loss of their special benefits following graduation. In a Declaration at the Eleventh WTO Ministerial Conference in December 2017, LDC Trade Ministers called for positive actions for LDCs on graduation.

At the request of the LDC Group, the Secretariat of the World Trade Organization, with the support of the EIF, undertook a project to assess the trade-related implications of graduation from LDC status, in particular the impacts it may have on market access currently enjoyed by the LDCs, as well as on their participation in the WTO. This study summarizes those impacts. The analysis complements work being carried out by UN CDP, UNCTAD, regional economic commissions such as UNESCAP and other agencies in helping graduating LDCs prepare for graduation from the LDC category. The United Nations Development Programme (UNDP) is also assisting graduating LDCs, including in the context of their national development plans.

The structure of this study is as follows: Section 3 analyses the impact of graduation on members' participation in the WTO as well as implications under WTO rules; Section 4 assesses the expected impact of graduation on market access and exports for the 12 graduating LDCs, taking into consideration the LDCs' current export structure, preference utilization and the availability of alternative preferences after graduation; Section 5 analyses the expected impact of graduation on development cooperation, in particular with respect to Official Development Assistance (ODA), including Aid for Trade, LDC-specific capacity-building initiatives and participation in the UN system; Section 6 outlines a number of options that are available to graduating LDCs to address possible impacts from LDC graduation and smoothly integrate into the global economy.

3

LDC graduation and matters related to the WTO agreements

This section assesses the impact of graduation on members' participation in the WTO as well as implications under WTO rules. The section is structured as follows: Sections 3.1 and 3.2 discuss tariff commitments as well as services commitments and their relation to LDC status as well as graduation; Sections 3.3–3.5 review the most pertinent LDC-specific provisions in WTO Agreements and Decisions and assesses the expected impact of graduation on graduating LDCs in terms of WTO rights and obligations; and Section 3.6 provides a summary.

3.1 Trade in goods and services: tariff bindings and schedules of concessions

Trade in goods: tariff bindings of graduating LDCs

Tariff commitments are included in members' schedules of concessions on goods and take the form of bindings, i.e. the commitment to not apply a tariff above the listed "bound" rates. In line with Article XXXVI of the General Agreement on Tariffs and Trade (GATT), developing countries and LDCs have benefitted from the principle of non-reciprocity. As a result, developing countries and particularly LDCs have been able to maintain a higher level of tariff protection in their schedules of concessions. Note that members will not need to change their schedules of concessions because of graduation from LDC status.

In comparison to other members, LDCs have a higher average bound rate and a lower average binding coverage, i.e. share of products with bound rates (Table 2). The seven graduating LDC members have on average a binding coverage of 76.4% and a bound rate of 65.8%, compared with an average binding coverage of 80% and bound rate of 38.3% for all WTO members. The average applied most-favoured-nation (MFN) rate is close to 10% for graduating LDCs, much lower than their average bound rate. The resulting binding overhang of 55.9 percentage points leaves them substantial policy space with regard to tariffs.

Tariff commitments differ considerably between the LDCs, both in terms of binding coverage and bound rates (Figure 1). Part of the explanation lies in the way a given LDC joined the WTO. Original LDC members, i.e. those that acceded at the end of the Uruguay Round, were able to maintain a higher level of protection than LDC members that underwent the accession process under Article XII of the Marrakesh Agreement Establishing the WTO. For instance, Lao PDR, which joined the WTO in 2013, offered the most liberal concessions by binding all of its tariffs (i.e. binding coverage of 100%) and at a relatively low average bound rate (19%).

In contrast, Bangladesh, which is an original member, offered fewer concessions. It has an average bound tariff level of 154% and a binding coverage of only 17%, which implies that the remaining 83% of its tariffs are unbound. Similarly, Myanmar, which also joined in 1995, has a relatively high level of protection of its products. Among the seven graduating LDCs, Myanmar has the second lowest concession granted, with only 19% binding coverage, and the average bound tariff is 83%. After graduation from the LDC category, Bangladesh, Myanmar and other LDC members will continue to enjoy the flexibility related to tariff bindings that they were allowed while joining the organization in 1995.

The range of the average applied MFN tariffs of LDCs is much narrower compared to the range of bound tariffs (Figure 2). Figure 2 also illustrates that a number of LDCs have a large "binding overhang" or "tariff water". In the case of Bangladesh, which has the largest binding overhang, the difference between the average bound rate and the average applied rate is 140%. Among the seven graduating WTO LDC members, Myanmar and Lao PDR have the lowest applied tariffs.

LDCs that are not members of the WTO have no schedule of concessions with commitments on bound tariff rates. Table 3 shows the average applied tariff rates of five graduating LDCs that are not WTO members. Since non-WTO members have no obligation to notify applied tariffs to the WTO's Integrated Database (IDB), the coverage of tariff data is low for these five LDCs. Tariff rates had to be estimated from data outside of the IDB. No information could be gathered for two graduating LDCs, namely Kiribati and Tuvalu. Among the graduating LDCs with data, Timor-Leste has the lowest applied tariffs at 2.2%, while Sao Tomé and Principe and Bhutan have average applied tariffs of 9.9% and 22.3%, respectively. Since Kiribati and Tuvalu have no status with the WTO, graduation will have no impact on the ability of these countries to set their tariffs. Tariff profile of graduating LDCs in the process of accession (i.e. Bhutan, Sao Tomé and Principe and Timor-Leste) would depend on their respective accession negotiations.

The LDC accession guidelines ask members to exercise restraint in terms of market access concessions from acceding LDC governments. (see Section 3.5).

Trade in services: schedules of commitments of graduating LDCs

As for the area of goods, LDC WTO members have also been given special flexibility in terms of their services schedules of commitments. In fact, to a considerable degree, the level of services commitments taken by WTO members corresponds to their level of development, with an average of 34 sub-sectors (of a possible 160) for LDCs, 44 for developing country members, and 105 for developed country members.

There are substantial variations among the LDCs in the commitments taken under the General Agreement on Trade in Services (GATS) during the Uruguay Round – ranging from over 110 sub-sectors (Gambia and Sierra Leone) to only one or two sub-sectors (Burkina Faso, Chad, Madagascar, Mali and Tanzania), although recently acceded LDCs have undertaken a higher level of commitments. This is also reflected in the level of commitments of graduating LDC WTO members (Figure 3). While the recently acceded members, Lao PDR (77), Nepal (76) and Vanuatu (71), made commitments for a relatively high number of sub-sectors, the original members, Angola (5), Bangladesh (9), Myanmar (5) and Solomon Islands (29), committed relatively fewer sectors.

Table 4 provides more detailed information on the sector-specific commitments by the graduating LDC members. All

Table 2. Tariff commitments and applied most-favoured-nation (MFN) duty rates by development status (%)

Group	Binding Coverage	Bound Duty	Applied MFN (2018/17)
All WTO members	80.1	38.3	9.0
Developed country members	99.0	10.2	4.3
Developing country members	85.0	33.7	8.4
LDC members	63.1	57.0	11.7
Graduating LDC members	*76.4*	*65.8*	*9.9*
Other LDC members	*59.9*	*54.9*	*12.1*

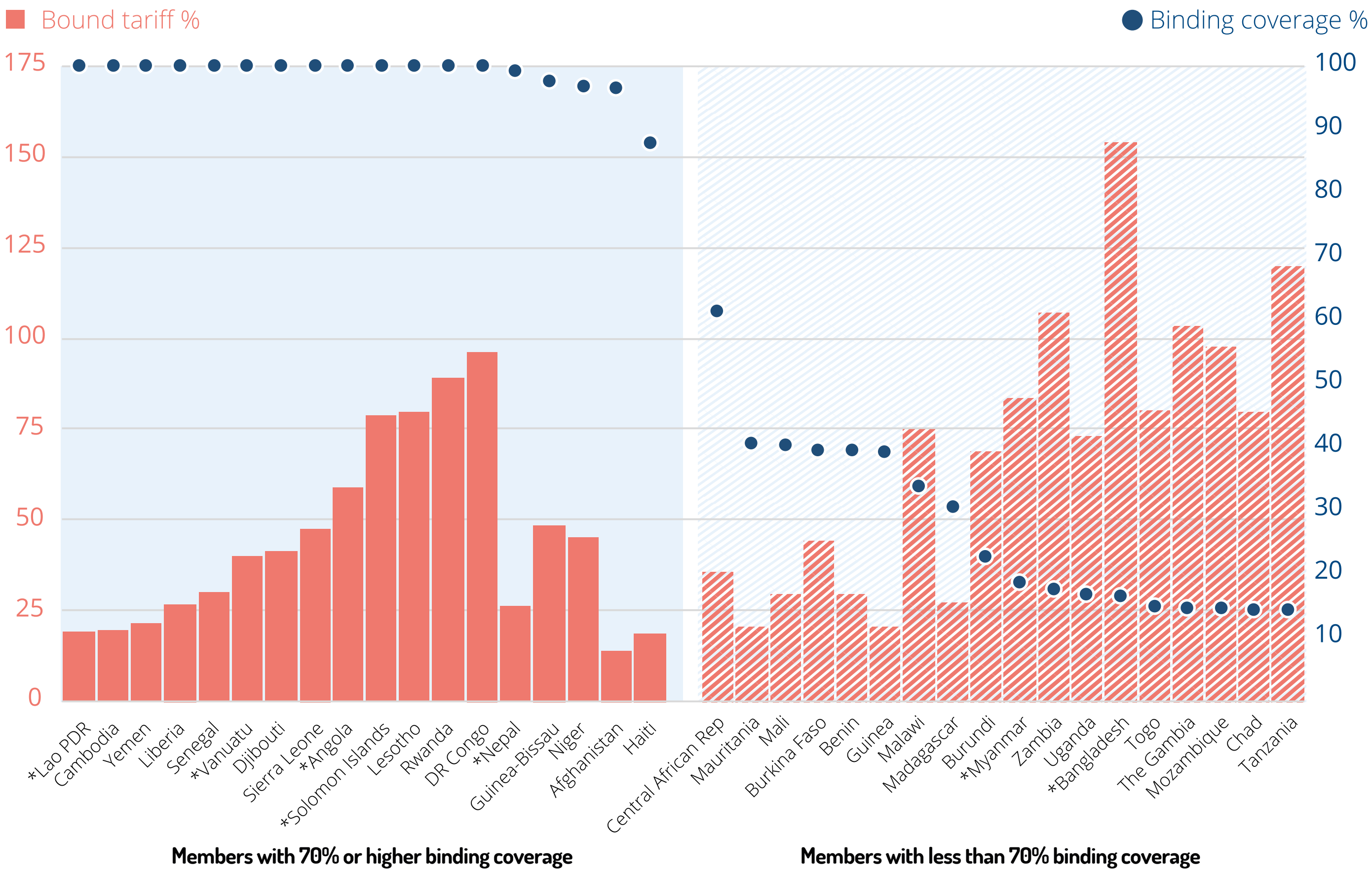
Source: World Tariff Profiles 2019. Note: Seven out of the 12 graduating LDCs are WTO members

Table 3: Applied MFN Tariff for non-WTO LDCs.

Country	2013	2014	2015	2016	2017	2018
Bhutan	n.a.	n.a.	22.3	22.3	n.a.	n.a.
Kiribati	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sao Tomé and Principe	10.2	10.2	10.0	10.0	10.0	9.9
Timor-Leste	2.5	2.5	2.5	2.5	2.5	n.a.
Tuvalu	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

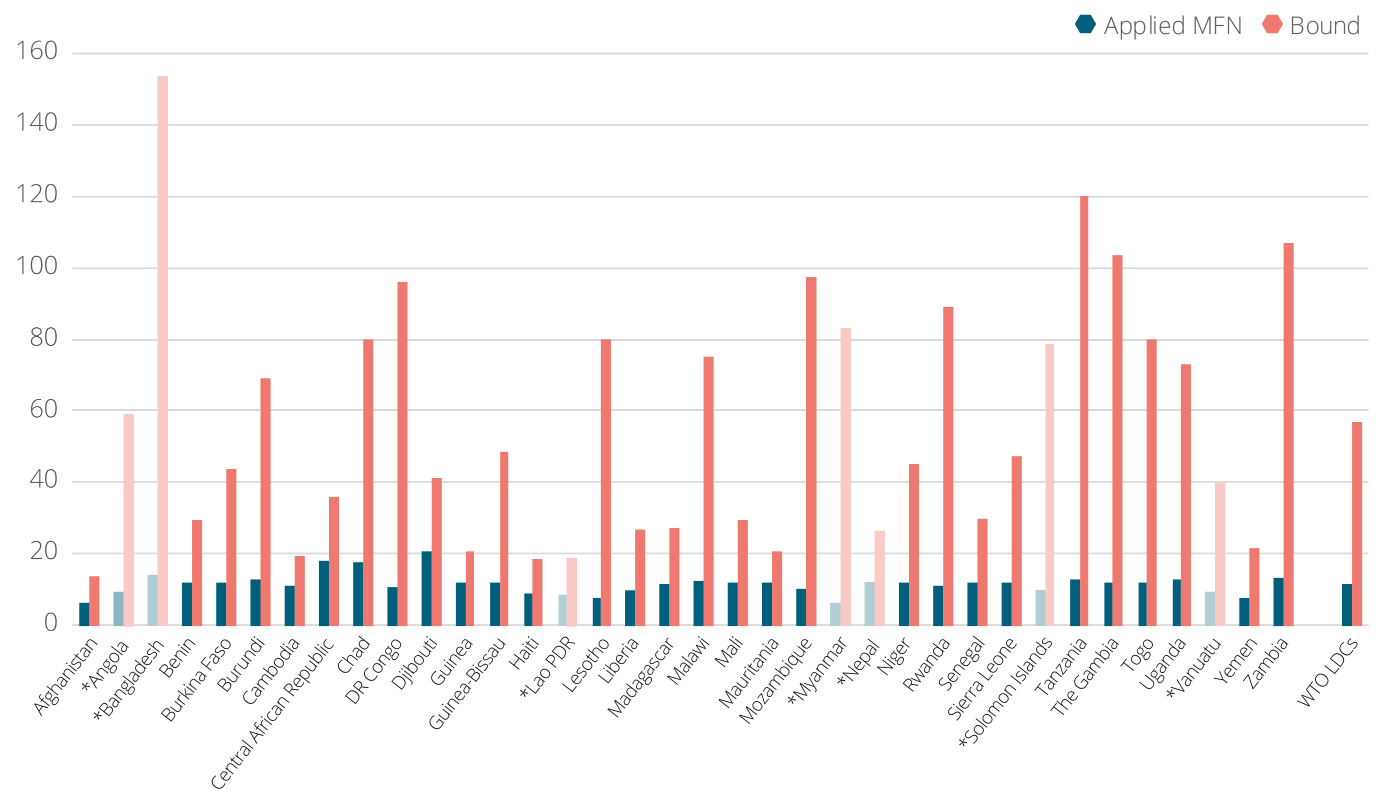
Source: World Tariff Profiles, 2019 and past issues. Notes: n.a. = not available

Figure 1: WTO Tariff Commitments of LDCs, sorted by decreasing binding coverage.



*Source: World Tariff Profiles, 2019. Note: * before the name denotes graduating LDCs.*

Figure 2. Bound and latest applied MFN tariffs for WTO LDC members



*Source: World Tariff Profiles, 2019. Note: Lighter shaded bars refer to LDCs that are about to graduate from their LDC status. * graduating LDCs* seven graduating LDC members have made commitments under tourism and travel-related services, reflecting the important role that tourism plays for their economies, including for exports. Furthermore, most graduating LDC members have made services commitments in the backbone sectors of financial services (five graduating LDCs) and communication services (four graduating LDCs).

As in the case of goods, graduation does not affect existing services commitments. Graduated LDCs will not be required to change their schedule of commitments under the GATS. They will be able to maintain the existing flexibility in terms of the policy space derived from their LDC status.

3.2 LDC graduation and implications for WTO rules

At the end of the Uruguay Round, WTO members agreed to 17 Agreements under the Marrakesh Agreement Establishing the WTO. The most recent multilateral agreement, the Agreement on Trade Facilitation, was added to the WTO rulebook in 2017. The reference to LDCs in the Preamble of the Marrakesh Agreement as well as in the 1993 Decision on Measures in favour of LDCs reflects members' prioritization of LDCs and their commitment to supporting integration of LDCs into the multilateral trading system.

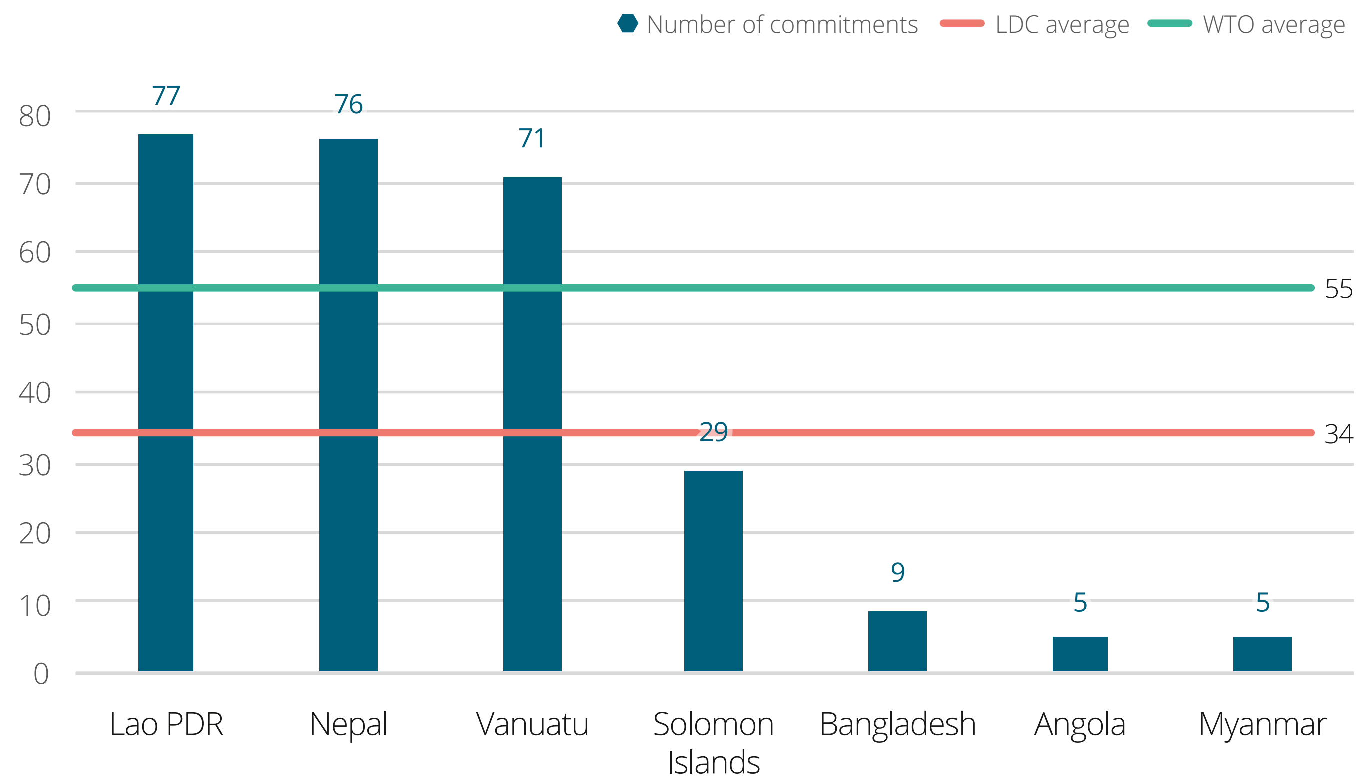
Developing country and LDC members benefit from special and differential treatment (S&D) provisions in WTO Agreements and Decisions, which take into account their particular needs and interests. These S&D provisions can be classified into five types:[5]

1. Provisions aimed at increasing the trade opportunities of developing country members and LDCs
2. Provisions under which WTO members should safeguard the interests of developing country members and LDCs
3. Flexibility of commitments, action, and use of policy instruments
4. Transitional time periods
5. Technical assistance

LDCs benefit from the same S&D provisions as other developing country members. One of the salient features of many of these provisions is the special focus on LDCs among developing country members: WTO members are asked to give special priority to LDCs, especially in the context of safeguarding their interests and increasing their trade capacity.

In addition, a number of S&D provisions are specific to LDCs, providing them with enhanced market access, greater flexibility in the implementation of rules, and specific attention to their technical assistance needs. Table 39 and Table 40 in Annex I contain these LDC-specific provisions in WTO Agreements and Decisions, respectively. Graduation from LDC status will result in the loss of this special treatment.

Figure 3. Number of GATS commitments by graduating LDC WTO members



Source: WTO I-TIP Services database, https://i-tip.wto.org/services/Search.aspx, accessed on 1 February 2020. Note: Maximum number of commitments is 160.

Table 4. Services schedules of sector-specific commitments of graduating LDC members

Angola	Bangladesh	Lao PDR	Myanmar
Commitments in 5 sub-sectors and 3 sectors	**Commitments in 9 sub-sectors and 2 sectors**	**Commitments in 77 sub-sectors and 10 sectors**	**Commitments in 5 sub-sectors and 2 sectors**
Finance (3) - Banking and other financial services (excluding insurance) - Acceptance of deposits and other repayable funds from the public - Lending of all types - Liquidation and monetary transfer services **Tourism and travel-related services (1)** - Hotel and restaurant services (including catering) **Recreational,cultural and sporting services (1)**	**Tourism and travel-related services (2)** - Five-star hotel and lodging services **Communications (7)** - Telecommunication services - Facsimile services - Other (Internet access services) - Mobile services (terrestrial) - Gateway earth station services - Teleconferencing services - Telecommunications terminal equipment (telephone sets, fax machines, private automatic branch exchange [PABX], cellular handsets) sales, rental, maintenance, connection, repair and consulting services	**Business (17)** **Communications (19)** **Construction and engineering (5)** **Distribution (3)** **Private education (5)** **Environment (5)** **Finance (11)** **Private health and social services (1)** **Tourism and travel-related services (3)** **Transport services (7)** **Other (1)**	**Tourism and travel-related services (2)** - Hotel and restaurant services (including catering) - Travel agencies and tour operator services **Transport services (3)** - Maritime: Passenger transportation - Inland waterways: Passenger transportation - Road: Passenger transportation

Source: WTO I-TIP Services database , https://i-tip.wto.org/services/Search.aspx , accessed on 1 February 2020.

S&D that is exclusive to LDCs can be mainly found in six Agreements and related Decisions. These are: the Agreement on Agriculture (AoA), the Agreement on Trade-Related Investment Measures (TRIMs), the Agreement on Subsidies and Countervailing Measures (SCM), the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the Trade Facilitation Agreement (TFA), and the General Agreement on Trade in Services (GATS).

S&D provisions for LDCs are made in four other Agreements in the context of increasing their trade capacity and safeguarding their interests. These include: the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS), the Agreement on Technical Barriers to Trade (TBT), the Agreement on Import Licensing Procedures, and the Understanding on Rules and Procedures Governing the Settlement of Disputes. Special considerations for LDCs are also referenced in the Trade Policy Review Mechanism and the Understanding on the Balance-of-Payments Provisions of the GATT 1994.

This sub-section broadly focuses on the assessment of LDC-specific S&D in the above six agreements, as well as the impact that the loss of this special treatment will likely have on graduating LDCs. It also briefly analyses the implications of graduation for S&D with reference to LDCs provided for in other relevant Agreements.

A number of decisions have been taken by members on duty-free and quota-free (DFQF) market access, preferential rules of origin and preferential treatment in services to facilitate market access for the LDCs. These decisions and the impact of graduation on market access will be analysed in Section 4.

Agriculture

The Agreement on Agriculture (AoA), resulting from the successful Uruguay Round negotiations, provides for a framework for reductions in agricultural support and protection by establishing binding commitments in three main pillars: market access, domestic support and export competition. Simultaneously, the 1994 Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries (the Marrakesh NFIDC Decision) includes specific provisions and mechanisms in favour of LDCs and NFIDCs to facilitate their access to food.

The LDCs were exempt from undertaking reduction commitments under all three pillars during the Uruguay

Nepal	Solomon Islands	Vanuatu
Commitments in 76 sub-sectors and 11 sectors	**Commitments in 29 sub-sectors and 4 sectors**	**Commitments in 71 sub-sectors and 10 sectors**
Business (23) **Communications (10)** **Construction and engineering (2)** **Distribution (4)** **Education (3)** **Environment (3)** **Finance (22)** **Health and social services (1)** **Tourism and travel-related services (2)** **Recreational, cultural and sporting (1)** **Transport (5)**	**Business services (4)** - Legal services, home country law including public international law - Accounting, auditing and bookkeeping services - Architectural services - Engineering services **Construction and related engineering services (2)** - General construction work for buildings - General construction work for civil engineering **Finance (22)** - All insurance and insurance-related services - Banking and other financial services (excl. insurance) **Tourism services (1)** - Hotels and restaurants (including catering)	**Business (12)** **Communications (17)** **Construction and engineering (2)** **Distribution (4)** **Education (5)** **Environment (3)** **Finance (22)** **Health and social services (2)** **Tourism and travel-related services (2)** **Transport (2)**

Round, as specified in Article 15.2 of the AoA. For instance, while developing countries were required to undertake tariff reduction commitments during the Uruguay Round, LDCs were only expected to bind all of their agricultural tariffs. As a result, many LDCs, including a number of graduating LDCs, bound their agricultural tariff lines at ceiling levels, although the recently acceded LDCs, which also include some graduating LDCs, did not receive such flexible treatment.

An important milestone in ongoing agriculture negotiations has been the Ministerial Decision on Export Competition agreed to by members in Nairobi in 2015 with a view to, inter alia, eliminating export subsidy entitlements of members.[6] In the export competition decision, LDCs and NFIDCs enjoy a more favourable treatment than other developing countries in three main areas.[7]

First, LDCs and NFIDCs listed in G/AG/5/Rev.10 can provide certain export subsidies (i.e. to reduce the costs of marketing exports, costs of international transport and freight as well as internal transport and freight charges) until 2030, whereas other developing countries will have to end these subsidies by 2023.

Second, importing LDCs and NFIDCs listed in G/AG/5/Rev.10 also enjoy S&D over and above other developing country members in the context of maximum repayment terms for export financing support. For instance, LDCs and NFIDCs benefit from a longer repayment term for the acquisition of basic foodstuffs, with a maximum repayment term of 36–54 months, instead of the generally applicable period of 18 months.

Third, LDCs and NFIDCs can benefit from the monetization of international food aid to redress short- or long-term food deficit requirements or to address insufficient agricultural production situations that give rise to chronic hunger and malnutrition.

Graduating LDCs could continue to benefit from some of the above flexibilities following their graduation from the LDC status if they are included in the WTO list of NFIDCs after graduation. The Committee on Agriculture maintains the list of WTO NFIDCs within the framework of the Marrakesh NFIDC Decision.[8] Any developing country member that is a net importer of basic foodstuffs can request, substantiated by the relevant statistical data, to be included in the list. Hence, graduating LDCs will have the option to request from the Committee on Agriculture to be included in the WTO NFIDC list as per the agreed

Table 5. LDC Graduation and timeframes under the Decision on Export Competition

	LDCs/NFIDCs	Developing members
Phasing out agricultural export subsidies (i.e. marketing costs and transport and freight charges in line with Article 9.4 of the AoA)	2030	2023
Maximum repayment term for imports benefitting from export financing support	36–54 months (longer in exceptional circumstances)	18 months

Source: Export Competition, Ministerial Decision, 19 December 2015, WT/MIN(15)/45-WT/L/980.

procedure.[9] One precedent for such a situation is Maldives, which upon graduation was included in the WTO NFIDC List in 2011 based on their request to the Committee on Agriculture.

LDCs also enjoy some flexibility in terms of frequency of notifications, in particular in the area of domestic support notifications (namely the "Table DS:1" notifications).[10] LDCs are required to report to the WTO every two years on their use of domestic support. Developing country members are required to submit their domestic support notifications annually. Graduation from the LDC status would therefore require a change in the periodicity of domestic support notifications.

Impact on graduating LDCs

The implications of graduation in the context of AoA is rather limited. A graduated LDC would continue to participate in the WTO with the original flexibility they received during the establishment of their bound duties. However, graduated LDCs must adhere to increased obligations regarding notification requirements in the area of domestic support. The impact of the implementation of the Decision on Export Competition is also likely to be limited (Table 5). The latest Trade Policy Reviews (TPRs) and the responses to a questionnaire on LDC graduation indicate that, consistent with Article 9.4 of the AoA, export subsidies are provided by Bangladesh for some agricultural products. Nepal is another graduating LDC having export subsidy programmes for certain agricultural items.[11]

Trade-related investment measures

The Agreement on Trade-Related Investment Measures (TRIMs) does not allow members to apply investment measures inconsistent with Articles III (national treatment) and XI (prohibition of quantitative restrictions) of the GATT and the provisions of the TRIMs Agreement. Prohibited TRIMs, inter alia, include measures that require particular levels of local procurement by an enterprise ("local content requirements") or which restrict the volume or value of imports that an enterprise can purchase or use to an amount related to the level of the products it exports ("trade balancing requirements").

The LDCs were initially granted a transition period of seven years for the elimination of nonconforming TRIMs, ending in 2002. With the adoption of the Hong Kong Ministerial Declaration in 2005 (Annex F),[12] LDCs were granted a new transition period to maintain existing TRIMs for a period of seven years. They were also allowed to introduce new measures for a possible duration of five years. LDCs have been given until the end of 2020 to phase out all measures inconsistent with the TRIMs Agreement. The Hong Kong Decision requires LDC members to notify any measure that deviates from the obligations under the TRIMs Agreement. So far, no notification from any LDC has been received.

Impact on graduating LDCs

Unless another transition period is negotiated, after 2020 LDCs will not be allowed to introduce new measures that are inconsistent with the TRIMs Agreement.[13] However, the fact that there have been no notifications of any such measure since the 2005 Hong Kong Decision suggests that the loss of this flexibility would have a limited impact on graduating LDCs.

Subsidies and countervailing measures

The Agreement on Subsidies and Countervailing Measures (SCM) disciplines the use of subsidies, as well as the use of countervailing duties imposed to offset the injury from subsidized imports. Article 3 of the SCM Agreement identifies two types of prohibited subsidies: local content and export subsidies. The LDCs have enjoyed special treatment under the SCM Agreement with respect to these subsidies.[14]

Both LDCs and developing country members benefitted from a transition period with respect to local content subsidies, i.e. subsidies that are contingent upon the use of domestic over imported goods. However, while developing country members were granted a five-year transition period, LDCs had eight years for the phasing out of possible local content subsidies. The transition periods for developing country members and LDCs expired in 1999 and 2002, respectively. Therefore, graduation from LDC status will have no impact with regard to the prohibition of local content subsidies.

The SCM Agreement also prohibits the use of export subsidies for non-agricultural products.[15] Pursuant to Article 27.2 and Annex VII(a), LDC members are exempt from the prohibition of export subsidies. In addition to the LDCs, developing country members that are listed in Annex VII(b) are also exempt from this prohibition until their GNI per capita reaches US$1,000 in constant 1990 dollars (see paragraph 2.36). Note that the flexibility available to LDCs and developing country members referred to in Annex VII is not time-limited but is conditional on LDC status and GNI per capita, respectively. Since the SCM Agreement contains no provision regarding LDC graduation, graduating LDCs will no longer be able to continue to provide export subsidies for non-agricultural products after they leave the LDC category.

Annex VII(b) of the SCM Agreement contains a list of members defined at the establishment of the WTO.[16] This list is subject to an annual review. The 2001 Doha Ministerial Decision on Implementation-Related Issues and Concerns clarified that a member would remain listed in Annex VII(b) until its GNI per capita reached US$1,000 in constant 1990 dollars for three consecutive years, and that any member that had been excluded from Annex VII(b) would be re-included if its GNI per capita were to fall back below US$1,000. The WTO Secretariat follows the calculation methodology referred to in the Decision to identify, on a yearly basis, the members that fall under Annex VII(b) of the SCM Agreement.[17]

The LDCs attach high importance to the flexibility of being able to use export subsidies as a policy instrument. In line with the Declaration of LDC Trade Ministers at the 2017 Buenos Aires Ministerial Conference, the LDC Group submitted a proposal to allow graduated LDCs with a GNI per capita below US$1,000 (constant 1990 dollars) to remain eligible for providing non-agricultural export subsidies under Article 27.2(a) and Annex VII(b) of the SCM Agreement.[18] The proposal is under consideration by relevant WTO bodies. Applying the methodology used for the calculation of GNI per capita in constant 1990 dollars applicable to members listed in Annex VII(b) to LDC members, at least four graduating LDC members would still fall under the US$1,000 threshold based on the most recent data available (Table 6).

Table 6. GNI per capita of graduating LDC members of WTO, at constant 1990 dollars, 1990 and 2015–2017

Graduating LDC WTO member	1990	2015	2016	2017
Bangladesh	210	533	561	587
Lao PDR	200	644	681	710
Nepal	180	352	350	372
Solomon Islands	590	954	938	947
Vanuatu	1,100	1,153	1,189	1,215

Source: Secretariat calculations based on World Bank data. Note: The calculation was not possible for Angola and Myanmar due to lack of data.

LDCs and other developing country members referred to in Annex VII will need to gradually phase out export subsidies provided to products over a period of eight years when such products have reached export competitiveness, based on self-notification or a computation by the Secretariat at the request of any member. According to Article 27.6, a member has reached export competitiveness in a product if the member's share in world trade of that product is at least 3.25% for two consecutive years.[19] So far, no LDC member has self-notified having reached export competitiveness in any product, nor has the Secretariat been requested to perform an export competitiveness computation regarding any LDC member. Thus, no LDC member has been required to phase out export subsidies with respect to any product.

There is no exception to the requirement under the SCM Agreement to notify all specific subsidies. Even if LDCs are exempt from the prohibition of export subsidies, if such subsidies are provided they would need to be notified to the WTO. All specific subsidies need to be notified by every WTO member, and such notifications need to be updated every two years.

Impact on graduating LDCs

In the absence of a decision or clarification, graduated LDCs would cease to be covered by Annex VII. The impact of losing access to this flexibility will depend on whether a graduating LDC provides any non-agricultural export subsidies. While compliance with the notifications requirements has been limited, the evidence of the latest TPRs and the responses to a questionnaire on LDC graduation suggests that only two of the seven graduating LDC members — Bangladesh and Nepal — would be affected by the loss of this flexibility.

Trade-related aspects of intellectual property rights

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) covers the main categories of IP rights, incorporates certain other IP treaties, sets minimum standards of protection, enforcement and administration, and provides for the application of the WTO dispute settlement mechanism. It sets IP standards into a broader public policy context, an understanding reinforced by the Doha Declaration on the TRIPS Agreement and Public Health. The TRIPS Agreement contains special provisions for LDCs reflected in its Preamble, which recognizes "the special needs of LDCs with respect to maximum flexibility in the domestic implementation of laws and regulations in order to enable them to create a sound and viable technological base". In particular, LDC members benefit from a general transition period, from a transition period regarding pharmaceuticals, and from provisions requiring developed countries to provide incentives to their enterprises and institutions to transfer technology to LDCs.

General transition period

LDCs have received special flexibility in the implementation of the TRIPS Agreement. Article 66.1 of the TRIPS Agreement originally provided LDCs with an 11-year transition period, allowing them to delay the implementation of the provisions of the TRIPS Agreement – other than those containing the core non-discrimination principles – until 2005. Following requests by the LDC Group, the TRIPS Council has extended this general transition period twice, in 2005 and 2013, with the latest extension valid until 1 July 2021 or such a date on which a member ceases to be an LDC, whichever comes first.

The first extension (2005–2013) required LDC members not to make any changes that result in a lesser degree of consistency with the provisions of the TRIPS Agreement. In granting this extension, the TRIPS Council also called on LDCs to provide information on their respective priority needs. Among the graduating LDCs, in 2010 Bangladesh submitted its needs assessment outlining specific areas where additional support was required — from IP policy formulation, to strengthening of IP institutions, to encouragement of creation and innovation.[20] The second extension (2013–2021) notes the determination of the LDCs to preserve and continue progress towards implementation of the TRIPS Agreement, acknowledges the importance of technical and financial cooperation, and references the implementation of Article 66.2 on technology transfer (Table 7).

Table 7. General transition period for LDC WTO members

	First extension (2005, IP/C/40)	Second extension (2013, IP/C/64)
Transition period	29 November 2005 — 1 July 2013	1 July 2013 — 1 July 2021
Substantive provision	"No roll-back" clause	LDCs express determination to preserve and continue their progress towards implementation It also includes implementation of Article 66.2 obligations by developed country members
Technical assistance (TA)	LDCs to submit information on individual priority needs in order to facilitate technical and financial cooperation programmes to be provided by developed country members	Recognition of continuous need for technical and financial cooperation

Source: WTO Documents: IP/C/40, IP/C/64

Table 8. Transition periods for pharmaceutical products for LDC WTO members

2002 to 2016	2016 to 2033
No obligation to protect patents and undisclosed information, Doha Declaration on TRIPS and Public Health (WT/MIN(01)/DEC/2) and TRIPS Council Decision (IP/C/25)	No obligation to protect patents and undisclosed information, Doha Declaration on TRIPS and Public Health (WT/MIN(01)/DEC/2) and TRIPS Council Decision (IP/C/73)
Waiver for Article 70.9 (exclusive marketing rights), General Council Decision (WT/L/478)	Waiver for Articles 70.8 (mailbox requirements) and 70.9 (exclusive marketing rights), General Council Decision (WT/L/971)

Source: WTO Documents: WT/MIN(01)/DEC/2, IP/C/25, WT/L/478, IP/C/73, WT/L/971

Transition period concerning patent protection for pharmaceutical products

In addition to the general transition period, LDCs have benefitted from a specific transition period for pharmaceutical products. The Doha Ministerial Declaration on the TRIPS Agreement and Public Health, adopted in November 2001, exempted LDCs from protecting patents and undisclosed information for pharmaceutical products until 1 January 2016. This was given legal effect through a Decision of the TRIPS Council, and another Decision of the General Council that waived the exclusive marketing rights provisions of Article 70.9 for the same period. This transition period was extended until 1 January 2033, or until such a date on which they cease to be an LDC member, whichever is earlier. This extension was complemented by a waiver of the General Council exempting LDCs from the application of mailbox requirements and exclusive marketing rights for the same time period (Table 8).

Access to medicines

The entry into force of the Amendment to the TRIPS Agreement in January 2017 marked an important achievement in fulfilling the mandate of the Doha Ministerial Declaration on the TRIPS Agreement and Public Health. The TRIPS Amendment provides a permanent legal cover for using compulsory licensing exclusively for export to create additional legal pathways for access to medicines in countries with limited or no manufacturing capacity in the pharmaceutical sector.

Under the TRIPS Amendment, LDCs have been given special consideration in terms of opportunities for regional exports and certain notification requirements. The TRIPS Amendment has ensured that a developing country member or LDC that produces or imports pharmaceuticals under compulsory licences and which is party to a regional trade agreement (RTA) with half of the members being LDCs, can export the pharmaceuticals to other members of the RTA that share the same health problem without any further notification under the system.

The use of the special system of compulsory licensing is subject to notification requirements. When notifying its need for a pharmaceutical, an importing member is required to notify its intention to use the system and to confirm that it has insufficient or no manufacturing capacity in the pharmaceutical sector. LDCs are exempt from those requirements as they are deemed to be eligible importing members and to have insufficient manufacturing capacity in the pharmaceutical sector.

Technology Transfer

The TRIPS Agreement also aims to foster technology transfer to LDCs to enable them to create a sound and viable technology base. In particular, Article 66.2 obliges developed country members to provide incentives to enterprises and institutions in their territories to promote technology transfer to LDCs. In 2003, the TRIPS Council adopted the Decision on Implementation of Article 66.2 of the TRIPS Agreement, which requires developed country members to submit annual reports on actions taken or planned in pursuance of their commitments under Article 66.2.[21] Since 2008, at the request of the LDC Group, the WTO Secretariat has held annual workshops in order to enhance the benefits of the transparency mechanism concerning technology transfer measures under Article 66.2 and to promote coordination and dialogue between LDC beneficiaries and developed country reporting members. In February 2018, the LDC Group submitted a proposal asking the TRIPS Council to deliberate on the meaning of "incentives to enterprises".[22]

Impact on graduating LDCs

WTO members have been responsive to the requests of LDCs and have accorded a great deal of flexibility to LDCs to comply with the TRIPS Agreement. In fact, the transition period for LDCs under TRIPS has been the longest one, with rights for LDCs to seek further extensions for both the general transition period as well as the one for pharmaceutical products. Such transition periods will not be available after LDC graduation. The degree to which this would have an impact depends on the state of IP legislation in each LDC. Table 37 in Annex I provides an overview of IP protection foreseen by the TRIPS Agreement. It should be noted that in the area of technology at the end of the transition period graduating LDC members would not normally be required to provide retrospective protection, as patent protection would generally only need to be extended to newly eligible subject matter.

The transitional arrangements under the TRIPS Agreement have exempted LDCs from applying the provisions of the Agreement (except for MFN and National Treatment obligations). Hence, LDCs are also exempt from most TRIPS notification requirements. Following graduation, LDCs will be required to adhere to the transparency provisions outlined in the TRIPS Agreement and TRIPS Council decisions, including the obligation in Article 63 to notify laws and regulations on intellectual property rights pertaining to TRIPS. Graduated LDCs will also be subject to Article 69's obligation to notify contact points for the exchange of information on trade in infringing goods, though several of them have already notified on a voluntary basis, as well as a TRIPS Council decision requiring members to notify responses to a checklist of questions on enforcement.[23] They will also be invited to provide information regarding their regime for the protection of geographical indications and the patentability of plants and animals in their territory.[24] Moreover, laws and regulations notified pursuant to Article 63.2 will be reviewed by the TRIPS Council. Some of the graduating LDCs, including Bangladesh and Vanuatu, have already made progress in notifying some of their IP legislation under Article 63.2.

Three graduating LDC Article XII members – Lao PDR, Nepal and Vanuatu – agreed to shorter transition periods during their accession negotiations, and committed to implementing the TRIPS Agreement shortly after their respective accession dates (Table 9). However, the TRIPS Council has not yet initiated the review of those members' respective implementing legislation.

The impact of graduation on the use of compulsory licensing for access to medicines will be limited. Graduated LDCs will remain entitled to use the system of special compulsory licensing to access medicines produced abroad. However, they would have to notify the intention to use the system and in their notifications concerning needed pharmaceuticals they would need to address the existence of insufficient or no manufacturing capacity.

A graduated LDC would no longer benefit from Article 66.2 on technology transfer. Given the available information about the impact of this provision, graduating LDCs would need to map out which incentives have proven to be the most useful, and engage bilaterally with developed country members granting those incentives.

Trade facilitation

The TFA is the most recent multilateral trade agreement and aims to further expedite the movement, release and clearance of goods, including goods in transit. It also aims to promote effective cooperation among members on trade facilitation and customs compliance issues. It was concluded at the Ninth WTO Ministerial Conference in Bali in 2013, entered into force on 22 February 2017 and was inserted into Annex 1A of WTO's legal text.

The TFA has introduced a novel approach with regard to S&D, as it allows developing and LDC members to self-determine the pace of implementation for each single provision as well as to identify provisions for which implementation will require assistance and capacity-building support. In particular, the TFA required developing country members and LDCs to categorize provisions into either category A (implementation without transition period), category B (implementation after transition period) or category C (implementation after transition period and assistance and capacity-building support required).

The TFA provides for different notification deadlines. The LDCs have received extra time compared to other developing country members to notify various categories of commitments. For instance, LDCs benefit from a longer timeline for the notification of information with regard to indicative as well as definitive implementation dates for category B and C commitments (Table 10). The definitive implementation date for LDCs to submit category C commitments is 22 August 2022. An overview of implementation notifications of graduating LDC members is provided in Table 11.

LDCs also benefit from longer grace periods for dispute settlement: six years for category A commitments and eight years for category B and C (Table 12).

Furthermore, LDCs are provided with greater flexibility in extending implementation dates of category B or C commitments under the Early Warning Mechanism (Table 13).

Impact on graduating LDCs

The LDC-specific timeline for the notifications of definitive dates of implementation of category C commitments will end in August 2022. This timeline, with the exception of Angola and Vanuatu, will be overtaken by events, as

Table 9. Transition period of graduating LDC members in the working party reports.

WTO member	Transition periods in the working party reports
Lao PDR, 2013	Transition period until 31 December 2016
Working party report (WT/ACC/LAO/45)	Working party report (WT/ACC/LAO/45, para. 227): • Confirmation that Lao PDR would apply the TRIPS Agreement no later than 31 December 2016 • Confirmation that Lao PDR would avail itself of S&D for LDCs under the TRIPS Agreement and various Ministerial Conference Declarations, including the Hong Kong Ministerial Declaration (paragraph 47), TRIPS Council Decision IP/C/40, and the Eighth Ministerial Conference Decisions
Nepal, 2004	Transition period until 1 January 2007
Working party report	Working party report (WT/ACC/NPL/16):
(WT/ACC/NPL/16)	Para. 138 – Confirmation that Nepal would apply the TRIPS Agreement by no later than 1 January 2007
	Para. 129 – Nepal declared that it would be entitled to the flexibilities provided in the Doha Declaration on the TRIPS Agreement and Public Health
Vanuatu, 2012	Transition period until 1 December 2012
Working party report	Working party report (WT/ACC/VUT/17):
(WT/ACC/VUT/17)	Para. 122 – Confirmation that Vanuatu would apply the TRIPS Agreement by no later than 1 December 2012

Sources: WTO Documents: WT/ACC/LAO/15/Rev.7, WT/ACC/NPL/16, WT/ACC/VUT/17.

most other graduating LDCs would leave the category after this deadline. Angola and Vanuatu may wish to notify their definitive implementation dates for category C commitments, keeping in mind that developing countries were required to submit this information by 22 August 2019. These two graduating LDCs would also lose access to LDC-specific grace-periods for dispute settlement, in particular for category B and C commitments.

Trade in services

The General Agreement on Trade in Services (GATS) is unique in its approach to development. Rather than providing for a set of uniform obligations from which LDCs benefit through S&D treatment, most of the flexibilities are built into the process of undertaking commitments and the ability to maintain limitations through which developing and LDC members can exercise differentiation tailored to their individual development needs.

The GATS also includes special provisions for LDCs. It calls for facilitating the increasing participation of developing countries in trade in services through "negotiated specific commitments" undertaken in successive rounds of negotiation. It also stipulates that LDCs shall be given special priority in the implementation of this provision, including in the context of liberalization of market access in sectors and modes of supply of export interest to developing countries. This implies that "market access" LDC interests should be given particular priority during services negotiations. At the same time, LDCs are entitled to liberalize at a more cautious pace than other members. Later, as part of establishing the negotiating guidelines during the Doha negotiations, specific modalities for the treatment of LDCs were adopted in 2003.[25] Building on these modalities, one of the key developments was the adoption of the LDC Services Waiver, which allows members to provide preferential treatment to services and service suppliers of LDCs with regard to market access, as well as other measures.[26] Waiver preferences are accorded by members autonomously. This Waiver is currently valid until end of 2030.[27] Section 4 provides a brief assessment of the operationalization of the LDC Services Waiver.

The Hong Kong Ministerial Declaration adopted in 2005 stipulated that LDCs would not be expected to undertake new commitments in services negotiations. Due to the lack of conclusion of the Doha negotiations, the fact that LDCs were not expected to make new commitments has proven to be of limited practical use. Furthermore, since the Doha negotiations were expected to give special priority to LDC export interests, this part of the built-in development mandate of the GATS has likewise not been realized.

Impact on graduating LDCs

Graduating LDCs will not have to undertake new GATS commitments following graduation. They will continue to maintain the lower level of commitments they had undertaken during the Uruguay Round, although there is a wide variation in the number of GATS commitments among the graduating LDCs, and they also differ in terms of their services trade profile.

Currently, preferential treatment for LDCs has been notified by 24 WTO members (counting the European Union as one), both developed and developing. Waiver notifications cover a wider range of sectors, as well as all modes of supply. The desired impact of preferences granted under the services waiver has not yet been realized. In many cases, notified measures reflect the

Table 10. Timeline for notifications of TFA implementation commitments

Category	LDC members (Article 16.2)	Developing members (Article 16.1)
A	22 February 2018: category A commitments	22 February 2017: category A commitments
B	22 February 2018: category B commitments and indicative implementation dates 22 February 2020: definitive implementation dates for category B commitments	22 February 2017: category B commitments and indicative implementation dates 22 February 2018: definitive implementation dates for category B commitments
C	22 February 2018: category C commitments 22 February 2019: information on technical assistance required 22 February 2021: status of technical assistance and indicative implementation dates 22 August 2022: inform of progress in technical assistance and definitive implementation dates	22 February 2017: category C commitments 22 February 2017: information on technical assistance required 22 February 2018: status of technical assistance 22 August 2019: inform of progress in technical assistance and definitive implementation dates

Source: TFA Facility, https://www.tfafacility.org/trade-facilitation-agreement-facility , accessed 20 September 2019

Table 11. Ratification status and implementation notifications of graduating LDC members

Graduating LDC WTO member	Ratification	Category A	Category B	Category C
Angola	9 April 2019	22.7%	47.3%	30.3%
Bangladesh	27 September 2019	34.5%	38.2%	27.3%
Lao PDR	29 September 2019	21%	13%	66%
Myanmar	16 December 2015	5.5%	9.2%	85.3%
Nepal	24 January 2017	2.1%	12.2%	85.7%
Solomon Islands	Under consideration	21%	43.7%	35.5%
Vanuatu	Under consideration	42%	32.2%	24.8%

Source: TFA Facility, https://www.tfadatabase.org, accessed 20 September 2019

Table 12. LDC-specific grace periods for dispute settlement (Article 20)

Category	LDC members	Developing Country members
A	6 years	2 years
B	8 years	N/A
C	8 years	N/A

Source: TFA Facility, https://www.tfadatabase.org, accessed 20 September 2019

Table 13. Additional flexibilities under the TFA

Type	LDC members	Developing Country members
Early warning (Article 17)	Automatic extension if the additional time requested does not exceed 3 years (notify 90 days prior to the designated implementation date)	Automatic extension if the additional time requested does not exceed 18 months (notify 120 days prior to the designated implementation date)
Shifting between B and C categories (Article 19)	Provide information on the type of support required If a new implementation date is longer than four years beyond the original notification date, it must be approved by the Committee	Provide information on the type of support required

Source: TFA Facility, https://www.tfafacility.org/trade-facilitation-agreement-facility , accessed 20 September 2019 applied MFN regime. Moreover, some notified measures reflect commitments found in preferential trade agreements that also reflect the applied regime. And opportunities have been limited under Mode 4 (presence of natural persons), which has been the single most modal focus of the LDC Group. In addition, a growing body of research suggests that weak domestic supply-side capacities constitute major constraints for LDCs to increase their participation in international services trade. In view of these factors, in the present circumstances, graduating LDCs are unlikely to lose much in services preferences.

Other agreements

Sanitary and phytosanitary measures

The WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) concerns the application of food safety and animal and plant health regulations. It includes several S&D provisions with reference to LDCs.

Originally, LDCs had an option to delay the application of the provisions of the SPS Agreement for five years under Article 14 of the SPS Agreement. This transition period expired in 2000. In addition, where the appropriate level of SPS protection allows for the phased introduction of new SPS measures, longer transition periods for compliance should be granted to developing countries. The particular needs of LDCs are also acknowledged in Article 10, which calls on members to "take account of the special needs of developing country members, and in particular of the LDC members in the preparation and application of SPS measures".

Article 9 of the SPS Agreement recognizes the importance of providing technical assistance (TA) to developing country members to comply with the SPS requirements of their export markets. With the adoption of the Doha Ministerial Decision on Implementation-related Issues and Concerns in 2001,[28] Ministers instructed members to provide financial and technical assistance to support LDCs to respond to the introduction of any new SPS measures and special problems faced by them in implementing the SPS Agreement. Since then, technical cooperation remains an important element in building the capacity of developing and LDC members to comply with the SPS requirements of their export markets. For example, 65% of the portfolio of the Standards and Trade Development Facility[29] goes to LDCs and other low-income countries. These countries also have a lower co-financing element – 10% as opposed to 20% for lower-middle-income countries.

Impact on graduating LDCs

Since the reference to LDCs in the SPS Agreement is not exclusive in nature, as the provision allows other developing country situations to be taken into account when a member is considering introducing an SPS measure, graduation from LDC status is unlikely to have an adverse impact. However, there might be some implications with regard to accessing funds under the Standards and Trade Development Facility. Upon graduation, there will be an increase in terms of co-financing from 10% to 20%.

Technical barriers to trade

The Agreement on Technical Barriers to Trade (TBT) deals with technical regulations, standards and conformity assessment procedures. LDCs benefit from special consideration under the TBT Agreement with respect to technical assistance and the possibility to request temporary exceptions from obligations under the Agreement.

The TBT Agreement has elaborate provisions on S&D treatment for developing country members. The need to take into account the special problems of LDC members has been underlined in the context of the TBT Committee's capacity to grant, upon request, specified time-limited exceptions from obligations under the TBT Agreement in the field of preparation and application of technical regulations, standards and conformity assessment procedures (Article 12.8). To date, no member has submitted such a request. In addition members are required to give priority to the needs of LDCs in providing advice and technical assistance (Article 11.8) and take account of their stage of development in determining the terms and conditions of technical assistance to developing country members on the preparation of technical regulation, as outlined in Article 11 (Article 12.7).

As in the case of the SPS Agreement, the Doha Ministerial Decision on Implementation-related Issues and Concerns in 2001 instructed WTO members to provide the financial and technical assistance to support LDCs in their response to the introduction of any new TBT measures, as well as with any problems they face in implementing the TBT Agreement. In order to increase transparency, the TBT Committee has been taking stock of technical assistance needs and different programmes offered by development partners, and has kept technical assistance as a standing item on the agenda.

Impact on graduating LDCs

Graduation from LDC status will not limit access to S&D provisions contained in the TBT Agreement, as most of the provisions are intended for developing country members in general. It would however mean that graduating LDCs would no longer enjoy the two "special considerations", outlined above, over all other developing country members.

Import licensing

The Agreement on Import Licensing Procedures seeks to ensure that import licensing regimes of members remain simple, transparent and predictable so as to not create obstacles to trade. It covers two types of import licensing procedures: automatic and non-automatic. Detailed provisions and criteria have been laid out for the use of these procedures for fair and equitable application, as well as to reduce the administrative burden of such procedures and practices. The Agreement makes special mention of LDCs in the context of allocating non-automatic import licences to new importers, where members should give special consideration to those importing products from LDCs.

Currently, five graduating WTO LDC members have submitted notifications pursuant to the Agreement (Figure 4).[30] However, most of the notifications under Article 7.3 related to the submission of the annual questionnaires have remained outstanding for the past five years. Among graduating LDCs, Bangladesh is the most frequent respondent to the annual questionnaire, followed by Nepal, and Lao PDR.

Impact on graduating LDCs

The Agreement on Import Licensing Procedures has invited members to give special consideration to countries importing from LDCs by allocating non-automatic import licences. However, there is little available information to assess whether the request for this special consideration has led to increased imports from LDCs in the markets of WTO members.

Balance of payments

The Understanding on the Balance-of-Payments Provisions of the GATT 1994 includes specific flexibilities for LDCs. LDCs can use simplified procedures for consultations in the Committee on Balance of Payments (BISD 20S/47-49), similar to other developing country members. In addition, LDCs can have more than two successive consultations under these procedures.

In general, LDCs have made limited use of balance of payment provisions contained in Article XVIII(b) of the GATT 1947.[31] To date, the only LDC that has used it is Bangladesh, in 2000 to phase out 17 tariff line items by 1 January 2005.[32] Bangladesh then informed the Committee on Balance of Payments about phasing out import restrictions for the following headings of the Harmonized Commodity Description and Coding System (HS): 54.07 and 54.08, and 55.12 to 55.16.[33] Subsequently, it notified the withdrawal of the restrictions on cartons from 2005, salt from 2008, and eggs from 2009.[34]

Impact on graduating LDCs

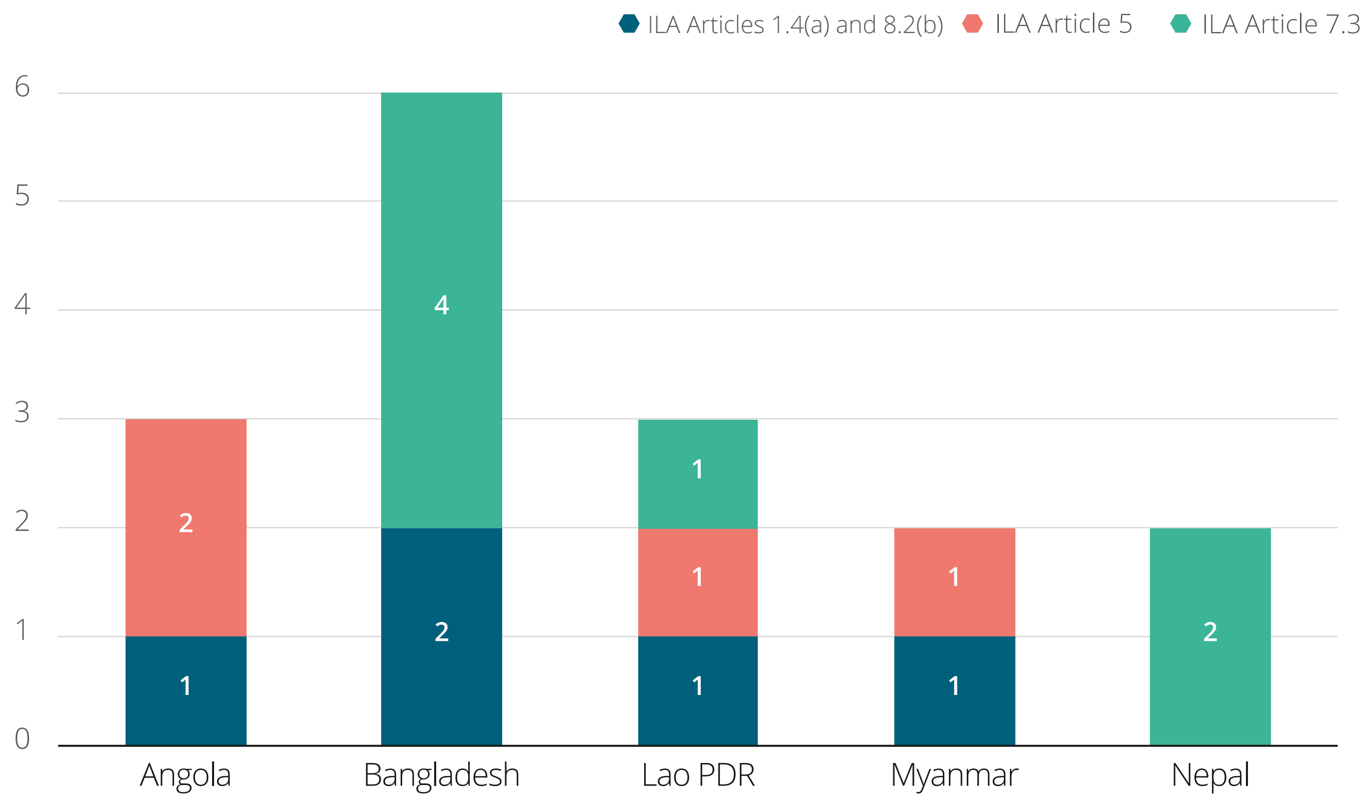
Upon graduation from LDC status, while the access to simplified procedures for consultations will remain, the number of successive consultations will be limited to two before proceeding to full consultations, as applicable for other developing countries. Given the limited use of balance-of-payments measures by LDCs since the creation of the WTO, the availability of only one instead of two successive simplified consultations after graduation can be expected to have no adverse impact on graduating LDCs.

Customs valuation

The WTO Customs Valuation Agreement (CVA) stipulates the rules for valuations of goods for customs purposes. While there are a number of methods to determine the customs value of imported goods, the Agreement largely suggests that such valuation should mainly be based on the transaction value of the goods.

The Agreement does not contain LDC-specific provisions; it had provided a transition period of five years for developing country members, including LDCs, to delay the application of provisions of the Agreement that expired in 2000. It also provided for an additional transition period for developing country members (Annex III of the CVA), including the use of minimum values (the terms and conditions of which would need to be negotiated by

Figure 4. Existing notifications from graduating LDC WTO members under the Agreement on Import Licensing Procedures



Source: WTO Secretariat (2019)

members). There is also a general provision of technical assistance, to be provided by developed country members to developing country members on mutually agreed terms.

Impact on graduating LDCs

Since LDC-specific references are absent in the CVA, a priori there is no impact from graduation. However, the submission on S&D negotiations by the G90 has shown a revived interest among developing countries in particular the LDCs – for the use of minimum values for customs valuation purposes. Under this proposal, LDCs are seeking to use minimum values for 10% of their tariff lines in cases where the accuracy of declared values cannot be established. Since the G90 proposal has not been adopted, currently there is no implication for graduating LDCs.

Graduated LDCs will continue to have access to provisions for technical assistance applicable to developing country members. The Committee on Customs Valuation of the Council for Trade in Goods reports regularly on the activities of technical assistance. While the requests for technical assistance can also support the compliance with notification requirements, no requests had been received by the Committee on Customs Valuation in 2018.[35] Currently, only three graduating LDC WTO members have submitted notifications on national legislation under Article 22 (Table 14).

Table 14. Notifications under Article 22 of the WTO Customs Valuation Agreement of graduating LDCs

Country	Year	Notification
Myanmar	2019	G/VAL/N/1/MMR/1
Nepal	2015	G/VAL/N/1/NPL/1
Solomon Islands	2016	G/VAL/N/1/SLB/1

Source: WTO Secretariat (2019)

Compliance with valuation rules can positively contribute to efficient customs clearance, which underlines significant linkages between the implementation of the CVA and TFA. It is important to factor in the capacity to implement valuation rules when conducting technical assistance needs assessments for category C commitments under the TFA and in bilateral discussions with development partners.

Several category C notifications under the TFA have already integrated the need to comply with valuation rules. Among graduating LDC WTO members (Table 15), Lao PDR recently notified under Category C the support required to implement Article 3 – Advanced Rulings of the TFA, in order to review and amend its Customs Law and relevant procedures to include issues relating to valuation and duty exemption in line with TFA provisions. In this regard, the National Committee for Trade Facilitation plays an important role in ensuring a holistic approach, from overlooking the revenue collection to ensuring facilitation (WTO, 2019). It is essential for graduating LDCs to proactively consider compliance with valuation rules. Identifying technical assistance needs, increasing participation in regular Committee work, and building synergies with TFA implementation can positively contribute to boosting the efficiency of customs procedures.

Dispute settlement

The Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) contains several S&D provisions. LDC members enjoy additional flexibilities contained in Article 24.1, which calls on members to exercise due restraint in bringing up cases involving LDC members and in asking for compensation or seeking authorization to suspend the application of concessions or other obligations against an LDC member. Article 24.2 of the DSU also foresees the use of good offices and conciliation or mediation of the Director General or the Chair of the Dispute Settlement Body (DSB), upon request by an LDC member, before the establishment of a panel.

To date, Bangladesh is the only LDC that participated in the Dispute Settlement as a complainant in India – Anti-Dumping Measure on Batteries.[36] As a result of consultations, the mutually agreed solution was notified to the DSB on 20 February 2006. Eight LDCs participated as third parties (Table 16). Hence, LDCs have, for the most part, not been subjected to the DSU.

Impact on graduating LDCs

Upon graduation, special procedures in favour of LDCs, as outlined in Article 24, will not be applicable. Since there has not been a panel with an LDC as complainant, the provision has had limited practical impact.

Trade Policy Review Mechanism

The Trade Policy Review Mechanism (TPRM) contributes to improved adherence by all members to rules, disciplines and commitments made by members, mainly under the Multilateral Trade Agreements. The TPRM stipulates that the four largest traders are reviewed every three years, the next 16 largest every five years, and the remaining members every seven years, except that a longer period may be fixed for LDC members.[37]

Impact on graduating LDCs

The graduating LDCs are not among the top 20 trading entities, hence there would not be any change in the frequency of their review of trade policies and practices. TPRs would be conducted every seven years for these members after their graduation from LDC status. Graduation-related aspects have started featuring in the recent TPRs of the WTO LDC members, including Solomon Islands (2016), Nepal (2018), Vanuatu (2018), Bangladesh (2019), and Lao PDR (2019).

LDC graduation and notification obligations

Notification – along with increased transparency – has been a central feature of WTO. While WTO members must adhere to notification requirements, this is another area in which LDCs receive some flexibility. For instance, LDCs are exempt from most notification requirements under the TRIPS Agreement while they continue to enjoy an extended transition period for its full implementation. Another flexibility provided was the periodicity of notifications. For instance, under the Agreement on Agriculture, LDCs are

Table 15. Existing notifications of technical assistance for category C commitments under the TFA

	Date	Assistance Required for Implementation (category C)	Notification
Angola	21 March 2018	To be determined	G/TFA/N/AGO/1
Bangladesh	20 August 2019	Progress update	G/TFA/N/BGD/2
Lao PDR	16 September 2019	Details provided	G/TFA/N/LAO/1/Add.1
Myanmar	27 February 2018	To be determined	G/TFA/N/MMR/1
Nepal	16 February 2018	To be determined	G/TFA/N/NPL/1
Solomon Islands	29 February 2016	To be determined	WT/PCTF/N/SLB/1
Vanuatu	10 January 2018	To be determined	G/TFA/N/VUT/1

Source: TFA Facility, https://www.tfadatabase.org, accessed 20 September 2019.

Table 16. Overview of LDC participation in the WTO Dispute Settlement as third parties

Country	Title
Bangladesh	US — Textiles Rules of Origin (DS243)
Benin	US — Upland Cotton (DS267)
Chad	US — Upland Cotton (DS267)
Madagascar	EC — Bananas III (DS27), EC — Export Subsidies on Sugar (DS265), EC — Export Subsidies on Sugar (DS266), EC — Export Subsidies on Sugar (DS283)
Malawi	EC — Export Subsidies on Sugar (DS265), EC — Export Subsidies on Sugar (DS266), EC — Export Subsidies on Sugar (DS283), Australia — Tobacco Plain Packaging (Ukraine) (DS434)
Senegal	EC — Bananas III (DS27), US — Shrimp (DS58)
Tanzania	EC — Export Subsidies on Sugar (DS265), EC — Export Subsidies on Sugar (DS266), EC — Export Subsidies on Sugar (DS283)
Zambia	Australia — Tobacco Plain Packaging (Ukraine) (DS434)

Source: WTO Secretariat (2019).

required to submit domestic support notifications on a biennial basis, compared to annual submission by other developing country members. For the rest of the WTO Agreements, there is no specific exemption provided to LDCs.

Therefore, graduation from LDC status will require a change in certain obligations: first, the submission of IP laws and regulations on areas covered by the TRIPS Agreement; and second, the annual submission of domestic support tables basis, instead of biennially (see Annex I, Table 48). These changes are likely to bring about greater technical and administrative coordination among the graduating governments.

Notification obligations in the WTO vary in nature. Some are "one-off" (e.g. legislation), some are ad hoc (e.g. in case certain measures are taken) and some are regular (semi-annual, annual or at periodic intervals). For instance, submission to the IDB of tariff and import statistics data is annual. As is the case with other LDCs, submission of notifications by graduating LDCs has been limited (see Annex I, Table 41–Table 47). Most of the graduating LDCs would need to devote more attention to their notification obligations following graduation – for which specific technical assistance can be provided by the WTO Secretariat.

Flexibilities and special treatment in trade negotiations

In addition to the special treatment that LDCs enjoyed during the Uruguay Round, WTO members recognized the special needs of LDCs and have provided them with flexibilities in subsequent trade negotiations. The Doha Round of negotiations launched in 2001 had sought to assist LDCs with flexibilities in most areas of negotiations, including in agriculture, non-agricultural market access (NAMA) and services. LDCs were given specific exemptions in the framework modalities for both agriculture and non-agricultural market access, such as from undertaking reduction commitments (agriculture) and from applying the formula for tariff reductions in NAMA negotiations.[38]

As mentioned in Section 3, the LDCs have also been accorded special treatment in negotiations regarding services, including through the adoption of modalities to ensure flexibility in view of their special economic situation. Further, the Hong Kong Ministerial Declaration in 2005 stipulated that LDCs would not be expected to undertake new commitments in services negotiations. The adoption of the LDC Services Waiver in 2011 is another concrete example of facilitating market access for LDCs and LDC service suppliers. Regardless of whether these measures have been able to create commercial opportunities for LDCs, it can be said that there has been incremental progress in enhancing participation of LDCs in the services trade.

The LDCs have also benefitted from special treatment in recent and ongoing trade negotiations. For instance, the WTO TFA provides LDCs with S&D provisions that go beyond the ones provided to other developing country members (see the sub-section above on trade facilitation). The special treatment of LDCs is also considered in ongoing negotiations, including on fisheries subsidies and on domestic regulation in services.

Impact on graduating LDCs

As a developing country member, a graduated LDC will no longer have access to possible S&D provisions that would result from the ongoing negotiations. The extent to which it could impact the trade and development prospects of a graduating LDC would depend on the scope of such agreements, which cannot be assessed a priori. However, the graduating LDCs have started to engage in the ongoing negotiations to ensure flexibilities for the period beyond their graduation. For instance, LDC trade ministers have called on members to include a provision on LDC graduation in a possible agreement on fisheries subsidies; namely that if an LDC were to graduate from LDC status during any transition period for LDCs, it would continue to be entitled to use the remaining period of delay provided for LDCs.[39]

Note that developing country members enjoy flexibilities in negotiations and are not expected to undertake the same level of commitments as developed country members. Furthermore, following graduation, several graduated LDCs may qualify under the group of small, vulnerable economies, which have their own WTO work programme in which they discuss solutions to challenges such as integration into global value chains or high trade costs. In the past, greater flexibilities were envisaged for small, vulnerable economies compared to other developing country members.

3.3 WTO technical assistance and training

Enhancing human and institutional capacities of developing economies and LDCs in the multilateral trading system has been a central pillar of the WTO's trade-related technical assistance (TRTA), especially since the adoption of the Doha Ministerial Declaration in 2001.[40] Ministers further reaffirmed the importance of technical assistance and capacity building in the Hong Kong Ministerial Declaration in 2005. Since 2001, over half of the technical assistance activities have targeted LDCs. Over the same period, WTO's TRTA evolved continuously, primarily through the adoption of new technologies, which have enabled broadening access and have increased efficiency by delivering online courses to participants across the world. On average, one third of e-learning participants were from LDCs.

Since 2005, the focus on LDCs remained a priority in successive WTO Biennial Technical Assistance and Training Plans (TA Plans). That priority had been made operational primarily through the provision of increased access to face-to-face courses and TA activities tailor-made to specific LDC needs. LDCs also benefitted from priority access to internship programmes and additional support in setting up Reference Centres.

It is foreseen in the latest TA Plan for 2020–2021[41] that LDCs will continue benefitting from the LDC-focused Geneva-based Introductory Trade Policy Courses, which have been taking place annually in English and French. In line with long-standing practice, LDCs have been eligible to three national TA activities per year, compared with two for other developing economies. However, despite this improved access, LDC participation in TA activities has been limited because of administrative measures taken regarding members and observers that were in arrears on their contribution to the WTO, thus preventing their participation in TA events.[42] For instance, the 2018 Annual Performance Report on TA found that 11 African LDC WTO members could not access technical assistance during 80% of the year.

Government officials from LDCs and other low-income countries have been priority beneficiaries of WTO internship programmes, including the Netherlands Trainee Programme, the Accessions Internship Programme under China's LDCs and Accessions Programme, the French and Irish Mission Internship Programme, and the Regional Coordinator Internship Programme. Since 2010, over half of all participants came from LDCs. These programmes have been assessed to be instrumental in raising awareness, deepening participants' understanding of trade-related topics, and providing on-the-job training for participants who worked within the WTO Secretariat or with their Geneva-based delegations. In addition, participants of the Regional Coordinator Internship Programme have had a unique opportunity to learn about the coordination work of regional groups, including the WTO's LDC Consultative Group.

Finally, establishment of Reference Centres, which support the dissemination of all WTO-related information, remains reserved exclusively for those LDCs that have not yet benefitted from them. In the past, LDCs and other developing country members benefitted from Reference Centres. In 2018 there were 116 active centres, including 38 in LDCs[43] and four in recently graduated LDCs.[44] Among the 12 countries on the path to graduation from the LDC status, only Timor-Leste does not have an active Reference Centre.

Impact on graduating LDCs

Upon graduation, access to LDC-specific courses foreseen for 2020–2021 would not be available, while eligibility for national TA activities would remain, albeit at a smaller frequency (two per year instead of three of while LDC) (Table 38 in Annex I). This would affect Angola and Vanuatu first. It is important to underscore that access to other WTO courses offered under the WTO TA plan would remain open, and that TA Plans have been prepared based on the information gathered through a questionnaire submitted by TA beneficiaries, as well as on consultations with members and observers. Against that background, LDCs set for graduation may find it opportune to articulate their TRTA priorities during the next planning cycle, currently envisaged to start in 2021. While prioritizing LDCs, the various WTO internship programmes remain open to participation from developing economies, which gives individuals from recently graduated LDCs the opportunity to continue accessing them.

3.4 Enhanced Integrated Framework

The WTO houses the Enhanced Integrated Framework (EIF), the only Aid for Trade Partnership exclusively designed to support LDCs and recently graduated countries in becoming more active players in the multilateral trading system. Its contribution to LDC development is acknowledged in Target 8.A. of the United Nations Sustainable Development Goal on Decent Work and Economic Growth.[45] The graduation from the LDC status is one of the EIF's benchmarks of success, reinforced in its latest Strategic Plan (2019–2022). The EIF's commitment to LDC graduation is reflected in its policy and practice.

Recognizing the needs of countries recently graduated from LDC status, initially EIF policy allowed those countries to access EIF funds for three years following graduation, plus a further two years subject to justification and approval by the EIF Board. In 2016, the EIF Board strengthened this policy by reconfirming the five-year transition period and clarifying the funding options available to graduated countries. As per a 2016 decision, graduated countries continue to access the following EIF benefits: institutional support (Tier 1, US$1.5 million), analytical support (Diagnostic Trade Integration Study, US$200,000) and productive capacity support (Tier 2, US$1.5 million) for a period of five years following graduation, while ensuring the necessary implementation for greater sustainability of results.

Operation of this policy is reconfirmed by practice. Currently close to one quarter of the EIF portfolio goes to graduated and graduating LDCs (Figure 5). Four graduated countries have made use of EIF support in preparation for graduation and afterwards. For example, Equatorial Guinea, which left the LDC category in 2017, completed its Diagnostic Trade Integration Study (DTIS) in 2019. While the DTIS does not make explicit reference to the post-graduation strategy, it does mention that limited progress in advancing the Economic Partnership Agreement with the European Union (EU) could have an adverse effect on export performance and slow down economic diversification efforts, as the three-year transition period under the EU's Everything But Arms (EBA) Initiative will end on 1 January 2021.

Twelve graduating LDCs account for 19% of the EIF portfolio. The top three EIF recipients among graduating LDCs — Nepal, Lao PDR and Vanuatu — all joined the WTO through the accession process and have undertaken significant structural reforms (Figure 6). The heightened pace of countries meeting the graduation thresholds in recent years has contributed to a growing demand for graduation-related analysis and support. For example, Vanuatu prepared its transition strategy and updated its Trade Policy Framework, while Angola, Bangladesh and Bhutan included graduation-related analysis in their latest DTISs. Given the overall trend, the share of the EIF portfolio to graduating countries is expected to grow as more countries meet the graduation thresholds and require more technical and financial support during the graduation process.

Impact on graduating LDCs

While the EIF graduation policy provides access to EIF support for a period of five years after graduation, the current phase of the EIF programme is scheduled to run until 2022 (with the implementation period until 2024). The time-bound operation of EIF somehow limits the practical use of this flexibility. In order to secure the benefits of EIF support, it is important for all graduating countries to expedite their requests for additional institutional and productive capacity building support.

3.5 Selected institutional aspects

WTO budget

The contributions of members to the budget of the WTO is based on their share in world trade and does not depend on LDC status.[46] Therefore, LDC graduation per se will have no impact on budget contributions. Table 17 provides an overview of the contributions of graduating LDC members to the WTO budget for 2019, ranging from CHF 29,325 for Solomon Islands and Vanuatu to CHF 428,145 for Angola. The total contribution of graduating LDC WTO members in 2019 reached CHF 1,022,465; this represents only 0.5% of the WTO budget, reflecting their limited share in world trade.

In addition, there are several graduation-related elements to consider in order to make effective use of the system embodied in the WTO; these include the WTO accession process, overall institutional support to LDCs, and travel support for participation in WTO Ministerial Conferences.

Accessions

The LDCs that are in the process of joining the WTO can benefit from the specific LDC accession guidelines adopted by the WTO General Council in 2002 and strengthened in 2012.[47] Originally, the 2002 guidelines included general guidance on market access, WTO rules, process, and TRTA and capacity building. Pursuant to the Decision on Accession of LDCs adopted in 2011,[48] the 2012 guidelines set benchmarks on market access negotiations on goods and services and include provisions on S&D and transition periods, transparency and technical assistance. These guidelines also encourage WTO members to exercise restraint in terms of market access concessions from acceding LDC governments. The Sub-Committee on LDCs periodically reviews the implementation of the LDC accessions guidelines.

Since 2012, six LDCs have successfully completed the accession process and joined the WTO. They include Samoa (2012), Vanuatu (2012), Lao PDR (2013), Yemen (2014), Afghanistan (2016) and Liberia (2016). Samoa joined the WTO in 2012 as an LDC and graduated in 2014. Similarly, Vanuatu joined in 2012 and is scheduled to graduate in 2020.

The flexibilities accorded to the acceded WTO LDC members are the result of accession negotiations. On

Figure 5. Allocation of EIF support to LDCs and recently graduated countries

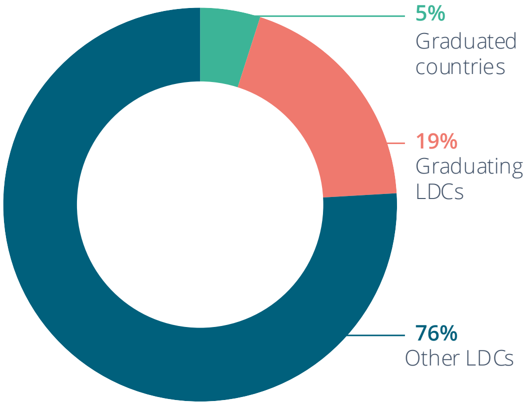
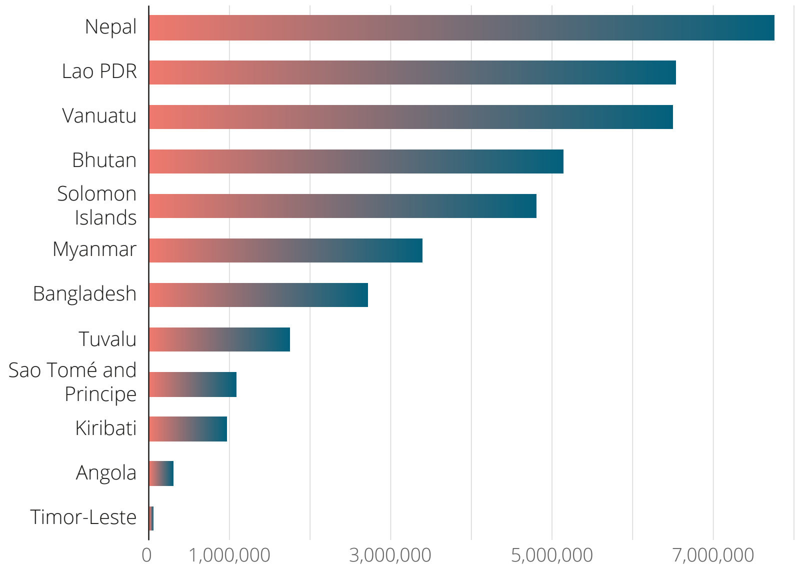


Figure 6. EIF allocations to graduating LDCs, by country, US$ current prices



Source: EIF (2020), https://www.enhancedif.org/en/countries, accessed on 9 April 2020

Table 17. Graduating LDC WTO members' contributions to the consolidated budget of the WTO Secretariat and the Appellate Body Secretariat, 2019

Member	2019 Contribution CHF	Contribution %
Angola	428,145	0.219%
Bangladesh	338,215	0.173%
Lao PDR	37,145	0.019%
Myanmar	115,345	0.059%
Nepal	44,965	0.023%
Solomon Islands	29,325	0.015%
Vanuatu	29,325	0.015%
Total graduating LDC WTO members	**1,022,465**	**0.523%**
Total budget, WTO and Appellate Body Secretariats, 2019	**195,500,000**	**100%**

Source: WTO Annual Report, 2019, https://www.wto.org/english/res_e/booksp_e/anrep19_e.pdf , accessed 21 February 2020.

average, WTO members that joined the WTO through the accession process have undertaken higher levels of commitment for goods and services (see Section 3.1). In addition, several of the acceded WTO LDC members committed to implement some provisions within a shorter timeframe.

Impact on graduating LDCs

Currently, eight LDCs are at the different stages of the WTO accession process: Bhutan, Comoros, Ethiopia, Sao Tomé and Principe, Somalia, South Sudan, Sudan and Timor-Leste. Among acceding governments there are three graduating LDCs: Bhutan, Sao Tomé and Principe, and Timor-Leste. Upon graduation, it might be advantageous for these acceding LDCs to complete their accession negotiations before their respective graduation to fully benefit from LDC accession guidelines.

Institutional support to the LDCs

LDCs are prioritized at the WTO not only in terms of rules, but also at the institutional level. In the Sub-Committee on LDCs, members discuss systemic issues of interest to the LDCs, such as market access, technical assistance, LDC accessions and UN Comprehensive programmes of action for LDCs, in line with the WTO Work Programme for the LDCs.[49] After graduation, LDCs will no longer be covered by analytical work on trade and market access and will see their interests less reflected in the work of the Sub-Committee.

Through the LDC Group, LDCs promote their shared interests and participate in the work of the WTO. The LDC Group is led by the LDC Coordinator – a role that rotates on a yearly basis among LDC delegations – and thematic focal points follow the different areas of work in the WTO.

The group also benefits from day-to-day administrative support by the LDC Unit of WTO's Development Division. The coordination of activities and elaboration of common positions in the LDC Group has greatly helped LDCs to mitigate their financial and human capacity constraints, and has fostered their participation in the work of the WTO. Since 2001, the WTO members have adopted 8 Ministerial Decisions, and 16 Decisions in the General Council and other WTO Bodies in favour of LDCs (Table 40 in Annex I).

Impact on graduating LDCs

Graduating LDCs will have to re-orientate their participation in the WTO in line with their interests as developing country members. For instance, a number of graduating LDCs will find their interests reflected in the work being carried out under the Work Programme on Small Economies in the Committee of Trade and Development's Dedicated Session on Small Economies.

Travel support for participation in WTO Ministerial Conferences

Since the First WTO Ministerial Conference, held in Singapore in 1996, LDCs have received travel support for participation in WTO Ministerial Conferences, which take place every two years. Funding for LDC participation has been provided in the form of voluntary contributions to a special extra-budgetary trust fund. This funding has been used to cover travel, accommodation and per diem allowances of LDC delegations, comprised of one minister and two high-level officials. The total expenditures for the Eleventh WTO Ministerial Conference in Buenos Aires in 2017 amounted to CHF 560,000. The estimated cost of LDC members and observers' participation at the Twelfth Ministerial Conference is CHF 640,000.

Impact on graduating LDCs

Graduated LDCs will no longer be able to benefit from travel support provided to LDC members and observers for participation in WTO Ministerial Conferences. Currently there is no transition period in place for extending travel support to graduated countries. Graduating LDCs should prepare to finance their participation in WTO Ministerial Conferences after graduation.

3.6 Summary

LDC-specific S&D was crafted to support LDC integration into global trade. Graduation from LDC status requires preparation and strengthening of national institutional capacity – from training trade negotiators to building skills for implementing domestic reforms to ensuring compliance with notification requirements. Following a review of all LDC-specific S&D, this section identified key WTO-related areas to consider when preparing for a smooth transition. Evidence suggests that, while the overall impact of graduation on trade is expected to be limited, graduating LDC WTO members each have specific trade-related needs that should be addressed.

WTO rules contain several types of S&D provisions, and a number of them apply exclusively to the LDCs. Since 1995, WTO members have taken important decisions on market access for both goods and services (i.e. DFQF decisions, decisions on preferential rules of origin for LDCs, and decisions on the LDC Services Waiver and its operationalization). Loss of access to LDC market access schemes, associated loss of preference margins, reduced flexibility in the implementation of WTO agreements (e.g. TRIPS Agreement) and possible lack of access to certain policy instruments (e.g. under the SCM Agreement) are some of the key trade-related challenges that graduating LDCs would need to confront.

As regards the participation of graduating LDCs vis-à-vis WTO agreements, one key point to underline is that graduation will not bring about any changes to the concessions and commitments undertaken by the graduating LDCs while joining the organization. Neither will it lead to any change in the assessed contributions of members to the WTO budget, because such contributions are based on trade shares of individual members. There are also very little implications with regard to access to WTO's technical assistance and training programmes. The notification requirements in certain areas (e.g. Agriculture and TRIPS) would increase calling for enhanced human and institutional capacity in the graduating LDCs.

The LDCs that joined at the end of the Uruguay Round have higher binding levels and lower binding coverage compared to LDCs that acceded to the WTO under the Article XII process. A number of graduating LDCs would continue to enjoy the low binding coverage and high bound rates and thereby pursuing a tariff policy suitable to their needs. The graduating LDCs that are yet to accede to the WTO may expedite their accession process, as the accession negotiations following their graduation may not allow them to fully benefit from the provisions of LDC accession guidelines.

It has also been seen that a number of S&D provisions for LDCs have hardly been utilized by the graduating LDCs. The provisions on TRIMs are a case in point. Compliance with certain agreements (e.g. laws and regulations to implement TRIPS Agreement) is also in place in a number of graduating LDCs which would help them to bring in fully consistent legislations according to minimum standards of TRIPS after graduation.

At present, WTO rules contain no explicit provisions regarding the graduation of LDCs. The impact vis-a-vis implementation of WTO Agreements mainly concerns three areas: TRIPS, SCM and, to a lesser degree, agriculture. The graduating LDCs are also pursuing special provisions in the context of ongoing multilateral negotiations in the WTO, such as fisheries subsidies.

4

LDC graduation: Impact on market access

LDCs are characterized by a weak productive capacity and the concentration of exports in a limited number of sectors and markets. Therefore, preferential market access plays an important role in helping LDCs increase their participation in international trade and diversify their exports. WTO members have made efforts to provide LDCs with DFQF market access as well as preferential treatment in services. Trade preferences are a key international support measure for LDCs. LDC graduation will eventually result in the loss of LDC-specific preferences.

This section assesses the likely impact of graduation on market access and exports for the 12 graduating LDCs. Section 4.1 provides an overview of goods and services exports of the graduating LDCs. Section 4.2 analyses the impact of graduation on market access for goods, including preferential market access available before and after graduation, as well as related changes in preferential rules of origin. The section also discusses estimated changes in tariff rates and costs due, as well as the current use of LDC-specific preferences. Based on the current export structure and preference utilization of graduating LDCs, Section 4.3 discusses the estimated impact of the loss of preferences on exports, derived from a partial equilibrium model. Estimates are provided for each graduating LDC at the aggregate level, as well as for key products and destination markets. Section 4.4 discusses the expected impact of graduation on market access for services, and Section 4.5 provides a summary.

4.1 Overview of exports of graduating LDCs

The LDCs are marginal participants in international trade. In 2018, the 47 LDCs accounted for only 0.95% of world goods and services exports (Figure 7). The 12 graduating LDCs accounted for 0.45% of world goods and services exports, while the other 35 LDCs accounted for 0.50%. The graduating LDCs represent 0.52% of world goods exports but only 0.22% of world services exports.

Table 18 provides the export profile of graduating LDCs. Exports of the graduating LDCs amounted to close to US$112 billion in 2018, representing 47% of overall LDC exports. Angola and Bangladesh, the top two LDC exporters, each account for about 18% of LDC exports, followed by Myanmar with 7% of LDC exports. These three graduating LDCs represent 43% of overall LDC exports; the remaining nine graduating LDCs are much smaller in terms of export size, representing only 4% of LDC exports. Bhutan and the graduating LDCs that are islands – Kiribati, Sao Tomé and Principe, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu – each account for less than 0.5% of LDC exports.

The share of services in exports is 11% for graduating LDCs compared to 22% for other LDCs. This can be explained by the low services shares of Angola (2%) and Bangladesh (7%), which specialize in petroleum and clothing, respectively. Services account for the majority of exports of Timor-Leste (99%), Vanuatu (88%), Sao Tomé and Principe (86%) and Nepal (61%). Graduating LDCs with a high share of services in exports are, generally speaking, less vulnerable to the loss of preferences than those with a high share of goods.

Average annual export growth in terms of value between 2011–2018 was 0.4% for the graduating LDCs, which is lower than for other LDCs. However, this aggregate growth rate masks different growth experiences of individual countries. Angola is the only graduating LDC that had a negative average annual growth rate (-7%), which was due to declining oil prices. Average annual export growth was below 5% for Bhutan, Kiribati, Tuvalu and Vanuatu; between 5% and 10% for Bangladesh, Nepal and Solomon Islands; and above 10% for Lao PDR, Myanmar, Sao Tomé and Principe, and Timor-Leste. In 2018, 10 of the 12 graduating LDCs registered a trade deficit, while Angola and Solomon Islands ran a trade surplus.

4.2 Impact on market access for goods

Export structure of graduating LDCs

Table 19 provides an overview of merchandise exports of the graduating LDCs, in terms of export specialization as well as the importance of preference-granting members as destination markets. The graduating LDCs exported more than US$101 billion of merchandise per year from 2016 to 2018, with Angola and Bangladesh accounting for around 80% of overall exports.

The graduating LDCs differ in their export structure, in terms of both products and markets. Exports of Angola, Bhutan, Lao PDR, Myanmar and Timor-Leste are concentrated in primary commodities. Bangladesh and Nepal specialize in the manufacturing of textile and clothing. Kiribati, Sao Tomé and Principe, Solomon Islands, Tuvalu and Vanuatu mainly export agricultural and fishing products.

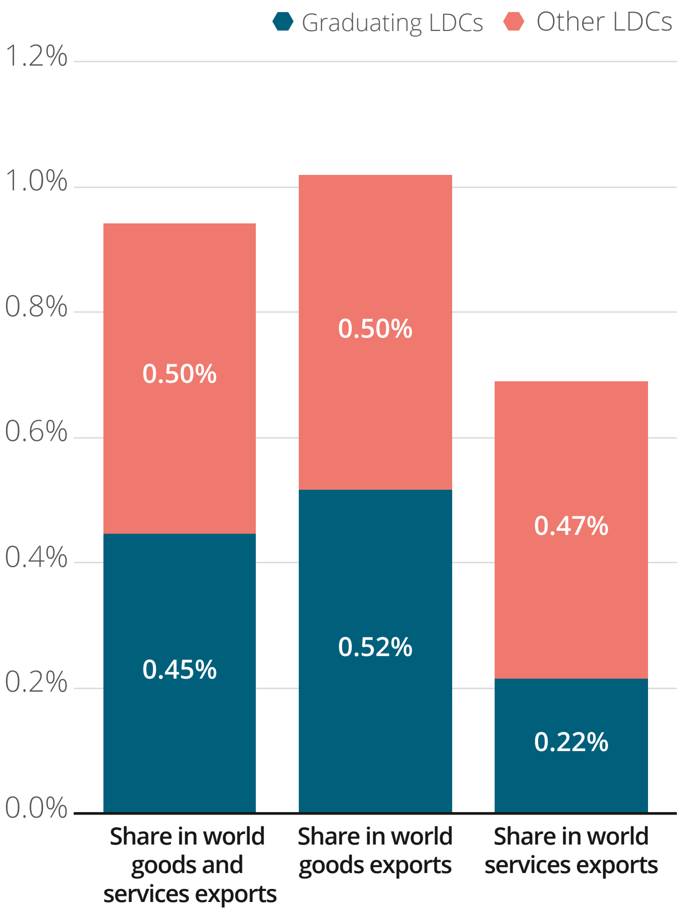
Around 88% of exports from graduating LDCs go to the main preference-granting markets, while 12% of exports go to markets with no LDC-specific preferences. For the graduating LDCs as a group, the two largest destination markets are the European Union (31% of merchandise exports) and China (26%). Other major markets are the United States (9%), India (6%), Thailand (6%), Japan (3%), and Canada (2%). From the perspective of individual LDCs, the largest destination markets are China for Angola, Lao PDR and Solomon Islands; the European Union for Bangladesh and Sao Tomé and Principe; India for Bhutan and Nepal; Thailand for Kiribati, Lao PDR, Timor-Leste and Tuvalu; and Japan for Vanuatu.

Preferential market access for LDCs

LDCs benefit from preferential market access in developed country members, as well as in a number of developing country members. LDC graduation will eventually result in the loss of LDC-specific preferences.

DFQF schemes for LDCs are non-reciprocal preference schemes and constitute deviations from the WTO's most-favoured-nation (MFN) principle, which is enshrined in Article I of the GATT and prohibits WTO members from discriminating among their trading partners. Therefore, legal instruments are required to allow deviation from the MFN principle. The so-called Enabling Clause, adopted in 1979, allows developed country members to accord nonreciprocal preferences to developing countries and LDCs under Generalized System of Preferences (GSP)

Figure 7. Share of LDCs in world exports, 2018



Source: WTO-UNCTAD-ITC estimates

schemes.[50] For developing country members, a Waiver from 1999 – and its subsequent extensions, with the latest running until 30 June 2029 – provides them with legal cover for LDC-specific preference schemes.[51]

WTO members have committed to provide DFQF market access for products from LDCs in accordance with the decision contained in Annex F of the 2005 Hong Kong Ministerial Declaration.[52] Developed country members (and developing country members that declare themselves in a position to do so) are to provide DFQF market access for at least 97% of products originating from LDCs. Developing countries were accorded flexibility with respect to coverage and phasing in of their DFQF schemes. A decision taken at the WTO Ministerial Conference in Bali in 2013 asked members to further improve their DFQF coverage for LDC products.[53]

Table 20 provides an overview of non-reciprocal LDC preference schemes of developed and developing country members, based on their notifications to the WTO. The duty-free coverage denotes the percentage of tariff lines that are duty free for LDCs, in relation to each preference-granting member's total national tariff lines, including MFN duty-free tariff lines.

Table 20 shows that most of the developed country members accord either full or nearly full DFQF market access to LDC products. A number of developing country

Table 18. Profile of goods and services exports, 2018

GOODS AND SERVICES EXPORTS (2018)

	US$ million	Share of services	Growth p.a. 2011–2018	Share in LDC exports	Trade balance (US$ million)
Graduating LDCs	111,617	11%	0.4%	47.4%	-28,131
Other LDCs	123,815	22%	2.4%	52.6%	-70,069
All LDCs	235,432	17%	1.4%	100.0%	-98,200
Angola	41,389	2%	-6.9%	17.6%	15,822
Bangladesh	41,919	7%	7.1%	17.8%	-23,672
Bhutan	780	23%	0.7%	0.3%	-460
Kiribati	30	39%	3.5%	0.0%	-150
Lao PDR	6,210	15%	14.7%	2.6%	-1,103
Myanmar	16,824	30%	10.4%	7.1%	-2,653
Nepal	2,933	61%	7.4%	1.2%	-15,001
Sao Tomé and Principe	95	86%	18.5%	0.0%	-98
Solomon Islands	770	19%	5.5%	0.3%	82
Timor-Leste	226	99%	22.6%	0.1%	-785
Tuvalu	16	15%	1.8%	0.0%	-8
Vanuatu	427	88%	3.1%	0.2%	-106

Source: WTO-UNCTAD-ITC estimates

Table 19. Merchandise exports of graduating LDCs, export specialization and shares of destination markets (2016–2018 average)

			Share of destination markets in merchandise exports (%)															
Graduating LDCs	Export specialization	Total exports (US$ million)	Australia	Canada	Chile	China	EU	India	Japan	Korea, Rep. of	Norway	New Zealand	Russian Federation	Switzerland	Thailand	Turkey	United States	Rest of world
Graduating LDCs	**Clothing & petroleum**	**98,217**	**1**	**2**	**0**	**26**	**31**	**6**	**3**	**1**	**0**	**0**	**1**	**1**	**6**	**1**	**9**	**12**
Angola	Petroleum	38,263	0	0	0	53	10	10	1	1	0	0	0	0	1	0	7	16
Bangladesh	Clothing	38,903	2	3	0	2	57	2	3	1	1	0	1	0	2	16	14	9
Bhutan	Electricity	296	0	0	0	0	11	81	1	0	0	0	0	0	0	1	2	4
Kiribati	Agriculture & fish	154	0	0	0	3	1	0	6	2	0	0	0	0	58	0	3	27
Lao PDR	Minerals & metals	5,145	0	1	0	28	6	4	3	1	0	0	0	1	44	0	2	11
Myanmar	Minerals & metals	13,287	0	1	0	27	18	6	8	4	0	0	0	1	20	0	3	11
Nepal	Textiles & clothing	830	1	1	0	2	15	56	1	0	0	0	0	1	0	5	12	4
Sao Tomé and Principe	Cocoa	24	1	0	0	0	65	0	2	1	0	1	0	1	0	0	4	24
Solomon Islands	Wood	845	1	0	0	62	11	8	1	1	0	1	0	2	2	0	0	10
Timor-Leste	Petroleum	110	2	3	0	2	6	0	1	1	0	0	0	0	34	0	6	44
Tuvalu	Fish	60	1	0	0	0	3	0	4	0	0	0	0	0	75	0	0	17
Vanuatu	Agriculture & fish	299	1	0	0	4	3	0	24	6	0	0	0	0	5	4	3	49

Source: UN Comtrade. Note: Export values and shares represent averages for 2016–2018 and are based on mirrored import statistics. Zeros (0) indicate shares below 0.5%. Green shading indicates share value, with highest share in dark green.

members have significantly expanded their DFQF coverage over the last decade and now offer almost comprehensive DFQF market access to LDC products. For example, Chile provides nearly full DFQF coverage to the LDCs, with 99.5% DFQF access to the LDCs; and China and India provide comprehensive DFQF access to the LDCs, with 96.6% and 94.1% of their tariff lines being duty-free, respectively.

Preferential market access after graduation

Graduation will lead to the loss of LDC-specific preferences under LDC schemes. The amount of the resulting increase in tariffs will depend on whether a graduated LDC will have access to alternative preferences or will need to pay MFN tariffs. Alternative preferences can take the form of either non-reciprocal preferences under preferential trade arrangements (PTAs) or reciprocal preferences under RTAs, or could be special trade arrangements through negotiations. The 12 graduating LDCs are eligible for several preference schemes in which preferences are not tied to LDC status and therefore remain unaffected by graduation.

Table 21 and Table 22 show these alternative PTAs and RTAs, respectively, which are expected to be available after graduation.

In terms of PTAs, graduating LDCs can be expected to benefit from preferences for developing countries granted by developed country members through their GSP schemes (Table 21). For most developed country members, the duty-free coverage of their GSP schemes is considerably lower than the respective duty-free coverage of their LDC schemes. In the case of the European Union, a graduated LDC might be able to access the GSP+ scheme if it signs up to 27 international conventions and if its GSP-eligible exports to the EU represent less than 7.4% of the value of the EU's total GSP imports from all GSP beneficiary countries.

The four graduating LDCs in the Pacific (Kiribati, Solomon Islands, Tuvalu and Vanuatu) will continue to benefit from full duty-free access in Australia and New Zealand under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA). The two graduating LDCs in Africa (Angola and Sao Tomé and Principe) will remain eligible for preferences under the United States' African Growth and Opportunity Act (AGOA) as access is not dependent on LDC status. AGOA has a higher duty-free coverage, including on apparel, than the United States GSP for least-developed beneficiary developing countries.

LDCs will also remain eligible for preferences under RTAs (Table 22). For example, Lao PDR and Myanmar will continue to benefit from preferences in Thailand under the ASEAN Free Trade Area and the RTAs concluded by ASEAN with Australia, China, India, Japan, the Republic of Korea and New Zealand. Bangladesh and Lao PDR will continue to benefit from preferential market access in China, India and the Republic of Korea under the Asia-Pacific Trade Agreement (APTA). The four LDCs in the Pacific will benefit from duty-free market access in Australia and New Zealand under the Pacific Agreement on Closer Economic Relations (PACER Plus), which will replace SPARTECA when it enters into force. Furthermore, Bhutan and Nepal have bilateral agreements with India, and Lao PDR with Thailand. Three graduating LDCs — Angola, Sao Tomé and Principe and Timor-Leste – have so far no RTA in place with members that provide LDC schemes.

It is important to note that a few RTAs provide special treatment for LDCs that are parties to these agreements. For instance, India extends duty-free treatment to Bangladesh, Bhutan and Nepal under SAFTA on nearly all products (except tobacco and alcohols). China, India and the Republic of Korea provide preferential market access to LDC parties (Bangladesh and Lao PDR) to APTA. Similarly, Lao PDR and Myanmar experience special treatment as LDCs under ASEAN-China. As tariff concessions to LDCs under these RTAs are the result of reciprocal negotiations based on less-than-full reciprocity modalities, they might remain following graduation.

However, there are other LDC-specific elements associated with RTAs that are likely to be affected by graduation. For instance, the majority of these RTAs – as well as some RTAs which are currently being negotiated or finalized (e.g. PACER Plus or the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation Free Trade Area – BIMST-EC) – have longer periods for LDCs to implement tariff concessions. Hence, graduation from LDC status would require some of the graduating LDCs to advance the implementation of tariff concessions. Furthermore, a number of RTAs have special considerations for LDCs in terms of rules of origin conditions (see Section 4).

In a number of preference-granting markets, the impact of graduation will depend to a large extent on the LDCs' current utilization of preferences under LDC schemes versus utilization of preferences under other PTAs and RTAs. In several cases, such as SPARTECA or bilateral preferences granted by India to Bhutan and Nepal, graduating LDCs use these alternative preferences to a larger extent than LDC-specific preferences.

While data on tariff preferences are available for most PTAs, for the majority of RTAs in Table 22, preferential tariff data are not available in the WTO IDB.[54] For instance, no data are available for the RTAs of graduating LDCs with China, India, New Zealand and Thailand. Hence, PTAs and RTAs with missing data cannot be considered as a best available alternative when calculating the increase in tariffs that an LDC will face following graduation. It is important to be aware of these missing data in the analysis.

Preferential rules of origin

Rules of origin are an essential prerequisite for the utilization of trade preferences. Each preference scheme has its own set of rules of origin, be it an LDC-specific scheme, a general GSP or an RTA. In practice, rules of origin entail compliance with three components: (i) specific rules prescribing the realization of minimum manufacturing processes, local value addition or change of tariff classification (e.g. minimum 40% regional value content); (ii) specific requirements to prove that such rules have been met (e.g. certificates of origin); and (iii) the non-alteration of the goods during their transit to its preferential destination (i.e. direct consignment or non-

Table 20. Major multilateral non-reciprocal LDC preference schemes undertaken by members, 2019 or latest available year

Preference-granting member	Description	Duty-free tariff line coverage (and major exclusions)
Armenia (2016)	Duty-free treatment for LDCs	43.9% (electrical machinery, chemicals, iron and steel products, alcoholic beverages)
Australia	Duty- and quota-free entry for LDCs	100%
Canada	GSP – Least-developed Countries' Tariff (LDCT) Programme	98.5% (dairy and other animal products, meat, meat preparations, cereal products)
Chile (2018)	DFQF scheme for the LDCs	99.5% (cereals, sugar, milling products)
China (2017)	Duty-free treatment for LDCs	96.6% (chemicals, transport vehicles, machinery and mechanical appliances, electrical machinery, paper)
European Union	GSP – Everything But Arms (EBA) initiative	99.8% (arms and ammunition)
Iceland (2018)	GSP – Tariff preferences for the world's poorest countries	91.8% (meat, food preparations, vegetables, dairy and other animal products, plants and trees)
India (2016)	Duty-Free Tariff Preference Scheme	94.1% (plastics, coffee and tea, alcoholic beverages, tobacco, food residues)
Japan (2018)	GSP – Enhanced duty and quota-free market access	97.8% (fish and crustaceans, footwear, milling products, cereal products, sugar)
Kazakhstan	GSP – Tariff Treatment for LDCs	62.9% (vehicles, machinery, beverages, articles of iron and steel)
Korea, Rep. of	Presidential Decree on Preferential Tariff for LDCs	89.9% (fish and crustaceans, mineral fuels, oil seeds and oleaginous fruits, wood products, vegetables)
Montenegro	Duty-free treatment for LDCs	93.9% (fish and crustaceans, alcoholic beverages, meat and dairy products)
New Zealand	GSP – Tariff Treatment for LDCs	100%
Norway	GSP – Duty- and quota-free market access	100%
Russian Federation	GSP scheme in the context of the Eurasian Economic Union between Armenia, Kazakhstan, Kyrgyz Republic, and the Russian Federation	61.4% (transport vehicles, machinery and mechanical appliances, beverages, iron and steel products, electrical machinery, meat products, articles of wood, apparel)
Switzerland	GSP – Revised Preferential Tariffs Ordinance	100%
Chinese Taipei	Duty-free treatment for LDCs	30.8% (machinery and mechanical appliances, chemicals, electrical machinery, fish and crustaceans, plastics)
Tajikistan (2017)	Duty-free treatment for LDCs	3.7% (Duty-free access includes machinery, glass products, petroleum products)
Thailand (2017)	DFQF scheme for the LDCs	71.0% (transport vehicles, electrical machinery, machinery and mechanical appliances, iron and steel products, apparel and clothing)
Turkey	GSP	78.7% (iron and steel products, fish and crustaceans, food preparations, meat, oil seeds and oleaginous fruits)
United States of America (2018)	GSP for least-developed beneficiary developing countries	82.2% (apparel and clothing, cotton, fibres, footwear, dairy and other animal products)

Source: Based on WTO Secretariat Note WT/COMTD/LDC/W/67. Note: This table represents a non-exhaustive list of non-reciprocal multilateral market access initiatives undertaken in favour of LDCs.

alteration). If a good complies with the specific preferential origin requirements, it will be eligible for preferential treatment under the respective trade preferences. If it does not comply, it may still be imported but MFN duties will apply.

LDCs benefit from rules of origin requirements that are more flexible and liberal than other preference schemes. For example, with regard to clothing exports to the EU, the LDCs are only required to undertake a single stage transformation from fabric to clothing under the EBA scheme, while developing countries must accomplish a double stage transformation from fibres to fabric to clothing under the standard GSP scheme. The single stage transformation, which was introduced in 2011, had been instrumental for certain LDCs to dramatically improve their use of the EBA scheme.

Table 21. Preferential trade arrangements relevant after graduation, 2019 or latest available year

Preference-granting member	PTA	Duty-free tariff line coverage
Australia	GSP	98.4%
Australia	SPARTECA[a]	100%
Canada	GSP	76.4%
European Union	GSP	57.3%
European Union	GSP+[b]	89.1%
Iceland (2018)	GSP	91.8%
Japan	GSP	59.7%
Kazakhstan	GSP	18.0%
New Zealand	GSP	60.9%
New Zealand	SPARTECA[a]	100%
Norway	GSP	89.3%
Norway	GSP+	91.0%
Russian Federation	GSP	15.9%
Switzerland	GSP	72.5%
Turkey	GSP	56.0%
United States	GSP[c]	66.5%
United States	AGOA[d]	97.2%
United States	Trade Preferences for Nepal (valid through 31 December 2025)	77 duty-free tariff lines (textiles, clothing, leather, footwear)

Source: WTO PTA Database and WTO IDB.

Note: The list is not exhaustive.

a SPARTECA — South Pacific Regional Trade and Economic Cooperation Agreement; beneficiaries include Kiribati, Solomon Islands, Tuvalu and Vanuatu.

b EU GSP+: Beneficiaries must fulfil vulnerability criteria and sign up to 27 international conventions on human and labour rights, environmental protection and good governance.

c US GSP: Bangladesh and Lao PDR are currently not eligible.

d AGOA — African Growth and Opportunity Act; beneficiaries include Angola and Sao Tomé and Principe.

WTO members have made progress towards ensuring that preferential rules of origin are simple and transparent, and that they are better understood and contribute to facilitating market access of imports from LDCs. In that context, WTO members adopted two Decisions on preferential rules of origin for LDCs at the Ministerial Conferences in Bali in 2013 and in Nairobi in 2015.[55] Both Decisions contain detailed provisions with regard to the assessment of substantial transformation, cumulation possibilities, documentary requirements and transparency.

The impact that graduation will have on market access conditions depends not only on the availability of alternative (equally advantageous) preferences, but also on the design and stringency of the rules of origin applied in those alternative schemes. In addition, the ability of firms in graduating LDCs to avail themselves of any other preference will depend on their capacity to understand the new origin requirements and to make a smooth transition towards complying with them.

Table 22. Eligibility of graduating LDCs to reciprocal preferences under RTAs

Preference-granting member	RTA	Beneficiaries
Australia	ASEAN – Australia – New Zealand (AANZFTA)	Lao PDR, Myanmar
Australia*	PACER Plus (still to enter in force)	Kiribati, Solomon Islands, Tuvalu, Vanuatu
China*	ASEAN – China	Lao PDR, Myanmar
China*	APTA	Bangladesh, Lao PDR
India*	APTA	Bangladesh, Lao PDR
India*	ASEAN – India	Lao PDR, Myanmar
India*	GSTP	Bangladesh, Myanmar
India*	India – Bhutan	Bhutan
India*	India – Nepal	Nepal
India*	SAFTA	Bangladesh, Bhutan, Nepal
Japan	ASEAN – Japan	Lao PDR, Myanmar
Korea, Rep. of	APTA	Bangladesh, Lao PDR
Korea, Rep. of	ASEAN – Korea, Rep. of	Lao PDR, Myanmar
Korea, Rep. of	GSTP	Bangladesh, Myanmar
Korea, Rep. of	PTN	Bangladesh
New Zealand*	ASEAN – Australia – New Zealand (AANZFTA)	Lao PDR, Myanmar
New Zealand*	PACER Plus (still to enter in force)	Kiribati, Solomon Islands**, Tuvalu, Vanuatu
Thailand*	ASEAN Free Trade Area (AFTA)	Lao PDR, Myanmar
Thailand*	Lao PDR – Thailand	Lao PDR

Source: WTO IDB.

*Note: *No data on preferential tariffs available. The list of RTAs is not exhaustive.*

APTA — Asia-Pacific Trade Agreement

ASEAN — Association of Southeast Asian Nations

GSTP — Global System of Trade Preferences among Developing Countries

PACER Plus — Pacific Agreement on Closer Economic Relations

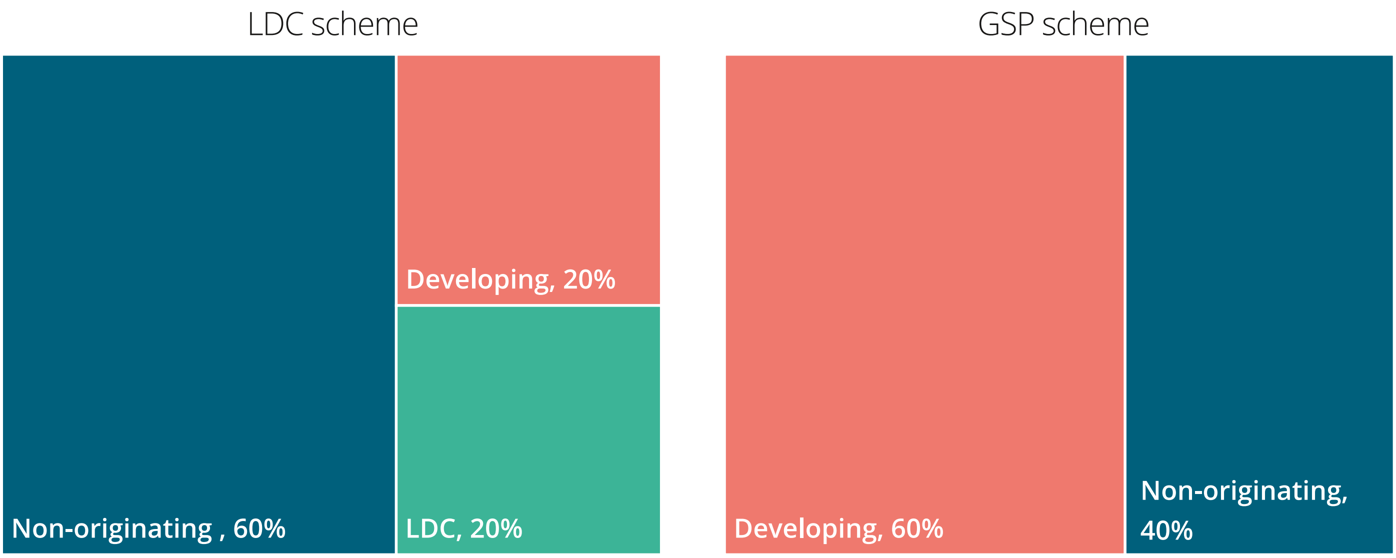
PTN — Protocol on Trade Negotiations

SAFTA — South Asian Free Trade Agreement

*** The Solomon Islands acceded to the Interim Economic Partnership Agreement with the European Union, which provides for DFQF. The EU Council adopted the accession on 17 February 2020.*

New origin criteria, certification practices or direct consignment rules will only negatively affect firms if they are more restrictive than those available before graduation. Origin criteria can, most commonly, take the form of regional value content (RVC) requirements; requirements that a transformation will lead to a change in a tariff chapter (CC), heading (CTH) or sub-heading (CTSH); or particular manufacturing criteria such as single-stage or double-stage processing requirements. These requirements can apply as

Figure 8. Canada's rules of origin under the LDC scheme and the standard GSP



a general rule to all products covered by trade preferences, or can be different for certain products, taking the form of product-specific rules (PSRs). Table 23 summarizes the rules of origin of different preferential schemes available to LDCs before and after graduation.

As can be inferred from Table 23, graduation will often entail significant changes in the applicable origin requirements. Firms in graduating LDCs may need to use a greater amount of local supplies to manufacture their goods or may be required to source them from other countries in order to continue to qualify for trade preferences. Even when seemingly small changes in the rule of origin occur, the impact of such changes could be significant for specific export products and firms. Hence, heavy reliance on a single preferential market or on a single export product could increase the vulnerability of individual firms and individual LDCs to changes in origin requirements.

Origin requirements in GSP and RTAs with developed members

Australia, Canada, the EU, Norway, Switzerland, Turkey, New Zealand, Japan, the Russian Federation and the US maintain basic GSP schemes covering both least-developed and developing countries. Hence, graduating LDCs can turn to these schemes after graduation (provided that their export products are also eligible for preferences under such schemes).

As indicated in Table 23, origin criteria tend to be more stringent under the basic GSP than under LDC-specific preferences. In Australia's LDC scheme, at least 25% of allowable costs must come from LDCs, whereas this requirement increases to at least 50% of factory costs under the GSP. However, a number of graduating LDCs are also eligible for preferences under PACER Plus, which will replace SPARTECA once it enters into force, and the ASEAN–Australia–New Zealand Free Trade Area (AANZFTA), both applying more flexible rules of origin than those of Australia's GSP (although they are stricter than that of Australia's LDC-specific preferences). Therefore, LDC exporters in AANZFTA (Lao PDR and Myanmar) and in PACER Plus (Kiribati, Solomon Islands, Tuvalu and Vanuatu) may turn to these agreements as an alternative. It should be noted, however, that in shifting towards these agreements, the possibility of cumulation with of other GSP beneficiaries would be lost. In other words, firms currently relying on inputs from other GSP beneficiaries will need to adjust their supplies.

Similarly, in the case of Canada, an LDC exporter may use non-originating materials for up to 60% of the total value of exported goods (an additional 20% may originate from a current or former GSP beneficiary, while the remaining 20% must originate in an LDC). By contrast, non-originating materials must not exceed 40% of a product's value under Canada's standard GSP scheme. Consequently, graduating LDCs will need originating materials up to 60% of total value to qualify for preferential treatment after graduation (Figure 8). Besides these general rules, Canada also applies flexible product-specific rules for imports of textiles and clothing products from LDCs. In the case of clothing products, LDC exporters can simply assemble a fabric into clothing (where the fabric is sourced from a current or former GSP beneficiary) provided the local value addition is at least 25%.

The EU, Norway, Switzerland and Turkey share common rules of origin in both their LDC-specific and their standard GSP schemes. The schemes use PSRs, which are based on a maximum content of non-originating materials, with several product-specific rules based on specific processes or change in tariff classification. The PSRs for LDCs and GSP beneficiary countries are usually the same. However, for textiles and clothing, GSP requirements are stricter than those of the LDC-specific scheme: GSP beneficiaries must accomplish a two-stage process or double transformation (for instance, "weaving accompanied by making up") whereas LDC beneficiaries are only required to undertake a one-stage process or single transformation (e.g. weaving). This change is likely to impact garment exports from Bangladesh and, on a smaller scale, from Nepal.

Table 23. Preferential rules of origin in LDC schemes and preference schemes available after graduation

AUSTRALIA

GSP-LDC	GSP	PACER Plus (still to enter into force)	ASEAN-AUS-NZL (AANZFTA)
General rule: "RVC 25%" **Product-specific rules:** None **Cumulation**: bilateral, LDCs, Papua New Guinea, Forum Island countries and developing countries (with limits) as per list	**General rule:** "RVC 50%" **Product-specific rules:** None **Cumulation**: bilateral, LDCs, GSP beneficiaries	**General rule:** None **Product-specific rules:** For food, agricultural sector and textiles sector, most of the PSRs are alternation rule, "CC or RVC 40%". **Cumulation**: Parties to RTA	**General rule:** "RVC 40% or CTH" **Product-specific rules:** For food and agricultural sector, most of PSRs are alternation rule, "CC or RVC 40%". For textile sector, most of PSRs are "CC with some exception" and "CTH with some exception". Some sub-heading requires SP and "(RVC 40% + SP) or CC", while some sub-headings require "CC + SP". **Cumulation**: Parties to RTA

CANADA

GSP-LDC	GSP
General rule: "RVC 20%" **Product-specific rules:** "Specified process" (SP) for made-up textile articles and "SP or SP + RVC 25%" for apparel **Cumulation:** bilateral; LDCs; and with some developing countries (with exceptions and some limitations)	**General rule:** "RVC 60%" **Product-specific rules:** None **Cumulation:** bilateral; beneficiary countries

CHINA

LDC scheme	ASEAN — China
General rule: "RVC 40% or CTH" **Product-specific rules:** None **Cumulation:** bilateral; regional cumulation with 2 ASEAN countries (Cambodia and Myanmar) and 7 ECOWAS countries (Benin, Guinea-Bissau, Liberia, Mali, Senegal, Sierra Leone and Togo)	**General rule:** RVC 40% or CTH for some products **Product-specific rules:** For food and agricultural products, and for the textile sector. **Cumulation:** Parties to RTA

EUROPEAN UNION, NORWAY, SWITZERLAND AND TURKEY

GSP-LDC	GSP/GSP+
General rule: None **Product-specific rules:** Rules based on a maximum content of non-originating materials with several PSRs based on CTC. Textiles and apparel: one-stage process or "single transformation" rule (e.g. weaving) **Cumulation**: bilateral; regional with another beneficiary of the same region*; Norway, Switzerland or Turkey (except products in Chapters 1–24); extended cumulation with a country which has a FTA with the EU subject to certain conditions	**General rule:** None **Product-specific rules:** The PSRs for LDCs and GSP beneficiary countries are (usually) identical, including for the food and agricultural sector. For products of the chemical or allied industries, ceramic products, machinery and mechanical appliances, some vehicles and some optical elements, the local content requirement under the standard GSP (50%) is usually higher than under the LDC-specific scheme (30%). Textiles and apparel: two-stage process (e.g. weaving accompanied by dyeing) or "double transformation" rule **Cumulation**: bilateral; Norway, Switzerland or Turkey (except products in Chapters 1–24); extended cumulation with a country which has a FTA with the EU subject to certain conditions

INDIA

LDC scheme	ASEAN — India
General rule: "CTSH + RVC 30%" **Product-specific rules:** None **Cumulation**: bilateral	**General rule:** CTSH + RVC 35% **Product-specific rules:** Under negotiation **Cumulation**: Parties to RTA

Table 23. Preferential rules of origin in LDC schemes and preference schemes available after graduation (continued)

JAPAN

GSP-LDC	GSP	ASEAN — Japan
General rule: "CTH" **Product-specific rules:** Mostly CTC (CC or CTH with frequent exceptions). For textile products, a one-stage process or single transformation is required. **Cumulation**: bilateral, regional cumulation with 5 ASEAN countries (Indonesia, Malaysia, the Philippines, Thailand and Viet Nam)	**General rule:** "CTH" **Product-specific rules:** Mostly CTC (CC or CTH with frequent exceptions). For textile products, a one-stage process or single transformation is required. **Cumulation**: bilateral, regional cumulation with 5 ASEAN countries (Indonesia, Malaysia, the Philippines, Thailand and Viet Nam)	**General rule:** "RVC 40% or CTH" **Product-specific rules:** For food and agricultural sector, most of the PSRs are "CC", "CC with exceptions for certain chapters or tariff headings" and "CTH". For the textile sector, most PSRs require a two-stage process or double transformation rule. **Cumulation**: Parties to RTA

REPUBLIC OF KOREA

LDC scheme	ASEAN — Republic of Korea
General rule:"RVC 40%" **Product-specific rules:** None **Cumulation**: None	**General rule:** "RVC 40% or CTH" **Product-specific rules:** For food and agricultural sector, most of the PSRs are "WO". For textile sector, most of the PSRs are "CC or RVC 40%". **Cumulation**: Parties to RTA

NEW ZEALAND

GSP-LDC	GSP	PACER Plus (still to enter into force)	ASEAN — AUS — NZL
General rule: "RVC 50%" **Product-specific rules:** None **Cumulation**: bilateral, LDCs	**General rule:** "RVC 50%" **Product-specific rules:** None **Cumulation**: bilateral, GSP beneficiaries	**General rule:** None **Product-specific rules:** For food and agricultural sector and textiles sector, most of the PSRs are, "CC or RVC 40%". **Cumulation**: Parties to RTA	**General rule:** "RVC 40% or CTH" **Product-specific rules:** For food and agricultural sector, most PSRs are "CC or RVC 40%". For the textile sector, most of PSRs are CC or CTH with some exceptions **Cumulation**: Parties to RTA

RUSSIAN FEDERATION

GSP-LDC	GSP
General rule: "RVC 50%" **Product-specific rules:** None **Cumulation**: LDCs; diagonal cumulation	**General rule:** "RVC 50%" **Product-specific rules:** GSP beneficiaries **Cumulation**: LDCs; diagonal cumulation

THAILAND

LDC scheme	AFTA
General rule: "RVC 50%" **Product-specific rules:** None **Cumulation**: None	**General rule:** "RVC 40% or CTH" **Product-specific rules:** For food and agricultural sector, most of the PSRs are "RVC 40% or CC" or "WO". For the textile sector, most of the PSRs are "RVC 40% or CTH/CC. **Cumulation**: Parties to RTA

UNITED STATES

GSP-LDC	GSP	AGOA
General rule: "RVC 35%" **Product-specific rules:** None **Cumulation**: beneficiary LDCs and GSP countries	**General rule:** "RVC 35%" **Product-specific rules:** None **Cumulation**: beneficiary LDCs and GSP countries	**General rule:** "RVC 35%" **Product-specific rules:** Other** (PSRs for textile and apparel) **Cumulation**: with former AGOA beneficiaries and other beneficiary countries

APTA*** (CHINA, INDIA, REPUBLIC OF KOREA)	
APTA-LDC members	**APTA-members**
General rule: "RVC 35%"	**General rule:** "RVC 45%"
Product-specific rules: "CTH"	**Product-specific rules:** None
Cumulation: Regional cumulation (value addition requirement of not less than 50%)	**Cumulation**: Regional cumulation (value addition requirement of not less than 60%)

SAFTA (INDIA)	
SAFTA-LDC members[2]	**SAFTA-members**
General rule: "CTH and RVC 30%" (Sri Lanka 35%)	**General rule:** "CTH and RVC 40%"
Product-specific rules: "CTSH and RVC 30%" apply to 170 sub-headings. Other headings have different requirements, usually with a higher local content requirement.	**Product-specific rules:** "CTSH and RVC 30%" applies to 170 sub-headings. Other headings have different requirements, usually with a higher local content requirement.
Cumulation: Regional cumulation with the Parties under certain conditions	**Cumulation**: Regional cumulation with the Parties under certain conditions

Sources: WTO notifications on preferential rules of origin (G/RO/LDC/ series); original text of preferential rules of origin as notified.

*Notes: * Group I: Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand, Viet Nam; Group II: Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Peru, Venezuela; Group III: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka; Group IV: Argentina, Brazil, Paraguay and Uruguay. Cross-regional cumulation between Group I and III is possible, subject to certain conditions.*

*** Origin criteria other than that related to wholly obtained CTC, value (quantity) content, or specified process*

**** APTA — UNESCAP serves as the APTA Secretariat — Intro, including on rules of origin: https://www.unescap.org/sites/default/files/Brochure-of-the-APTA_Nov-2018.pdf*

CC — change in a tariff chapter
CTH — change in a tariff heading
CTSH — change in a tariff sub-heading
RVC — regional value content
WO — wholly obtained

In the case of the United States, the rules are identical under the LDC-specific and the standard GSP scheme, as well as AGOA (a value addition of 35%). Therefore, graduating LDCs may not be impacted in their exports to the US. A particular case is the textile and apparel sector, which is excluded from the LDC scheme and the standard GSP scheme. Textile and apparel products are, however, covered by AGOA and require special rules. However, since the LDC-specific preferences of the United States do not cover textiles and apparel products, graduation will have no impact in this respect.

Other developed preference-granting members (Japan, New Zealand and the Russian Federation) apply identical rules of origin under their LDC-specific and standard GSP schemes, so graduating LDC firms will not face different requirements if they decide to move to the general GSP scheme. In addition, some graduating LDCs in Asia would have the option of moving to RTAs as an alternative, for instance with New Zealand (through AANZFTA) or with Japan through the ASEAN-Japan Comprehensive Economic Partnership (AJCEP). AJCEP offers more flexible rules concerning cumulation (it allows for bilateral cumulation and regional cumulation with five members of ASEAN: Indonesia, Malaysia, the Philippines, Thailand and Viet Nam). For the textile sector, however, AJCEP's PSRs are stricter than those of Japan's LDC scheme: they require a two-stage process or double transformation rule, whereas Japan GSP-LDC's PSRs require a one-stage process or single transformation only.

Origin requirements in developing countries LDC schemes and RTAs involving developing members

Developing preference-granting members such as China, India, the Republic of Korea, and Thailand have implemented LDC-specific preferences. In the case of these preference-granting countries, RTAs would also offer alternative preferential market access. However, not all graduating LDCs have signed RTAs with these preference-granting members, so not all graduating LDCs would be able to shift to alternative schemes.

China's LDC scheme applies one general rule of origin, "RVC 40% or CTH", which is similar to ASEAN-China's general rule (RVC 40% or CTH, with some exceptions). As a result, graduating LDCs members of ASEAN – Lao PDR and Myanmar – may not experience a significant difference, but all other graduating LDCs (that is, those who are not members of ASEAN or APTA) will not have alternative preferential schemes to turn to.

India's LDCs scheme requires a change in tariff sub-headings and value addition of 30% ("CTSH + RVC 30%"), which is similar to the requirements under India's FTA with ASEAN ("CTSH + RVC 35%"), but the latter offers more flexible cumulation options than India's LDC scheme. Lao PDR and Myanmar may, as a result, choose to use the ASEAN-India FTA after graduation. Three other graduating LDCs in Asia (Bangladesh, Bhutan and Nepal) may turn to SAFTA, which also offers additional flexibilities for participating LDCs.

The Republic of Korea's situation is similar: the ASEAN-Korea FTA (AKFTA) offers a more flexible general rule of origin ("RVC 40% or CTH" and cumulation among the parties) than Korea's LDC-specific scheme. Graduation will therefore not impact Lao PDR and Myanmar.

Thailand's LDC scheme applies a 50% value addition rule. This is stricter than the rules of AFTA, which uses alternation rules (RVC 40% or CTH). However, AFTA also applies PSRs for the food and agricultural sector and for the textile sector.

Implications from changes in origin requirements for graduating LDCs

As can be seen from this analysis, the possible impact of changes in rules of origin are product, firm, country and scheme-specific. Whereas some alternative schemes available to graduating LDCs apply identical rules of origin, others contain variations which could entail adjustments to the supply chain of exporting firms in some cases (either because of changes in cumulation or because a higher share of a product's content may need to originate locally). The shift from a single transformation to a double transformation requirement for clothing in the EU and Japan could be a significant change for graduating LDCs. In Canada, exporters from LDCs will be required to significantly increase the share of locally originating materials after graduation, from a minimum of currently 25% under the LDC scheme to a minimum of 60% under Canada's GSP scheme.

As a result of graduation and changes to the applicable origin criteria or cumulation options, Bangladesh, Bhutan and Nepal may have to adjust in terms of increased value addition or regional cumulation within the South Asian Free Trade Area when exporting to India. After graduation, exports of minerals and metals from Lao PDR to China may not be negatively affected because both countries can use APTA as an alternative. Myanmar and Lao PDR are well covered by ASEAN's FTAs with Australia, China, India, Japan, the Republic of Korea and New Zealand. Timor-Leste will face a more difficult scenario, as Thailand is its largest market for petroleum exports but no alternative preferential agreement is in place.

Kiribati, Solomon Islands and Tuvalu have significant streams of trade with China and Thailand. However, neither China nor Thailand currently have any RTAs with Pacific countries. Moreover, Pacific Island LDCs will not face stricter rules of origin when exporting food and agricultural products under the regular GSP to the EU, and they can use PACER Plus, once in force, with Australia and New Zealand.

China and the EU are the main markets for Angola, and the EU is for Sao Tomé and Principe. However, there are no significant implications with regard to rules of origin requirements for their export products.

Finally, it should be noted that any potential negative impact also depends on the extent to which existing preferences are currently being used. Graduating LDCs currently relying on MFN market access conditions or exporting products that are subject to very low MFN duties (e.g. mineral fuels and oils) would not face difficulties because firms are likely to continue trading under MFN conditions. Those relying heavily on LDC-specific preferences for exports subject to high MFN tariff rates may need additional attention to make sure they can adjust to alternative preferential market access schemes.

Impact on tariff rates

The first step in analysing the impact of graduation on market access and trade is to calculate the increase in tariffs that graduating LDCs will face as a result of the loss of LDC-specific preferences. Tariff increases are computed as the difference between the best available tariff rate after graduation and the current tariff rate under LDC-specific preferences, the latter being zero for the majority of tariff lines. The best available tariff rate can be a preference under a PTA (Table 21) or RTA (Table 22) or the MFN tariff rate. The best available tariff rate is often the GSP rate for developed country members, and in a number of cases a preferential rate under an RTA for developing country members. If graduating LDCs do not benefit from preferential market access after graduation, such as in the case of Chile, then the MFN rate is used as the best available rate.

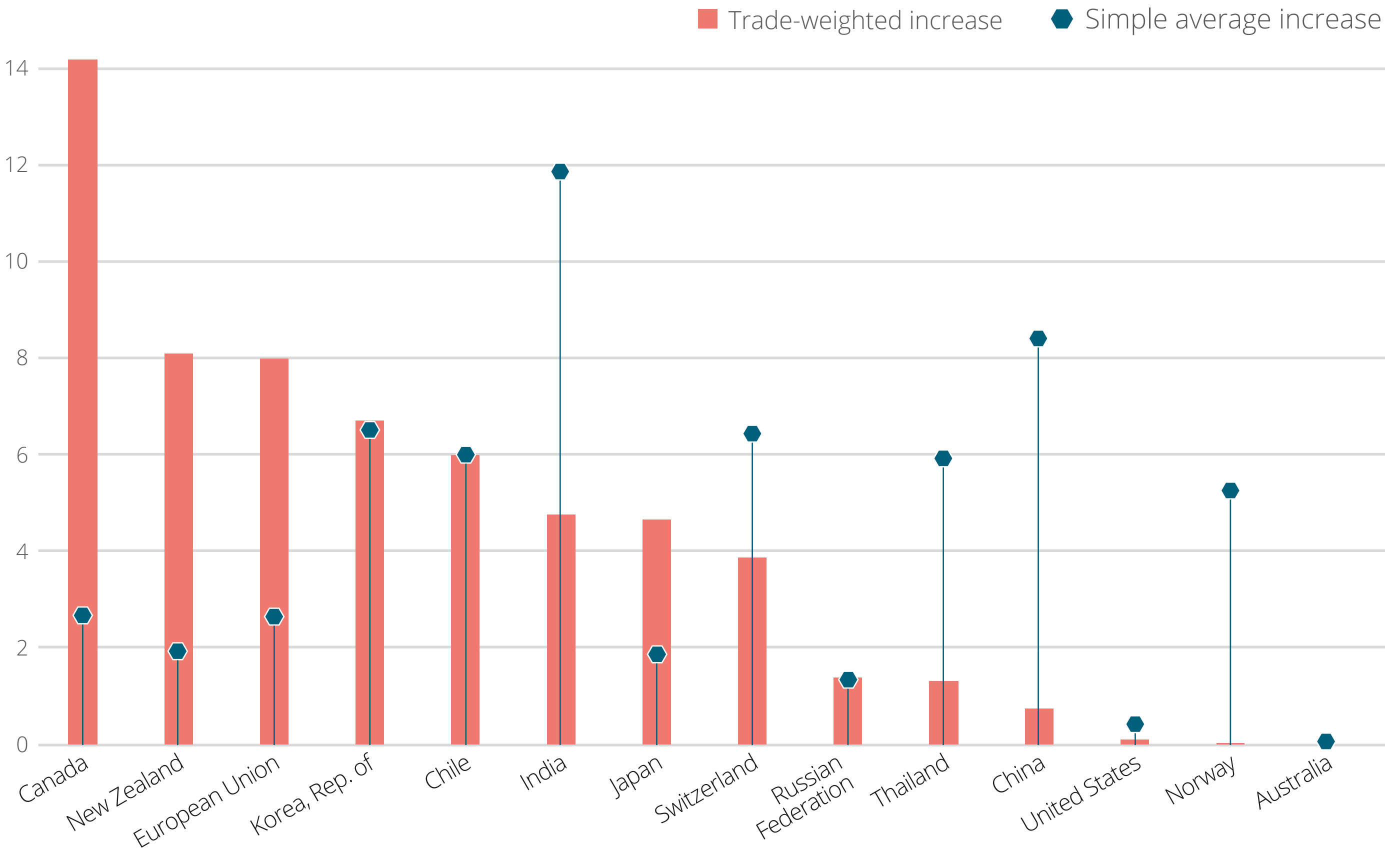
It is assumed that graduating LDCs will fully use the preferences available to them. Average tariff increases by preference-granting members (Figure 9) and graduating LDCs (Figure 10) are then obtained by averaging tariff increases at the bilateral HS 6-digit (HS6) level using current/ observed trade flows as weight or through a simple average. After the loss of LDC preferences, the graduating LDCs are expected to face an average tariff rate increase of 4.2 percentage points based on their current export structure. The simple average tariff increase is estimated to be at 4.0 percentage points.

Figure 9 shows the trade-weighted as well as the simple average tariff increases that graduating LDCs will face in preference-granting markets. Trade-weighted tariff increases will be highest in Canada (14.2%), followed by New Zealand (8.1%), European Union (7.9%) and Republic of Korea (6.7%). In contrast, trade-weighted average tariff increases are low for China (0.7%), United States (0.1%), Norway (0.0%), and Australia (0.0%), meaning that the best alternative rate for most traded products is close to the LDC rate.

The high increase in Canada and the European Union reflect increases in tariffs for clothing products, which are the main export products of graduating LDCs, particularly Bangladesh, to these markets. One can see that the simple average tariff increases for Canada, the European Union and New Zealand are significantly lower, which indicates that the preference loss will be higher for products that are heavily traded. In the case of China and India it is the opposite. Simple average tariff increases are estimated to be high in India (11.9%) and China (8.4%), but trade-weighted tariff increases will be low. This reflects the fact that India and China currently tend to import products from LDCs where tariffs will increase less following graduation. For instance, China's main import products from graduating LDCs are primary commodities such as petroleum oil from Angola and wood from Solomon Islands, for which MFN tariffs are low.

Figure 10 shows that the impact from the loss of preferences varies substantially across graduating LDCs

Figure 9. Expected tariff rate changes in destination markets (percentage points)



Source: WTO IDB. Note: Tariff rate changes are calculated as the difference between the best available tariff rate after graduation and the tariff rate under LDC-specific preferences. Tariff increases are computed using tariff data for 2016. For trade-weighted averages, average trade for 2016–2018 is used. Full utilization of preferences is assumed in the calculation. Only products that are traded are considered in the simple average increase.

due to differences in products exported, destination markets as well as preferential market access after graduation. Bangladesh (8.9%) and Nepal (8.1) would experience the highest tariff increases due to their exports of clothing products to the European Union and Canada. In contrast, Angola (0.3%) and Sao Tomé and Principe (0.1%) would only experience marginal tariff rate changes as their main export products – oil in the case of Angola and cocoa in the case of Sao Tomé and Principe — would not face higher tariffs in destination markets.

Table 24 provides some details on preference margins before and after graduation, by showing tariff rates that the main export products of the graduating LDCs face in key preference-granting markets under different duty schemes. For primary commodities such as copra, cocoa beans, copper, aluminium, tin, petroleum, electricity, wood and diamonds, graduation will not result in any preference loss in Australia, Canada, Japan, the EU and the US, as these products can already enter MFN duty free.

LDCs enjoy relatively high preference margins on apparel products (e.g. t-shirts, jersey and men's suits) in all five developed country markets. After graduation, most of these preference margins will be eroded as there are either no or only minor differences between GSP and MFN tariff rates. In the case of the European Union, graduating LDCs can maintain the preference margin on apparel products if they are able to secure access to GSP+ preferences.

Preference utilization

The loss in preferences analysed above assumes that graduating LDCs are currently using their preferences fully. However, for a number of reasons, including difficulties in complying with rules of origin, preferences might not always be used by LDCs. If a preference is not used, graduation will not change the applied tariff rate. Hence, the impact from the loss of preferences will also depend on the extent to which graduating LDCs have been using the preferences available to them. This is why it is important to include preference utilization in the analysis of the impact of graduation on market access. At the same time, one needs to be mindful of the possibility that LDCs could still improve their utilization of preferences before graduating.

Work is being carried out in the WTO to better understand the factors behind the underuse of certain preferences by the LDCs. In line with the PTA Transparency Mechanism, an increasing number of preference-granting members have notified data on preferential imports at the tariff-line level from LDCs.[56] Based on the import data notified by 12 preference-granting members, Figure 11 provides a breakdown of exports of graduating LDCs according to five duty types. In the case of products that benefit from a preference, imports can either: (i) use LDC-specific preferences; (ii) use other preferences; or (iii) not make use of preferences and pay MFN duties. If a product does not

Table 24. Tariff rates on top export products of graduating LDCs in selected developed country markets

		TARIFF RATES (%)															
		European Union				United States			Japan			Canada			Australia		
HS Code	Product	LDC	GSP+	GSP	MFN	LDC	GSP	MFN	LDC	GSP	MFN	LDC	GSP	MFN	LDC	GSP	MFN
0303	Fish (frozen) excl. fish fillets	0	0	7.1	11.0	0.0	0.0	0.4	1.8		4.4	0.0		0.1	0.0	0.0	0.0
0304	Fish fillets	0	0	7.1	11.2	0.3	0.3	0.8	1.7		4.4	0.0	0.0	0.0	0.0	0.0	0.0
0713	Vegetables (leguminous)	0	0	0.0	0.7	0.0	0.0	0.5	0.0	1.6	27.4	0.0	0.0	0.7	0.0	0.0	0.0
0901	Coffee	0	0	3.1	6.1	0.0	0.0	0.0	0.0	3.3	6.0	0.0	0.0	0.0	0.0	0.0	0.0
1203	Copra	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1212	Locust beans, seaweeds, sugar beet/cane, fruit stones and kernels	0	0	0.6	18.0	0.0	0.0	0.4	3.1	6.0	11.8	0.0	0.0	0.0	0.0	0.0	1.1
1604	Prepared or preserved fish, caviar	0	0	13.2	19.3	0.8	4.4	5.4	0.0	7.3	9.1	0.0	4.6	5.4	0.0	0.0	0.4
1702	Sugars, artificial honey and caramel	0	4	8.5	25.0	0.9	2.5	6.7	1.1	14.2	28.6	0.0	3.5	4.4	0.0	0.0	2.6
1801	Cocoa beans	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2202	Waters and other non-alcoholic beverages	0	0	6.1	9.6	0.0		11.5	0.0		11.5	0.0	6.3	9.4	0.0	0.0	5.0
2603	Copper ores and concentrates	0	0	0.0	0.0	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2606	Aluminium ores and concentrates	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2609	Tin ores and concentrates	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2709	Petroleum oils (crude)	0	0	0.0	0.0	0.0		0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2711	Petroleum gases and other gaseous hydrocarbons	0	0	0.0	0.7	0.0	0.0	0.0	0.0		1.3	0.0	0.0	2.8	0.0	0.0	0.0
2849	Carbides	0	0	0.7	5.2	0.3	1.0	2.8	0.0	0.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0
4403	Wood in the rough	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
5509	Yarn of synthetic staple fibres (not for retail sale)	0	0	3.2	4.0			10.6	0.0	4.5	5.7	0.0	0.0	0.0	0.0		5.0
5701	Carpets and other textile floor coverings (knotted)	0	0	5.2	6.9			0.8	0.0	1.6	7.9	0.0	4.5	9.6	0.0	0.0	0.0
6109	T-shirts, singlets and other vests (knitted)	0	0	9.6	12.0			14.5	0.0		9.2	0.0		18.0	0.0	0.0	5.0
6110	Jerseys, pullovers, cardigans (knitted)	0	0	9.5	11.9			11.8	0.0		10.6	0.0	17.3	18.0	0.0	0.0	5.0
6203	Men's suits, ensembles, jackets, blazers (not knitted)	0	0	9.6	12.0	11.7	11.7	12.3	0.0		10.0	0.0		17.5	0.0	0.0	5.0
7102	Diamonds (not mounted or set)	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7202	Ferro-alloys	0	0	0.8	3.2	0.8	2.2	3.3	0.0	2.4	2.8	0.0	0.0	0.0	0.0	0.0	0.0
7403	Refined copper or copper alloys (unwrought)	0	0	0.0	0.0	0.3	0.3	1.0	0.0	0.5	1.5	0.0	0.0	0.0	0.0	0.0	0.0

Source: WTO IDB. Notes: Products were selected based on whether they are among the top three products across any of the 12 graduating LDCs. Tariff rates include ad valorem equivalents. An empty cell indicates that the product is not included in the preference scheme.

Table 25. Additional tariff costs due to loss of preferences following graduation

	COST INCREASE DUE TO LOSS OF PREFERENCES FOLLOWING GRADUATION			
	Assuming full preference utilization		Actual preference utilization	
	Value (US$ '000)	% of total exports	Value (US$ '000)	% of total exports
Graduating LDCs	3,161,075	3.9	2,432,549	3.0
Nepal	60,777	7.5	7,124	0.9
Bangladesh	2,427,896	6.5	2,152,295	5.7
Bhutan	18,847	6.4	592	0.2
Tuvalu	3,367	5.7	0	0.0
Myanmar	444,581	3.4	226,794	1.7
Lao PDR	97,854	2.1	29,385	0.6
Solomon Islands	14,720	1.8	10,988	1.3
Vanuatu	3,698	1.3	270	0.1
Timor-Leste	431	0.4	6	0.0
Angola	88,586	0.2	5,022	0.0
Kiribati	304	0.2	72	0.0
Sao Tomé and Principe	13	0.1	0	0.0

Source: WTO IDB (tariff and use data) and UN Comtrade (exports). Note: Cost increases are computed as the product between exports, tariff increases and use rates. Exports are 2016–2018 averages obtained using mirror data from UN Comtrade; tariff increase is defined as the difference between the LDC and the best alternative rate, where the data are selected for 2016; use rates are computed as the ratio between the exports that enter under the LDCs scheme and the total exports towards the preference-granting members (2015–2016 average, when available); for columns 1 and 2 the use rate of the LDC scheme is set to 1.

benefit from a preference, imports can (iv) enter under a positive MFN duty or (v) enter duty free on an MFN basis.

Figure 11 shows that the exports of graduating LDCs display a limited dependence on LDC-specific preferences. Across the 12 graduating LDCs, an average of 12% of exports enter preference-granting markets under LDC schemes. While the share of exports that uses LDC specific preferences is 71% for Bangladesh and 26% for Myanmar, it is between 10% and 20% for Bhutan, Nepal and Solomon Islands; between 5% and 10% for Lao PDR; and below 5% for Angola, Kiribati, Sao Tomé and Principe, Timor-Leste, Tuvalu and Vanuatu.

A number of factors can explain this relatively low share of trade taking place under LDC schemes. In the case of Angola, Kiribati, Sao Tomé and Principe, and Timor-Leste, more than 85% of exports enter preference-granting markets MFN duty free, reflecting the concentration of their exports in primary commodities, i.e. petroleum for Angola and Timor-Leste, cocoa for Sao Tomé and Principe, and fish for Kiribati. Bhutan and Nepal each have a bilateral RTAs in place with India, their main trading partner. The Solomon Islands are not covered by the LDC scheme of China, which accounts for more than half of its exports. In addition, factors such as origin requirements or low preference margins can also explain in part why LDCs do not fully use the preferences under LDC schemes.[57]

Impact on tariff costs

Table 25 provides estimates of the increase in tariff costs for graduating LDCs due to the loss of preferences, produced by the multiplication of exports with the percentage points increase in tariffs due to the loss of preferences. Assuming full utilization of preferences, the 12 graduating LDCs are estimated to pay an additional US$3.1 billion of duties due to the loss of preferences. Around three quarters of this cost increase would be shouldered by Bangladesh. In relative terms, the increase in cost would range from 0.1% of total merchandise exports for Sao Tomé and Principe to 7.5% of total exports for Nepal.

The estimated increase in tariff cost is lower if preference utilization is taken into account. Additional costs are at least in order of magnitude smaller for Angola, Bhutan, Kiribati, Nepal, Sao Tomé and Principe, Timor-Leste and Vanuatu. In the case of Bangladesh, Lao PDR, Myanmar, and Solomon Islands, which have relatively high use rates, the differences in cost increases are less pronounced between the scenarios of full and actual preference utilization.

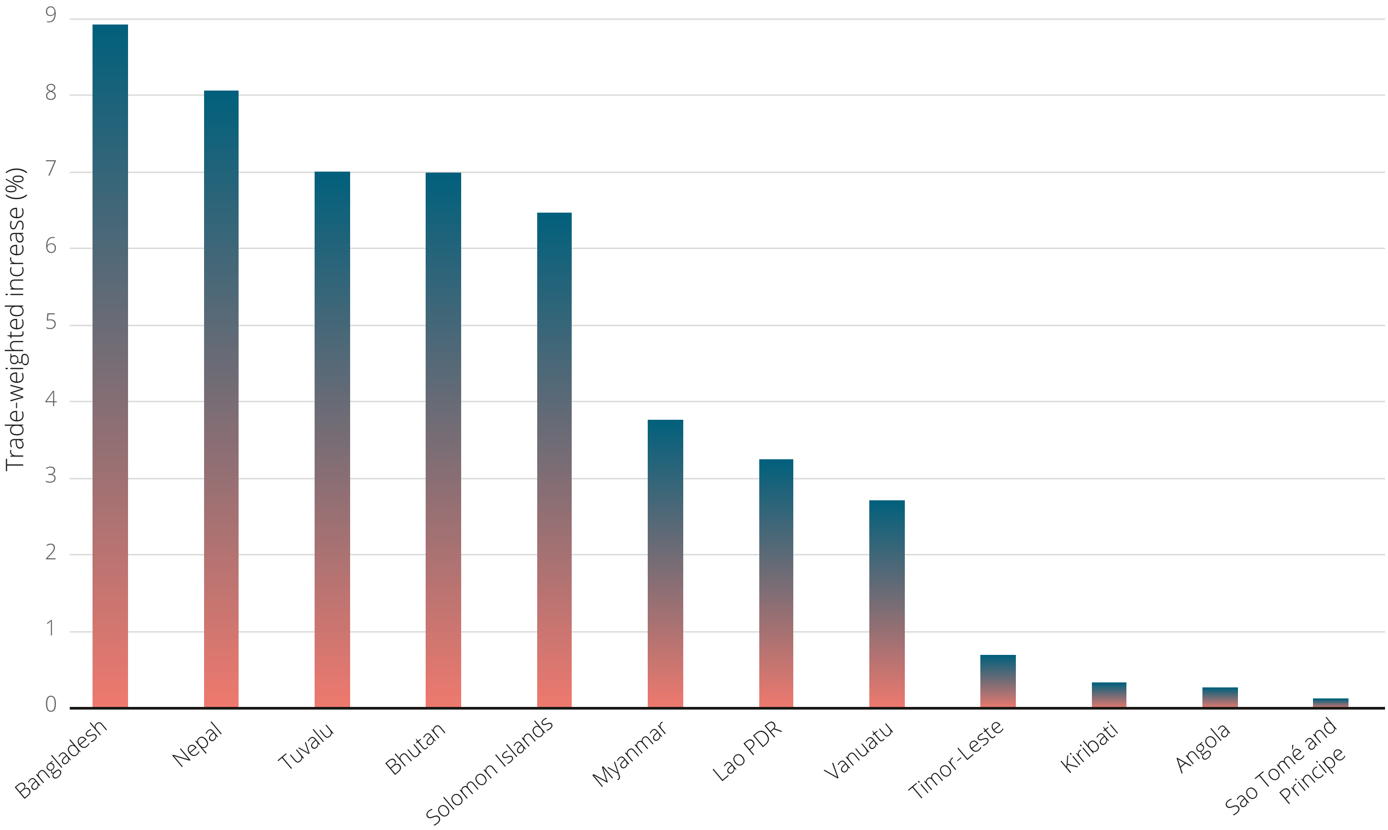
4.3 Impact on exports: partial equilibrium estimates

This section employs a partial equilibrium model to estimate the impact of the loss of LDC-specific preferences on the exports of the 12 graduating LDCs. Aggregate estimates are provided for each graduating LDC, as well as for products and destination markets.

The partial equilibrium model allows for substitution between exports from different origin countries due to changes in prices, i.e. tariffs. Import demand and export supply elasticities are employed to capture the response of import demand and export supply to changes in tariffs at the HS 6-digit level. Note that the model does not allow for substitution between exports of different products, for which a general equilibrium model with product linkages would need to be used.

One advantage of conducting the analysis at the HS 6-digit level is that changes in the direction of trade on the

Figure 10. Expected tariff rate changes on exports for graduating LDCs (percentage points)



Source: WTO IDB. Note: Tariff rate changes are calculated as the difference between the best available tariff rate after graduation and the tariff rate under LDC-specific preferences. Tariff increases are computed using tariff data for 2016. For trade weights, average trade for 2016–2018 is used. Full utilization of preferences is assumed in the calculation.

importer side can be modelled more accurately. The model assumes that a graduating LDC exports every product covered by a particular HS code, which is less likely at higher levels of aggregation. Hence, at higher levels of aggregation the model would estimate larger changes in the direction of trade, overestimating the actual scope for such effects.

The partial equilibrium model, assumptions and methodology applied are described in Annex II.

Aggregate effects for graduating countries

Table 26 displays initial exports, the change in exports (both in thousands of dollars), the change in exports as a percentage of initial exports, and the change in applied tariffs (in percentage points). The largest reductions in exports, both in dollars and in percentage of initial exports, are projected to take place in Bangladesh, for two reasons: Bangladesh is the largest exporter among the graduating countries and it is expected to face the largest increase in applied tariffs as a result of graduation. Of the US$94.5 billion of total exports by graduating countries, about US$37.6 billion originate from Bangladesh. The second largest exporter is Angola with US$36.7 billion, but this country hardly faces tariff increases (0.02 percentage point) and therefore is projected to face a reduction of only 0.07% of its exports. Bangladesh is projected to lose 14.28% of its exports, caused by a 5.73 percentage point increase in the effective tariff. This corresponds with a loss of export sales of about US$5.37 billion. The country with the second largest reduction in export sales in dollars, Myanmar, is projected to face a reduction of about US$499 million (3.83% of initial exports), which is an order of magnitude smaller than the loss for Bangladesh.

Table 26 also highlights other regions that expected to lose a sizeable share of their export sales, namely Lao PDR (1.45%), Nepal (2.48%), and Solomon Islands (4.16%). The export losses for the other regions are all projected to be below 1% of initial export sales. The expected increases in applied tariffs are driving these results: the higher the change in tariffs, the larger the percent change in export sales.

Table 50 in Annex II shows the effect when the current utilization of preferences is not taken into account. In this case, the expected tariff increases are larger, since countries often do not use the preferences currently in place for LDCs. The global average reduction in trade, US$7.50 billion, is not drastically larger than in Table 26, corresponding with a modestly higher increase in tariffs (3.38 percentage points versus 2.49 percentage points). The reason for this is that Bangladesh, the largest LDC that will lose preferences, has a high rate of preference utilization. However, for the other countries the reduction in exports is much more pronounced in the case where preference utilization is not taken into account. For example, the projected reduction in exports is much larger for Tuvalu in Table 50 (25.67%), than in Table 26 (0.08%). For Bhutan, Lao PDR, Myanmar and Nepal, the projected reductions in exports would be much higher.

Table 26. Initial exports, change in exports and effective tariff change of graduating LDCs (2016-2018 average)

Exporter	Initial exports, US$,000	Change exports, US$,000	Percentage change	Effective tariff change*, percentage
Angola	36,694,340	-25,976	-0.1%	2.0%
Bangladesh	37,633,733	-5,372,278	-14.3%	573.0%
Bhutan	295,867	-4,251	-1.4%	26.0%
Kiribati	153,730	-299	-0.2%	6.0%
Lao PDR	4,581,917	-66,313	-1.5%	65.0%
Myanmar	13,028,355	-499,133	-3.8%	175.0%
Nepal	812,796	-20,139	-2.5%	90.0%
Sao Tomé and Principe	16,043	-14	-0.1%	3.0%
Solomon Islands	826,170	-34,399	-4.2%	135.0%
Timor-Leste	123,038	-42	0.0%	1.0%
Tuvalu	58,623	-5	0.0%	0.0%
Vanuatu	293,961	-864	-0.3%	14.0%
Total	**94,518,575**	**-6,023,712**	**-6.4%**	**258.0%**

Note: Initial exports constitute 2016–2018 averages. Change in exports in US$ thousands and as a percentage of initial exports.

** The effective tariff change is measured in percentage points. It takes into account the increase in tariff rates due to the loss of LDC-specific preferences, as well as preference utilization by graduating LDCs. A lower preference utilization will result in a lower effective increase in tariffs, as a smaller fraction of exports will be exposed to changes in tariff rates after graduation.*

The sensitivity analysis provided in Table 52, Annex II shows that results are only moderately sensitive to different assumptions regarding the export supply elasticity, which reinforces the confidence in the projected effects.

Effects by product

Table 27 shows the initial exports, the change in exports (in dollars and as a percentage of initial exports), and the change in applied tariffs by product according to the multilateral trade negotiations (MTN) categories. The table clearly shows that one sector is dominating the reduction in exports: clothing. The projected reduction of exports in this sector is about US$5.26 billion out of a total reduction of about US$6.02 billion. In percentage change, the largest reductions in exports (more than 4%) are expected for dairy products (8.37%), cereals (11.89%), sugars (13.63%), beverages and tobacco (4.79%), fish and fish products (10.20%), textiles (6.78%), clothing (14.86%), leather and footwear (11.24%). As for the aggregate effects, the largest reductions take place in the sectors with the largest expected tariff increases (see last column of Table 27).

Effects by destination

Table 28 displays the change in exports for the 12 graduating countries, divided by destination (for countries withdrawing preferences and for third countries). This table highlights

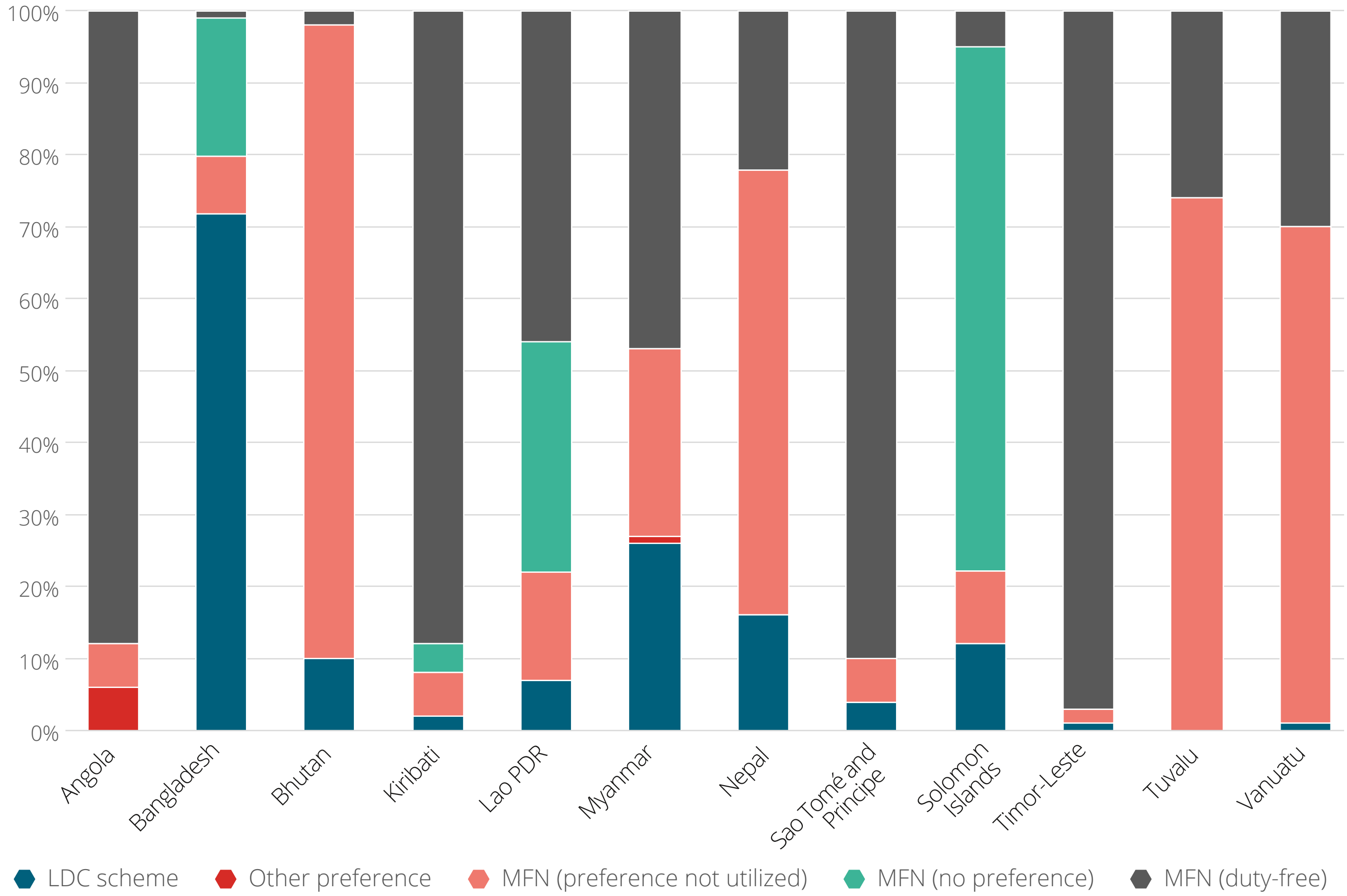
Table 27. Changes in exports and tariffs of all graduating LDCs by most-favoured-nation category

Most-favoured-nation category	Initial exports, US$,000	Change exports, US$,000	Percentage change	Effective tariff change*, percentage
Clothing	35,373,816	-5,256,837	-14.86%	6.15
Leather, footwear, etc.	2,052,507	-230,729	-11.24%	4.25
Textiles	2,905,817	-196,933	-6.78%	2.26
Fish and fish products	1,603,632	-163,623	-10.20%	2.70
Cereals and preparations	616,686	-73,321	-11.89%	5.71
Transport equipment	801,347	-30,312	-3.78%	0.94
Minerals and metals	11,720,975	-26,218	-0.22%	0.06
Beverages and tobacco	290,540	-13,924	-4.79%	2.72
Sugars and confectionery	64,896	-8,845	-13.63%	9.50
Chemicals	559,727	-7,482	-1.34%	0.29
Fruits, vegetables, plants	1,268,737	-6,256	-0.49%	0.16
Oilseeds, fats and oils	261,014	-3,005	-1.15%	0.26
Wood, paper, etc.	1,619,134	-2,191	-0.14%	0.04
Manufactures n.e.s.	1,761,105	-1,274	-0.07%	0.02
Other agricultural products	218,043	-1,062	-0.49%	0.17
Animal products	76,425	-746	-0.98%	0.53
Dairy products	4,716	-395	-8.37%	2.90
Electrical machinery	834,990	-282	-0.03%	0.01
Coffee, tea	134,370	-175	-0.13%	0.04
Non-electrical machinery	346,145	-82	-0.02%	0.01
Petroleum	31,991,615	-20	0.00%	0.00
Cotton	12,336	0	0.00%	0.00
Total	**94,518,575**	**-6,023,712**	**-6.37%**	**2.58**

Note: Initial exports constitute 2016–2018 averages. Change in exports in US$ thousands and as a percentage of initial exports.

** The effective tariff change is measured in percentage points. It takes into account the increase in tariff rates due to the loss of LDC-specific preferences as well as preference utilization by graduating LDCs. A lower preference utilization will result in a lower effective increase in tariffs, as a smaller fraction of exports will be exposed to changes in tariff rates after graduation.*

Figure 11. Breakdown of LDC exports by duty type



Source: WTO IDB. Note: The figure is based on disaggregated import data for 2015–2016 of Australia, Canada, Chile, China, European Union, India, Japan, Republic of Korea, Norway, Switzerland, Thailand and United States.

changes in the direction of trade: the graduating countries will shift their exports away from the countries withdrawing preferences and toward other regions. Table 28 shows that the total amount of such trade diversion is limited. The reduction in exports to preference-granting regions is US$6.92 billion, which is compensated for only partially with an increase in exports to third countries by about US$0.90 billion. Together this leads to a total reduction in exports of US$5.46 billion, the reduction also shown in Table 26. The largest change in exports takes place for Bangladesh. As Bangladesh exports most of its goods to preference-granting markets, there is limited scope for exports changing direction towards other markets. The reduction of exports from Bangladesh to preference-granting countries is US$6.19 billion, whereas the increase in exports to other regions is projected to be around US$0.83 billion, corresponding respectively with a 23.28% reduction and 8.09% increase in exports relative to the initial level.

In other regions the picture is similar: the extent is limited to which a reduction in exports to preference-granting countries that are withdrawing their preferences is compensated by more exports to other regions. In the Solomon Islands, for example, the reduction in exports to preference-granting countries is projected to be 21.16%, whereas the increase in exports to other regions is only 0.40%. The reason for the limited scope of re-directing exports towards other destinations is that different products are exported to third countries and to preference-granting countries. Therefore, the scope for switching destination country is limited. Partially this is due to the fact that the employed model is partial equilibrium and thus looks at each product in isolation. The model does not account for the possibility of exporting countries to reallocate resources to other sectors and thus to start exporting more in other sectors.[58]

Results on changes in the direction of trade from the importer perspective reported in Table 49 in Annex II show that the effects in the European Union are dominant and are also driving effects in some of the other regions. The EU is projected to reduce imports from graduating LDCs by about US$5.92 billion and raise imports from other regions by US$4.68 billion. As a result of the large effects for the European Union, some of the preference-granting countries whose trade-weighted applied tariffs hardly change would actually start importing more from graduating LDCs. India and the United States for example, whose applied tariffs are projected to effectively increase by only 0.01 percentage points, are projected to raise imports from graduating LDCs. This is caused by the fact that it becomes less attractive for countries like Bangladesh to export to the European Union. Therefore, they divert their trade and start exporting more to countries like India and the United States. The United States, for example, is

Table 28. Changes in exports of graduating LDCs by destination market

Exporter	Destination	Initial exports, US$,000	Change exports, US$,000	Percentage change	Effective tariff change*, percentage
Angola	Pref. granting	28,372,173	-42,960	-0.15%	0.02
	Other	8,322,166	16,983	0.20%	0.00
Bangladesh	Pref. granting	27,320,608	-6,198,836	-22.69%	7.90
	Other	10,313,125	826,559	8.01%	0.00
Bhutan	Pref. granting	280,743	-4,435	-1.58%	0.28
	Other	15,125	185	1.22%	0.00
Kiribati	Pref. granting	17,356	-309	-1.78%	0.50
	Other	136,374	11	0.01%	0.00
Lao PDR	Pref. granting	591,105	-73,513	-12.44%	5.01
	Other	3,990,812	7,200	0.18%	0.00
Myanmar	Pref. granting	11,638,438	-543,354	-4.67%	1.96
	Other	1,389,917	44,221	3.18%	0.00
Nepal	Pref. granting	773,764	-20,921	-2.70%	0.95
	Other	39,032	782	2.00%	0.00
Sao Tomé and Principe	Pref. granting	8,644	-15	-0.17%	0.06
	Other	7,399	0	0.01%	0.00
Solomon Islands	Pref. granting	174,828	-37,002	-21.16%	6.40
	Other	651,343	2,603	0.40%	0.00
Timor-Leste	Pref. granting	33,201	-48	-0.15%	0.04
	Other	89,837	6	0.01%	0.00
Tuvalu	Pref. granting	45,274	-5	-0.01%	0.00
	Other	13,349	1	0.00%	0.00
Vanuatu	Pref. granting	109,532	-1,050	-0.96%	0.38
	Other	184,429	185	0.10%	0.00
Total	**Pref. granting**	**69,365,666**	**-6,922,448**	**-9.98%**	**3.52**
Total	**Other**	**25,152,908**	**898,736**	**3.57%**	**0.00**

Note: Initial exports constitute 2016–2018 averages. Change in exports (in US$ thousands). Destination indicates countries withdrawing preferences and third countries.
** The effective tariff change is measured in percentage points. It takes into account the increase in tariff rates due to the loss of LDC-specific preferences as well as preference utilization by graduating LDCs. A lower preference utilization will result in a lower effective increase in tariffs, as a smaller fraction of exports will be exposed to changes in tariff rates after graduation.*

projected to raise imports from graduating LDCs by 4.87% of the initial imports from LDCs.[59]

Effects for other exporters

Finally, Table 29 reports the changes in exports from third countries because of the loss of preferences for graduating LDCs. To highlight the impact on the LDCs that are not losing their preferences, these countries are included separately in the table (on top). The total increase in exports from third countries, $4.50 billion, clearly corresponds with the increase in imports from third countries reported in Table 49 in Annex II. LDCs that are keeping their preferences are projected to increase their exports by about $337 million. Cambodia is the country benefiting most, both in terms of the value of exports ($307 million) and in percentage of initial exports (1.71%); it is followed by Madagascar and Haiti, projected to gain respectively $15 million and $4 million in exports (0.41% and 0.36% of initial exports). Most other LDCs are also projected to raise exports, although the impact is small.[60]

The aggregate region projected to increase exports most according to the simulation results in Table 29 is Asia ($2.0 billion), followed by Europe ($802 million).

4.4 Impact on market access for services

Export profile

The 12 graduating LDCs account for 0.22% of world services exports and for 31% of LDC services exports. Myanmar is the largest services exporter (US$5.1 billion), followed by Bangladesh (US$2.9 billion) and Nepal (US$1.7 billion) (Table 30). Over the past decade, export growth has been strongest for Timor-Leste (36% per year), Myanmar (32%) and Sao Tomé and Principe (24%). Angola (-2%) and Tuvalu (-5%) have registered negative average annual growth rates since 2011.

Travel services, which mainly reflect expenditures of foreign tourists on goods and services, is the most important export category for all graduating LDCs, except

Table 29. Changes in exports of third countries

Exporter	Initial exports, US$,000	Change exports, US$,000	Percentage change
Cambodia	17,999,506	307,118	1.71%
Madagascar	3,569,929	14,731	0.41%
Haiti	1,203,148	4,390	0.36%
Ethiopia	2,746,401	3,758	0.14%
Malawi	993,336	1,335	0.13%
Mozambique	6,337,377	1,324	0.02%
Lesotho	1,193,174	1,223	0.10%
Tanzania	5,374,605	883	0.02%
Senegal	3,558,764	657	0.02%
Uganda	2,438,733	198	0.01%
Zambia	7,631,890	174	0.00%
Mauritania	2,780,415	171	0.01%
Eritrea	503,331	159	0.03%
Niger	737,645	115	0.02%
Togo	3,411,862	96	0.00%
Yemen	1,885,550	95	0.01%
Rwanda	706,440	95	0.01%
Mali	2,459,324	42	0.00%
Sierra Leone	864,643	32	0.00%
Afghanistan	1,196,480	31	0.00%
Lao PDR	535,762	27	0.01%
Djibouti	139,342	25	0.02%
Gambia, The	202,951	11	0.01%
Comoros	111,233	5	0.00%
Benin	1,308,767	4	0.00%
Guinea	5,609,436	2	0.00%
Burkina Faso	2,576,107	1	0.00%
South Sudan	1,579,478	1	0.00%
Central African Republic	165,877	0	0.00%
Chad	1,765,591	0	0.00%
Liberia	1,860,261	0	0.00%
Guinea-Bissau	354,711	-1	0.00%
Burundi	203,348	-1	0.00%
Somalia	579,151	-9	0.00%
Total Other LDCs	**84,584,568**	**336,690**	**0.40%**
Pacific	2,663,651	800	0.03%
Middle East	816,152,775	21,734	0.00%
Commonwealth of Independent States (CIS)	522,881,958	36,057	0.01%
America	2,861,879,577	166,262	0.01%
Africa	381,014,206	342,147	0.09%
South Asia	309,629,901	742,926	0.24%
Europe	2,628,682,171	802,716	0.03%
Asia	5,393,628,116	2,048,189	0.04%
Total	**13,001,116,924**	**4,497,521**	**0.03%**

Note: Initial exports constitute 2016–2018 averages. Change in exports (in US$ thousands and as a percentage of initial exports)

Table 30. Services export profile of graduating LDCs, 2018

	Value	Annual percentage change (%)			Share in total commercial services (%)*			
LDC	US$ million	2018	2017	2011-2018	Travel	Transport	Other commercial services	Goods-related services
Angola	631	-36	38	-2	86	4	9	0
Bangladesh	2,981	32	13	11	12	25	60	3
Bhutan	183	15	11	13	56	41	3	n.a.
Kiribati	12	4	4	0	37	21	42	0
Lao PDR	915	4	5	8	87	9	4	n.a.
Myanmar	5,084	35	1	32	39	10	25	26
Nepal	1,780	29	30	13	46	6	48	n.a.
Sao Tomé and Principe	82	14	-13	24	98	0	2	n.a.
Solomon Islands	150	11	17	5	54	31	14	n.a.
Timor-Leste	223	189	25	36	98	1	1	n.a.
Tuvalu	2	-8	-8	-5	73	9	18	0
Vanuatu	377	5	11	4	82	12	6	n.a.

Source: WTO Secretariat (2019)
*Note: *The breakdown by sector is based on the year 2017 for Kiribati, Lao PDR, Nepal; on the year 2015 for Vanuatu; and on the year 2014 for Tuvalu.*

for Bangladesh, Kiribati and Nepal. The share of travel services in commercial services exports is more than 90% for Sao Tomé and Principe and Timor-Leste; more than 80% for Angola, Lao PDR and Vanuatu; and more than 50% for Bhutan, Solomon Islands and Tuvalu. Services exports of Myanmar are relatively diversified, with travel accounting for 39% of services exports, and other commercial services and goods-related services each representing around a quarter of services exports.

While tourism is an important sector for Bangladesh, Kiribati and Nepal, the main export sector comprises other commercial services. In the case of Bangladesh and Nepal, other business services and information and communications technology (ICT) services account for the large majority of other commercial services exports, while in the case of Kiribati, other commercial services exports encompass mainly construction services, financial services, and personal, cultural and recreational services.

At present, it is difficult to determine the direction of LDCs' exports of services, due to limited availability of bilateral statistics for LDCs. Bilateral data are available for Bangladesh, for which the European Union and Singapore constitute the main export markets, in particular for transport services, business services and ICT services.[61]

Preferential treatment in services

In addition to preferential market access in goods, LDCs benefit also from preferential treatment in services. At the 2011 Geneva Ministerial Conference, members adopted the so-called LDC Services Waiver, which allows members to provide preferential treatment to services and service suppliers of LDCs.[62] Preferential treatment can thereby relate to market access measures as well as any other measure. The LDC Services Waiver also specifies that the preferential treatment will be terminated when graduation of an LDC becomes effective.

A decision taken at the 2013 Bali Ministerial Conference paved the way for the operationalization of the Services Waiver,[63] while a decision adopted by the 2015 Nairobi Decision Conference extended the Waiver until 2030 and instructed the Council for Trade in Services to review the operation of notified preferences, as well as to discuss technical assistance measures aimed at increasing the participation of LDCs in the services trade.

To date, 24 WTO members, including developed and developing country members, accounting for 86% of global services trade, have notified their preferences under the LDC Services Waiver (Table 31).

Members have notified measures under a variety of sectors. Those were most often included in the notifications of preference-granting members are: business services (included by 90% of the 24 members); transport services (84%); tourism and travel (80%); recreational, cultural and sporting services (64%); distribution services (48%); and construction and related engineering (44%).

Figure 12 shows that members differ significantly in the number of sectors notified under the Waiver, with some members notifying more than 140 out of 160 sectors.[64] However, the number of sectors with measures that go beyond existing commitments in the GATS is smaller, i.e. 22 on average across preference-granting members, ranging from the maximum of 57 in the case of Chile to 1 in the case of Singapore.

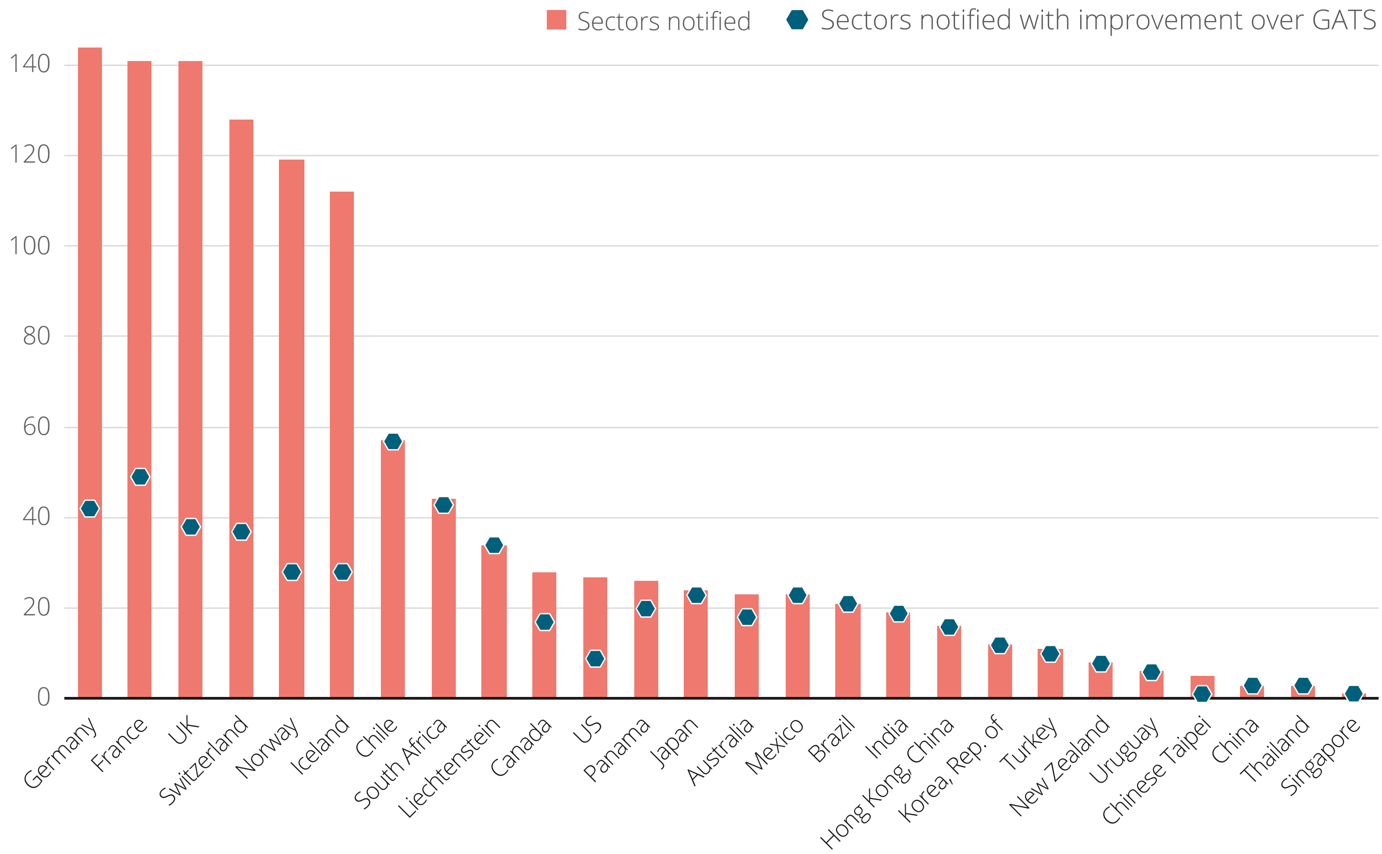
The assessment of the preference margin of measures notified under the Waiver indicates that the termination of preferential treatment will have little impact on graduating LDCs, because the large majority of measures notified reflect members' applied MFN regime. In a number of instances, measures reflect commitments of preference-granting members in RTAs with other trading partners, which, again, to a large extent reflect members' applied regime.

Table 31. Notifications under the LDC Services Waiver

Notifying member	Date of notification	References	Notifying member	Date of notification	References
Australia	29 May 2015	S/C/N/805	Korea, Rep. of	10 July 2015	S/C/N/808
Brazil	04 November 2015	S/C/N/839	Liechtenstein	30 November 2015	S/C/N/841
Canada	14 December 2015	S/C/N/792/Rev.1	Mexico	20 August 2015	S/C/N/821
Chile	08 October 2015	S/C/N/834	New Zealand	28 July 2015	S/C/N/813
China	22 July 2015	S/C/N/809	Norway	25 June 2015	S/C/N/806
European Union	16 November 2015	S/C/N/840	Panama	04 May 2017	S/C/N/890
Hong Kong, China	24 July 2015	S/C/N/810	Singapore	24 July 2015	S/C/N/812
Iceland	09 October 2015	S/C/N/835	South Africa	02 December 2015	S/C/N/853
India	29 September 2015	S/C/N/833	Switzerland	30 July 2015	S/C/N/819
Japan	31 July 2015	S/C/N/820	Chinese Taipei	24 July 2015	S/C/N/811
Korea, Rep. of	10 July 2015	S/C/N/808	Thailand	17 February 2016	S/C/N/860
Liechtenstein	30 November 2015	S/C/N/841	Turkey	14 June 2016	S/C/N/824/Rev.1

Source: WTO Secretariat (2019).

Figure 12. Number of subsectors notified by member under the services waiver (W120)



Source: WTO Secretariat (2019)

Among the preferences granted, there have been some non-market access measures such as granting of authorized destination status to LDCs (China), reduced fees for visas for business visitors (India), contact points for LDC services suppliers (Switzerland) or introduction of an e-visa application system for LDCs (Turkey). However, to date there is limited information available on the extent to which these measures have created commercial opportunities for LDC service suppliers.

The operation of preferences notified under the LDC Services Waiver was reviewed by members in a Dedicated Session of the Council for Trade in Services on 29–30 October 2019, revealing several barriers in export markets and domestic obstacles to LDC services trade. members also acknowledged the growing role of technical assistance and capacity-building aimed at strengthening the LDCs' services-supply capacity and increasing their participation in the services trade. There was a shared recognition that data gaps made it difficult to assess the impact of the preferences granted. The review and promotion of the operationalization of the waiver will continue to be under regular consideration by members in the Council for Trade in Services.

In summary, while notifications under the LDC Services Waiver have strengthened transparency in terms of existing market access measures, they have not yet resulted in significant preferences for LDCs. The loss of eligibility to preferential treatment under the LDC Services Waiver is therefore expected to have only a marginal economic impact on graduating LDCs. However, it will be important for graduating LDCs to ensure continued support by development partners, in order to address supply-side constraints and build their productive capacity in services.

4.5 Summary

The analysis in this section reveals that the impact of graduation on market access and exports will differ substantially among the 12 graduating LDCs. A few graduating LDCs, in particular Bangladesh, will experience a significant impact, while for the majority of the graduating LDCs the impact will be rather limited.

Exports of the graduating LDCs amounted to close to US$112 billion in 2018, representing close to half of the total exports of the 47 LDCs. Angola, Bangladesh and Myanmar are the three largest LDC exporters, representing 43% of LDC exports. The other nine graduating LDCs account for only 4% of LDC exports.

The export structure of graduating LDCs also differ considerably. Exports of Angola, Bhutan, Lao PDR, Myanmar and Timor-Leste are concentrated in primary commodities (including fuels and minerals); Bangladesh's exports are dominated by clothing, Nepal's considerable export revenue comes from textile items (e.g. carpets). Kiribati, Sao Tomé and Principe, Solomon Islands, Tuvalu and Vanuatu mainly export agricultural and fishing products. Key markets are the European Union, North America, and markets in Asia such as China, India, Japan and Thailand. Around 88% of merchandise exports of graduating LDCs go to markets with preference schemes for LDCs.

The loss of access to LDC-specific preference schemes is a certainty. The analysis reveals high preference margins being enjoyed by LDCs in certain products such as clothing, fish and footwear. Alternative schemes for consideration by LDCs depend on the policies of preference granting members. Most of the graduating LDCs would be eligible for standard developing country GSP schemes of developed members, though this would not necessarily give them advantage on preference margins. There are special schemes like the EU's GSP+ Programme which can be considered by the graduating LDCs; here too certain conditions would determine the eligibility.

Graduation would result in erosion of favourable treatment on rules of origin conditions in certain markets. For instance, rules of origin requirements under the Canadian LDC GSP scheme or under EU's EBA have been instrumental for LDCs to increase their exports to these markets. Unless such treatments are extended to the graduating LDCs, rules of origin associated with standard GSP would require the graduating LDCs to meet higher requirements, necessitating both adjustments in supply chains and administrative measures.

The analysis on the impact on tariffs (difference between LDC duty rate and the next best alternative rate) shows that graduating LDCs are expected to face an average tariff increase of 4.2% in preference-granting markets. But this figure hides some outliers, as tariff increase could be significant for certain items in a few markets. The impact from the loss of preferences varies substantially across graduating LDCs due to differences in exported products and destination markets. Bangladesh and Nepal are expected to experience the highest increases in tariffs (each around 9%) due to their exports of clothing and textile items to the European Union and Canada, while Angola, Kiribati, Sao Tomé and Principe, and Timor-Leste would experience only marginally higher tariff increases in destination markets (below 0.5%).

Assuming full utilization of preferences, the 12 graduating LDCs are estimated to pay an additional US$2.9 billion of tariff duties due to the loss of preferences. Around three quarters of this cost increase would be shouldered by Bangladesh. The estimated increase in duty cost is lower if preference utilization is taken into account.

Preference utilization is key to understanding the extent of the impact on graduation. Data on preference utilization submitted by preference-granting members under the PTA Transparency Mechanism reveal that the exports of graduating LDCs display a limited dependence on LDC-specific preferences. Across the 12 graduating LDCs, an average of 12% of exports enter preference-granting markets under LDC schemes. While the share of exports that uses LDC specific preferences is 70% for Bangladesh; it is between 10% and 20% for Myanmar, Nepal and Solomon Islands; between 5% and 10% for Bhutan and Lao PDR; and below 5% for Angola, Kiribati, Sao Tomé and Principe, Timor-Leste, Tuvalu and Vanuatu. Partial equilibrium estimates confirm that the loss of LDC-specific preferences is expected to have a limited and uneven impact on the exports of graduating LDCs. LDC graduation will have the greatest impact on the exports of Bangladesh, which is estimated to see its exports decline by 14%. Other graduating LDCs with sizeable reductions in exports (more than 1%) are Lao PDR, Myanmar, Nepal and Solomon Islands. The effects for Angola, Bhutan, Kiribati, Sao Tomé and Principe, Timor-Leste, Tuvalu and Vanuatu (0.1% or less) are negligible.

At the product level, clothing will face the largest reduction in value terms, mostly accounted for by Bangladesh. In relative terms, the largest reduction in exports (more than 4%) are expected for clothing (14.94%), textiles (7.11%), leather and footwear (11.93%), transport equipment (4.01%), fish and fish products (11.26%), sugars (29.87%), cereals (10.51%), dairy products (4.50%), and beverages and tobacco (4.81%).

The loss of preferential treatment under the LDC Services Waiver is expected to have a limited economic impact on graduating LDCs, since the majority of measures notified under the Waiver reflect members' applied MFN regime.

5

LDC graduation: Impact on development cooperation

This section outlines the main trends in the area of development cooperation over the most recent decade for which data are available. It provides an outline of the expected impact of graduation on several initiatives, with a particular focus on Official Development Assistance (ODA), Aid for Trade (AfT), technical cooperation, capacity building and participation in the UN system.

5.1 Landscape of Official Development Assistance for graduating LDCs

Total ODA commitments to graduating LDCs increased substantially in real terms from 2008 to 2017, more than doubling in constant 2017 US dollars, compared with an increase of only 27% for the LDC group as a whole (Table 32). Gross ODA disbursements in graduating LDCs grew by 78% between 2008 and 2017, from US$5.2 billion to US$9.3 billion, compared with growth of 41% in the overall LDCs cohort. However, the increase in disbursements was not uniform across the board. Disbursements more than doubled for Myanmar (+225%), Kiribati (+190%), Nepal (+109%) between 2008 and 2017, while Angola (-16%), Sao Tomé and Principe (-20%), Solomon Islands (-20%) and Timor-Leste (-11%) saw a decline in their ODA disbursements. Figure 13 shows that 40% of ODA disbursed to graduating LDCs over the last decade went to social infrastructure and services, followed by economic infrastructure and services (17%). Nevertheless, in 2017, ODA to graduating LDCs for social infrastructure and services had fallen to 36% of the total, while economic infrastructure and services saw an increase to 32%.

The donor prioritization of graduating LDCs and the relative shift in priorities from social to economic infrastructure may reflect the greater absorptive capacity of such economies, of geographical priorities, and of the desire of donors to invest in more rapidly developing countries. Most of the graduating LDCs had not met the criteria for graduation at the start of the period under analysis, and it is unlikely that the formal UN graduation process itself influenced ODA trends in most of these countries.

Table 53 in Annex III shows the top ten official donors in each of the 12 graduating countries for the year 2017. The largest multilateral partner for graduating LDCs in 2017 was the World Bank's International Development Association (IDA) with US$1.8 billion in ODA, 64% of which went to Bangladesh. The Asian Development Bank (ADB) was the second-largest multilateral source of ODA for graduating LDCs, at US$746.8 million in 2017. South–South donors such as China are increasing their development cooperation with LDCs (although reliable historic data are unavailable). Australia, Japan and New Zealand feature prominently in their neighbouring region, the Asia-Pacific, underlining the decision of many donors to base their assistance on geography rather than on LDC status per se. The EU is a top-10 donor for all graduating countries, although its total sum of ODA is lower than the United States, which is a development partner for only half of them. Some EU countries, such as Austria, France, Germany, Italy, Portugal and the United Kingdom, feature in the top-10 donors despite also being EU member states.

Table 32. ODA commitments and disbursements, US$ million and percentage change

	Commitments		Disbursements	
	Value in 2017, US$ million	Percentage change 2008-2017	Value in 2017, US$ million	Percentage change 2008-2017
Graduating LDCs	**12,586**	**107%**	**9,299**	**78%**
Other LDCs	**45,870**	**15%**	**42,925**	**35%**
LDCs, Total	**58,456**	**27%**	**52,224**	**41%**
Angola	391	-20%	297	-16%
Bangladesh	6,000	85%	4,566	74%
Bhutan	78	-0%	132	84%
Kiribati	92	149%	77	190%
Lao PDR	548	82%	564	84%
Myanmar	2,817	469%	1,590	225%
Nepal	2,008	182%	1,439	109%
Sao Tomé and Principe	27	-43%	45	-20%
Solomon Islands	265	-14%	195	-20%
Timor-Leste	185	-22%	232	-11%
Tuvalu	47	134%	27	69%
Vanuatu	127	11%	135	38%

Source: OECD, DAC-CRS Aid Activities Database (2019).

AfT disbursements to graduating LDCs grew faster than AfT to the LDC group as a whole in 2008–2017. The 260% increase from US$951.7 million in 2008 to US$3.4 billion in 2017 (measured in constant 2017 US dollars) was even higher than the growth in ODA during the same period (Figure 14). AfT increased partly because the initiative gained momentum after its launch at the Hong Kong WTO Ministerial Conference in December 2005. The upturn in AfT to graduating countries may, as for ODA, be a sign that donor partners wish to invest in rapidly growing countries that have better absorptive capacity and a need for infrastructure, or which have less pressing humanitarian and externally financed social priorities than other LDCs.

This latter conjecture is supported by the fact that transport and storage saw the largest sectoral increase in AfT to graduating countries over the decade, with a growth rate of 471%, followed by industry at 439%, and banking and financial services, with a 434% increase from 2008–2017. On a sectoral basis, energy formed the largest single component of AfT to graduating LDCs in 2017, at US$1.2 billion, around a third of the total, and slightly higher than transport and storage, at US$1.1 billion. Mineral resources and mining was the sector which received the smallest sum of AfT, at US$5.2 million. All graduating LDCs experienced an increase in AfT during the 2008–2017 period except Angola, for which it decreased from US$45.1 million in 2008 to US$12.7 million in 2017.

5.2 Expected impact of graduation on ODA

Developed countries have pledged to prioritize assistance to LDCs, to untie aid and to provide a fixed proportion of assistance to LDCs as grants rather than loans. In the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda and the Istanbul Programme of Action for LDCs for the Decade 2011–2020, developed countries reiterated their commitment to provide the equivalent of 0.15–0.20% of their GNI in the form of ODA to LDCs.[65] The development cooperation landscape in many of the 12 graduating countries might therefore be expected to change after they leave the category.

In practice, however, in 2018 only five of the 30 members of the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) fulfilled the 0.15%–0.20% GNI commitment: development assistance after LDC graduation therefore is not falling as expected in the run-up to graduation, nor afterward. Moreover, because most bilateral and multilateral donors do not use the LDC criteria in aid allocation, graduation per se is unlikely to directly affect most ODA. As explained in the sub-section below, multilateral organizations base their aid decisions mainly on income level, while bilateral donors often take into account a broader set of criteria, such as regional interests, countries' needs, governance and human rights.

Criteria used by multilateral organizations

In deciding how to allocate resources and assistance, development banks and international financial institutions often do not use the LDC category itself. For example, the African Development Fund (the concessional window of the African Development Bank Group) uses GNI per capita to determine eligibility for their funds. In addition, LDC membership is generally not a condition in the delivery of technical assistance by the UN development system. Most UN entities will continue to support graduated countries through their transition periods and beyond. Several UN system organizations, including UN DESA, provide specific support to help smooth the transition for graduating countries. The following sub-sections analyse in more detail the two largest multilateral donors, i.e. the World Bank and the Asian Development Bank.

The World Bank

The World Bank is the largest provider of ODA worldwide. In 2017, over 7 billion of net total ODA was allocated to LDCs, with close to one quarter (23%) going to graduating LDCs. However, the World Bank does not use the LDC category for its lending rules; instead, it uses an income classification based on GNI per capita with annual adjustments (Table 33). The World Bank's original lending instrument — the International Bank for Reconstruction and Development (IBRD) – provides financial support in a form of loans to middle-income countries. The IBRD offers flexible loans with market-based interest rates reflecting IBRD's AAA rating, with final maturity up to 35 years. The interest rates include a reference rate (LIBOR/EURIBOR)[66] and a spread (either fixed or variable). In addition, there is a fee to be paid on the committed amount. However, many developing countries

Table 33. World Bank's classification of countries by income level for the fiscal year 2020

Threshold	GNI per capita, World Bank Atlas method
Low income	$1,025 or less
Lower-middle income	$1,026 — 3,995
Upper-middle income	$3,996 — 12,375
High income	$12,375 or more

Source: World Bank Country and Lending Groups, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519 , accessed on 21 February 2020.

do not have the financial ability to borrow from IBRD. As shown in Table 34, World Bank's International Development Association (IDA) provides financial support on concessional terms with zero or very low interest rates extended to 30+ years to the developing countries, including those with a high level of debt.

In principle, graduation from IDA eligibility becomes effective when a country reaches US$1,175 per capita income level, but there are additional criteria based on size, risk of debt distress and creditworthiness.

With respect to IDA concessional credits, there are three types of terms: regular, blend and small economy. Regular terms are open to IDA countries with low or moderate level of debt distress, with the exception of Small States economies. Countries with high risk of debt distress can access IDA Grants. Blend terms are provided to Gap[67]/Blend countries who are not covered under Small Island Economies exception nor Small States Economies definition. Small Economy terms are provided to three types of IDA eligible countries: (i) Small Island Economies including those that fall under the Small Economies exception with low or moderate risk of debt distress; (ii) blend countries that have been granted a Small Economies exception; (iii) Small State Economies that are not island states.[68]

With respect to IDA grants, Bank Policy sets out three categories: (i) IDA-only Countries, including those covered under Small Island Economies exception with high or moderate risk of debt distress; (ii) IDA-eligible Countries, including Blend and Gap Countries that meet the criteria as a "refugee host country" under the IDA Regional Program; (iii) certain regional organizations. IDA Graduates of the latest IDA cycle can also access IDA non-concessional credits on an exceptional basis, to help ensure a smooth transition. IDA's new Sustainable Development Finance Policy will become operational on 1 July 2020. The third lending category of the World Bank is attributed to Blend countries – those countries that are eligible for IDA loans as well as IBRD loans due to their creditworthiness.

Most of the countries graduating from LDC status are classified as lower-middle income countries except for Tuvalu (upper middle income) and Nepal (low income); thus they have already surpassed the per capita threshold (Table 35). Nevertheless, most of them remain in the IDA lending category because they meet the other IDA eligibility requirements (except Angola, which falls under the IBRD). Timor-Leste belongs to the Blend lending category, while Nepal is the only graduating LDC with an income level per capita below US$1,175 and is thus eligible on regular IDA terms. The remaining graduating LDCs are IDA-eligible either on small economy terms or blend-credit terms.

The Asian Development Bank

The Asian Development Bank (ADB) adopts a similar system to that of the IDA, based on income and creditworthiness, to determine eligibility for concessional finance, including for its Special Funds. In this case, belonging to (or graduating from) the LDC category may affect the type of assistance for some countries. As summarized in Table 36, graduating countries that lack creditworthiness and exceed the GNI cut-off threshold would go from receiving concessional assistance only to "OCR blend" (ordinary capital resources and concessional financing), and countries with adequate creditworthiness that exceed the GNI cut-off threshold would go from receiving "OCR blend" to regular "OCR-only" (ADB, 2018).[69]

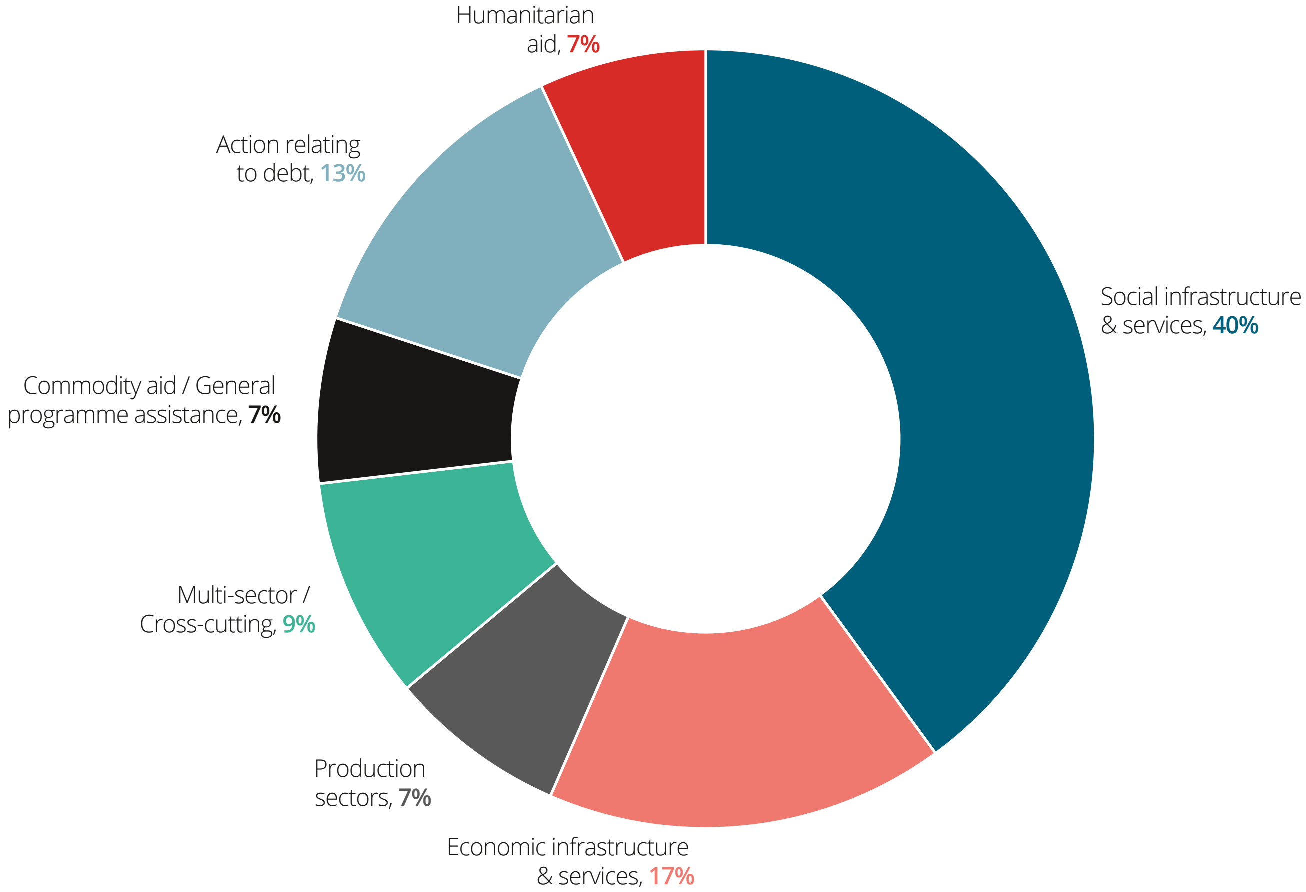
"Group A" countries, like other LDCs and low-income countries that lack creditworthiness, receive concessional assistance only. If these countries exceed the GNI per capita cut-off threshold when they graduate from the LDC

Table 34. Overview of IDA financing for credits and grants

	Maturity	Grace period	Principal repayments		Acceleration clause	Service charge for credits (SDR)	Interest rate
Grants	N/A	N/A	N/A	N/A	N/A	NA	N/A
Regular	38	6	3.125% for years 7-38		Yes	0.75%	N/A
Small Economy	40	10	2% for years 11–20	4% for years 21-40	Yes	0.75%	N/A
Blend	30	5	3.3% for years 6–25	6.8% for years 26-30	Yes	0.75%	1.25%
Non-concessional credits	Up to 35 years maximum maturity; up to 20 years average maturity		Flexible	Flexible	N/A	N/A	LIBOR +IBRD fixed or variable spread with an option to fix the rates

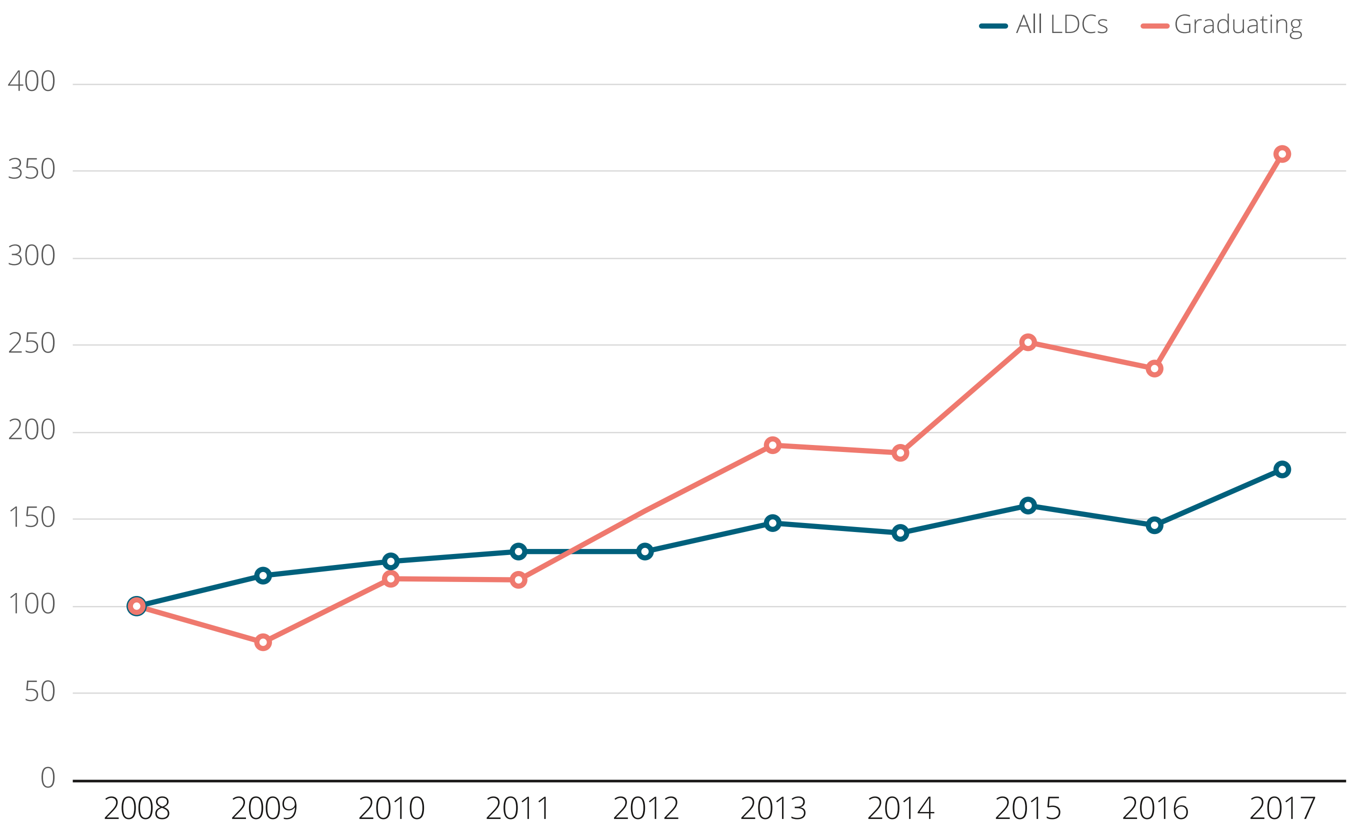
Source: World Bank, Bank Policy, Financial Terms and Conditions of Bank Financing, 1 July 2019, accessed on 21 February 2020.

Figure 13. ODA by sector to graduating LDCs, 2008–2017 average



Source: OECD, DAC-CRS Aid Activities Database (2019)

Figure 14. Aid for Trade disbursements to LDCs, 2008–2017, re-based to 100 in 2008



Source: OECD, DAC-CRS Aid Activities Database (2019)

Table 35. Lending categories of graduating LDCs

Country	GNI per capita, 2018 (USD)	World Bank classification	Lending category	Risk of external debt distress	Grant eligibility
Angola	4,477	Lower middle income	IBRD		
Bangladesh	1,274	Lower middle income	IDA (Blend-credit terms	Low	100% credits
Bhutan	2,401	Lower middle income	IDA (Small-economy terms)	Moderate	100% credits
Kiribati	2,986	Lower middle income	IDA (Small-economy terms)	High	100% grants
Lao PDR	1,996	Lower middle income	IDA (Blend-credit terms)	High	100% credits
Myanmar	1,255	Lower middle income	IDA (Blend-credit terms)	Low	100% credits
Nepal	745	Low income	IDA (Regular)	Low	100% credits
Sao Tomé and Principe	1,684	Lower middle income	IDA, (HIPC) (Small-economy terms)	In debt distress	100% grants
Solomon Islands	1,763	Lower middle income	IDA (Small-economy terms)	Moderate	50–50% grants–credits
Timor-Leste	2,656	Lower middle income	Blend (also IDA eligible: Small-economy terms)	Low	100% credits
Tuvalu	5,388	Upper middle income	IDA (Small-economy terms)	High	100% grants
Vanuatu	3,014	Lower middle income	IDA (Small-economy terms)	Moderate	50–50% grants–credits

Sources: World Bank, International Development Association: Debt, http://ida.worldbank.org/debt/; Borrowing Countries, http://ida.worldbank.org/about/borrowing-countries , accessed on 21 February 2020.

category, they become "Group B" countries. This category includes: countries that lack creditworthiness, exceed the per-capita GNI threshold and are not LDCs; countries that have limited creditworthiness; and countries that have adequate creditworthiness but either have a GNI level below the threshold or are an LDC. Group B countries receive a blend of concessional and non-concessional assistance.

However, the actual assistance delivered (concessional or non-concessional) depends on many factors, including indicators of debt sustainability. For example, if developing country members of the ADB are at moderate or high level of debt distress classified by the World Bank and IMF or in debt distress under the debt sustainability framework for low-income countries, they remain in Group A even after graduation from LDC status. Finally, it is important to acknowledge that all reclassifications are based on a case-by-case basis and must be approved by the Board.

Criteria used by bilateral donors

Based on formal communication and interviews with relevant contacts conducted by the UN CDP for the graduation impact assessments in 2018 and 2019, LDC graduation is not expected to have significant impacts in terms of ODA or grants for most bilateral donors. In most cases, development assistance is determined by criteria other than LDC status in benefiting countries, e.g. regional dynamics, recipients' needs, governance and human rights.

The European Union's support to graduating LDCs will remain unchanged irrespective of their status, while bilateral cooperation with Germany could be characterized by a shift from grants to soft loans. On the other hand, Japan has stated that new ODA loans would be under the terms applicable to non-LDC lower middle-income countries. Terms and conditions are revised annually, but, for reference, the terms and conditions for Japanese ODA loans effective from 1 April 2019 (JICA, 2019) indicate rates 25–60 base points higher for non-LDC lower middle-income countries than for LDCs. Lending is not automatic, however, and takes into account existing debt levels, among other factors. Graduation could imply small changes in the terms of loans for the Republic of Korea, as well: LDCs have the most favourable conditions, including lower interest rates and longer repayment periods, for the loans provided by the Economic Development Cooperation Fund of Korea. These terms would no longer apply after graduation.

Table 36. Asian Development Bank decision matrix of classification for concessional financing

Creditworthiness	Per capita GNI cut-off		
	Below the per capita GNI cut-off	Above the per capita GNI cut-off	
		LDC	Other
Lack of	Concessional assistance only (Group A)	Concessional assistance only (Group A) Lao PDR before graduation	OCR blend (Group B) Lao PDR after graduation, all else remaining equal
Limited	OCR blend Group B)	OCR blend (Group B)	OCR blend (Group B)
Adequate	OCR blend (Group B)	OCR blend (Group B)	Regular OCR-only (Group C)

Sources: UN DESA impact assessments: Bangladesh, Lao PDR, Myanmar; https://www.un.org/development/desa/dpad/publication/preliminary-assessments-for-the-2021-triennial-review/ ; Asian Development Bank, 2018 https://www.adb.org/sites/default/files/institutional-document/31483/om-a3.pdf, accessed on 20 April 2020.

5.3 Dedicated technical assistance and capacity building initiatives

Several technical assistance and capacity building programmes are available to LDCs.

The Technology Bank aims at strengthening science, technology and innovation capacity of LDCs, giving them better access to intellectual property. The Bank aims to attract outside technology and generate homegrown research, innovation and marketing. It acts as a conduit between IP holders and LDCs to help them use desired technologies, particularly those no longer protected by IP rights. After graduation, countries will continue to have access to the Bank for five years.

The LDC Fund for climate change supports the preparation and implementation of national adaptation programmes of action, supports the participation of at least two delegates per LDC Party for training workshops, and prioritizes the participation of LDCs in a variety of events. According to Global Environment Facility (GEF) data, grant proposals or disbursements from the LDC Fund to graduating LDCs totalled US$327.3 million (US$1.9 billion with co-financing). The GEF will be requested to pledge assistance for LDC smooth transition by maintaining access to the LDC Fund for projects already underway before graduation. Other entities providing support for the LDC work programme are invited to continue providing support to graduating LDCs for three years after graduation. It will be asked to extend access to the LDC Fund for three years after graduation, and graduated LDCs will be supported in capacity-building activities such as training, workshops, expert meetings and other outreach events for three years after graduation.

The Enhanced Integrated Framework (EIF) has two funding facilities: (i) the Tier I facility focuses on institutional and policy-related support, including the preparation of a Diagnostic Trade Integration Study (DTIS) and an Action Matrix, which allow LDCs to tackle trade-related constraints and to anchor trade policy in their national institutional and development strategies; (ii) the Tier II facility funds projects addressing supply-side constraints. As mentioned in Section 3.4, EIF members will receive five years of support following graduation (although the current phase of the EIF programme is scheduled to run until 2022). Graduating LDCs can maximize the use of EIF support to ensure a smooth transition, by integrating graduation-related analysis into the DTIS, developing post-graduation strategies, and participating in regional projects with a focus on LDC graduation. For example, seven graduating LDCs across Asia and the Pacific are currently benefiting from a dedicated capacity-building programme developed by the World Association of Investment Promotion Agencies (WAIPA).

The International Development Law Organization's Investment Support Programme for LDCs provides on-demand legal and professional assistance to LDC governments and eligible state-owned or private sector entities for investment-related negotiations and dispute settlement. Graduated LDCs will have access to the Investment Support Programme for LDCs for up to five years after graduation.

With respect to the Advisory Centre on WTO Law (ACWL), LDC WTO members and observers can benefit from the ACWL services while not being required to join the ACWL.[70] In addition, LDC WTO members also benefit from a special rate for its WTO dispute settlement support. Following graduation, graduated LDCs will be required to join ACWL and pay a one-time contribution in order to access its services.

5.4 UN system budget and travel support

After graduation, countries will no longer have access to measures supporting the participation of LDCs in the UN and other international forums, including limits to mandatory budget contributions and support for travel to international conferences.

Most of the UN system budgets are based on the "scale of assessments" (i.e. the percentages of the budget that each country is responsible for) used for the UN regular budget. The scale is determined by capacity to pay. A maximum rate of contribution applies to all countries (currently 22%), but LDCs benefit from a lower maximum rate (currently 0.01%), which will no longer be available after graduation. The International Telecommunications Union, World Intellectual

Property Organization and Universal Postal Union use a system based on classes of contributions, and only LDCs can opt to contribute at the lowest levels. Contributions to funds and programmes, such as the United Nations Children's Fund and the United Nations Development Programme, are voluntary. Contributions to the WTO are determined based on members' share of international trade, with no concessions specifically for LDCs.[71]

Finally, the UN and some of its organizations also offer travel support for LDCs to participate in official meetings. Representatives of LDCs are funded to attend the regular sessions of the General Assembly, and this funding can be extended for up to three years after graduation. After applicable transition periods, this support is no longer available. Some modalities of travel support are also extended to other categories of countries.

6

Options for graduating LDCs

The international community is aware of the challenges associated with LDC Graduation and has been engaged with the graduating LDCs to ensure smooth transitions. The UN General Assembly has invited the graduating LDCs to prepare smooth transition strategies and to outline the steps and support needed to help them remain on a sustained path of growth and development. Several graduating LDCs have prepared or are in the process of preparing their respective strategies to embrace graduation. Recognizing LDC Graduation as an important milestone of the development progress, the UN General Assembly has also called on WTO members to consider extending to a graduated country the existing S&D provisions and exemptions available to LDCs for a period appropriate to the development situation.[72]

This section outlines options that can support a smooth integration into the global economy for graduating LDCs. Section 6.1 looks at preferential market access, Section 6.2 describes existing WTO measures, and Section 6.3 outlines the options for development cooperation.

6.1 Preferential market access

Graduation from LDC status will eventually result in the loss of preferences received by the LDCs on a non-reciprocal basis under GSP schemes of developed country members. Access to LDC-specific preferences in RTAs may also cease to exist. This impact will vary depending on the extent that graduating LDCs have used these preferences. For some, the impact will be limited, while for others the likely impact may necessitate that the graduating governments identify effective options to continue their integration into the global economy. Following are options that could be explored by LDCs as they prepare to embrace graduation.

First, the European Union's Everything But Arms (EBA) initiative has a built-in transition period that provides graduating LDCs with DFQF market access (i.e. continuation of EBA benefits) for a period of three years after the date of graduation. This is a flexibility that is welcomed by most graduating LDCs, and they have expressed interest in benefitting from similar provisions in other GSP schemes. Graduating LDCs can actively engage with their preference-granting partners to try and secure an additional transition period to phase out LDC preferences in a gradual and extended manner. For instance, Samoa obtained a three-year transition period from China on its noni juice and other agroprocessing products upon graduation in 2014.

Second, most of the graduating LDCs can be expected to qualify for GSP preferences for developing countries (see Table 21 in Section 4). For instance, admission of graduated LDCs to the EU's standard GSP scheme for developing countries is automatic. Moreover, graduating LDCs have the option to access the GSP+ initiative of the EU, provided certain conditions, such as signing up to 27 international conventions, are met. Among recently graduated LDCs, Cabo Verde was granted GSP+ preferences in 2011.

Third, there are several PTA schemes that are not LDC-specific, but which certain graduating LDCs can continue to access. The African Growth and Opportunity Act (AGOA) is a case in point. Angola and Sao Tomé and Principe will remain eligible to preferences under AGOA following their graduation from LDC status.

Fourth, the preferences granted to graduating LDCs under RTAs will continue in most cases, as such preferences were often not extended due to LDC status and were mostly the result of reciprocal negotiations (see Table 22 in Section 4). For instance, Lao PDR and Myanmar will remain eligible for preferences under the RTAs concluded by ASEAN with Australia, China, India, Japan, the Republic of Korea and New Zealand. Bangladesh and Lao PDR will continue to benefit from preferential market access in China and the Republic of Korea under APTA. The four LDCs in the Pacific will benefit from duty-free market access in Australia and New Zealand under PACER Plus when it enters into force, replacing SPARTECA. Furthermore, most of the trade in certain graduating LDCs takes place under bilateral arrangements. Such is the case with Bhutan and Nepal, which have bilateral agreements with India, as well as Lao PDR with Thailand. These arrangements remain unaffected after graduation.

Fifth, when transitioning from LDC preferences to alternative preferences, graduating LDCs will often face different and more stringent rules of origin. It will be important to set up mechanisms to build the capacity of firms and trade operators in graduating LDCs so that they can smoothly adjust to new origin criteria, new cumulation options, and new obligations and formats regarding origin certification.

Sixth, irrespective of favourable market access agreements, and despite making socio-economic progress, most graduating LDCs continue to be characterized by weak productive capacity. Exposure to a more competitive environment will require them to further strengthen their efforts to lower trade costs and build their supply-side capacity, in order to become more competitive in international markets. For instance, implementation of the WTO Trade Facilitation Agreement and AfT support play key roles in lowering trade costs and building productive capacities, respectively.

6.2 WTO measures

WTO rules have several in-built mechanisms that can support WTO members graduated from the LDC status, to address their trade-related challenges resulting from graduation. They range from submitting a request for a waiver from WTO obligations, to extending transition periods, to addressing specific problems through Committee work, and to better monitoring graduation-related implications including through the TPRM in the WTO. In addition, EIF benefits remain available for a period of five years after graduation, and customized WTO TRTA could be designed to assist the graduating LDCs.

Transition periods

Several WTO Agreements offer developing country members a transition period for implementation. However, most of these transitional arrangements have expired. LDCs have benefitted from longer transition periods compared to developing country members. Currently, the most pertinent transition period is under the TRIPS Agreement: since its entry into force in 1995, LDCs have continued to receive extensions of initial transition periods to implement the Agreement.

Article 66.1 of the TRIPS Agreement accorded LDC members an 11-year exemption from the main provisions of the Agreement in view of their special needs and requirements, their economic, financial and administrative constraints, and their need for flexibility to create a technological base. This general transition period has been extended twice. In addition, LDCs benefit from a transition period that allows them to exempt pharmaceutical products from patent protection until 1 January 2033.

LDC Ministers attach considerable importance to the existing LDC-specific transition periods. A proposal by the LDCs in the context of ongoing fisheries subsidies negotiations has been reflected in LDC Trade Ministers Declaration adopted at the Eleventh WTO Ministerial Conference (MC11) in 2017. At the MC11, the LDC Group requested that, should an LDC graduate during a transition period that has not expired, it could make use of the remaining timeframe of that LDC-specific transition period. Subsequently, in the context of a textual proposal tabled in March 2020, the LDC Group has reiterated these transitional arrangements.[73]

Waivers

Article IX of the Marrakesh Agreement Establishing the WTO sets specific rules for granting waivers in the event that a member faces difficulty in remaining compliant with the WTO rules. A waiver decision must indicate the exceptional circumstances, the terms and conditions for granting such a waiver, and the end date. If a waiver is granted for a period of more than one year, it should be reviewed annually until its specified end date. Waivers can be reviewed, modified or terminated. The granting of waivers, as well as any possible extensions, is guided by the Understanding in Respect of Waivers of Obligations under the GATT 1994. With respect to waivers involving LDCs, the Hong Kong Ministerial Declaration provides for special consideration. For instance, members have been asked to give positive consideration to waiver requests from LDCs and to take a decision within 60 days of submission. This represents a certain degree of special treatment for LDCs over and above other members.

A graduating LDC, like any other WTO member, can request a waiver from certain obligations in the WTO, should they envisage difficulties in complying with any WTO rules and disciplines. The granting of the waiver, as well as its terms and conditions, would need to be agreed to by WTO members.

Regular work of the WTO bodies and the WTO monitoring function

Another option available for graduating LDC members is to maximize the use of the regular WTO Committee work. A graduating LDC member might consider raising, in the relevant WTO Committee, a graduation-related challenge faced in the implementation of a particular provision. Some of the WTO Agreements already include a framework to address some of these challenges.

For example, the TFA includes several provisions that aim to address some of the implementation-related challenges faced by developing and LDC members by engaging in the Committee on Trade Facilitation. These provisions include recurrence to an early warning mechanism (Article 17) and shifting from Category B to C (Article 19). These provisions are available to developing and LDC members. Under the Early Warning Mechanism, if a developing country member or an LDC member considers that it will have difficulty implementing a provision in Category B or Category C within the notified definitive date, it can request an extension. Countries are required to notify the Committee if such requests exceed 18 months for developing country members and three years for LDCs. Developing countries are required to submit to the Committee a request for an extension indicating the new date and the reasons for the delay no later than 120 days before the expiration of the original definitive implementation date. LDCs can do so no later than 90 days before the expiration of the original definitive implementation date.

The work of the Committee on Customs Valuation has also allowed for flexibility in the implementation of the CVA. In the past, seven LDC members requested an additional extension beyond the original 5-year transition period, in order to comply with the CVA. Burundi, Haiti, Mauritania, Myanmar, Rwanda, Senegal and Tanzania made use of Annex III.1 which allowed for an extension recognizing that the original transition period might not be sufficient.[74] In addition, 13 LDC members (including some graduating LDCs) reverted to reservations to continue using minimum values for customs valuation purposes on a limited and transitional basis.[75]

Another example can be found in SPS and TBT Agreements. Article 10.3 of the SPS Agreement and Article 12.8 of the TBT Agreement allow their respective Committees to grant upon request specified, time-limited exceptions in whole or in part from obligations under this Agreement with a view to ensuring that developing country members are able to comply with the Agreements. A graduated member might consider making use of these flexibilities in order to address possible graduation-related challenges. In addition, the work of the SPS and TBT Committee plays an important role in providing a platform for discussion of the SPS and TBT measures adopted by members, commonly referred to as "specific trade concerns (STC)." So far, the graduating LDC members have made limited use of these discussions. Engaging in the SPS and TBT Committee work can help graduating LDC members to keep abreast of the latest regulatory changes of the trading partners which can ultimately support their exporters to timely respond to these changes.

In order to facilitate the dissemination of information on SPS and TBT regulatory changes, UN DESA in cooperation with the WTO Secretariat and International Trade Centre (ITC), developed ePing — an online alert notification system — as part of DESA's capacity development activities for LDCs as well as at the request of WTO members resulting from TBT Committee discussions. This system enables subscribed stakeholders, including small-scale entrepreneurs, trade experts and policy-makers, to get real-time updates on their trading partners' regulatory changes. It also helps the Enquiry Points to review the proposed regulatory changes, consult with domestic stakeholders and provide comments. The system currently includes more than 9,200 users from 179 countries. Several LDCs feature among the top 20 subscribers, including Uganda, Rwanda and Tanzania. These are also the countries that had received customized training from UN DESA, the United States Agency for International Development's East Africa Trade and Investment Hub, and the WTO during 2017–2018.

In 2019, Lao PDR and Myanmar benefitted from ePing-related capacity development activities from UN DESA. For 2020 and 2021, training activities for ePing are being planned in following graduating LDCs: Bangladesh, Bhutan and Vanuatu. The remaining graduating LDC members might consider requesting a customized training programme from ePing partners UN DESA, WTO and ITC to ensure that their national stakeholders are well versed in using the system.

Apart from the regular WTO Committee work, the WTO monitoring function can contribute to an evidence-based overview of trade-related impacts of graduation. Recently, discussion of LDC graduation has featured in WTO Trade Policy Reviews of graduating LDC members. Graduating LDC members can capitalize on the findings presented in their respective TPRs and request targeted technical assistance for graduation-related areas in which additional support is required. Depending on national trade interests, graduating LDCs could consider following work carried out to address specific challenges of developing countries, or joining different coalitions in the WTO. One such area is the Work Programme on Small Economies, as a majority of graduating LDCs would qualify as Small Economies given their small trade share in world exports of agricultural as well as non-agricultural products.

Strengthening capacity to trade

Loss of entitlements to WTO's TRTA is limited for graduating LDCs. A range of technical assistance products will continue to remain available to the graduating LDCs, which should make maximum use of these opportunities. For instance, requests from the LDCs for national technical assistance activities under WTO's TA Plan have been limited. A graduated

LDC can request such activities, for which the WTO Secretariat is ready to provide customized support. With the latest WTO Technical Assistance Plan ending in 2021, graduating LDC members might consider indicating their priorities in preparation for the next biennial WTO Technical Assistance Plan. As part of joint EIF Project on LDC Graduation, regional workshops were held with the participation of capital-based senior officials from graduating LDCs.

Access to EIF support will remain available during a period of up to five years after graduation from LDC status. To ensure a smooth transition, the EIF transition period allows for the full implementation of all institutional and productive capacity building projects approved within five years following graduation. One of the key features of graduation support includes the development of graduation strategies. Several graduating LDCs are currently preparing their graduation strategies. It is important for all graduating LDCs to consider developing a graduation strategy and ensure its integration with the national trade policy and a broader national development strategy.

While a country-specific approach remains essential to support graduating LDCs in addressing particular challenges resulting from their graduation, EIF can also play an important role in helping to address challenges that are common to all graduating LDC members. For example, increasing the frequency of domestic support notifications in agriculture would be widely supportive, as all graduated LDC members are required to submit their domestic support notifications annually. In the past, technical assistance for domestic support notifications has been undertaken by a variety of stakeholders, including agricultural experts of the WTO Secretariat and the International Food Policy Research Institute (IFPRI). EIF, with the support of WTO agricultural experts and IFPRI, can therefore explore with graduating LDCs the possibility of cooperation towards ensuring that graduating LDC members have the necessary skills to comply with domestic support notification requirements.

6.3 Development cooperation

There are some implications for graduating LDCs in terms of access to concessional funding, especially from multilateral banks. ODA, and particularly AFT, have continued to rise in the graduating LDCs based on data from recent years. Bilateral agencies and multilateral development banks mostly use criteria other than LDC membership in their aid allocation decisions. Similarly, South–South partners do not base their decisions about development assistance on the LDC category. Given that ODA appears unlikely to fall substantially, or at all, after graduation, less pressure exists than might be expected for graduating countries to identify new development cooperation options for the post-graduation landscape.

A range of development challenges remain, and new ones may emerge, particularly related to climate change. Vulnerability is a particular issue: none of the graduating small island developing states will meet the vulnerability threshold of the LDC criteria for some time to come.

Economic volatility, such as during the 2008 global economic crisis, will continue to significantly impact graduating LDCs. The impact of systemic issues such as tax havens, carbon emissions, agricultural subsidies and restrictions on factors of production far outweigh existing international support or any measure of development cooperation that might eventuate in the foreseeable future.

Most governments in the graduating LDCs are moving towards a more self-financed path, one which is less reliant on external assistance. Existing smooth transition measures, while welcome, mostly amount to a phasing out of support rather than positive new measures to assist countries in their next phase of development.

It would be rational, therefore, for graduating LDC governments first and foremost to navigate the post-graduation landscape via renewed engagement with multilateral economic institutions and mechanisms, particularly those that best facilitate these countries' interrelationships with the global economy, and which address systemic, global issues. A commitment by LDC and developed-country governments to building on and improving existing multilateral arrangements in goods and services trade, finance, tax, agriculture and the environment would best complement this renewed focus. In mitigating the impact of graduation, it is also important to link issues such as trade policy, financing and ODA rather than to deal with these issues separately.

Alongside these broader international aims, individual LDC governments would be well-advised to take steps to ensure smooth transition and to support development progress following graduation, when a new set of challenges and obstacles may emerge. The strategy should assess possible bilateral financing options, together with a forward-looking workplan to best position the country in relation to its WTO membership and broader trade policy – including bilateral and multilateral and trading priorities. Future capacity needs for various relevant ministries should be identified, including the foreign affairs, trade, commerce and sectoral ministries.

Graduation-related financing requirements for the implementation of the national plans should be identified, together with options available to meet these financing needs. This could be linked to potential new support measures following graduation. If appropriate, a systematic list of financing requirements could be presented to donors, centred around the new post-graduation landscape.

A list of priority donors and trading partners needs to be compiled, and negotiations undertaken well in advance with a view to maintaining existing development cooperation and also compensating for any tariff preference losses or extending them. Addressing development finance and trade measures together in any bilateral negotiations is likely to result in a stronger negotiated outcome.

New potential support measures

New ideas for support could be explored at the international level, possibly under the next LDC Programme of Action 2021–2030, as well as in other arenas such as the Addis Ababa Action Agenda. The UN CDP has proposed establishing a graduation support facility to provide technical assistance for graduating LDCs to prepare and manage graduation from the category and facilitate South–South knowledge sharing on graduation. The facility would provide capacity building to graduating and graduated countries to address the potential loss of ISMs. Rather than a new institution or entity, the facility would bring together and build on existing programmes of UN and other interested entities working on graduation, and would be operated based on existing resources, voluntary contributions to a graduation support fund, and in-kind contributions. An opportune moment could be the launch of the next LDC Programme of Action in 2021, which would be a suitable platform for soliciting donor contributions. While donor fatigue is acknowledged, and fungibility is a key concern, such a facility may be a useful conduit or focal point through which donor partners concerned about graduation could centralize and coordinate funds. Some of the proposals or themes set out below could be financed via such a facility, or separately.

Public finance: Building public revenues is one of the main challenges for former LDCs and for LDCs close to graduation. Broadening the tax base is a fundamental part of developing countries' attempts to self-finance future development and to reducing reliance on international development assistance. Graduating countries may wish to use graduation as an opportunity to renew calls for dedicated capacity-development assistance in this area. Ongoing multilateral efforts to stem tax revenue leakages, to ensure banking transparency, and to reform tax havens are at least as important as domestic measures to improve revenue collection.

Technology transfer and transfer of know-how: In addition to continued access to the UN Technology Bank for LDCs, the tacit nature of production knowledge means there is a need to send knowledgeable technicians and managers from suitable countries to graduating and former LDCs – many of which are undergoing structural transformation and are at a point when technology transfer is particularly important. Intellectual property, physical technology and capital equipment, although vital, cannot substitute for or operate independently from the know-how and expertise embodied in management personnel. Corporate or management transfer schemes may be explored, as well as South–South or North–South private sector technical assistance for strategic industries. Technology transfer should prioritize existing viable businesses but could be extended to new opportunities and even sustainable "Fourth Industrial Revolution" technologies such as 3D printing, complementary currencies and artificial intelligence.

Cash transfers: Given that absorptive capacity is already limited in many LDCs, particularly the smaller countries that are on the graduation threshold, a considerable proportion of future post-graduation development assistance can be provided in the form of unconditional direct cash transfers for marginalized people. Some government ministries in LDCs already struggle to spend new donor funding, due to a small number of administrative staff and limited infrastructure. Research suggests that existing cash transfer schemes have been highly successful at reducing monetary poverty and especially in promoting social development, raising school attendance, stimulating health service use and improving dietary diversity, reducing child labour and increasing women's decision-making power. Cash transfer schemes are targeted to the most marginalized populations and can lead to more equitable and just outcomes by creating a valuable social safety net for vulnerable populations. Vulnerability is a key factor for graduating LDCs, which have larger share of vulnerable populations and which themselves remain disproportionately vulnerable compared with other developing countries. It may be broadly appropriate for such schemes to form a larger component of assistance to graduating LDCs, or to be adopted in graduating LDCs where they do not already exist.

Dedicated policy-making support for graduating and former LDCs: A sufficient critical mass of graduating countries exists to achieve synergies in policy analysis. Quality, relevant technical advice is already emerging from prominent think tanks and institutions in the global South. For most graduating LDCs, good technical advice is critical, and many would benefit from increased cooperation with countries that have recently undergone or are currently undergoing similar experiences. Funding for South–South and current and former LDC think tanks should be prioritized in order to build ownership over policy proposals and to tailor any recommendations to the national context. Advice should be targeted at different graduating and former LDC clusters, such as small island developing states and landlocked developing countries.

Disaster risk insurance: Graduated LDCs may wish to further pool risk, either regionally or globally, via a simple facility that can be easily accessed by capacity-constrained countries. LDCs tend to be underserved by existing disaster-risk reduction programmes, yet they suffer the most from natural disasters.

Applications for donor support: Many of the smaller, more capacity-constrained graduating and former LDCs struggle to meet the administrative requirements for multilateral support. A request may be made to simplify procedures for programmes such as the Global Environment Facility.

7

Annexes

7.1 Annex I: Tables on matters related to WTO Agreements

Table 37. Overview of IP protection foreseen by the TRIPS Agreement

Intellectual Property Rights	Subject	Minimum duration of protection under TRIPS
Copyright	Literary and artistic works (including computer programs and databases)	Life of author + 50 years
Related rights	Performers, producers of sound recordings, broadcasting organizations	50 years (performers and producers) 20 years (broadcasting)
Trademarks	Signs that are capable of distinguishing goods and services	7 years, renewable indefinitely
Geographical indications	Indications that identify the geographic origin of a good, where a given quality, reputation or other characteristic of the good is essentially attributable to its origin	Unlimited, as long as conditions are met
Patents	Inventions (products or processes) in all fields of technology	20 years from filing date
Industrial designs	Independently created industrial designs that are new or original	10 years
Layout designs of integrated circuits	Design of electronic circuits (chips)	10 years from filing date or first commercial exploitation
Undisclosed information	Trade secrets, and undisclosed data submitted to government	Unlimited, as long as conditions are met

Source: WTO Secretariat (2020).

Table 38. Impact of graduation on technical assistance activities

Activity	LDCs	Countries graduated from the LDC status
Geneva-based Introductory Trade Policy Course for LDCs	Full access	Access to non-LDC specific introductory courses
Geneva-based Intermediate Trade Policy Course for LDCs	Full access	Access to non-LDC specific intermediate courses
National activities	No limitations (though utilization has been low)	Limited impact on access
WTO internship programmes	Priority access	Standard consideration
Establishment of Reference Centres	Timor-Leste is the only graduating LDC that can benefit from this because it has not established a Reference Centre in the past	No impact, as all the remaining graduating LDCs already have a Reference Centre

Source: WTO Secretariat (2019).

Table 39. LDC-specific provisions in WTO Agreements

S&D PROVISIONS IN WTO AGREEMENTS	
Understanding on the Balance-of-Payments Provisions of the General Agreement on Tariffs and Trade (GATT) 1994	
Para. 8 and 9	Simplified consultation procedures may be used.
Agreement on Agriculture (AoA)	
Article 15.2	LDCs are exempt from undertaking reduction commitments.
Article 16	Members to take action in line with the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on LDCs and NFIDCs.
Application of Sanitary and Phytosanitary Measures (SPS)	
Article 10	Members are required to take a particular account of LDCs in preparing and applying SPS measures.
Article 14	LDCs had the possibility of delaying, for up to five years, the implementation of provisions of the Agreement with respect to their sanitary and phytosanitary measures affecting imports. *The transition period expired on 1 January 2000.*
Agreement on Technical Barriers to Trade	
Article 11.8	In providing advice and technical assistance to other members in terms of Article 11:1 to 11:7, members shall give priority to the needs of the LDCs.
Article 12.7	Particular account to be taken of LDCs in the provision of technical assistance with respect to the preparation and application of technical regulations.
Article 12.8	TBT Committee is required to take into account special problems of LDCs in granting time-limited exceptions under the TBT Agreement.
Trade-related Investment Measures (TRIMS)	
Article 5.2	LDCs had a seven-year transitional period to eliminate TRIMS that are inconsistent with the Agreement. *The transition period expired on 1 January 2002. The adoption of the Hong Kong Ministerial Declaration in 2005 (Annex F) allowed to introduce new transition periods.*
Agreement on Importing Licensing Procedures	
Article 3.5(j)	In allocating licences, special consideration to be given to importers who import products from developing countries and, in particular, the LDCs.
Agreement on Subsidies and Countervailing Measures (SCM)	
Article 27.2(a)	LDCs are exempt from prohibition of export subsidies.
Article 27.3	LDCs had an eight-year transition period regarding the prohibition of domestic content subsidies. *The transition period expired on 1 January 2003.*
General Agreement on Trade in Services (GATS)	
Article IV:3	Special priority given to LDCs in implementing Article IV of GATS (increasing participation of developing countries), and particular account to be taken of the difficulties encountered by LDCs in accepting negotiated commitments, owing to their particular needs. Special consideration is given to LDCs with regard to encouraging foreign suppliers to assist in technology transfers, training and other activities for developing telecommunications.
Article XIX:3	Negotiating guidelines shall establish modalities for the special treatment for LDCs under the provisions of Article IV:3.

S&D PROVISIONS IN WTO AGREEMENTS

Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS)	
Preamble	Preamble recognizes the special needs of LDCs with respect to maximum flexibility in the domestic implementation of laws and regulations, in order to enable them to create a sound and viable technological base.
Article 66.1	Following a general one-year transition period, LDCs can further delay for up to 10 years the implementation of most of the TRIPS obligations other than those containing the core non-discrimination principles. Possibility of extension following duly motivated request.
Article 66.2	*The general transition period was initially due to expire on January 2006. Recognizing their special needs and requirements, the TRIPS Council adopted a decision on 29 November 2005 that extended the transition period until 1 July 2013. A Decision on 11 June 2013 further extended the transition period until 1 July 2021.* Members to provide incentives to encourage the transfer of technology to LDCs.
Article 31 bis. 3	If developing country or LDC members is a party to a Regional Trade Agreement in which at least half of the members are LDCs, Art 31(f) shall not apply to the extent necessary to enable a pharmaceutical product produced or imported under a compulsory licence in that member to be exported to the markets of those other developing or LDC parties to the regional trade agreement that share the health problem in question.
Annex para. 1.b.	"Eligible importing member" means any LDC member, and any other member that has made a notification to the Council for TRIPS of its intention to use the system set out in Article 31bis and this Annex ("system") as an importer, it being understood that a member may notify at any time that it will use the system in whole or in a limited way, e.g. only in the case of a national emergency or other circumstances of extreme urgency, or in cases of public non-commercial use.
Annex 2.a(2)	Exempts LDCs from providing notification confirming that the eligible importing member has established that it has insufficient or no manufacturing capacities in the pharmaceutical sector for the product(s) in question in one of the ways set out in the Appendix to this Annex.
Appendix	Least-developed country members are deemed to have insufficient or no manufacturing capacities in the pharmaceutical sector.
Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU)	
Article 24.1	Particular consideration should be given to the special situation of LDCs in all stages of a dispute involving an LDC. Members should exercise due restraint in raising matters involving an LDC.
Article 24.2	LDCs may request use of the offices of the Director-General or the Chairman of the Dispute Settlement Body.
Trade Policy Review Mechanism (TPRM)	
C	Greater flexibility given to LDCs concerning the frequency of their reviews. Particular attention given to LDCs in the provision of technical assistance by the Secretariat.
D	At the request of developing country members, and in particular LDCs, the WTO Secretariat is required to make available technical assistance, taking into account particular difficulties of LDCs in compiling their reports.
Trade Facilitation Agreement (TFA)	
Section II (Articles 13–20)	The S&D provisions in the TFA allow each LDC to determine when they will implement each of the individual provisions (category B and C) as well as those provisions for which they will need technical assistance and support for capacity building (category C). In addition, S&D in the TFA includes an early warning mechanism regarding the extension of implementation dates of provisions in category B and C (Article 17), the possibility to set up an expert group that examines and provides recommendations as to why a country is unable to implement a particular provision (Article 18), the shifting of provisions between categories B and C (Article 19), and grace periods of 6–8 years with respect to dispute settlement (Article 20).

Table 40. LDC-specific Decisions taken in favour of LDCs

28 November 1979	**Decision of the Contracting Parties on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries: "The Enabling Clause" L/4903**
	The decision allowed to grant preferences to developing countries, additional preferences to LDCs, conclude preferential trade agreements among developing countries, and introduced the possibility of graduation.
15 December 1993	**Measures in Favour of LDCs**
	The decision has served as a reference for subsequent instruments and decisions with respect to market access, flexibilities in the implementation of WTO rules and technical assistance for LDCs.
15 June 1999	**Preferential Tariff Treatment for Least-Developed Countries – Decision on Waiver (WT/L/304)**
	The waiver allowed developing countries to provide preferential tariff treatment to products of LDCs until 30 June 2009. The waiver was extended until 30 June 2019 by Decision WT/L/759.
12 February 2002	**WTO Work Programme for the LDCs (WT/COMTD/LDC/11)**
	The Work Programme focused on seven systemic issues for LDCs, including market access issues, technical assistance and capacity-building initiatives and accessions.
27 June 2002	**Extension of the Transition Period under Article 66.1 of the TRIPS Agreement for Least-Developed Country members for Certain Obligations with Respect to Pharmaceutical Products (IP/C/25)**
	The decision extended the transition period for the implementation of Sections 5 and 7 of Part II of the TRIPS with respect to pharmaceutical products until 1 January 2016. LDCs will not have to protect pharmaceutical patents and test data until 1 January 2016.
8 July 2002	**LDC members – Obligations under Article 70.9 of TRIPS Agreement with Respect to Pharmaceutical Products (WT/L/478)**
	The decision waived obligations of LDCs under Article 70.9 the TRIPS Agreement with respect to pharmaceutical products until 1 January 2016. LDCs were exempt from providing exclusive marketing rights to pharmaceuticals that were subject of a patent application until 1 January 2016.
10 December 2002	**Accession of Least-Developed Countries (WT/L/508)**
	The decision contained guidelines to facilitate and accelerate the accession of LDCs to the WTO through simplified and streamlined accession procedures. The accession guidelines covered the areas of market access, WTO rules, process, and TRTA and capacity building.
19 February 2003	**Implementation of Article 66.2 of the TRIPS Agreement (IP/C/28)**
	The decision established a mechanism to monitor the implementation of the obligations of developed countries under Article 66.2 to provide incentives for technology transfer to LDCs.
3 September 2003	**Modalities for the Special Treatment for LDC members in the Negotiations on Trade in Services (TN/S/13)**
	The modalities provided LDCs with maximum flexibility in undertaking commitments in the negotiations, and asked members to give priority to providing effective market access to sectors and modes of supply of export interest to LDCs.
1 August 2004	**Special treatment of LDCs in the context of the framework modalities of the July package (WT/L/579)**
	The decision on the Doha Work Programme provided LDCs with S&D in different negotiating areas. For instance, it exempted LDCs from making reduction commitments in both non-agricultural market access and agriculture negotiations, and called upon members to provide DFQF market access to LDC products.
29 November 2005	**Extension of the Transition Period under Article 66.1 of the TRIPS Agreement for LDC members (IP/C/40)**
	The decision allowed LDCs to delay the implementation of the TRIPS Agreement other than the core non-discrimination provisions (Articles 3, 4 and 5) until 1 July 2013. The transition period was further extended to 2021 by Decision IP/C/64.

18 December 2005	**Annex F (Special and Differential Treatment) of the Hong Kong Ministerial Declaration (WT/MIN(05)/DEC)**
	23) Understanding in Respect of Waivers of Obligations under the GATT 1994: Requests for waivers by LDCs shall be given positive consideration and a decision taken within 60 days, or in exceptional circumstances as expeditiously as possible. 36) Decision on Measures in Favour of LDCs: Developed countries shall, and developing countries declaring themselves in a position to do so should, provide DFQF market access on a lasting basis, for all products originating from LDCs by 2008 or no later than the start of the implementation period. Members facing difficulties in doing so, shall provide DFQF market access for at least 97% of products originating from LDCs. Developing countries are accorded flexibility with respect to the phase-in and coverage of their DFQF commitments. 38) Decision on Measures in Favour of LDCs: LDCs are only required to undertake commitments and concessions consistent with their development, financial or trade needs, or their institutional capacities. 84) Agreement on Trade-Related Investment Measures: LDCs should be able to maintain and introduce measures that deviate from their obligations under the TRIMs Agreement for a period of seven and five years, respectively. Any measures incompatible with the TRIMs Agreement and adopted under this decision shall be phased out by 2020. 88) Decision on Measures in Favour of Least-Developed Countries — Paragraph 1: LDCs should require further technical assistance in relation to Aid for Trade.
27 May 2009	**Preferential Tariff Treatment for LDCs (WT/L/759) — Decision on Extension of Waiver**
	The decision extended the waiver contained in decision WT/L/304 allowing developing countries to provide preferential tariff treatment to LDC products until 30 June 2019.
17 December 2011	**Preferential Treatment to Services and Service Suppliers of LDCs (WT/L/847)**
	The services waiver decision allowed members to provide preferential treatment to services and service suppliers of LDCs with respect to market access (Article XVI) and, subject to approval by the Council for Trade in Services, any other measures.
17 December 2011	**Accession of LDCs (WT/L/846)**
	The decision directed the Sub-Committee on LDCs to develop recommendations to further strengthen, streamline and operationalize the 2002 accession guidelines (WT/L/508).
25 July 2012	**Accession of LDCs (WT/L/508/Add.1)**
	The 2012 accession guidelines included provisions to strengthen, streamline and operationalize the 2002 accession guidelines. The guidelines established benchmarks on market access negotiations on goods and services, and provision with respect to special and differential treatment (including transition periods), transparency and technical assistance.
11 June 2013	**Extension of the Transition Period under Article 66.1 for Least-developed country members – Decision of the Council for TRIPS (IP/C/64)**
	The decision constituted the second extension of the transition period under Article 66.1 of the TRIPS Agreement (first extension: IP/C/40). The decision allowed LDCs to delay the implementation of the TRIPS Agreement other than the core non-discrimination provisions (Articles 3, 4 and 5) until 1 July 2021.
28 June 2013	**WTO Work Programme for the LDCs (WT/COMTD/LDC/11/Rev.1)**
	As the LDC Work Programme of 2002 (WT/COMTD/LDC/11), the revised Work Programme focused on seven systemic issues for LDCs, including market access issues, technical assistance and capacity building initiatives and accessions. The revision included, *inter alia*, the incorporation of the United Nations' Istanbul Programme of Action for LDCs for the Decade 2011–2020.
7 December 2013	**Preferential Rules of Origin for LDCs (WT/L/917)**
	The decision provided for multilateral guidelines for preferential rules of origin to help LDCs better use preferences accorded to them. The decision encouraged members to draw upon elements of the guidelines when they develop the rules of origin of their preferential market access schemes for LDCs.

Table 40. LDC-specific Decisions taken in favour of LDCs (continued)

7 December 2013	**Operationalization of the Waiver Concerning Preferential Treatment to Services and Service Suppliers of Least-Developed Countries (WT/L/918)**
	The decision outlined the process for the operationalization of the services waiver (WT/L/847). It also recognized the need to strengthen LDCs' domestic service capacity to make use of existing opportunities and any preferences in the future.
7 December 2013	**Duty-Free and Quota-Free Market Access for LDCs (WT/L/919)**
	According to the decision, developed country members that do not yet provide DFQF market access for at least 97% of products originating from LDCs, shall seek to improve their existing DFQF coverage prior to the Tenth WTO Ministerial Conference. Developing country members, declaring themselves in a position to do so, shall seek to provide DFQF market access for products originating from LDCs, or to seek to improve their existing DFQF schemes prior to the Tenth WTO Ministerial Conference.
6 November 2015	**Extension of the Transition Period Under Article 66.1 of the TRIPS Agreement for Least-Developed Country members for Certain Obligations with respect to Pharmaceutical Products (IP/C/73)**
	The decision of the TRIPS Council extended the transition to implement of Sections 5 and 7 of Part II of the TRIPS with respect to pharmaceuticals until 1 January 2033 or until such a date on which an LDC ceases to be a least developed country member, whichever date is earlier.
2 December 2015	**Least-Developed Country members – Obligations under Article 70.8 and Article 70.9 of the TRIPS Agreement with respect to Pharmaceutical Products (WT/L/971)**
	The decision of the General Council exempts LDC members from the application of mailbox requirements and exclusive marketing rights for the same time period until 1 January 2033 or until such a date on which they cease to be a LDC member, whichever is earlier.
21 December 2015	**Preferential Rules of Origin for Least Developed Countries (WT/MIN(15)/47, WT/L/917/Add.1)**
	The decision provided guidance for rules of origin with regard to the assessment of substantial transformation, cumulation possibilities and documentary requirements.
21 December 2015	**Implementation of Preferential Treatment in Favour of Services and Service Suppliers of Least Developed Countries and Increasing LDC Participation in Services Trade (WT/MIN(15)/48, WT/L/982)**
	The decision extended the LDC Services Waiver until 2030 and instructed the Council for Trade in Services to monitor the operation of preferences notified to the WTO.
6 March 2017	**Decision on Template for the Notification of Preferential Rules of Origin for Least Developed Countries (G/RO/84)**
	The decision provided a template for notifications of preferential rules of origin.
14 June 2019	**Decision on Extension of Waiver for Preferential Tariff Treatment of LDCs (G/C/W/764)**
	The waiver contained in the decision of 15 June 1999 (WT/L/304) is extended until 30 June 2029.

Table 41. Notification obligations in the WTO upon graduation – Angola

Notification obligation	Article	Periodicity	Status
1. Agreement on Agriculture			
Domestic Support (Table DS:1)	Art. 18.2	Currently biennially/ upon graduation annually	Nil
Export Subsidies: Budgetary Outlays and Quantity Reduction Commitments (Table ES:1)	Art. 18.2	Annually	Nil
2. Quantitative Restrictions			
Decision on Notification Procedures for QR	G/L/59/Rev.1	Every 2 years	Nil
3.TRIPS			
Laws and Regulations	Art. 63.2	One-time initial notification, and updates as necessary	Nil
Information on domestic IP enforcement law and practices	Art. 63.2 and TRIPS Council Decisions: IP/C/2 and IP/C/5	One-time initial notification, and updates as necessary	
Contact points	Art. 69	One-time initial notification, and updates as necessary	IP/N/3/AGO/1
4. GATS			
Laws and Regulations	Art. III.3	Once	Nil
5. Trade Remedies			
Anti-dumping: Laws and Regulations (G/ADP/N/1)	Art.18:5	Once	G/ADP/N/1/AGO/1
ASCM: Laws and Regulations	Art. 32.6	Once	G/SCM/N/1/AGO/1
Safeguards: Laws, Regulations, and administrative procedures	Art. 12.6	Once	G/SG/N/1/AGO/1
6. Customs Issues			
Customs Valuation: Laws and Regulations	Art. 22.1	Once	Nil
Import Licensing: Legislation and products, new legislation and annual questionnaire	Art. 1.4(a)/8.2(b) Art. 5 Art. 7.3	Ad hoc Once Annually	G/LIC/N/1/AGO/1 G/LIC/N/2/AGO/1 G/LIC/N/2/AGO/2 Nil
Rules of Origin		Once	
A) Non-preferential rules	Art. 5.1	Ad hoc	G/RO/N/176
B) Preferential rules	Annex II (4)	Ad hoc	G/RO/N/176
7. TRIMs			
Trade-related investment measures Art. 5.1	Art. 5.1	Annex F	Nil
Trade-related investment measures Art. 6.2	Art. 6.2	Annex F	Nil
8. Integrated Data Base (IDB)*			
Tariff data at the tariff line level		Annual (by 30 March)	Yes (2011 to 2019)**
Import data at the tariff line level		Annual (by 30 October)	Yes (2014 to 2017)**

*Note: * The latest year available. ** Notifications to the IDB are required annually. Tariffs for the current year are to be submitted by 31 March; imports statistics for the preceding year are to be submitted by 31 October. The status of notifications in this report to the IDB covers the period 2011–2019.*

Table 42. Notification obligations in the WTO upon graduation – Bangladesh

Notification obligation	Article	Periodicity	Status
1. Agreement on Agriculture			
Domestic Support (Table DS:1)	Art. 18.2	Currently biennially/ upon graduation annually	G/AG/N/BGD/3 (2011)*
Export Subsidies: Budgetary Outlays and Quantity Reduction Commitments (Table ES:1)	Art. 18.2	Annually	G/AG/N/BGD/1 (2002)*
2. Quantitative Restrictions (QR)			
Decision on Notification Procedures for QR	G/L/59/Rev.1	Every 2 years	Nil
3.TRIPS			
Laws and Regulations	Art. 63.2	One-time initial notification, and updates as necessary	IP/N/1/BGD/2
Information on domestic intellectual property enforcement law and practices.	Art. 63.2 and TRIPS Council Decisions: IP/C/2 and IP/C/5	One-time initial notification, and updates as necessary	
Contact points	Art. 69	One-time initial notification, and updates as necessary	IP/N/3/Rev.11
4. GATS			
Laws and Regulations	Art. III.3	Once	Nil
5. Trade Remedies			
Anti-dumping: Laws and Regulations (G/ADP/N/1)	Art.18:5	Once	G/ADP/N/1/BGD/1
ASCM: Laws and Regulations	Art. 32.6	Once	Nil
Safeguards: Laws, Regulations, and administrative procedures	Art. 12.6	Once	G/SG/N/1/BGD/1
6. Customs Issues			
Customs Valuation: Laws and Regulations	Art. 22.1	Once	Nil
Import Licensing: Legislation and products, new legislation, and annual questionnaire	Art. 1.4(a)/8.2(b) Art. 5 Art. 7.3	Ad hoc Once Annually	G/LIC/N/1/BGD/1 G/LIC/N/1/BGD/2 G/LIC/N/3/BGD/1 G/LIC/N/3/BGD/2 G/LIC/N/3/BGD/3 G/LIC/N/3/BGD/4 (2007)*
Rules of Origin		Once	
A) Non-preferential rules	Art. 5.1	Ad hoc	Nil
B) Preferential rules	Annex II (4)	Ad hoc	Nil
7. TRIMs			
Trade-related investment measures Art. 5.1	Art. 5.1	Annex F	Nil
Trade-related investment measures Art. 6.2	Art. 6.2	Annex F	Nil
8. Integrated Data Base (IDB)*			
Tariff data at the tariff line level		Annual (by 30 March)	Yes (2011 to 2013, 2016 and 2018)
Import data at the tariff line level		Annual (by 30 October)	Yes (2011)**

*Note: * The latest year available. ** Notifications to the IDB are required annually. Tariffs for the current year are to be submitted by 31 March; imports statistics for the preceding year are to be submitted by 31 October. The status of notifications in this report to the IDB covers the period 2011–2019.*

Table 43. Notification obligations in the WTO upon graduation – Lao PDR

Notification obligation	Article	Periodicity	Status
1. Agreement on Agriculture			
Domestic Support (Table DS:1)	Art. 18.2	Currently biennially / upon graduation annually	G/AG/N/LAO/2 (2018)*
Export Subsidies: Budgetary Outlays and Quantity Reduction Commitments (Table ES:1)	Art. 18.2	Annually	G/AG/N/LAO/1 (2014)*
2. Quantitative Restrictions			
Decision on Notification Procedures for QR	G/L/59/Rev.1	Every 2 years	G/MA/QR/N/LAO/1 (2015)*
3.TRIPS			
Laws and Regulations	Art. 63.2	One-time initial notification, and updates as necessary	Nil
Information on domestic intellectual property enforcement law and practices	Art. 63.2 and TRIPS Council Decisions: IP/C/2 and IP/C/5	One-time initial notification, and updates as necessary	
Contact points	Art. 69	One-time initial notification, and updates as necessary	IP/N/3/LAO/1
4. GATS			
Laws and Regulations	Art. III.3	Once	Nil
5. Trade Remedies			
Anti-dumping: Laws and Regulations (G/ADP/N/1)	Art.18:5	Once	G/ADP/N/1/LAO/1
ASCM: Laws and Regulations	Art. 32.6	Once	Nil
Safeguards: Laws, Regulations, and administrative procedures	Art. 12.6	Once	G/SG/N/1/LAO/1
6. Customs Issues			
Customs Valuation: Laws and Regulations	Art. 22.1	Once	G/VAL/N/1/LAO/1/Add.1
Import Licensing: Legislation and products, new legislation, and annual questionnaire	Art. 1.4(a)/8.2(b) Art. 5 Art. 7.3	Ad hoc Once Annually	G/LIC/N/1/LAO/1 G/LIC/N/2/LAO/1 G/LIC/N/3/LAO/1 (2014)*
Rules of Origin		Once	
A) Non-preferential rules	Art. 5.1	Ad hoc	G/RO/N/96
B) Preferential rules	Annex II (4)	Ad hoc	G/RO/N/96
7. TRIMs			
Trade-related investment measures Art. 5.1	Art. 5.1	Annex F	Nil
Trade-related investment measures Art. 6.2	Art. 6.2	Annex F	G/TRIMS/N/2/Rev.23/Add.1
8. Integrated Data Base (IDB)*			
Tariff data at the tariff line level		Annual (by 30 March)	Yes (2014 to 2018)**
Import data at the tariff line level		Annual (by 30 October)	Yes (2013 to 2017)**

*Note: * The latest year available. ** Notifications to the IDB are required annually. Tariffs for the current year are to be submitted by 31 March; imports statistics for the preceding year are to be submitted by 31 October. The status of notifications in this report to the IDB covers the period 2011–2019.*

Table 44. Notification obligations in the WTO upon graduation – Myanmar

Notification obligation	Article	Periodicity	Status
1. Agreement on Agriculture			
Domestic Support (Table DS:1)	Art. 18.2	Currently biennially / upon graduation annually	G/AG/N/MYN/5 (2005)*
Export Subsidies: Budgetary Outlays and Quantity Reduction Commitments (Table ES:1)	Art. 18.2	Annually	G/AG/N/MYN/20 (2019)*
2. Quantitative Restrictions			
Decision on Notification Procedures for QR	G/L/59/Rev.1	Every 2 years	Nil
3.TRIPS			
Laws and Regulations	Art. 63.2	One-time initial notification, and updates as necessary	Nil
Information on domestic intellectual property enforcement law and practices	Art. 63.2 and TRIPS Council Decisions: IP/C/2 and IP/C/5	One-time initial notification, and updates as necessary	
Contact points	Art. 69	One-time initial notification, and updates as necessary	IP/N/3/MMR/2/Rev.1
4. GATS			
Laws and Regulations	Art. III.3	Once	Nil
5. Trade Remedies			
Anti-dumping: Laws and Regulations (G/ADP/N/1)	Art.18:5	Once	G/ADP/N/1/MYN/1
ASCM: Laws and Regulations	Art. 32.6	Once	G/SCM/N/1/MYN/1
Safeguards: Laws, Regulations, and administrative procedures	Art. 12.6	Once	Nil
6. Customs Issues			
Customs Valuation: Laws and Regulations	Art. 22.1	Once	G/VAL/N/1/MMR/1
Import Licensing: Legislation and products, new legislation, and annual questionnaire	Art. 1.4(a)/8.2(b)	Ad hoc	G/LIC/N/1/MMR/1
	Art. 5		
	Art. 7.3	Once	G/LIC/N/2/MMR/1
		Annually	Nil
Rules of Origin		Once	
A) Non-preferential rules	Art. 5.1	Ad hoc	G/RO/N/151
B) Preferential rules	Annex II (4)	Ad hoc	G/RO/N/151
7. TRIMs			
Trade-related investment measures Art. 5.1	Art. 5.1	Annex F	Nil
Trade-related investment measures Art. 6.2	Art. 6.2	Annex F	Nil
8. Integrated Data Base (IDB)*			
Tariff data at the tariff line level		Annual (by 30 March)	Yes (2011 to 2019 except 2016)**
Import data at the tariff line level		Annual (by 30 October)	Yes (2011 to 2017)**

*Note: * The latest year available. ** Notifications to the IDB are required annually. Tariffs for the current year are to be submitted by 31 March; imports statistics for the preceding year are to be submitted by 31 October. The status of notifications in this report to the IDB covers the period 2011–2019.*

Table 45. Notification obligations in the WTO upon graduation – Nepal

Notification obligation	Article	Periodicity	Status
1. Agreement on Agriculture			
Domestic Support (Table DS:1)	Art. 18.2	Currently biennially / upon graduation annually	G/AG/N/NPL/4 (2012)*
Export Subsidies: Budgetary Outlays and Quantity Reduction Commitments (Table ES:1)	Art. 18.2	Annually	G/AG/N/NPL/3 (2012)*
2. Quantitative Restrictions			
Decision on Notification Procedures for QR	G/L/59/Rev.1	Every 2 years	Nil
3.TRIPS			
Laws and Regulations	Art. 63.2	One-time initial notification, and updates as necessary	Nil
Information on domestic intellectual property enforcement law and practices	Art. 63.2 and TRIPS Council Decisions: IP/C/2 and IP/C/5	One-time initial notification, and updates as necessary	
Contact points	Art. 69	One-time initial notification, and updates as necessary	IP/N/3/NPL/1
4. GATS			
Laws and Regulations	Art. III.3	Once	Nil
5. Trade Remedies			
Anti-dumping: Laws and Regulations (G/ADP/N/1)	Art.18:5	Once	G/ADP/N/1/NPL/1
ASCM: Laws and Regulations	Art. 32.6	Once	G/SCM/N/1/NPL/1
Safeguards: Laws, Regulations, and administrative procedures	Art. 12.6	Once	G/SG/N/1/NPL/1
6. Customs Issues			
Customs Valuation: Laws and Regulations	Art. 22.1	Once	G/VAL/N/1/NPL/1
Import Licensing: Legislation and products, new legislation, and annual questionnaire	Art. 1.4(a)/8.2(b)	Ad hoc	
	Art. 5		
	Art. 7.3	Once	G/LIC/N/3/NPL/1
		Annually	G/LIC/N/3/NPL/2 (2015)*
Rules of Origin		Once	
A) Non-preferential rules	Art. 5.1	Ad hoc	G/RO/N/165
B) Preferential rules	Annex II (4)	Ad hoc	G/RO/N/165
7. TRIMs			
Trade-related investment measures Art. 5.1	Art. 5.1	Annex F	Nil
Trade-related investment measures Art. 6.2	Art. 6.2	Annex F	Nil
8. Integrated Data Base (IDB)*			
Tariff data at the tariff line level		Annual (by 30 March)	Yes (2011 to 2018)**
Import data at the tariff line level		Annual (by 30 October)	Yes (2011 to 2016)**

*Note: * The latest year available. ** Notifications to the IDB are required annually. Tariffs for the current year are to be submitted by 31 March; imports statistics for the preceding year are to be submitted by 31 October. The status of notifications in this report to the IDB covers the period 2011–2019.*

Table 46. Notification obligations in the WTO upon graduation – Solomon Islands

Notification obligation	Article	Periodicity	Status
1. Agreement on Agriculture			
Domestic Support (Table DS:1)	Art. 18.2	Currently biennially / upon graduation annually	Nil
Export Subsidies: Budgetary Outlays and Quantity Reduction Commitments (Table ES:1)	Art. 18.2	Annually	Nil
2. Quantitative Restrictions			
Decision on Notification Procedures for QR	G/L/59/Rev.1	Every 2 years	Nil
3. TRIPS			
Laws and Regulations	Art. 63.2	One-time initial notification, and updates as necessary	Nil
Information on domestic intellectual property enforcement law and practices	Art. 63.2 and TRIPS Council Decisions: IP/C/2 and IP/C/5	One-time initial notification, and updates as necessary	
Contact points	Art. 69	One-time initial notification, and updates as necessary	Nil
4. GATS			
Laws and Regulations	Art. III.3	Once	Nil
5. Trade Remedies			
Anti-dumping: Laws and Regulations (G/ADP/N/1)	Art.18:5	Once	Nil
ASCM: Laws and Regulations	Art. 32.6	Once	Nil
Safeguards: Laws, Regulations, and administrative procedures	Art. 12.6	Once	Nil
6. Customs Issues			
Customs Valuation: Laws and Regulations	Art. 22.1	Once	G/VAL/N/1/SLB/1
Import Licensing: Legislation and products, new legislation, and annual questionnaire	Art. 1.4(a)/8.2(b) Art. 5 Art. 7.3	Ad hoc Once Annually	Nil
Rules of Origin		Once	
A) Non-preferential rules	Art. 5.1	Ad hoc	Nil
B) Preferential rules	Annex II (4)	Ad hoc	Nil
7. Agreement on Trade-Related Investment Measures (TRIMs)			
Trade-related investment measures Art. 5.1	Art. 5.1	Annex F	Nil
Trade-related investment measures Art. 6.2	Art. 6.2	Annex F	Nil
8. Integrated Data Base (IDB)*			
Tariff data at the tariff line level		Annual (by 30 March)	Yes (2011 to 2013, 2015 and 2016)**
Import data at the tariff line level		Annual (by 30 October)	Nil

*Note: * The latest year available. ** Notifications to the IDB are required annually. Tariffs for the current year are to be submitted by 31 March; imports statistics for the preceding year are to be submitted by 31 October. The status of notifications in this report to the IDB covers the period 2011–2019.*

Table 47. Notification obligations in the WTO upon graduation – Vanuatu

Notification obligation	Article	Periodicity	Status
1. Agreement on Agriculture			
Domestic Support (Table DS:1)	Art. 18.2	Currently biennially / upon graduation annually	G/AG/N/VUT/10 (2019)*
Export Subsidies: Budgetary Outlays and Quantity Reduction Commitments (Table ES:1)	Art. 18.2	Annually	G/AG/N/VUT/8 (2019)*
2. Quantitative Restrictions			
Decision on Notification Procedures for QR	G/L/59/Rev.1	Every 2 years	Nil
3.TRIPS			
Laws and Regulations	Art. 63.2	One-time initial notification, and updates as necessary	IP/N/1/VUT/1
Information on domestic intellectual property enforcement law and practices	Art. 63.2 and TRIPS Council Decisions: IP/C/2 and IP/C/5	One-time initial notification, and updates as necessary	
Contact points	Art. 69	One-time initial notification, and updates as necessary	IP/N/3/VUT/1
4. GATS			
Laws and Regulations	Art. III.3	Once	Nil
5. Trade Remedies			
Anti-dumping: Laws and Regulations (G/ADP/N/1)	Art.18:5	Once	G/ADP/N/1/VUT/1
ASCM: Laws and Regulations	Art. 32.6	Once	G/SCM/N/1/VUT/1
Safeguards: Laws, Regulations, and administrative procedures	Art. 12.6	Once	G/SG/N/1/VUT/1
6. Customs Issues			
Customs Valuation: Laws and Regulations	Art. 22.1	Once	Nil
Import Licensing: Legislation and products, new legislation, and annual questionnaire	Art. 1.4(a)/8.2(b) Art. 5 Art. 7.3	Ad hoc Once Annually	Nil
Rules of Origin		Once	
A) Non-preferential rules	Art. 5.1	Ad hoc	Nil
B) Preferential rules	Annex II (4)	Ad hoc	Nil
7. Agreement on Trade-Related Investment Measures (TRIMs)			
Trade-related investment measures Art. 5.1	Art. 5.1	Annex F	Nil
Trade-related investment measures Art. 6.2	Art. 6.2	Annex F	Nil
8. Integrated Data Base (IDB)*			
Tariff data at the tariff line level		Annual (by 30 March)	Yes (2012 and 2015 to 2018)**
Import data at the tariff line level		Annual (by 30 October)	Nil

*Note: * The latest year available. ** Notifications to the IDB are required annually. Tariffs for the current year are to be submitted by 31 March; imports statistics for the preceding year are to be submitted by 31 October. The status of notifications in this report to the IDB covers the period 2011–2019.*

Table 48. Notifications of graduating LDC WTO members under the AoA and TRIPS Agreement

Notifications	Angola	Bangladesh	Lao PDR
Agriculture (Art. 18.2) Domestic Support notifications -Annual notification for members/ Every 2 years for LDCs -If no support, a statement should be made	None	-DS commitments for the fiscal year 2002/2003, 2004/2005 and 2006/2007 G/AG/N/BGD/3 (4 May 2011) -DS commitments for the fiscal years 1995–1996, 1996–1997, 1997–1998, 1998–1999, 1999–2000 G/AG/N/BGD/2 (30 August 2005)	DS commitments for the fiscal year 2016 G/AG/N/LAO/2 (9 April 2018)
Export subsidies notifications	None	ES for the fiscal years 1995-1996, 1996-1997, 1997-1998, 1998-1999 and 1999–2000 G/AG/N/BGD/1 (15 July 2002)	-ES for the calendar year 2013 G/AG/N/LAO/1 (5 February 2014)
TRIPS Agreement (Art. 63.2)			
Laws and regulations Initial notification/ Review (Art. 63.2 and TRIPS Council Decisions: IP/C/2 and IP/C/5)	None	-IP/1/BGD/2 (11 April 2008) The Copyright Act 2005 (as amended) -IP/N/1/BGD/1 (24 June 2002) The Copyright Act, 2000	None
Information on domestic intellectual property enforcement law and practices (Art. 69)	None	None	None
Contact points	IP/N/3/AGO/1 1 May 2019	IP/N/3/Rev.11 4 February 2010	IP/N/3/LAO/1 24 September 2014

Myanmar	Nepal	Solomon Islands	Vanuatu
-DS commitments for the fiscal years 1995–2000 G/AG/N/MYN/1 20 December 2001; -DS commitments for the fiscal years 2002 and 2004 G/AG/N/MYN/5 (7 October 2005)	-DS commitments for the fiscal years 2005, 2007 and 2009 G/AG/N/NPL/2 (24 October 2011) -DS commitments for the fiscal years 2010 and 2011 G/AG/N/NPL/4 (3 October 2012)	None	-DS commitments for the year 2017 GA/AG/N/VUT/10 (9 December 2019) -DS commitments for the year 2015 GA/AG/N/VUT/1 (20 July 2016)
-ES for the calendar year 2014 G/AG/N/MYN/20 (27 August 2019) -ES notifications G/AG/N/MYN/2, 3,4,6,7,8,9,10, 11,12,13,14,15,16, 17,18,19	-ES for the calendar years 2004–2010 G/AG/N/NPL/1 (20 October 2011) -ES for the calendar year 2011 G/AG/N/NPL/3 (2 October 2012)		-ES for the calendar year 2018 G/AG/N/VUT/8 (9 December 2019) -ES for the calendar years 2012–2017 G/AG/N/VUT/2, 3, 4, 5, 6, 7, 9 December 2019
None	None	None	-IP/N/1/VUT/1 10 October 2014
None	None	None	None
IP/N/3/MMR/2/Rev.1 21 March 2019	IP/N/3/NPL/1 22 January 2015	None	IP/N/3/VUT/1 9 December 2019

7.2 Annex II: Partial equilibrium model: methodology and alternative estimates

Methodology applied for partial equilibrium model

Description of the model

To project the expected changes in trade flows because of the phasing out of preferences, we employ a partial equilibrium model, which allows for substitution between exports from different origin countries. This model is appropriate if we do not have knowledge about domestic flows, neither on the importer side, nor on the exporter side. To circumvent the lack of data on domestic flows, we employ import demand and export supply elasticities to capture the response of import demand and export supply to changes in prices.

With this setup, an increase in tariffs imposed by an importer on goods from a specific exporter will make it more attractive for the importer to source goods from other exporters and for the exporter to export to other destinations, leading to changes in the direction of trade for the importer and exporter respectively. A generic negative import demand elasticity implies that the higher price of imports due to higher tariffs will lead to a reduction of imports. The positive export supply elasticity implies that export supply will rise if a higher price can be earned on exports. Equivalently, export supply will fall if higher tariffs are imposed, as they will drive down the export price and thus export supply.

Technically, we follow most quantitative models in the literature, and we abstract from imperfect transformability of exports (with a constant elasticity of transformation [CET] function) imposing that there is one price for exports to all destinations.

The following set of equilibrium equations formally defines the partial equilibrium Armington model for commodity :

$$E_{jk}^{imp} = \kappa_{jk}^{imp}\left(P_{jk}^{imp}\right)^{1-\varepsilon_{jk}} \qquad (1)$$

$$P_{jk}^{imp} = \left(\sum_i \omega_{ijk}^{\sigma_k}\left(p_{ik}(1+t_{ijk})\right)^{1-\sigma_k}\right)^{\frac{1}{1-\sigma_k}} \qquad (2)$$

$$m_{ijk} = \omega_{ijk}^{\sigma_k}\left(p_{ik}(1+t_{ijk})\right)^{-\sigma_k}\left(P_{jk}^{imp}\right)^{\sigma_k-1}E_{jk}^{imp} \qquad (3)$$

$$x_{ik} = \lambda_{ik} p_{ik}^{\eta} \qquad (4)$$

$$x_{ik} = \sum_j m_{ijk} \qquad (5)$$

Equation (1) represents import demand in country j for commodity k with E_{jk}^{imp} the import expenditures and P_{jk}^{imp} the importer price index. P_{jk}^{imp} is defined in equation (2) as a weighted sum over the prices from the different sources. Equation (3) is the import demand equation, with m_{ijk} the quantity imported from country i, p_{ik} the export price, and t_{ijk} the bilateral ad-valorem tariff rate. Equation (4) is the export supply equation in country i, and equation (5) is market equilibrium with export supply x_{ik} equal to import demand from different destinations. ε_{jk} is the (negative of the) demand elasticity for total import demand, η is the export supply elasticity for total export supply, and σ_k the substitution elasticity between goods from different sources.

Size of behavioural parameters

We obtain the values for the three behavioural parameters as follows:

The substitution elasticities between imports from different sources, σ_k, are based on the tariff estimates in Fontagné et al. (2019) obtained with data at the HS6 level. Such elasticities are imputed using 4-digit averages and whenever a figure is missing or null it is replaced with the 2-digit average.

Based on a model with nested Armington preferences, the price elasticity of aggregate import demand, ε_{jk} , can be written as follows (derivation available upon request):[76]

$$\varepsilon_{jk} = \rho_k - \left(\rho_k - \nu_{jk}\right)sh_{jk}^{imp}$$

Hence, we need three inputs to determine the import demand elasticity:

The substitution elasticity between domestic and imported goods, ρ_{ik}. We assume that ρ_{ik} is half the substitution elasticity between imports from different sources following the approach in most CGE-models.

The share of imports in total demand (import plus domestic) of a commodity, sh_{jk}^{imp}. Due to lack of domestic consumption data at the detailed product level for the countries under consideration, we employ data from the GTAP 10 database for the aggregate commodity to which the product line belongs to obtain sh_{jk}^{imp}.

The price elasticity of total demand for product k in country j, ν_{jk}. Following the new quantitative trade literature, we could set ν_{jk} at 1, corresponding with a Cobb-Douglas upper nest choice between spending in different sectors. However, the model will be more accurate by using the price elasticities from the GTAP model, which are based on the non-homothetic constant distance elasticity preferences and are generally much lower than 1.

If we were to use a demand elasticity, ε_{jk}, unrelated to the substitution elasticity, σ_k, we could run into the risk of having a higher price elasticity for total import demand than for import demand from different sourcing countries. Therefore, it seems better to infer the price elasticity of total import demand from the substitution elasticity between imports from different sources.

The price elasticity of export supply, η, could be obtained in a similar way as the price elasticity of demand, based on a theoretical framework on the exporter side with a CET. However, given that we do not work with a CET on the export side, we decided to obtain the export supply elasticity from the literature, selecting the median value of 7.7 reported in the latest handbook chapter on trade elasticities (Hillberry and Hummels, 2014).[77]

Calibration of the model

To calibrate the model and calculate the counterfactual levels of trade, we need three inputs: the cif-value of imports (exclusive of tariffs), the baseline tariff rates and the counterfactual tariff rates. These three inputs are obtained as follows:

Imports have been extracted from Comtrade at the Harmonized System 2012 6-digit level (HS6 level); the database contains 2016–2018 averages for all the importers and exporters available in that period.

Wherever there is a transaction between a preference-granting member and a graduating LDC, the baseline tariff is the weighted average of all the tariffs (at the 6-digit level), where the weights are the use rates. If graduating LDCs or preference-granting members are not involved, we use the effectively applied tariff from the UNCTAD Trade Analysis Information System (TRAINS) database.

Similarly, if the transaction involves a graduating LDC and a preference-granting member, the baseline tariff (before preferences are abolished) is obtained through a weighted average, where the LDC duty rate is substituted with the best alternative rate; if this is not the case, the counterfactual tariff is equal to the baseline.

Based on these three inputs, calibration of the baseline is straightforward and follows standard procedures. Since we solve the model in levels using General Algebraic Modeling System (GAMS), we need baseline values for the share parameters ω_{ijk}, κ_{jk}, and λ_{ik}. These are obtained using standard approaches, normalizing all prices at 1 in the baseline (details are available upon request).

Level of aggregation of the model

As mentioned in the discussion of the effects by destination of the different LDCs, some effects might be missed by the model because of a lack of feedback effects between sectors. So, a reduction in export opportunities to countries withdrawing LDC preferences on specific products will reduce the price of inputs in all sectors and thus lead to more exports to third countries for other products as well. In the model this effect is not present. The best way to avoid this omission is to include spillover effects between sectors. However, this would require additional data on the input–output structure of graduating LDCs, which is not available for most of these countries. An alternative is to run the partial equilibrium model at a higher level of aggregation, working for example with the 22 products whose results are reported in Table 53. In this way a reduction in export opportunities to countries withdrawing preferences for LDCs would lead directly to a fall in the price of inputs of graduating LDCs, and thus make these countries more competitive in their exports to third regions in more aggregate sectors.

The disadvantage of using more aggregate sectors is that the modelling of changes in the direction of trade on the import side is less accurate. With more aggregate sectors, a reduction in imports of an aggregate product (for example oilseeds, fats and oils) from a graduating LDC facing higher tariffs will lead directly to more imports from other countries, whereas the graduating LDC and the third country might produce very different detailed products within the aggregate product and are thus not competing directly in the detailed product. For example, suppose that the LDC exports oilseeds and the third country fats. The model could predict that a third country starts exporting more oilseeds, fats and oils in response to higher tariffs only on oilseeds, whereas the third country does not export any oilseeds and only fats.

A further argument against simulating the effects at a more aggregate product level is that the empirical elasticities estimated are valid for the HS6 level, implying that the counterfactual analysis should also be conducted at the HS6 level. Therefore, we have decided to present the results of the simulations conducted with the partial equilibrium model at a detailed aggregation level.

Changes in the direction of trade for importers

Table 49. Effects on importers by origin market

Importer	Origin	Initial imports	Change imports	Percentage change	Effective tariff change
European Union	Graduating LDCs	26,429,442	-5,915,953	-22.38%	7.66
European Union	Third countries	2,066,706,056	4,677,608	0.23%	0.00
Canada	Graduating LDCs	1,547,627	-556,340	-35.95%	12.46
Canada	Third countries	416,744,267	534,857	0.13%	0.00
Japan	Graduating LDCs	2,948,843	-389,340	-13.20%	4.39
Japan	Third countries	644,475,232	271,597	0.04%	0.00
Korea, Rep. of	Graduating LDCs	1,159,658	-217,841	-18.78%	4.02
Korea, Rep. of	Third countries	458,764,303	145,426	0.03%	0.00
China	Graduating LDCs	26,694,457	-50,261	-0.19%	0.11
China	Third countries	1,521,920,203	-29,210	0.00%	0.00
New Zealand	Graduating LDCs	104,659	-11,158	-10.66%	4.28
New Zealand	Third countries	39,979,257	8,200	0.02%	0.00
Armenia	Graduating LDCs	16,171	1,039	6.43%	0.43
Armenia	Third countries	4,257,145	-1,107	-0.03%	0.00
Iceland	Graduating LDCs	12,881	1,385	10.75%	0.00
Iceland	Third countries	7,461,970	-1,305	-0.02%	0.00
Kazakhstan	Graduating LDCs	46,009	4,094	8.90%	0.00
Kazakhstan	Third countries	31,109,998	-3,780	-0.01%	0.00
Switzerland	Graduating LDCs	671,086	5,069	0.76%	1.85
Switzerland	Third countries	273,356,130	-337	0.00%	0.00
Rest of Europe	Graduating LDCs	53,865	5,858	10.88%	0.00
Rest of Europe	Third countries	22,874,915	-6,355	-0.03%	0.00
Chile	Graduating LDCs	105,320	5,936	5.64%	0.86
Chile	Third countries	65,981,927	-7,036	-0.01%	0.00
Thailand	Graduating LDCs	5,786,531	8,002	0.14%	0.00
Thailand	Third countries	209,081,785	-9,614	0.00%	0.00
Norway	Graduating LDCs	368,093	30,684	8.34%	0.02
Norway	Third countries	84,012,319	-27,911	-0.03%	0.00
India	Graduating LDCs	6,556,892	51,686	0.79%	0.01
India	Third countries	466,372,696	-36,674	-0.01%	0.00
Russian Federation	Graduating LDCs	911,374	75,020	8.23%	0.19
Russian Federation	Third countries	213,895,011	-75,189	-0.04%	0.00
Australia	Graduating LDCs	796,333	77,936	9.79%	0.00
Australia	Third countries	211,996,564	-68,988	-0.03%	0.00
Rest of Asia	Graduating LDCs	2,734,452	91,967	3.36%	0.00
Rest of Asia	Third countries	1,534,169,189	-94,498	-0.01%	0.00
United States	Graduating LDCs	9,515,817	463,033	4.87%	0.10
United States	Third countries	2,282,230,325	-491,468	-0.02%	0.00
Pacific	Graduating LDCs	25,384	2,474	9.75%	0.00
Pacific	Third countries	3,969,828	-1,863	-0.05%	0.00
South Asia	Graduating LDCs	338,993	9,200	2.71%	0.00
South Asia	Third countries	100,200,086	-7,111	-0.01%	0.00

Importer	Origin	Initial imports	Change imports	Percentage change	Effective tariff change
CIS	Graduating LDCs	162,260	12,924	7.97%	0.00
CIS	Third countries	128,793,107	-12,339	-0.01%	0.00
Africa	Graduating LDCs	2,451,886	44,026	1.80%	0.00
Africa	Third countries	469,926,246	-48,880	-0.01%	0.00
Rest of North America	Graduating LDCs	1,380,685	77,127	5.59%	0.00
Rest of North America	Third countries	860,946,950	-80,722	-0.01%	0.00
Middle East	Graduating LDCs	2,896,455	115,879	4.00%	0.00
Middle East	Third countries	684,268,323	-111,780	-0.02%	0.00
Total	**Graduating LDCs**	**94,518,575**	**-6,023,712**	**-6.37%**	**3.52**
Total	**Third countries**	**13,001,116,924**	**4,497,521**	**0.03%**	**0.00**

Note: Change in imports (in thousands of dollars and as a percentage of initial imports).

** The effective tariff change is measured in percentage points. It takes into account the increase in tariff rates due to the loss of LDC-specific preferences as well as preference utilization by graduating LDCs. A lower preference utilization will result in a lower effective increase in tariffs, as a smaller fraction of exports will be exposed to changes in tariff rates after graduation.*

Partial equilibrium estimates assuming full preference utilization

Table 50. Changes in exports and tariffs without accounting for initial preference utilization

Exporter	Initial exports	Change exports	Percentage change	Effective tariff change*
Angola	36,694,340	-350,393	-0.95%	0.26
Bangladesh	37,633,733	-6,087,269	-16.18%	6.50
Bhutan	295,867	0	0.00%	6.84
Kiribati	153,730	0	0.00%	0.26
Lao PDR	4,581,917	-225,022	-4.91%	2.21
Myanmar	13,028,355	-1,093,300	-8.39%	3.47
Nepal	812,796	-168,275	-20.70%	7.90
Sao Tomé and Principe	16,043	-177	-1.10%	0.30
Solomon Islands	826,170	-52,493	-6.35%	1.89
Timor-Leste	123,038	-2,544	-2.07%	0.70
Tuvalu	58,623	0	0.00%	5.77
Vanuatu	293,961	-11,852	-4.03%	1.42
Total	**94,518,575**	**-7,991,324**	**-8.45%**	**3.39**

Note: Change in exports (in thousands of dollars and as a percentage of initial exports).

** The effective tariff change is measured in percentage points. It takes into account the increase in tariff rates due to the loss of LDC-specific preferences as well as preference utilization by graduating LDCs. A lower preference utilization will result in a lower effective increase in tariffs, as a smaller fraction of exports will be exposed to changes in tariff rates after graduation. In this table, full preference utilization by graduating LDCs is assumed.*

Table 51. Changes in exports and tariffs by MTN category without accounting for initial preference utilization

MTN category	Initial exports	Change exports	Percentage change	Effective tariff change*
Clothing	35,373,816	-5,804,747	-16.41%	6.15
Minerals and metals	11,720,975	-522,679	-4.46%	0.06
Textiles	2,905,817	-358,487	-12.34%	2.26
Leather, footwear, etc.	2,052,507	-287,387	-14.00%	4.25
Fruits, vegetables, plants	1,268,737	-232,501	-18.33%	0.16
Fish and fish products	1,603,632	-222,625	-13.88%	2.70
Wood, paper, etc.	1,619,134	-102,655	-6.34%	0.04
Cereals and preparations	616,686	-90,721	-14.71%	5.71
Beverages and tobacco	290,540	-66,506	-22.89%	2.72
Transport equipment	801,347	-63,642	-7.94%	0.94
Chemicals	559,727	-57,461	-10.27%	0.29
Oilseeds, fats and oils	261,014	-42,941	-16.45%	0.26
Other agricultural products	218,043	-32,551	-14.93%	0.17
Manufactures n.e.s.	1,761,105	-26,804	-1.52%	0.02
Electrical machinery	834,990	-21,923	-2.63%	0.01
Petroleum	31,991,615	-17,906	-0.06%	0.00
Sugars and confectionery	64,896	-15,505	-23.89%	9.50
Animal products	76,425	-11,392	-14.91%	0.53
Non-electrical machinery	346,145	-10,662	-3.08%	0.01
Dairy products	4,716	-1,240	-26.29%	2.90
Coffee, tea	134,370	-983	-0.73%	0.04
Cotton	12,336	-7	-0.06%	0.00
Total	**94,518,575**	**-7,991,324**	**-8.45%**	**2.58**

Note: Change in exports (in thousands of dollars and as a percentage of initial exports).

** The effective tariff change is measured in percentage points. It takes into account the increase in tariff rates due to the loss of LDC-specific preferences as well as preference utilization by graduating LDCs. A lower preference utilization will result in a lower effective increase in tariffs, as a smaller fraction of exports will be exposed to changes in tariff rates after graduation. In this table full preference utilization by graduating LDCs is assumed.*

Sensitivity analysis on the size of the export supply elasticity

The results of the simulations with the partial equilibrium model are sensitive to the chosen elasticities. The substitution elasticities are based on detailed empirical work at the HS6-digit level and are also in line with earlier empirical work. The import-demand elasticities are also based on established empirical work. The export-supply elasticities instead are identical for all HS lines and are based on the median value reported in a handbook chapter (Hillberry and Hummels, 2014). Therefore, in this section the robustness of the projected effects is explored.

Table 52 reports the percentage change in exports for three values of the export supply elasticity, a low value of 4, the median value of 7.7 also reported in the main text, and a high value of 20. The high value of 20 brings the model close to perfect mobility of exports across different destinations. The table shows, as expected, that the export supply elasticity has a substantial impact on the projected percentage change in exports. With a low export supply elasticity, the impact on total exports from all graduating countries is about 20% smaller (5.16% instead of 6.37%), whereas a high export supply elasticity raises the change in exports from all graduating countries by about 25% (7.91% instead of 6.37%). However, the chosen median value maintains a balance between a model with a low export supply elasticity employed in many anti-dumping investigations and an infinite export supply elasticity used in quantitative trade models. The fact that the impact of the chosen export supply elasticity on the projected results is only moderate reinforces the confidence in the projected effects.

Table 52. Initial exports, percentage change in exports and effective tariff change of graduating LDCs for various levels of the export supply elasticity

Exporter	Initial exports	Percentage change			Effective tariff change*
		Low export supply elasticity	Median export supply elasticity	High export supply elasticity	
Angola	36,694,340	-0.05%	-0.07%	-0.12%	0.02
Bangladesh	37,633,733	-11.54%	-14.28%	-17.71%	5.73
Bhutan	295,867	-0.99%	-1.44%	-2.27%	0.26
Kiribati	153,730	-0.16%	-0.19%	-0.24%	0.06
Lao PDR	4,581,917	-1.17%	-1.45%	-1.78%	0.65
Myanmar	13,028,355	-3.15%	-3.83%	-4.67%	1.75
Nepal	812,796	-2.01%	-2.48%	-3.06%	0.90
Sao Tomé and Principe	16,043	-0.07%	-0.09%	-0.12%	0.03
Solomon Islands	826,170	-3.30%	-4.16%	-5.21%	1.35
Timor-Leste	123,038	-0.03%	-0.03%	-0.04%	0.01
Tuvalu	58,623	-0.01%	-0.01%	-0.01%	0.00
Vanuatu	293,961	-0.25%	-0.29%	-0.35%	0.14
Total	**94,518,575**	**-5.16%**	**-6.37%**	**-7.91%**	**2.58**

Note: Change in exports are presented as a percentage of initial exports for three levels of the export supply elasticity, 4 (low), 7.7 (median), and 20 (high). The change in tariffs is presented in percentage points.

** The effective tariff change is measured in percentage points. It takes into account the increase in tariff rates due to the loss of LDC-specific preferences as well as preference utilization by graduating LDCs. A lower preference utilization will result in a lower effective increase in tariffs, as a smaller fraction of exports will be exposed to changes in tariff rates after graduation.*

Annex III: Development cooperation

Table 53. Top 10 donors for each graduating LDC, US$ million, 2017

Recipient	Donor	Amount, US$ million
Angola	International Development Association	64.2
	United States	56.8
	EU Institutions	41.5
	Global Fund	24.6
	Republic of Korea	13.9
	African Development Fund	13.9
	UNICEF	8.2
	Norway	7.7
	Global Alliance for Vaccines and Immunization	7.1
	France	5.7
Bangladesh	International Development Association	1,176.9
	Japan	995.0
	Asian Development Bank	373.7
	United States	267.3
	United Kingdom	223.0
	EU Institutions	128.3
	Global Alliance for Vaccines and Immunization	76.6
	Germany	76.3
	Global Fund	48.4
	IFAD	44.3
Bhutan	Japan	24.1
	Asian Development Bank	23.3
	International Development Association	17.1
	Australia	6.4
	EU Institutions	6.0
	Global Environment Facility	4.3
	Austria	2.9
	Switzerland	1.9
	World Health Organization	1.9
	IFAD	1.7
Kiribati	Australia	19.9
	Asian Development Bank	12.2
	New Zealand	11.9
	International Development Association	10.1
	Japan	4.9
	Chinese Taipei	4.3
	EU Institutions	2.4
	Global Environment Facility	0.9
	Republic of Korea	0.7
	IFAD	0.7

Recipient	Donor	Amount, US$ million
Lao PDR	International Development Association	76.7
	Japan	70.6
	Asian Development Bank	56.3
	Republic of Korea	46.9
	United States	38.6
	Thailand	32.5
	EU Institutions	29.0
	Germany	27.5
	Australia	26.4
	Switzerland	23.6
Myanmar	Japan	442.9
	International Development Association	182.7
	United Kingdom	150.2
	United States	135.5
	Global Fund	109.7
	EU Institutions	102.2
	Republic of Korea	62.5
	Australia	57.4
	Germany	46.0
	Switzerland	41.2
Nepal	International Development Association	265.2
	Asian Development Bank	244.2
	United States	176.0
	United Kingdom	137.4
	EU Institutions	97.8
	Japan	89.9
	Switzerland	44.2
	Germany	39.8
	Norway	32.0
	Finland	24.3
Sao Tomé and Principe	Portugal	13.9
	EU Institutions	6.9
	International Development Association	3.8
	African Development Fund	3.6
	Global Fund	3.5
	Global Environment Facility	2.6
	Japan	2.5
	IFAD	2.1
	IMF (Concessional Trust Funds)	1.8
	OPEC Fund for International Development	1.7
Solomon Islands	Australia	113.9
	New Zealand	16.4
	Japan	15.9
	Asian Development Bank	14.2
	International Development Association	5.5
	EU Institutions	5.4

Table 53. Top 10 donors for each graduating LDC, US$ million, 2017 (continued)

Recipient	Donor	Amount, US$ million
	Republic of Korea	3.4
	Global Environment Facility	3.2
	Global Fund	2.7
	IFAD	1.9
Timor-Leste	Australia	62.9
	Japan	30.4
	EU Institutions	24.1
	United States	21.4
	Portugal	15.0
	Asian Development Bank	12.7
	International Development Association	12.4
	Republic of Korea	11.9
	New Zealand	11.1
	Germany	7.1
Tuvalu	International Development Association	8.1
	Australia	6.0
	New Zealand	5.1
	Asian Development Bank	2.9
	Japan	1.7
	Global Environment Facility	0.8
	EU Institutions	0.5
	United Arab Emirates	0.2
	Korea, Rep. of	0.2
	Italy	0.2
Vanuatu	Australia	45.4
	Japan	28.9
	New Zealand	21.9
	International Development Association	11.1
	Asian Development Bank	7.3
	EU Institutions	6.2
	United States	3.6
	France	2.7
	Global Environment Facility	2.0
	World Health Organization	1.1

Source: OECD-DAC https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/aid-at-a-glance.htm
Data extracted from OECD.Stat on 12 July 2019.

Table 54. Contributions to UN system regular budgets

UN entity	How contributions are calculated	LDC provisions and impact of graduation
UN regular budget	A scale of assessments is determined every three years in a resolution of the General Assembly, based on indicators of gross national income, debt-burden, and per capita income, among others, that reflect capacity to pay. Each member state is assigned a percentage (the assessment rate), corresponding to the share of the regular budget its contribution will amount to.	The minimum assessment rate is 0.001%. The maximum is 22% but for LDCs it is 0.01%. Following graduation, the 0.01% cap no longer applies.
Funding of peace-keeping operations	UN scale of assessments adjusted by a premium for permanent members of the Security Council and discounts in the case of all countries with per capita gross national product below the member state average. Member states are grouped into levels based on per capita GNI, with larger discounts applying for the levels of countries with lower incomes.	90% discount on UN scale; after graduation, countries with GNI per capita below US$9,861 have an 80% discount.
UN Mechanism for International Criminal Tribunals	50% of the contribution is calculated based on the UN scale of assessments and 50% on the rate used for the peacekeeping budget.	As above, for UN regular budget and funding of peace-keeping operations
CTBTO, FAO, IAEA, ICC, ILO, IOM, ISBA, ITLOS, OPCW, UNESCO, WHO*	Based on UN scale of assessments, adjusted to entity membership	Ceiling of 0.01%
UNIDO	Based on UN scale of assessments adjusted to more restricted membership by applying a coefficient	The coefficient is not applied to LDCs whose rate may exceed 0.01%. Following graduation, the waiver on the application of the coefficient no longer applies after graduation.
ITU	Voluntary selection of a class of contribution based on shares or multiples of an annual unit of contribution of CHF 318,000.	Only LDCs can opt for the lowest classes of contribution (1/8 or 1/16); ITU Council can authorize a country to continue to contribute at lowest classes.
WIPO	Voluntary selection of classes of contribution, each corresponding to a share of a unit of contribution determined for every biennium.	Only LDCs can contribute at the lowest level ("Ster") of the lowest class, with 1/32 of a unit of contribution.

Source: https://www.un.org/development/desa/dpad/publication/preliminary-assessments-for-the-2021-triennial-review/
CTBTO – Caribbean Basin Trade Partnership Act
FAO – Food and Agriculture Organization of the United Nations
IAEA – International Atomic Energy Agency
ICC – International Criminal Court
ILO – International Labour Organization
IOM – International Organization for Migration
ISBA – International Seabed Authority
ITLOS – International Tribunal for the Law of the Sea
ITU – International Telecommunications Union
OPCW – Organisation for the Prohibition of Chemical Weapons
UNESCO – United Nations Educational, Scientific and Cultural Organization
UNIDO – United Nations Industrial Development Organization
WHO – World Health Organization
WIPO – World Intellectual Property Organization

Abbreviations and acronyms

AANZFTA	ASEAN-Australia-New Zealand Free Trade Area
ADB	Asian Development Bank
AfT	Aid for Trade
AFTA	ASEAN Free Trade Area
AGOA	United States' African Growth and Opportunity Act
AJCEP	ASEAN-Japan Comprehensive Economic Partnership
AoA	Agreement on Agriculture
APTA	Asia-Pacific Trade Agreement
ASEAN	Association of Southeast Asian Nations
BIMST-EC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation Free Trade Area
CC	change in a tariff chapter
CTH	change in a tariff heading
CTSH	change in a tariff sub-heading
CVA	WTO Customs Valuation Agreement
DFQF	duty-free and quota-free
DSB	Dispute Settlement Body
DSU	Understanding on Rules and Procedures Governing the Settlement of Disputes
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms initiative of the European Union
ECOSOC	United Nations Economic and Social Council
EIF	Enhanced Integrated Framework
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
G90	Coalition of African, ACP and least-developed countries
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
GAVI	Global Alliance for Vaccines and Immunizations
GDP	gross domestic product
GEF	Global Environment Facility
GNI	gross national income
GSP	Generalized System of Preferences
GSP+	GSP Plus
GSTP	Global System of Trade Preferences among Developing Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	WTO Integrated Database
IFPRI	International Food Policy Research Institute
IP	intellectual property
IPoA	Istanbul Programme of Action for the LDCs for the Decade 2011–2020
IPR	intellectual property right
ITU	International Telecommunications Union
Lao PDR	Lao People's Democratic Republic
LDC	least-developed country
MFN	most-favoured nation
NAMA	non-agricultural market access
NFIDCs	Net-Food Importing Developing Countries
OCR	ordinary capital resources
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OIE	World Organisation for Animal Health
PACER Plus	Pacific Agreement on Closer Economic Relations
PSRs	product-specific rules
PTA	preferential trade arrangement
PTN	Protocol on Trade Negotiations
RTA	regional trade agreement
RVC	regional value content
S&D	special and differential treatment
SAFTA	South Asian Free Trade Agreement
SCM	(Agreement on) Subsidies and Countervailing Measures
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPS Agreement	WTO Agreement on the Application of Sanitary and Phytosanitary Measures
TA Plans	WTO Biennial Technical Assistance and Training Plans
TBT	Agreement on Technical Barriers to Trade
TFA	Trade Facilitation Agreement
TPRM	Trade Policy Review Mechanism
TRIMs	(Agreement on) Trade-Related Investment Measures
TRIPS	(Agreement on) Trade-Related Aspects of Intellectual Property Rights
TRTA	WTO trade-related technical assistance
UN	United Nations
UN CDP	United Nations Committee for Development Policy
UN DESA	United Nations Department of Economic and Social Affairs
UNCTAD	United Nations Conference on Trade and Development
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNDP	United Nations Development Programme
UN-OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
UPU	Universal Postal Union
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WO	Wholly obtained
WTO	World Trade Organization

Endnotes

1 LDC Ministerial Declaration, 9 December 2017, WT/MIN(17)/40

2 Communication from the Mission of the Central African Republic on behalf of the LDC Group, 19 April 2018, WT/GC/W/742 — G/C/W/752.

3 UN CDP, Outcome of the comprehensive review of the LDC criteria, https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-2020-Criteria-review-outcome.pdf

4 More detail is provided in the Third Edition of the Handbook on the LDC Category by the UN CDP and the UN Department of Economic and Social Affairs (UN DESA). https://www.un.org/development/desa/dpad/publication/handbook-on-the-least-developed-country-category-inclusion-graduation-and-special-support-measures-third-edition/

5 The WTO Secretariat Note WT/COMTD/W/239 provides an overview of all S&D provisions available in WTO Agreements and Decisions, as well as some information regarding their implementation.

6 Ministerial Decision of 19 December 2015 (WT/MIN(15)/45-WT/L/980).

7 Covered respectively by paragraphs 8, 17 and 27 of WT/MIN(15)/45-WT/L/980.

8 WTO list of NFIDCs: G/AG/5/Rev.10 (last updated 2012).

9 Decision by the Committee on Agriculture at its meeting on 21 November 1995 relating to the establishment of a list of WTO NFIDCs for the purposes of the Marrakesh Ministerial Decision on measures concerning the possible negative effects of the reform programme on the LDCs and NFIDCs, G/AG/3.

10 Notification Requirements and Formats, 30 June 1995, G/AG/2.

11 While Nepal bound agricultural export subsidies at zero ("Nil") during its accession, the response to the WTO LDC Graduation questionnaire indicated that Nepal provided export subsidies to agricultural products. The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP, 2019) finds that under government's Cash Incentive Scheme for Exports, 26 exportable items (including 10 agricultural items, i.e. turmeric, vegetables, flowers, cardamom and ginger) to destinations other than India receive some incentives (3–5 % of export value), if the domestic value addition is at least 30–50%.

12 Hong Kong Ministerial Declaration, 22 December 2005, WT/MIN(05)/DEC.

13 In 2017, the G90 submitted ten Agreement-specific S&D proposals, including on TRIMs (WT/MIN(17)/23/Rev.1). The proposal suggests that LDCs be exempt from complying with the TRIMs Agreement, allowing them to introduce and maintain measures that deviate from the obligations under the Agreement as long as they remain an LDC. Since the G90 proposal was not adopted, there is no implication for graduating LDCs.

14 In 2017, the G90 submitted ten Agreement-specific S&D proposals, including on the SCM Agreement (WT/MIN(17)/23/Rev.1). Under the proposal, certain subsidies of developing country members would be treated as non-actionable under Article 8 for a period of ten years for LDCs and eight years for developing countries. In addition, certain subsidies of Annex VII SCM members would be exempt from SCM Art 3.1(b) for eight years if these subsidies contribute to achieving objectives of industrialization and structural transformation. Yet since the G90 proposal was not adopted, there is no implication for graduating LDCs.

15 The transition period and extensions thereof for developing country members have expired. The final extension for phasing out the export subsidies of 19 developing country members expired at the end of 2015, G/SCM/W/546/Rev.10, Annex I.

16 Honduras was added to the list in 2001, as it had not been included in the list at the creation of the WTO even though its GNI per capita had been less than US$1,000. The omission of Honduras from Annex VII(b) was rectified on 21 January 2001, WT/Let/371.

17 WTO Documents: G/SCM/38, G/SCM/110/Add.16.

18 LDC Ministerial Declaration, 9 December 2017, WT/MIN(17)/40. Communication from the Mission of the Central African Republic on behalf of the LDC Group, 19 April 2018, WT/GC/W/742 — G/C/W/752.

19 Paragraph 10.5 of the Doha Ministerial Decision on Implementation-Related Issues and Concerns clarified that Article 27.5 and Article 27.6 also apply to the LDCs. Article 27.6 of the SCM Agreement provides two options for establishing export competitiveness: (i) notification by the developing country member having reached export competitiveness; and (ii) calculation by the WTO Secretariat at the request of any member. A section heading of the Harmonised System is used to define a "product".

20 WTO Document: IP/C/W/546.

21 WTO Document: IP/C/28.

22 Proposal on the Implementation of Article 66.2 of the TRIPS Agreement, 16 February 2018, IP/C/W/640.

23 TRIPS Council Decision IP/C/2 requires members, as soon as possible after the date of application of the provisions in the TRIPS Agreement on IP enforcement, to notify a response to the checklist of questions in IP/C/5.

24 The Council invited members to provide information on geographical indications (IP/C/13 and Add.1) and the patentability of plants and animals (IP/C/W/122, IP/C/W/126) pursuant to its review of Articles 24.2 and 27.3(b), respectively.

25 Modalities for Special Treatment of LDC members in the Negotiations on Trade in Services, TN/S/13.

26 Preferential Treatment to Services and Service Suppliers of Least Developed Countries, Eighth WTO Ministerial Conference, Geneva, 15–17 December 2011, WT/L/847.

27 Implementation of Preferential Treatment in Favour of Services and Service Suppliers of LDCs and Increasing LDC Participation in Services Trade, Tenth WTO Ministerial Conference, Nairobi, 15–18 December 2015, WT/L/982.

28 Doha Ministerial Decision on Implementation-related Issues and Concerns, WT/MIN(01)/17.

29 The STDF grew out of a joint communiqué issued by the Heads of FAO, OIE, World Bank Group, WHO and WTO at the Doha Ministerial Conference in 2001, WT/MIN(01)/ST/97.

30 There are three types of notification requirements: Articles 1.4(a) – which requires to notify sources in which information regarding import licensing procedures are published; 8.2(b) – changes in laws/regulations; Article 5 – import licensing procedures or changes to these procedures; and Article 7.3 – replies to the annual questionnaire.

31 The GATT 1947 allows members to deviate from Article XI, which generally prohibits the use of quantitative restrictions. Greater flexibility is accorded to developing country members under Article XVIII(b). At the end of the Uruguay Round, members decided to clarify it and agreed on the "Understanding of the Balance of Payments Provisions" which forms an integral part of the GATT 1994.

32 WTO Document: WT/BOP/N/54.

33 WTO Document: WT/BOP/N/62.

34 WTO Documents: WT/BOP/N/63, WT/BOP/N/64, WT/BOP/N/73.

35 Committee on Customs Valuation, minutes of meeting, 23 May 2019, G/VAL/M/68.

36 WTO Document: WT/DS306/3.

37 TPRM, Annex 3, WTO Agreement. Amendment of the TPRM, 26 July 2017, WT/L/1014.

38 The flexibilities for LDCs were outlined in the so-called "July 2004 package", WT/L/579. Annex A and Annex B contain the frameworks for establishing modalities in agriculture and NAMA, respectively. The flexibilities were reflected in the 2008 draft modalities for agriculture (TN/AG/W/4/Rev.4) and NAMA (TN/MA/W/103/Rev.3), issued at the Chairpersons' own responsibility.

39 LDC Ministerial Declaration, Buenos Aires, 9 December 2017, WT/MIN(17)/40.

40 Doha Ministerial Declaration, WT/MIN(01)/DEC/1.

41 WTO Document: WT/COMTD/W/248.

42 WTO Document: WT/COMTD/W/245.

43 Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of

the Congo, Ethiopia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao PDR, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Sao Tomé and Principe, Senegal, Solomon Islands, Tanzania, Togo, Tuvalu, Uganda, Vanuatu, Yemen and Zambia.

44 Cabo Verde, Equatorial Guinea, Maldives and Samoa.

45 Target 8.A. aims to "increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-related Technical Assistance to Least developed countries". https://www.enhancedif.org/en/topics/eif-and-sustainable-development-goals

46 WTO Financial Regulations, 27 February 2015, WT/L/156/Rev.3.

47 WTO Documents: WT/L/508 and WT/L/508Add.1.

48 WTO Document: WT/L/846.

49 The LDC Work Programme was adopted in 2002 and revised in 2013 (WT/COMTD/LDC/11/Rev.1).

50 Differential and more favourable treatment reciprocity and fuller participation of developing countries, 28 November 1979, L/4903.

51 WTO Documents: WT/L/304, WT/L/1069.

52 WTO Document: WT/MIN(05)/DEC.

53 WTO Document: WT/L/919.

54 Members submit data on preferential tariffs in line with the PTA Transparency Mechanism as well as the RTA Transparency Mechanism. In contrast to the PTA Transparency Mechanisms, Members are not required to submit annual data under the RTA Transparency Mechanism. While data as per the commitments made in the agreements themselves are available to the Secretariat for a number of RTAs, they have not been used due to difficulties with comparability.

55 Preferential Rules of Origin for LDCs, Ministerial Decision, 7 December 2013, WT/MIN(13)/42, WT/L/917; Preferential Rules of Origin for LDCs, Ministerial Decision, 19 December 2015, WT/MIN(15)/47, WT/L/917/Add.1

56 The WTO Secretariat Note G/RO/W/163/Rev.6 provides an overview of the status of notifications of preferential import data. The General Council Decision on the WTO Transparency Mechanism for PTAs is contained in document WT/L/806. Data on preference use can be accessed through the WTO PTA Database: http://ptadb.wto.org/.

57 Secretariat Note G/RO/W/185 outlines a number of factors that influence the utilization of preferences.

58 A general equilibrium approach taking into account cross-sectoral linkages would require additional data on the input-output structure of countries, which are not available for most of the LDCs in the study. An alternative would be to simulate the model at a higher level of sector aggregation. As discussed in Annex II, this option has more disadvantages than advantages and is therefore not pursued.

59 It should be noted that these results are dependent on the assumptions made in the model, for instance with respect to demand and supply elasticities. There are also other factors at play outside of the model that impact changes in the direction of exports.

60 In some LDCs exports are expected to fall by very small amounts, which is due to tougher competition in third markets. The projections assume that Cambodia has full access to EBA preferences. In February 2020, the European Commission decided to withdraw part of the EBA preferences for Cambodia as of 12 August 2020.

61 WTO Secretariat Note, 15 October 2019, WT/COMTD/LDC/W/67.

62 Preferential treatment other than market access requires approval by the Council for Trade in Services.

63 Operationalization of the Waiver Concerning Preferential Treatment to Services and Service Suppliers of Least Developed Countries, Ninth WTO Ministerial Conference, Bali, 3–6 December 2013, WT/L/918.

64 The list of sectors used by Members for their GATS commitments and for notifications under the LDC Services Waiver is contained in the WTO Secretariat Note MTN/GNS/W/120.

65 ODA is defined as: "Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries ("bilateral ODA") and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions. Lending by export credit agencies – with the pure purpose of export promotion – is excluded." Source: https://www.imf.org/external/pubs/ft/eds/Eng/Guide/index.htm

66 LIBOR: London Interbank Offered Rate; EURIBOR: Euro Interbank Offered Rate.

67 Gap countries are IDA-eligible countries with GNI per capita above the operational cut-off for more than two consecutive years.

68 For more details, see Bank Policy "Financial Terms and Conditions of Bank Financing", 30 June 2019

69 It does not matter for countries (Bangladesh, for example) that exceed the GNI per capita threshold but which are found to have "limited" creditworthiness.

70 The ACWL rate for LDCs is CHF 40 per hour. In terms of dispute settlement support, LDCs can be charged the following maximum amounts for a complainant or respondent: CHF5,880 for consultations, CHF 17,760 for panel proceedings, and CHF 10,520 for Appellate Body proceedings.

71 The impact of graduation depends on the budgets of each organization and on the rate that would be applied after graduation, which is calculated based on indicators of capacity to pay. Table 54 in the Annex III provides, for the organizations that have LDC specific concessions, the rules determining contributions and an estimate of the order of magnitude of the expected impact of graduation from the LDC category.

72 UN General Assembly Resolution 59/209, 20 December 2004, A/RES/59/209

73 WTO Document: RD/TN/RL/125

74 WTO Documents: G/VAL/38, WT/L/439, G/VAL/29, G/VAL/28, G/VAL/W/84, G/VAL/39, G/VAL/19

75 The 13 LDC Members are Bangladesh, Burkina Faso, Djibouti, Haiti, Madagascar, Mali, Mauritania, Myanmar, Niger, Senegal, Togo, Uganda and Zambia.

76 Nested preferences imply different substitution elasticities between imports from different exporters (lower nest) and between imports and domestic goods (upper nest).

77 Hilberry, R., D. Hummels (2014), *Trade Elasticity Parameters for a Computable General Equilibrium Model in Handbook of Computable General Equilibrium Modeling*, eds. Dixon, P.B., D. W. Jorgenson SET, Vols. 1A and 1B, Elsevier B.V., Oxford, UK.

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World Trade Organization

Centre William Rappard

Rue de Lausanne, 154
1211 Genève 2
Switzerland

Tel. +41 (0)22 739 5111
Email: enquiries@wto.org
Website: www.wto.org

Executive Secretariat for the
EIF at the WTO

Rue de Lausanne, 154
CH-1211 Geneva 2
Switzerland

Tel. +41 (0)22 739 6650

Email: eif.secretariat@wto.org

Graduation from the status of least-developed country (LDC) marks an important milestone in the development path of each LDC. At the same time, the phasing-out of international support measures associated with LDC status, including trade preferences and special treatment in the WTO, could present challenges for graduating LDCs in their efforts to continue integration into the global economy. A quarter of LDCs were on track to graduate from LDC status prior to the outbreak of the COVID-19 pandemic.

"Trade impacts of LDC graduation" examines the implications of graduation in terms of LDCs' participation in the multilateral trading system, market access opportunities and development assistance. It finds that the impact of graduation will vary for each LDC depending on factors such as export structure, use of preferential treatment, and their terms of entry into the WTO. It sheds light on potential support measures that graduating LDCs can explore in cooperation with their trading partners and the broader international development community to achieve sustainable graduation. Trade remains key to helping these countries increase incomes and maintain growth.

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