CPD Working Paper 111

Bali Ministerial of the WTO and the Way Forward

Safeguarding LDC Interests

Mustafizur Rahman
Hosna Jahan

CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think tank

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Centre for Policy Dialogue (CPD) was established in 1993 as a civil society initiative to advance the cause of a participatory, inclusive and accountable development process in Bangladesh. Over the more than last two decades the Centre has emerged as a globally reputed independent think tank with local roots and global outreach. CPD's two major activities relate to organise multistakeholder dialogues and undertake research programmes which work in a mutually reinforcing manner.

CPD dialogues are designed to address important policy issues and to seek constructive solutions to these problems. In doing so, CPD involves all important cross-sections of the society, including public representatives, government officials, business leaders, activists of grassroots organisations, academics, development partners and other relevant interest groups. CPD focuses on frontier issues which are critical to the development process of Bangladesh, South Asia and LDCs in the present context, and those that are expected to shape and influence country's development prospects from the mid-term perspectives. CPD seeks to provide voice to the interests and concerns of the low-income economies in the global development discourse. With a view to influencing policies CPD deploys both research and dialogue which draw synergy from one another.

CPD's research programmes are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include: *Macroeconomic Performance Analysis; Poverty, Inequality and Social Protection; Agriculture and Rural Development; Investment Promotion, Infrastructure and Enterprise Development; Trade, Regional Cooperation and Global Integration; Climate Change and Environment; Development Governance, Policies and Institutions*; and *Post-2015 International Development Agenda*.

CPD also conducts periodic public perception surveys on policy issues and issues of developmental concerns. With a view to promote vision and policy awareness amongst the young people of the country, CPD is also implementing a *Youth Leadership Programme*. CPD maintains an active network with institutions that have similar interests, and regularly participates in various regional and international fora. At present CPD is spearheading two global initiatives. *LDC IV Monitor* is an independent global partnership for monitoring the outcome of the Fourth United Nations Conference on the Least Developed Countries (UN LDC IV). *Southern Voice on Post-MDG International Development Goals* is a network of 49 think tanks from the developing South which seeks to contribute to the global discussions on Sustainable Development Goals (SDGs). In recognition of its track record in research, dialogue and policy influencing, CPD has been selected as one of the awardees of the Think Tank Initiative (TTI) through a globally competitive selection process for two consecutive times.

Dissemination of information and knowledge on critical developmental issues continues to remain an important component of CPD's activities. Pursuant to this CPD maintains an active publication programme, both in Bangla and in English. As part of its dissemination programme, CPD has been bringing out CPD Occasional Paper Series on a regular basis. It may be noted in this connection that since November 2011, the Series has been re-introduced as **CPD Working Paper Series**. Dialogue background papers, investigative reports and results of perception surveys which relate to issues of high public interest are published under this series.

The present paper titled **Bali Ministerial of the WTO and the Way Forward: Safeguarding LDC Interests** has been prepared by *Professor Mustafizur Rahman*, Executive Director, CPD <mustafiz@cpd.org.bd> and *Ms Hosna Jahan*, Former Senior Research Associate, CPD <hosna.jahan@cantab.net>

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Abstract

The paper critically examines the outcomes of the Bali Ministerial of the WTO, held in December 2013, from the lens of issues of interest and concern to the least developed countries (LDCs). In this backdrop, the paper undertakes an assessment of the *LDC Package* adopted in Bali that includes issues of duty-free market access, services waiver, trade facilitation, special and differential treatment and food security, among others. The paper argues that LDCs should do the needed homework to narrow-down their differences and identify common grounds so that they can project a united front in the follow-up negotiations in Geneva. In this context, the paper puts forward concrete recommendations in each of the identified areas with a view to securing LDC interests in view of the Bali deliverables.

Contents

List of Table, Figures and Diagram

Acronyms

AfT	Aid for Trade
AGOA	African Growth and Opportunity Act
AMS	Aggregate Measure of Support
AoA	Agreement on Agriculture
BRICS	Brazil, Russia, India, China and South Africa
CTD	Committee on Trade and Development
CTS	Committee on Trade in Services
DDA	Doha Development Agenda
DDR	Doha Development Round
DF-QF	Duty-Free Quota-Free
EBA	Everything but Arms
EIF	Enhanced Integrated Framework
ENT	Economic Needs Test
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FDI	Foreign Direct Investment
FTA	Free Trade Area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GSP	Generalized System of Preferences
G-20	Group of 20
G-33	Group of 33
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPoA	Istanbul Programme of Action
IPR	Intellectual Property Right
IT	Information Technology
LDC	Least Developed Country
MC-9	Ninth Ministerial Conference of the WTO
MC-10	Tenth Ministerial Conference of the WTO
MFN	Most Favoured Nations
NAMA	Non-Agricultural Market Access
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
PSI	Pre-Shipment Inspection
RoO	Rules of Origin
RTA	Regional Trade Agreement
SITC	Standard International Trade Classification
SPS	Sanitary and Phytosanitary

S&DT	Special and Differential Treatment
TBT	Technical Barrier to Trade
TF	Trade Facilitation
TRQ	Tariff Rate Quota
UN	United Nations
UN LDC IV	Fourth UN Conference on the Least developed Countries
US	United States
USD	United States Dollar
WTO	World Trade Organization

1. INTRODUCTION

In the backdrop of increasing globalisation of the developing economies, trade issues are gaining importance given the strengthened global integration of these countries. Since the World Trade Organization (WTO) sets the rules for engagement of Member countries in the global trading system, it is important to examine the implications of various developments in the WTO for these economies. WTO decisions have significant consequences for the developing economies in terms of market access, aid for trade (AfT), technology transfer, poverty alleviation, sustainability of development and supply-side capacity-building. The critical role played by trade is particularly pronounced in case of the weakest strata among the developing countries, the least developed countries[1] (LDCs). Hence, an analysis of the developments in the WTO, both at Bali and post-Bali, from the perspective of concerns and interests of the LDCs, is important.

As may be recalled, in the face of persistent impasses in talks, in the run-up to the 2011 Ministerial Conference, Director-General Pascal Lamy asked Members to focus on a mini-package as a *down payment* to rebuild trust and generate momentum for the completion of the broader agenda of the Doha Development Round (DDR). The idea was to identify a set of 'low-hanging fruit' with particular focus on issues of importance to the LDCs. For LDCs, the Ninth Ministerial Conference of the WTO (MC-9) held in Bali, Indonesia in December 2013, was of high importance, since the agendas for discussion included a number of areas including Trade Facilitation, Food Security, Cotton, and Development and LDC Issues, where LDCs had both *offensive* and *defensive* interests. Bali discussion was seen as contributing to the wider issue of concluding the DDR agendas.

This paper will review the Bali and post-Bali developments to articulate LDC interests and concerns, with a view to make the Bali outcomes and subsequent negotiations in Geneva work for safeguarding the interests of the LDCs. Following this introduction, Section 2 captures the degree of global integration of the LDCs, traces the dynamics of LDC trade and goods and services, and examines the shifts in product composition and markets. Section 3 undertakes an assessment of the decisions of the Bali Ministerial meeting from the perspectives of the LDCs to understand the implications of the various decisions on their offensive and defensive interests. This section also reviews the developments during the post-Bali phase (December 2013-November 2014). Section 4 articulates a number of recommendations in going forward towards the Tenth Ministerial Conference of the WTO (MC-10) in Nairobi in December 2015.

2. TRADE PROFILE OF LDCs

2.1 LDCs at a Glance

LDCs account for 12.6 per cent of the world population, yet have an insignificant share in global gross domestic product (GDP) and foreign direct investment (FDI) inflow. In 2013, LDCs had 1.04 per cent of global GDP share and attracted only 1.9 per cent of global FDI (UNCTAD, 2014). While structural factors (such as lack of infrastructure, modern technology, skilled labour) remain a major cause for marginalisation of the LDCs, it is also equally true that they are not being able to fully benefit through the effective participation in the multilateral trading system. The relatively weak capacity of LDCs to

[1]At present, 48 countries are designated by the United Nations (UN) as the LDCs based on their per capita income, human assets and economic vulnerability criteria. Among these, 34 countries have become the Members of WTO. These are: Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of the Congo, Djibouti, the Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Togo, Uganda, United Republic of Tanzania and Zambia (African LDCs); Solomon Islands, Vanuatu (clustered under the Island LDCs); Bangladesh, Cambodia, Lao People's Democratic Republic, Myanmar, Nepal and Yemen (Asian LDCs). Eight more LDCs (including Afghanistan, Bhutan, Comoros, Equatorial Guinea, Ethiopia, Liberia, Sao Tomé and Principe, and Sudan) are also negotiating to join the WTO.

Table 1: Facts and Figures about LDCs

Number of LDCs by region and geographical location	Africa: 34; Asia and the Pacific: 14; Latin America and Caribbean: 1 Among these, landlocked: 16; small island: 11
Total population (million)	898.3
Projected population in 2020 (billion)	1.04
GDP (current USD) (billion)	775.3
GDP share (as % of global GDP)	1.04
Real GDP growth (%)	5.7
Trade and Foreign Direct Investment	
Exports of goods and commercial services (current USD) (billion)	213.9 (1.1% of global exports)
Imports of goods and commercial services (current USD) (billion)	244.6 (1.3% of global imports)
Share of agriculture (% of GDP) (in 2009-2011)	25.6
Share of manufacturing industry (% of GDP) (in 2009-2011)	10.2
Share of non-manufacturing industry (% of GDP) (in 2009-2011)	22.0
Share of services (% of GDP) (in 2009-2011)	42.2
FDI net inflows (current USD) (billion)	28.0
Aid	
Net ODA received (current USD) (in 2011) (billion)	44.6
Social Indicators	
Poverty headcount ratio at USD 1.25 per day (PPP) (% of population)	47.0
Rural population (% of total)	70.0
% of people living on severely and very severely degraded land (in 2010)	25.0
% of undernourished population (in 2010-2012)	30.6
Literacy rates among young people, aged 15 to 25 (in 2009-2010) (%)	76.5

Source: World Bank (2014); UNCTAD (2013, 2014); UNCTAD STAT (2014).
Note: All data are based on 2013, unless otherwise indicated. ODA: Official development assistance. PPP: Purchasing Power Parity.

participate in the global trading system and take advantage of the emerging opportunities is reflected in terms of their situation in poverty alleviation, position of balance of payments, terms of trade, participation in the global value chains, and realisation of development potentials. Some stylised facts presented in Table 1 depict this picture quite convincingly.

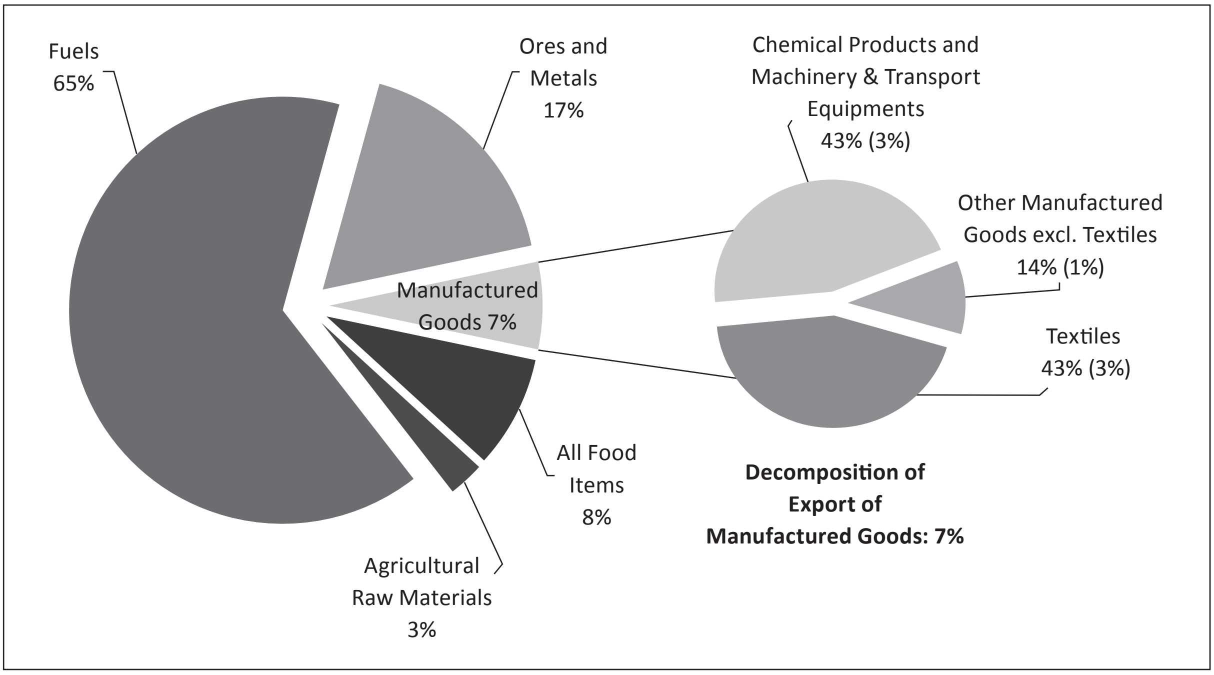
It is argued that the WTO could play an important role in creating a multilateral trading system, which is conducive to strengthened global integration of the LDCs, and could help these countries attain sustainable economic development through the adoption of wide-ranging special support measures designed to reduce the competitive disadvantages that LDCs face in competing in the global economy. However, in the backdrop of the significant heterogeneity among the LDCs and important shifts both in terms of export structure and market composition of the LDCs, the demand voiced by various groups of LDCs is also changing.[2] Hence, there is a need for calibrating these support measures in line with the needs of particualar groups of the LDCs.

[2]For example, some LDCs are agricultural and food exporters (namely, Guinea-Bissau, Malawi and Solomon Islands); some are fuel exporters (such as Angola, Chad and Yemen); some are manufacturing exporters (e.g. Bangladesh, Cambodia, Haiti and Lesotho); some are mineral exporters (e.g. Democratic Republic of Congo, Guinea, Mali, Mauritania, Mozambique and Zambia); some are service exporters (such as Burundi, Djibouti, the Gambia, Madagascar, Nepal, Rwanda, Vanuatu and Uganda); while some LDCs are mixed exporters (such as Benin, Burkina Faso, Central African Republic, Lao People’s Democratic Republic, Myanmar, Niger, Senegal, Sierra Leone, Togo and United Republic of Tanzania).

2.2 Trends in Goods and Services

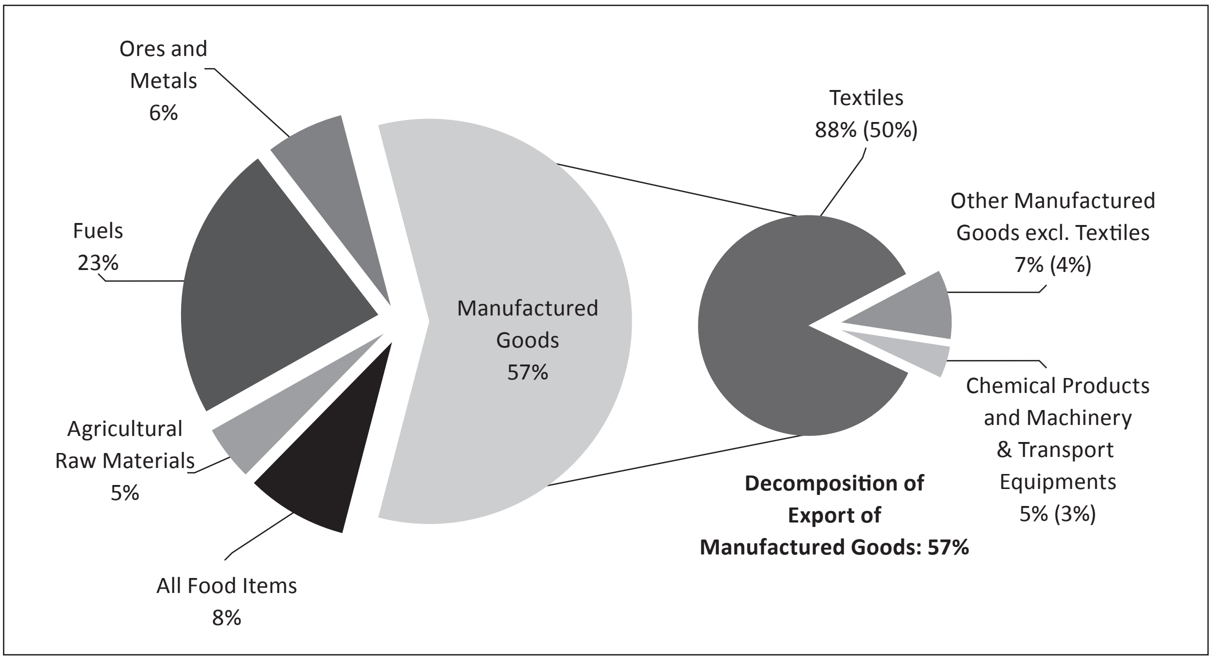
Figure 1 and Figure 2 represent the composition of exports of African LDCs (along with Haiti) and the Asian LDCs. The decomposition reveals significant difference, with the first group's export dominated by product of extractive industries (fuel) and second group's export dominated by manufacturing goods (apparels).

Figure 1: Composition of Haiti and African LDCs' Exports (% of Total Exports): 2010-2012 (Average)



Source: Authors' elaboration based on UNCTAD (2013) data.
Note: Numbers in parentheses refer to share in total export of manufactured goods.

Figure 2: Composition of Asian LDCs' Exports (% of Total Exports): 2010-2012 (Average)



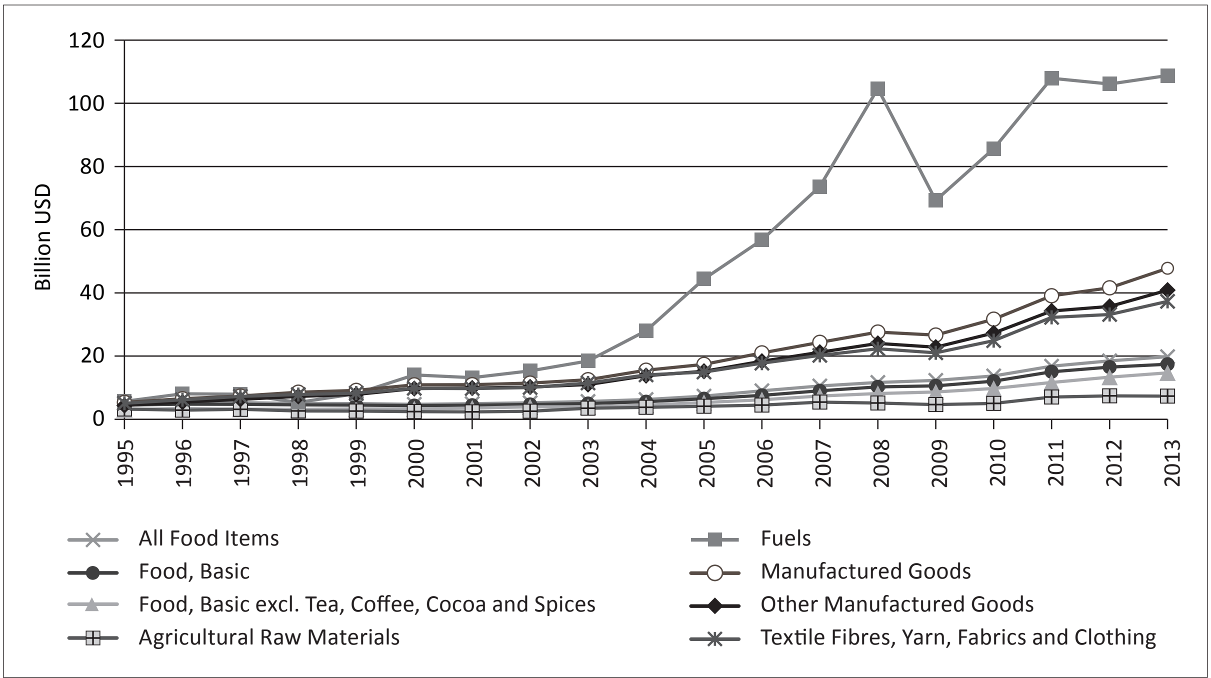
Source: Authors' elaboration based on UNCTAD (2013) data.
Note: Numbers in parentheses refer to share in total export of manufactured goods .

Despite an unprecedented improvement in their terms of trade due to the commodity price boom, African LDCs are lagging behind their Asian and Island counterparts, both in terms of real GDP growth and real GDP per capita growth (UNCTAD, 2013). A more significant divergence in the economic performance also exists at the country level: in 2013, there were 15 countries with growth rates exceeding 6 per cent, but also 10 countries with growth rates below 3 per cent (UNCTAD, 2013). Since the population growth rate of all these countries is high, in case of the latter group of countries growth in per capita terms was either negative or stagnant. Moreover, performance of the economies also varies depending on their export specialisation. In this context, while services (8.7 per cent in 2002 to 5 per cent in 2013) and fuel exporters (9.2 per cent in 2002 to 3.9 per cent in 2013) have experienced a notable drop in real GDP growth, mineral (7.1 per cent), manufactures (6.1 per cent) and exporters of both (6.6 per cent) have performed steadily (UNCTAD, 2013). The extreme dependence of the fuel-exporting countries on just one product (ranging from 76.2 per cent of total exports in the case of Yemen to 96.6 per cent in the case of Angola) means that any disruption of production and price volatility has a disproportionate influence on the overall economic performance of that particular economy. While LDCs have recovered from the Global Financial Crisis (GFC) of the later half of the last decade, albeit slowly, having been able to pick up their pre-crisis real GDP growth, it is worth repeating that these growth rates are a full 2 per cent lower than the levels experienced before the crisis. The current rates were also below the target rate of 7 per cent annual growth established in the Istanbul Programme of Action (IPoA).[3]

The LDCs' exports of goods and commercial services globally was USD 214 billion in total in 2013, 4.8 per cent higher than in 2012.[4] While this is a minor increase from the 1.6 per cent noted in the previous year, it contrasts starkly with the strong annual average growth of 16 per cent recorded between 2000 and 2012. As was pointed out above, one of the major items of the LDCs' export basket (particularly of the African LDCs) is fuel, which accounts for more than half of LDCs' total exports (Appendix Figure 1). While the petroleum prices and global oil demand has increased somewhat in recent past, LDCs' exports of fuels have dipped down to 2.5 per cent from the annual average of 18 per cent between 2000 and 2012 (Figure 3). Export of agricultural raw materials have also experienced negative growth of 1 per cent in 2013. Globally, export of basic food items (excluding tea, coffee, cocoa and spices) by LDCs increased by 10 per cent, and export of manufacturing products increased by 14.9 per cent (Figure 3). Notably, textile fibres, yarn, fabric and clothing, which accounts for almost 16 per cent of total LDCs' exports and almost half of the Asian LDCs' exports, globally rose by 12.5 per cent from 2012. It is noteworthy in this context that, few countries dominate the merchandise exports among the LDCs; the first 10 major exporters account for some 80 per cent of the group's total merchandise exports (WTO Secretariat, 2013). Despite the falling cotton prices, LDCs' exports of cotton increased by 20 per cent, as China, the biggest importer and consumer of cotton increased its imports from LDCs by 81 per cent and 67 per cent in 2011 and 2012 respectively (WTO Secretariat, 2013). In spite of these figures, depicting some turnaround following the financial crisis, except for manufacturing and textile, prices of all major export items remained lower than the annual average between 2000 and 2012 (Appendix Figure 3), mainly due to the price decline. Inability of the LDCs to move up the value chain in existing manufacturing process and weak capacity to diversify in new products with higher earning capacity remain major reasons for the falling terms of trade for the LDCs. Because of this,

[3]In May 2011, Fourth UN Conference on the LDCs (UN LDC IV) was held in Istanbul, Turkey, which focused on specific development challenges that LDCs are facing and agree on a Programme of Action for the decade 2011-2020. The IPoA identified eight priority areas of actions to be implemented by both LDCs and their development partners in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the LDC category. The priority areas are: productive capacity, agriculture, food security and rural development, trade, commodities, human and social development, multiple crises and other emerging challenges, mobilising financial resources for development and capacity-building, and good governance at all levels.
[4]The product categories are classified according to Standard International Trade Classification (SITC).

Figure 3: Evolution of LDCs' Exports of Goods: 1995-2013



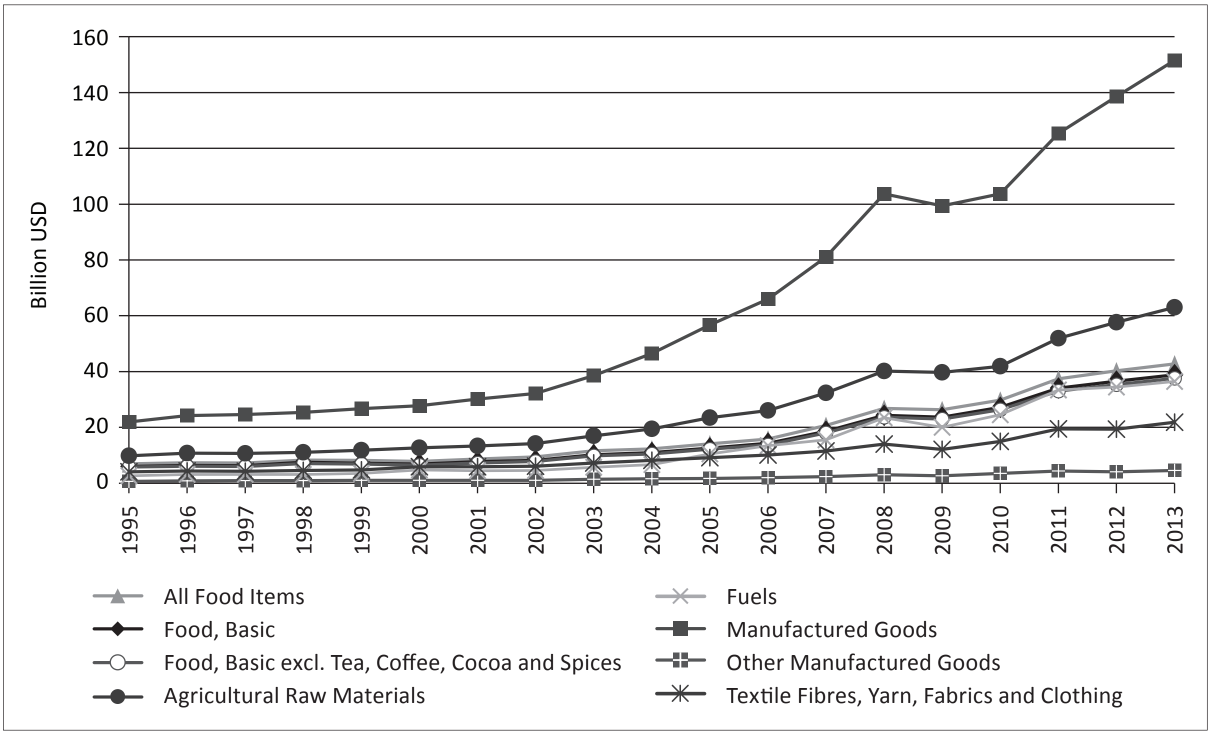
Source: Authors' computation from the UNCTAD STAT data (2014).

even if the income levels rise in particular LDCs, there is an apprehension that they might fall into the *middle income trap.*

In terms of imports, LDCs share similar basket to a large extent (Appendix Figure 2). In 2013, total imports of LDCs from the world increased by 8 per cent. Two major components, manufactured goods and basic food items posted rise of 9.4 per cent and 6.5 per cent respectively, with the combined value of about USD 190.4 billion (Figure 4). In addition, agricultural raw materials import increased by 11.7 per cent from 2012. Food and agricultural raw materials together accounted for about 60 per cent of all LDC imports (Appendix Figure 2). As is known, all LDCs (except a handful of Island and African LDCs) are net food importers. Consequently, the issue of food security is very high on the list of the defensive interests of the LDCs. The increasing share of food and agricultural products in total LDC imports alludes to the impact of changes in international food prices on LDCs' trade balance. The situation has been further exacerbated for food-importing LDCs (most of whom are also net importers of energy) in 2011 during the triple-crisis (food, fuel and financial), when the food prices reached levels higher than the previous peak of 2007-2008 (Appendix Figure 4). It is notable that, unlike other commodity prices international food prices have not fallen substantially from the peak, and are still more than double of those of the 2002-2004 average (UNCTAD, 2013). For the food-importing LDCs, this has undermined their food security and led to significant rise in import bills resulting in deteriorating balance of payments situation.

A striking finding in the Least Developed Countries Report by UNCTAD (2013) points out that the share of agriculture in GDP decreased in 33 LDCs and increased in 14 of them between 1999-2001 and 2009-2011. During the same period, the share of manufacturing increased in only 19 LDCs and stayed the same in 3; while share of services in GDP increased in 28 LDCs, and remained unchanged in 1, and declined in 18 of those (mostly African LDCs). Failure of LDCs to undertake the much-needed structural change which would lead to industrialisation and efficiency-enhancing investment, is reflected in their lower productivity, low use of frontier technology in production and high intensity of low-value added activities. On an average, share of agriculture in LDCs declined from 31.4 per cent of GDP in 1999-

Figure 4: Evolution of LDCs' Imports of Goods: 1995-2013



Source: Authors' computation from the UNCTAD STAT data (2014).

2001 to 25.6 per cent of GDP in 2009-2011 (UNCTAD, 2013). During the same period, the share of manufacturing industry remained stagnant at 10 per cent of GDP (declining slightly in the African LDCs and increasing in the Asian LDCs); share of non-manufacturing industry reflects rather a movement in opposite direction – with African LDCs outperforming the Asian LDCs.[5] This data confirms the two different strategies of economic development that exists within the LDCs: one based mostly on the extractive industries, and other on labour-intensive manufacturing. It is important to note here, the share of investment in the extractive industries and related processing activities in total greenfield investments in the LDCs have been declining, from over 80 per cent of the total in 2003-2005 to around 18 per cent in 2013 (UNCTAD, 2014). Nonetheless, greenfield (new) investments in the LDCs rebounded to a three-year high, driven by announced projects in the services sector, which contributed 70 per cent of the total greenfield investment. As regards distribution of FDI, the amount varies quite significantly – ranging from below USD 0.1 billion to more than USD 2 billion.[6] Notably, while share of services make up of 42.2 per cent of the LDCs' GDP, at present LDCs' export is only a marginal 0.8 per cent of the global service (an estimated value of equivalent to only USD 36.7 billion) including government services[7], and only 0.7 per cent of commercial services (an estimated value of USD 31.5 billion), mostly in the areas of communications, constructions and travel (Figure 5).

From a structural perspective, the services sector of LDCs is dominated by the tourism industry (Appendix Figures 5, 6 and 7), particularly for the small islands (Appendix Figure 7). Other commercial services (including business services) and transport also remain major export in the services sector of the LDCs

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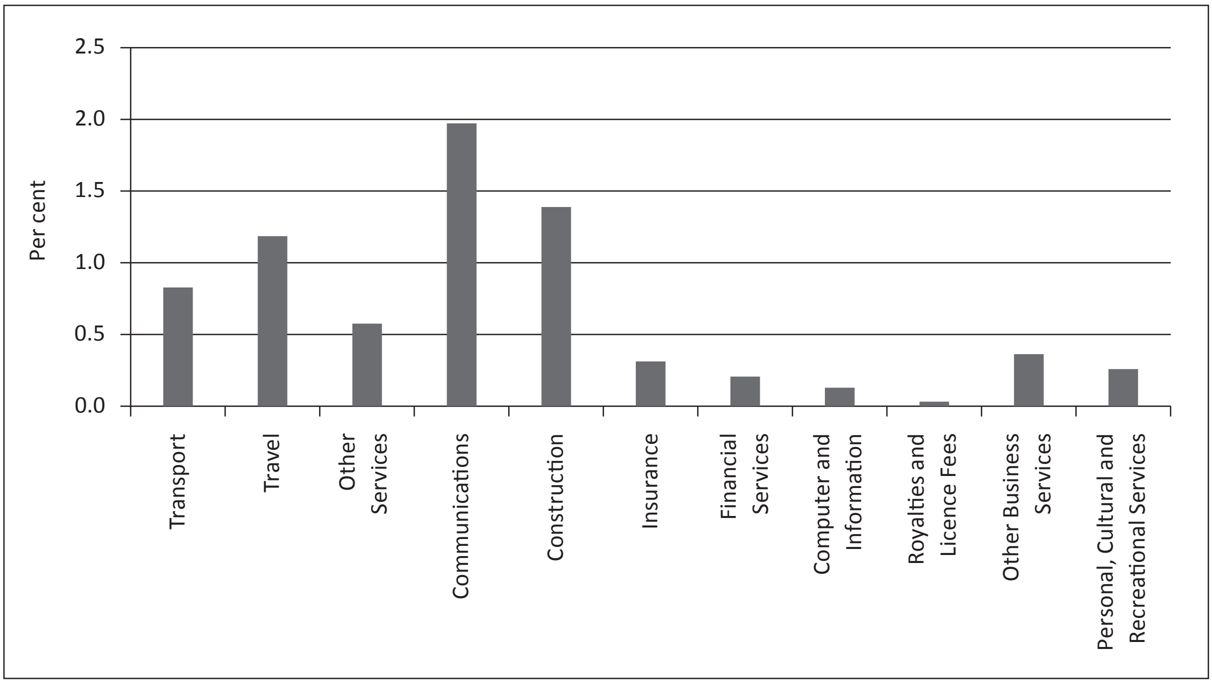
[5]On an average, the share of non-manufacturing industries rose from 14.5 per cent of GDP in 1999-2001 to 22 per cent of GDP in 2009-2011. In the African LDCs the share went from 16.5 per cent to a striking 27.3 per cent, while in the Asian LDCs it stayed the same, at 12.1 per cent (UNCTAD, 2013).

[6]While 30 LDCs attracted between below USD 0.1 billion to 0.4 billion in 2013, four LDCs had inflow of USD 2 billion and above.

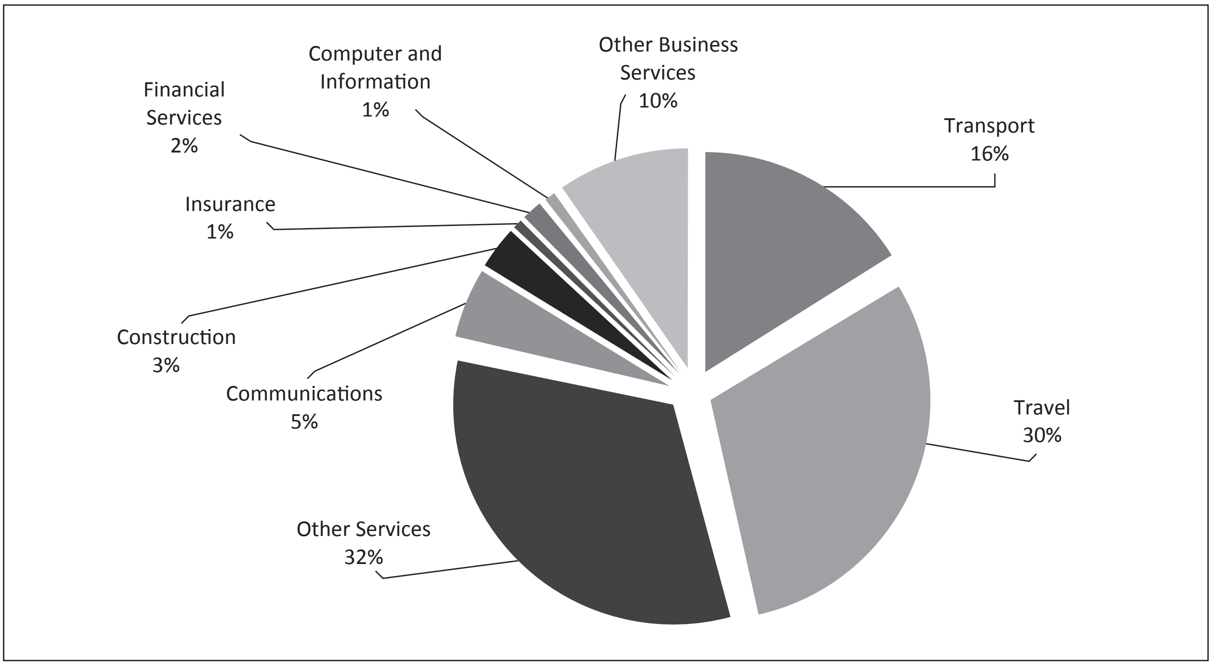
[7]Government service is a residual category covering government (embassies, consulates, military units, etc.) transactions in goods and services not included in other categories. It also covers the transactions of international organisations. For the purpose of the services agreement, WTO (2014a) defined services as services in any sector except services supplied in the exercise of government authority, i.e. neither on a commercial basis, nor in competition with one or more service suppliers.

Figure 5: Global Share of Services Sector Exports by LDCs in 2013



Source: Authors' computation from the UNCTAD STAT data (2014).

Figure 6: Percentage Share of Commercial Service Sector Exports by LDCs in 2013

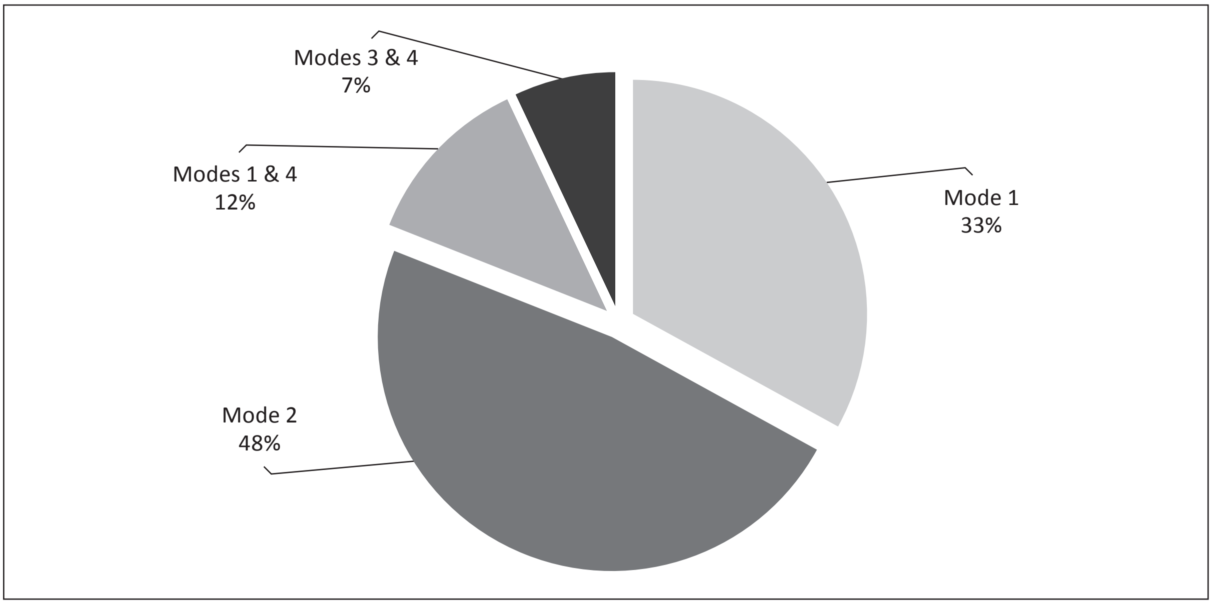


Source: Authors' computation from the UNCTAD STAT data (2014).

(Figure 6). Despite LDCs' dependence on tourism receipts, some countries are trying to diversify their services exports. For example, Bangladesh has been expanding into information technology (IT) and IT-enabled sector, which has grown significantly in the recent years; most of these services are destined to the United States (US), European Union (EU) and the Middle East (WTO Secretariat, 2013).

Figure 7 is based on a report by WTO Secretariat (2013) relating to services data for 2011 and estimates services exports through the General Agreement on Trade in Services (GATS) modes of supply. It

Figure 7: LDCs' Estimated Exports of Commerial Services by Mode of Supply: 2011



Source: WTO Secretariat (2013).

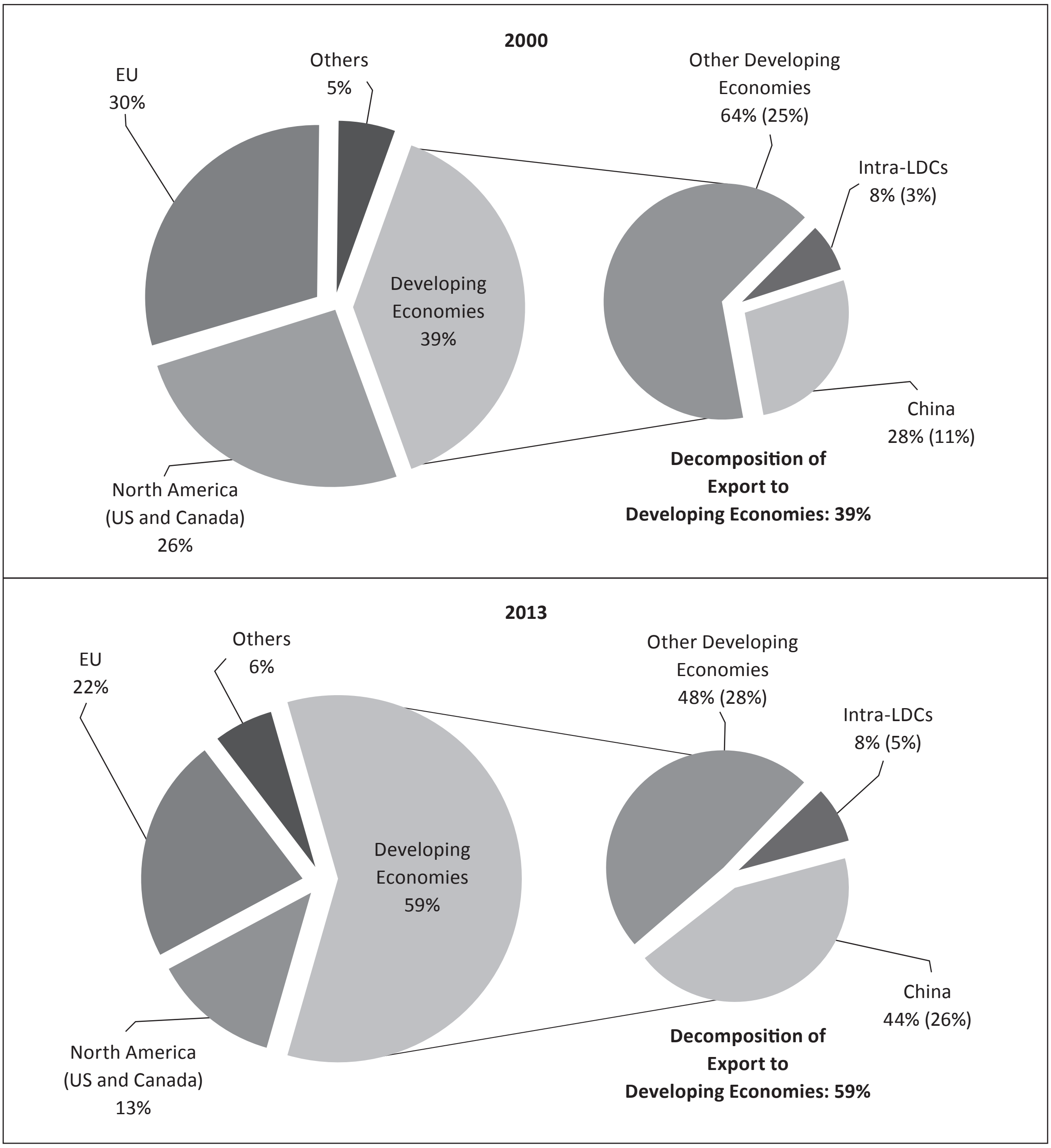
indicates that almost half of the LDCs' services exports took place through Mode 2 (consumption abroad), suggesting a high magnitude of tourism and travel exports, while Mode 1 exports (cross-border trade), which traditionally include transport services, communication services, financial services, and royalties and license fees, accounted for about one-third of total services exports. Exports through Modes 1 and 4 (i.e. cross-border trade and movement of natural person) accounted for 12 per cent and Modes 3 and 4 (commercial presence and movement of natural persons) covered only 7 per cent (WTO Secretariat, 2013).

Workers' remittances remain an important component of the Mode 4 flow. In 2012, LDCs received USD 30.6 billion as remittance, which was 5.8 per cent of the global migrant remittance (UNCTAD, 2014). In some LDCs, such as Bangladesh (USD 14 billion), Nepal (USD 4.9 billion) and Haiti (USD 1.6 billion), remittance flow are a very significant percentage of the GDP of these countries (UNCTAD, 2014). In 2012, 46 per cent of the LDCs' remittances went to Bangladesh, while Nepal (16 per cent), Haiti (5 per cent) and Yemen (4.9 per cent) shared another 25 per cent of the total LDCs' remittance. Although, migration from the LDCs in search of new career opportunities is often a South-North phenomenon, migrant labour and the consequent remittance flow is by and large a South-South matter. Indeed, only 20 per cent of the migrants from LDCs emigrated to high-income OECD (Organisation for Economic Co-operation and Development) countries, mainly because developed countries have a tendency to accept skilled immigrants, and put in place various barriers to discourage and exclude unskilled workers, unless there is a high-level of demand for those labour in particular sectors (such as agriculture or construction (UNCTAD, 2012). The destination of LDC migrant labour force varies across regions: while the Gulf States have high share of South Asians, no country has high share of Africans; migration from African LDCs is mostly an inter-regional phenomenon (UNCTAD, 2012). The key motives of LDC emigration appear to be socioeconomic circumstances and tight domestic job market, wage differentials, political unrest along with natural disasters and climate-induced relocation. A number of studies have shown that, in many LDCs remittances are an important source of income in relatively poor households and have contributed significantly in terms of poverty alleviation and improvements in socio-economic indicators. For example, in Bangladesh, annual remittance flow is equivalent to about 9 per cent of the GDP. Furthermore, survey conducted in Bangladesh show that about 22 per cent of remittances were spent on real estate and agricultural machinery, which in turn has a positive impact on labour productivity (Regional Thematic Working Group on International Migration, 2012).

2.3 Direction of Trade

The share of developed economies as destination markets for the LDC exports has continued to shrink in the recent past and represented 35 per cent in 2013 compared to 56 per cent in 2000 (Figure 8). Developing economies now absorb 59 per cent of LDC exports, up from 39 per cent in 2000. China continues to remain the top destination for LDC exports during this period; with 26 per cent of LDCs' total exports destined to China. In fact, 44 per cent of LDCs' products destined to developing markets ended up in China, double of what it was in 2000 (WTO Secretariat, 2013). As destination markets, while the share of LDCs exports in developing Asia and Africa posted a rise, the share of the US and EU continued to decline from their 2000 share (Figure 8). As a matter of fact, these drops in shares took place in spite of 9 per cent and 13 per cent average annual growth in the exports of LDCs to the

Figure 8: LDCs' Merchandise Exports by Destination: 2000 and 2013



Source: Authors' calculation and elaboration from UNCTAD STAT data (2014).

Note: Numbers in parentheses refer to share in LDCs' total export to developing economies.

US and the EU respectively during the same period (WTO Secretariat, 2013). Evidently, with the rise of the emerging, and particularly the BRICS (Brazil, Russia, India, China and South Africa) economies, and the growing purchasing power of the Southern economies in the backdrop of robust economic growth, this trend of increasing share of developing countries in the export of LDCs is expected to be continued in the foreseeable future.

Intra-LDC trade is reckoned to be underrecorded. Estimates based on reported and mirror data, however, indicate an average annual increase of 17 per cent in intra-LDC trade between 2000 and 2012 (WTO Secretariat, 2013). Due to geographical proximity, most of this trade takes place within Africa, accounting for nearly 91 per cent of the total intra-LDC trade in 2013. The estimated share of intra-LDC trade represented 4.7 per cent of total LDCs' exports; the intra-African LDCs' share was 5.5 per cent in the total exports of African LDCs. It should also be taken into cognisance that a significant share of LDC trade takes place through informal channels with both developing countries and other LDCs. However, with tariffs coming down in general, these are indications that share of informal trade has been on the decline in recent years.

2.4 Aid versus Trade

Some of the LDCs have historically been significantly depended on aid. However, in recent times the share of official development assistance (ODA) in terms of GDP has been on the decline. According to the OECD, in 2011, LDCs received USD 44.3 billion in the form of ODA; this was equivalent to only 22 per cent of LDCs' total export for that year. Seventy per cent of the aid went to the African LDCs. Afghanistan, the Democratic Republic of Congo and Ethiopia remain the biggest receivers of ODA, with 15 per cent, 12.5 per cent and 8.5 per cent respectively of the total ODA to LDCs (WTO Secretariat, 2013). As percentage of imports also ODA has kept declining since the 2003, and in 2011 it accounted for only 21 per cent of LDC imports, mainly as a result of faster growth of LDCs' imports relative to ODA (WTO Secretariat, 2013). Between 2000 and 2011, ODA grew by an annual average rate of 12 per cent compared to the corresponding 15 per cent increase in imports. In countries such as Bangladesh, ODA's share as percentage of GDP came down from 5.6 per cent in 1991, 2.9 per cent in 2001 to 2.2 per cent in 2013, whilst that of export and remittances combined rose from 8 per cent, 18 per cent and 32 per cent equivalent over the matched period.

3. THE BALI PACKAGE: AN ASSESSMENT

For the LDCs, the MC-9 was of high importance on several counts. Firstly, after five years of impasse, the 'Bali Package' was able to infuse a new life into the stalled DDR of trade negotiations, and in a way helped salvage the WTO as a negotiating forum and fulcrum of the multilateral trade system. It is reckoned that, for relatively weaker economies with limited market power, a multilateral trading system is a more preferred option since it provides them with a rule-based platform to negotiate flexibilities, waivers, and Special and Differential Treatment (S&DT). As would be appreciated, this is rather difficult to achieve on a non-reciprocal basis through bilateral trade negotiations. Secondly, the Bali Package with its four pillars of Trade Facilitation, Agriculture, Cotton, and Development and LDC Issues, concerned a number of areas where LDCs had both offensive and defensive interests, and hence, Bali offered an opportunity to negotiate to safeguard their specific interests. Finally, in line with the Work Program agreed in Bali, future negotiations were expected to be continued in Geneva in the course of 2015, during the run-up to MC-10 (by end-December, 2015) where LDCs will have an opportunity to discuss their areas of interest and concern. The Bali decision, thus, obliges the LDCs to do the necessary homework, and pursue and advance their interests through future negotiations.

3.1 LDC Package

The centrepiece of the MC-9 for the LDCs was the LDC Package. The LDC Package focused on four key areas: (a) duty-free and quota-free (DF-QF) market access; (b) preferential rules of origins (RoO); (c) operationalisation of the services waiver; and (d) monitoring mechanism on S&DT. However, the LDC Package have been labelled as the 'weakest component' of the Bali package as most of the text have already been stabilised earlier in Geneva, and the limited amount of discussion that took place in Bali did little to address the concerns raised earlier by the LDCs. This partly reflects LDCs' limited bargaining power, but also the fact that LDCs had difficulties in coming to consensus as regards many issues due to their heterogeneous economic interests. Nonetheless, it is important to analyse and understand the Bali Package from the vantage point of the LDCs in order to articulate future strategies.

3.1.1 DF-QF Market Access for the LDCs

A DF-QF decision in the WTO is important from the perspective of predictability and security of market access for the LDCs. As is known, market access through DF-QF treatment, *for all goods originating from all LDCs,* was a key demand of the LDCs in the context of the DDR. As would be recalled in Hong Kong (in 2005) a decision to this effect, albeit not to the full satisfaction of the LDCs, was reached. Through subsequent negotiations, LDCs were able to ensure that, when this will be given, it will be implemented in a 'commercially meaningful manner'. In spite of the various Generalized System of Preferences (GSP) schemes providing DF-QF treatment to LDC products, important LDC export items continue to face high tariffs in some of the developed country markets, most notably in the US. The report of the WTO Secretariat (2013) shows that while the most significant preferences for the LDCs were in agricultural products, the preference margin was rather shallow in clothing and textiles. Because of high share of manufacturing products in their exports, Asian LDCs in particular, are not being able to take advantage of this. The main reason why developed countries (such as US, EU, Canada and Japan) do not protect the tropical agricultural product (e.g. coffee, tea, cocoa) exported by the LDCs, is because they do not produce these items themselves (Chang, 2005). The report of the WTO Secretariat (2013) also shows that the average preference utilisation rate is 92-96 per cent in the EU, 90 per cent in Canada and 83 per cent in US. However, as was noted above, the average utilisation rate in the case of US are highly skewed ranging from 91 per cent in the case of African LDCs that are part of the African Growth and Opportunity Act (AGOA), to only 0.5 per cent of the total export from Bangladesh, mainly because US GSP scheme does not cover apparels.[8] It is interesting to note that, according to a recent report by LDCs (WTO, 2014b) US imports from AGOA is highly concentrated in the clothing sector, without which the success of AGOA remained rather limited.

While the Hong Kong Ministerial declaration relating to DF-QF was a major progress, whereby Members agreed about the DF-QF market access to be provided to LDCs by the developed Members and *developing Member countries declaring themselves in a position to do so*; it remained limited and constrained by the well-known '97 per cent' caveat. As a result, while Australia (100 per cent), New Zealand (100 per cent), EU (99 per cent – Everything but Arms (EBA)) and Japan (98.2 per cent excluding rice, sugar, fishery products and articles of leather) agreed to bring under DF-QF coverage almost all LDC exports, the US chose to start providing DF-QF treatment beginning with 97 per cent of the LDC exports. Under full DF-QF LDC exports would expand by 2.9 per cent, with the biggest impacts coming from India (21.7 per cent increase in imports from LDCs), Korea (12.9 per cent), and the USA

[8]Between 2008 and 2013, the total imports of the non-AGOA beneficiaries that are granted GSP preferences have decreased from USD 10.2 billion to USD 8.9 billion. Over the same period, imports receiving the GSP treatment and Most Favoured Nations (MFN) treatment (while covered by the GSP scheme) have also significantly declined, respectively from USD 3 billion to USD 137 million and from USD 550 to USD 77 million (WTO, 2014b). The most striking point is that the value of imports either receiving GSP or MFN (while covered by the GSP) is particularly low as compared to the total imports.

(11.8 per cent) (Laird, 2012). Country-specifically, Haiti, Uganda, Malawi, Cambodia, Bangladesh and Nepal would be among the most significant winners.[9] However, the cause of DF-QF market access has been seriously undermined because of the conflict of interests among the LDCs in the WTO. Some African and Caribbean LDCs (Lesotho and Haiti to be more precise) had expressed concerns about the possible negative implications arising from preference erosion; major concern here is the possible erosion of market share because of higher competition from Asian LDCs such as Bangladesh and Cambodia.

Different proposals have been made to overcome the divergences within the LDCs group. One solution could be finding the overlapping tariff lines between Asian and African LDCs and then identifying mutually acceptable solutions that could lead to additional enhanced market access without having significant adverse implications for the concerned LDCs (Rahman, 2014). As evidence suggests, Bangladesh, Nepal and Cambodia exported a range of products that are not exported by Haiti or African LDCs. In this context, some recent studies have come up with concrete proposals, which could generate a balanced outcome for all the LDCs. For example, Elliot (2012) and Rahman (2014) show that, excluding selected tariff lines from DF-QF market access for competitive LDC exporters would still allow about 50 per cent of apparels exports from Bangladesh and almost 60 per cent from Cambodia to receive duty-free access in the US market.

Furthermore, LDCs are also interested to have greater transparency as regards full implementation of the DF-QF decision. They have asked for concrete timelines for inclusion of items in the *3 per cent exclusion list*, to ensure predictable transition from the 'partial' to the 'full' implementation of the DF-QF decision in a *commercially meaningful* manner. Whilst WTO Members have agreed to implement DF-QF decision through *meaningfully enhanced* market access, it is yet to be seen how this will actually be given effect. LDCs have asked that the items in the '97 per cent list' should be submitted a-priori for their review.

The decision in Bali as regards the DF-QF market access merely reiterated the decision of Hong Kong Ministerial Conference and stated that developed country Members who are yet to provide DF-QF market access for at least 97 per cent of the products originating from the LDCs, defined at the tariff level, shall seek to improve their existing DF-QF coverage for such products, so as to provide *increasingly greater market access* to the LDCs, prior to MC-10 (WTO, 2013a). Developing countries, declaring themselves in a position to do so, shall also seek to provide DF-QF market access for products originating from the LDCs. Members were also asked to notify their respective DF-QF schemes for the LDCs, and the Committee on Trade and Development (CTD) was asked to continue to annually review and report the steps taken by Members to provide DF-QF market access to the LDCs and report the progress in this regard to the General Council for appropriate action. However, no specific and transparent timeline was mentioned regarding the progressive inclusion of the '3 per cent exclusion list'; nor was any concrete modality spelt out for Members who said they faced difficulty in implementing 'increasingly greater market access' to ensure that they provided the LDCs prior to MC-10. In absence of the full DF-QF market access under the WTO, LDCs would have to rely on the GSP schemes and bilateral and regional trade agreements and negotiations to get preferential access in the markets of developed countries. This would mean that, for many LDCs, particularly the Asia-Pacific ones such as Bangladesh, Nepal and Cambodia, key products of export interest such as the apparels, will have to continue to enter the US market facing average tariff rates of about 15 per cent (Rahman, 2014). In the course of the post-Bali negotiations in Geneva, LDCs should continue to aggressively pursue their DF-QF agenda to make it a legally binding commitment and work out the differences between them before the MC-10 negotiations in Geneva. This task has become more urgent in view of the preference

[9] It is estimated that Lesotho would be negatively affected. However, the loss would be a mere 1 per cent of exports, or about USD 5 million.

erosion in some developed countries in the context of autonomous tariff liberalisation concerning manufactured goods and also the preferential agreements and the proposed mega trade blocs. These new trading arrangements could lead to significant preference erosion for non-participating LDCs in some key developed country markets.

3.1.2 Preferential Rules of Origin

Preferential rules of origin are key to ensuring that LDCs are actually able to realise the market access provided as part of the DF-QF initiative. This is because onerous domestic content and processing requirement often makes it difficult for the LDCs to realise market access opportunities even when they are offered preferential access by partner countries. As is the case, the preferential RoO are designed on a unilateral basis by preference-granting countries without any harmonised standard. A long-standing demand of LDCs has been to call for harmonisation and simplification of the RoOs which would be LDC-export friendly and binding for all donor Members. LDCs argued that the domestic value addition requirement criteria, whether it was ad-valorem, change of tariff heading, or processing operation, should be defined in such a manner that it takes into cognisance domestic supply-side and productive capacities of the LDCs and are easy for them to comply with. Many LDCs had proposed during the negotiations in Geneva that the RoO as defined under the Canadian GSP, *a flat 25 per cent local value addition requirement*, could serve as a simple and LDC-friendly RoO criteria for the purposes of preferential market access.

The Bali decision contains, for the first time, a set of multilaterally agreed guidelines for the RoOs that Members should apply to their non-reciprocal preference schemes for LDCs, which should make their exports easier to qualify for preferential market access (WTO, 2013a). The decision recognises that countries granting trade preferences to the LDCs have heterogeneous methods of determining RoOs, and invites Members, to endeavour to build on their individual RoOs. The revised RoOs could be in the form of “ad valorem percentage criterion, change of tariff classification and specific manufacturing on processing operation (or a combination of these).” Given the limited productive capacity of the LDCs, Members have been requested to keep the level of *value addition threshold* as low as possible – foreign inputs to a maximum of 75 per cent of value was mentioned in this regard. However, the decision remains in the form of non-binding guidelines, couched in best endeavour language of ‘should’, implying that developed Member countries are free to ‘choose’ to follow these guidelines. Members were also asked to consider allowing *cumulation facilities* to the LDCs and that documentary requirements for compliance be *simple and transparent*.

3.1.3 LDCs Waiver in the Services Sector

The services sector has become a key driver of growth and development in LDCs. In 2013, share of services accounted for 42.2 per cent of the LDCs’ GDP. However, LDCs’ export was only 0.7 per cent of global commercial services (an estimated value of USD 31.5 billion), mostly in the areas of communications, construction and travel (Figure 5).[10] Consequently, leveraging this sector would not only assist LDCs to unlock their growth potential further, but could also help enhance the quality of life through greater access to services. The services waiver has its origin in the development provisions of the Article IV of the WTO’s GATS, where it calls on Members to give the LDCs ‘special priority’ in services area and progressively agree on a set of ‘negotiating guidelines’ to sort out the modalities to grant services preferential treatment.

In 2011, at the 8th Ministerial Meeting in Geneva, Members adopted a *services waiver* for the first time. The waiver allowed derogation from Most Favoured Nations (MFN) obligations as a modality for S&DT,

[10]LDCs have significant potential to harness the growth of this sector. Refer to Section 2.2 for further empirical details.

and permitted Members to grant preferential market access to services and service-suppliers from the LDCs. In view of the increasing importance of services in the domestic economies of the LDCs, and also the growing share of services in the emerging global trade, this was an important development for the LDCs. The waiver, which will initially last for 15 years, is meant to promote LDCs' services trade as it will allow WTO Members to treat LDCs in a more favourable manner by reducing and removing trade barriers that affect their exports adversely. However, while representing a significant win for the LDCs, the waiver itself does not confer any direct economic benefit (Bellmann, 2014). This will first need to be operationalised through the establishment of new unilateral trade preference schemes that cover services.

The operationalisation of services proposal submitted by Nepal in October 2013, on behalf of the LDC group, was primarily a *process-oriented submission,* which urged for steps towards 'commercially meaningful preferences'. The LDCs' submission proposed holding of a *Signalling Conference* in July 2014, where Members would indicate sectors and Modes of supply of export interest with respect to which they would seek preferential treatment. The proposal also urged Members to eliminate or lower domestic regulatory and administrative barriers that impede current or potential LDC services exports. For example, Mode 4, movement of natural persons, was an area where LDCs had heightened interest. However, availing the opportunities of Mode 4 was often contingent on *commercial presence* (Mode 3) in most of the current schedules, making it difficult for the LDCs to take advantage of it.

The interests of the LDC in the context of trade in services were in several areas: (a) expeditious and effective operationalisation of the LDC services waiver to allow meaningful preferential access to LDC services and service suppliers; (b) increased technical and financial assistance to strengthen domestic services capacity of LDCs to take advantage of the preferences; (c) convening of the high-level meeting; (d) elimination of all Economic Needs Test (ENT) for services and suppliers from the LDCs; (e) information to be provided by Members on steps they were taking in view of the decision on services waiver (Rahman, 2014).

In Bali, Members recalled the waiver decision of the Eighth Ministerial Conference and noted that no WTO Member had yet made use of the waiver since its adoption in 2011. Members instructed the WTO Council for Trade in Services (CTS) to initiate a process aimed at promoting expeditious and effective operationalisation of the LDC services waiver, with provisions for periodic review (WTO, 2013a). CTS was asked to convene a high-level meeting six months after the submission by LDCs of a *collective request* identifying the sectors and Modes of supply in which they would like to receive preferences. At the meeting, developed and developing Members in a position to do so, were to indicate "sectors and modes of supply where they intend to provide preferential treatment to LDC services and service providers" (WTO, 2013a). Members were also encouraged to extend preferences to LDCs' services and service providers, which have "commercial value and promote economic benefits to LDCs."

3.1.4 Monitoring Mechanism on Special and Differential Treatment

Special and Differential Treatment provisions in the WTO, in support of the developing countries and LDCs, have been criticised on the grounds of being weak in terms of implementation and enforcement. Paragraph 44 of the 2001 Doha Ministerial Declaration gave the mandate to review all WTO S&DT provisions with a view to make them stronger, more precise, effective and operational. In light of this decision, a *Monitoring Mechanism* was to be put in place, which was to assess the utilisation of developing countries' and LDCs' preference treatment to ensure their strengthened integration into the multilateral trading system. This was perceived to be of high interest to the LDCs from the point of realisation of potential benefits emanating from S&DT provisions in the WTO. LDCs felt that rather than being a forum for *diagnostic analysis*, this Mechanism should be vested with a *prescriptive role* which had the ability to make recommendations to the appropriate technical body with a view to make S&DT provisions more effective.

The proposed Mechanism was also important since negotiations to consider the *Cancún 28 agreement-specific proposals* did not come up with any concrete results. As would be recalled, in Cancún, Members had agreed to an *in-principle agreement* relating to 28 S&DT provisions in the WTO Agreements. At the Geneva Ministerial Conference in 2011, Members had agreed to expedite the work on this decision. LDCs had indicated in Geneva that it was to be *all as a package or nothing*. Such a stance was informed by the apprehension that opening up some of the provisions for discussion could lead to opening of others, inducing a review of the S&DT provisions in the WTO. This could potentially undermine the LDC interests in the context of upcoming negotiations in Bali.

In Bali, Members adopted the decision to establish a *Monitoring Mechanism* on S&DT, which was to serve as 'a focal point to analyse and review the implementation of the S&D provisions' (WTO, 2013a). However, it will not function as a negotiating forum. In cases where the review identifies a problem, the mechanism would consider whether this resulted from implementation or from the provision itself. As was proposed by the LDCs, the Mechanism may make recommendations for consideration of actions to improve implementation of the relevant S&DT provision, including, if necessary, launching negotiations aiming at the above, to the relevant WTO body.[11] The decision, however, does not mention any time-bound commitment (*at the earliest opportunity*) regarding consideration of the Mechanism's recommendation to the relevant body. The timeline of review of the Mechanism (three years after its first formal meeting) is also a rather protracted one. Nonetheless, the Mechanism marked an important step in the multilateral trading system's responsiveness to the concerns of the developing countries, and LDCs should try to make the best use of this new window. Since most S&DT measures still remain under best endeavour provisions, the Mechanism could be a good opportunity for the LDCs to flag their concerns as regards particular S&DT provisions, and try to resolve those by raising the issue in relevant WTO bodies.

3.2 Trade Facilitation

A new key element in the Bali Package is the Agreement on Trade Facilitation (TF), which talks of simplification of customs procedures and border proceedings in international trade. As would be recalled, this was one of the four 'Singapore issues', which was brought within the ambit of WTO negotiations for the first time. The Agreement on TF aimed at reducing red tape at the border to expedite trade and reduce the cost of trading. The negotiations were essentially aimed at developing disciplines as regards three articles of the WTO's General Agreement on Tariffs and Trade (GATT) 1994.[12] Major objectives of the TF include: accelerating customs procedure, reducing costs, bringing clarity, efficiency and transparency in customs dealing, reducing bureaucracy and corruption, and promoting the use of modern tools and technology at customs clearance points. While the estimates of economic gains resulting from the TF Agreement vary widely, some studies indicate that TF could increase the global GDP up to USD 1 trillion and create 21 million new jobs (Hufbauer *et al.*, 2013). The OECD also anticipates that the combined effect of a comprehensive trade facilitation reform would reduce total trade costs by almost 14.5 per cent for low-income countries, 15.5 per cent for lower-

[11] It is to be noted that, discussions regarding a series of concrete propositions for strengthening S&DT proposals had previously been considered as a possible deliverable at the MC-9. However, these were ultimately dropped from the actually proposed 'Package' at Bali a few months ahead of the Ministerial when Members decided to address them in the post-Bali phase (Bellmann, 2014).

[12] Article V, involving freedom of transit for goods; Article VIII, which deals with limiting border fees and formalities; and Article X, regarding publication and administration of trade regulations. More specifically, it involved areas such as pre-shipment inspection (PSI), expedited shipments, improving transparency, standardising documentation requirements and trade-related fees, streamlining existing border procedures with specific disciplines as regards issues such as transit of goods, Single Window clearance, testing procedures at border customs points, and border agency cooperation.

middle income countries, and 13.2 per cent for upper-middle income countries (Moïsé and Sorescu, 2013). A study by CUTS International (2004) on TF also observed that customs-related 'red tape' barriers generated more costs than tariffs, and were mostly due to government failure. It is reckoned that simplified customs procedures and lower transaction costs have become critically important in a world increasingly dominated by global value chains and international production networks. LDCs are expected to be major beneficiaries of these initiatives. These measures would boost intra-regional trade where a large part of the growth potential remain untapped due to cumbersome 'at the border' and 'behind the border' constraints (Bellmann, 2014).

However, it may be noted here that, LDCs and majority of developing countries were not *demandeurs* as regards TF, primarily because LDCs were apprehensive that TF commitments will be onerous and could lock them into costly commitments. Consequently, while most countries recognised the importance of trade facilitation, many were reluctant to undertake binding commitments in the WTO. The concern was that an inability to comply with related disciplines could lead to sanctions and undermine their trade interests. Developing countries with weaker export capability feared that trade facilitation would only contribute to increasing imports, but do little to tackle supply-side constraints affecting exports, and thus, is likely to adversely affect their trade balance. In view of the TF Agreement, it is reckoned that LDCs will need to take steps to strengthen their supply-side capacities with the global and regional value chains to reap the benefit of the trade facilitation. Given the opportunity cost for the LDCs in implementing provisions in the TF Agreement (i.e. diverting their valuable resources from some of the prioritised areas such as poverty alleviation, investment in education, etc. to set up infrastructure and institutions that facilitate trade), it is important for them to be assured that the TF Agreement delivers on its promises.

Reflecting these concerns, the decision adopted in Bali MC-9 is divided into two parts: Section I involves specific commitments countries will make to improve their customs procedures; Section II comprises of S&DT for developing countries and LDCs (WTO, 2013b). To reconcile these two objectives, the final Agreement contains a set of landmark provisions allowing for flexibility in the implementation timeframe, and linking commitments to attained capacity resulting from technical assistance (WTO, 2013b). Developing countries and LDCs are allowed to self-define their implementation period within three categories of implementation modalities (Appendix Diagram 1).[13] The text of TF Agreement finalised in Bali states a clear timeframe for implementation, starting from December 2013 (no later than 31 July 2014) and ending with acceptance of the protocol by 31 July 2015. Developing countries and LDCs have been given grace periods to implement the TF, ranging from two, six to eight years. Once the TF protocol has been completed and signed, the Dispute Settlement Mechanism can be brought into play against Members on the ground of non-compliance. However, Bali text states that "Members shall exercise due restraint in raising matters under the Understanding on Rules and Procedures Governing the Settlement of Disputes involving LDCs."

For the LDCs, both implementation timeframe of the TF Agreement and the technical requirements pose formidable challenges. Both developed and developing country Members have been asked to provide capacity-building support (such as modernisation of infrastructure and training of customs officials) to the LDCs in addressing the complex needs related to implementing TF protocols. Furthermore, under the Category C, an innovative mechanism has been proposed to ensure that assistance arrangements be notified by donor countries before LDCs would be obligated to notify their definitive implementation date, therefore linking implementation obligations to the provision

[13]Category A includes those provisions that will be implemented immediately upon the Agreement's entry into force; Category B refers to those commitments which will be implemented after a self-selected transition period; and Category C involves those commitments that will be implemented after self-selected transition period and require acquisition of implementation capacity through technical assistance and support for capacity-building (WTO, 2013b).

of technical assistance and capacity-building (WTO, 2013b). On their part, LDCs should strive to make best use of the promised AfT and technical assistance to gain from the TF reform.

As countries move towards implementation, assessing the cost of trade facilitation measures will be at the heart of future discussions. Apart from the infrastructure-related costs associated with implementing the TF Agreement, other major costs include: regulatory costs, institutional costs, coordination costs and training costs (Jatkar and Mukumba, 2014). In countries where such reforms have been implemented, initial expenses have been largely met by international financial assistance. Annual operating expenses (which is difficult to separate from border administration costs) are generally absorbed by border agencies' regular operating budgets. Furthermore, Bellmann (2014) argues that while it is important to ensure that budgets for maintenance of either equipment or human skills are available in the long-term to ensure the sustainability of reforms, TF measures also bring efficiency enhancements that allow border authorities to make the most of existing resources, a factor often underestimated when calculating the cost of implementing reforms.

In terms of international financial assistance, AfT window, Enhanced Integrated Framework (EIF) and multilateral and regional development institutions remain some of the major players. It is important to note that trade facilitation is one of the areas where support is provided to developing countries under the aid programmes of the developed countries. In 2012, donor commitments directed at simplifying and modernising border rules and procedures exceeded USD 460 million, a significant increase from the average of USD 27 million during the 2002-2005 baseline period (Bellmann, 2014). However, Bellmann (2014) finds that while the largest share of committed funding went to Africa, the region experienced significant difference between commitments and actual disbursements of AfT resources. A similar pattern of divergence between commitment and actual disbursements is also observed when looking at LDCs as a group, but which is not mirrored in other regions of the world.[14] This gap may reflect the fact that a number of donors did not meet their aid commitments, but it could be also because of the lack of absorptive capacity in the recipient countries (Bellmann, 2014).

Another issue associated with AfT relates to continuation of the *status quo* in terms of the modality of delivery, i.e. AfT provides enormous power to the donor countries, giving them the choice to pick the recipient countries and projects based on their own commercial and foreign policy objectives (Adhikari, 2011). This could potentially deprive the really needy countries from what they deserve the most. For example, a detailed investigation of South Asian LDCs shows that support provided through AfT for trade facilitation are often unrelated to trade facilitation, and includes areas such as Intellectual Property Right (IPR)-related events and provision of microcredit (Adhikari, 2014).

As per the TF Agreement, each member is obligated to establish and/or maintain a *National Committee on Trade Facilitation* or designate an existing mechanism to facilitate both domestic coordination and implementation of provisions of the TF Agreement. This committee will need to play a critical role in six major areas: identification of gap in terms of the infrastructure development, regulatory reform areas and technical support; estimation of associated costs to be incurred; identification of possible sources of funds; monitoring and implementation of the action plans; coordination of work in various relevant agencies and stakeholders; and providing inputs for the negotiations in the WTO (Rahman, 2014). In line with this, LDCs should remain actively engaged in the work of the Preparatory Committee envisaged under the Agreement in order to get their concerns reflected in the protocols to be developed in the coming years. As the Agreement envisages, LDCs will be required to

[14] Adhikari (2014) also finds similar erratic pattern of AfT for trade facilitation disbursement in South Asian LDCs: with 82 per cent share going to Afghanistan (USD 23 million) in 2012, whereas Bangladesh, Bhutan and Nepal getting 2 per cent (USD 0.36 million), 1 per cent (USD 0.02 million) and 4 per cent (USD 2.2 million) share respectively. From 2005-2012, total AfT for trade facilitation in Afghanistan was USD 75.5 million, whereas in Bangladesh, it was USD 2.27 million, in Bhutan USD 0.71 million, and in Nepal USD 3.59 million.

undertake commitments that commensurate with their developmental needs, institutional capacities, administrative strengths and the resource available at their disposal (Rahman, 2014). LDCs should demand and ensure that TF provisions are harmonised with other WTO agreements (e.g. customs valuation, sanitary and phytosanitary (SPS) and technical barrier to trade (TBT) agreements), so that it does not become burdensome for them to safeguard compliance. In fact, this concern about coherence and harmonisation has been repeatedly highlighted both in IPoA for the LDCs and in the course of various negotiations in the WTO including the Hong Kong Ministerial meeting.

3.3 Agriculture

The MC-9 outcome on agriculture focused on four distinct areas. First, a less controversial proposition from the Group of 33 (G-33) coalition of developing countries to expand the list of general services under the 'green box'[15] in accordance with their interests. In their submissions, African group and G-33 have demanded more programmes in a number of areas: land rehabilitation, soil conservation and resource management, drought management and flood control, rural employment, issuing land ownership titles and settlement issues (WTO, 2013c). In Bali, Members recognised the contribution that general services programmes could make to rural development, food security and poverty alleviation, particularly in developing countries. They have noted that the current list of general services under Annex 2 of the Agriculture Agreement, which defines the green box, is non-exhaustive, and that the additional programmes identified above could be considered as falling within the scope of general services programmes.

Second, two proposals were submitted by the Group of 20 (G-20) coalition of developing countries that favour reform in developed countries' farm trade policies: one was on tariff rate quotas (TRQs) and the other related to export subsidies. The TRQ is used to allow limited access at low tariff rates for an imported commodity to a domestic market (up to the quota amount), while protecting domestic producers of that same commodity from international competition by charging substantially higher tariffs on imported volumes above the quota amount (WTO, 2013c). It may be recalled here that, TRQs were established for selected commodities in selected countries during the Uruguay Round in an effort to allow exporters some minimum market access to otherwise closed markets. In Bali, the G-20 were concerned that the methods governments use to share these quotas among traders can become an additional trade barrier, particularly when parts or all of the quotas are not used. The G-20 proposal demanded that if a quota is persistently under-filled, and information sharing and consultations prove fruitless, the importing government either would have to accept quantities within the quotas, first come first served, at the importing ports until the quota limit is reached, or they would issue import licenses for every request (automatic license on demand) up to the quota limit (WTO, 2013c). While Members differed over whether developing countries should be exempted from having to change the method of administering quotas, an understanding on TRQ administration was eventually reached. With respect to S&DT of developing countries under TRQ administration, exemption for developing countries would lapse after six years unless Members agree to extend or modify the TRQ administration mechanism; however, the 'provisions' of that paragraph would continue to be applied by all Members except by five countries (including the US) on an opt-out list (WTO, 2013c). Only US has declared to be on the list, while other developed countries have declared they will not opt out.

Third, the discussion on export subsidies and the export policies[16] that may have the same effect as subsidies was dealt with through a political statement. As a matter of fact, WTO Members had already

[15] In WTO parlance, 'green box' refers to measures that have no, or at most minimal, trade-distorting effects or effects on production. The Agreement on Agriculture's (AoA) green box lists seven categories of general services, which are excluded from counting against a Member's total Aggregate Measure of Support (AMS), and thus, have no limit on spending.

[16] These policies are grouped together as "export competition." They include subsidies and other advantages gained from government-supported export credit and insurance, food aid and exporting state trading enterprises.

agreed in 2005 to eliminate export subsidies by 2013 as part of the broader DDR, but this deadline have been missed due to the stalemate of the Doha Round. While the G-20 demanded concrete steps in this regard, other Members argued that this could not be done in Bali without matching the steps on agriculture market access, domestic support and the rest of the broader DDR package (WTO, 2013c). While the text proposes improved information sharing and monitoring in order to support reform in this area and highlight its sincere intent, in the end, Bali stopped short of making any legal commitment.

Finally, the proposal on public stockholding for food security purposes proved to be the most controversial one and the attendant disagreements brought the whole negotiations to the brink of collapse. At the heart of the matter was the consistency of policies pursued by some developing countries to advance food security with existing WTO rules and disciplines. Led by India, G-33 coalition of developing countries, home to a sizeable population of small farmers, proposed that current WTO farm subsidy rules should be relaxed to allow governments more policy-space to buy food from low-income and resource-poor producers at administered prices as part of their food stockholding programmes (WTO, 2013c).

Historically, agriculture markets have been characterised by a long-term trend towards declining real prices. The benefits of increased productivity and falling production costs resulted in abundant supplies, exerting downward pressure on food prices and farm incomes. As a response, policymakers in OECD countries provided various forms of trade-distorting domestic supports (such as price support and buffer stock programmes) coupled with high border protection that resulted in further downward pressure on international prices making them even more volatile (Bellmann *et al.*, 2014). It also induced surpluses that had to be disposed in the international market, further lowering world prices. On the other hand, low and volatile prices further aggravated the underdeveloped nature of agriculture in most developing countries (particularly in the LDCs, where land degradation and availability of arable land remain a major problem), providing them little incentive to invest in agriculture. This often resulted in lower domestic food production and shifted their consumption patterns towards less expensive, subsidised imported foods (Bellmann *et al.*, 2014). Over the long-run, this stifled their domestic productivity growth and undermined their capacity to feed their own population.[17]

Over the last seven years, agriculture and food prices have been both high and volatile, often exacerbated by weather-related production shortfalls and other crises.[18] Hoarding tendencies of producers and traders have further aggravated food prices. Most developing countries and LDCs (most of whom are net food-importers) have been particularly vulnerable to these price fluctuations with dire consequences on the poor and other vulnerable consumers, who spend a significant proportion of their incomes to purchase food. Potential climate change impacts increase the likelihood of such events in future, and persistently high energy prices and policies to promote agricultural products for biofuel production could change the entire dynamics of food production and trade.

It is in this backdrop, the issue of food security has drawn significant political attention in the food-importing developing countries and LDCs. In principle, the idea of food stockholding is to acquire food from surplus regions and distribute to food deficit regions. For many developing countries and LDCs, stock adjustments serve as a buffer for both their producers and consumers against quirks of price volatility in basic food products. Under the existing WTO rules, state support and expenditure of this kind in building stocks are considered minimally trade-distorting and not subject to any limitation *as*

[17]In 2013, basic food items (excluding tea, coffee, cocoa and spices) had cost LDCs USD 37.5 billion, accounting for 15 per cent of the total LDC import. While agricultural raw materials and all food items accounted for one-third of the global LDC import.
[18]Refer to Section 2.2 for further empirical details.

long as the food purchase takes place at market prices. If the stocks are acquired and released at an administered price set by the government, then the difference between this administered price and a fixed external reference price[19] must be accounted as trade-distorting subsidy or 'amber box', and subject to WTO limitations.

For the majority of the developing countries, the permissible Aggregate Measure of Support (AMS) was a set at a maximum equivalent of 10 per cent of the individual country's agricultural GDP.[20] If the administered price is below the reference price, the amount of subsidy is considered zero. Till now, most product-specific support has remained well below the maximum allowed level of 10 per cent of the value of production. However, over the recent years, administered prices for food in several developing countries have increased significantly compared to the fixed reference price. This has put them under the risk of exceeding their respective AMS subsidy limit, and as a consequence being in the breach of their WTO commitment. India apprehended that it could face this situation once it started to implement its National Food Security Act, which extends the provision of subsidised foodgrains under the Public Distribution System. Under this scheme, foodgrains equivalent to around 30 per cent of India's total production could be procured at minimum-support or administered price (Narayanan, 2013). In MC-9 India argued that, price support schemes should be compatible with the 'green box' and be subject to no limitations; WTO rules should not get in the way of Members' right to food security. On the other side of the spectrum, developed countries (and some developing countries) expressed concern that such a proposal would affect the fundamental requirement of the green box (i.e. included measures should not provide price support to producers), while others feared that surplus stocks built through such schemes could eventually be dumped in the world market, further exacerbating the price volatility and affecting the third countries' producers (Bellmann, 2014).

In Bali MC-9, Members opted for an interim solution in the form of a peace clause and committed to finding a permanent solution by 2017 (WTO, 2013c). Under the peace clause, Members shall refrain from lodging a legal complaint through the WTO dispute mechanism if a developing country exceeds its permissible limit as a result of stockholding for food security. However, it comes with certain conditions: first, it is limited to traditional staple foods and existing programmes; second, it sets a series of transparency requirements and obligations to hold consultations upon request; and finally, the stock procured should not distort trade or adversely affect the food security of other countries (WTO, 2013c).

While this decision has been cited as victory for farmers of the developing world from the perspective of ensuring food security of their citizens, some scholars have drawn attention to the diversity among developing countries and LDCs. For example, support and subsidies beyond the AMS threshold could lead to lowering of food prices in the relevant developing countries; as a result, Island LDCs and food-exporting LDCs that have export interest in these countries might be affected (Rahman, 2014). This is significant because while most LDCs are net food importers, food items consisted of 9 per cent of overall exports from the LDCs (Appendix Figures 1 and 2). Furthermore, Jatkar and Mukumba (2014) argue that this decision could potentially risk food securities in the economies of the net food-importing LDCs by propagating food prices during the periods of stockholding, thus harming their consumers, while in the event of leakages, this can result in depressed global food prices and harm farmers. The reason for this skepticism lies in the fact that, under India's existing food security programme, as much as half of the grains procured by the government is siphoned off by middleman and ration mafias before reaching the intended beneficiaries, resulting much of the subsidised food ending up being sold illegally

[19]Fixed external reference price is the price established at the end of the Uruguay Round, which takes 1986-1988 as reference years for calculating the reference price of each commodity.
[20]Except in the case of China, where the AMS ceiling is 8.5 per cent of the country's agricultural GDP.

in the market rather than in fair price shops (Planning Commission, 2005). Bajracharya (2014) also argues that considering the porous nature of the national borders, leakage of subsidised agricultural products from India to neighbouring South Asian countries could threaten their food security, because the farmers would have to compete with the subsidised foodgrains coming through illegal channels. In view of this, Jatkar and Mukumba (2014) consider foodgrain management and distribution as a major challenge for the Indian government and other governments in similar situations who intend to maintain an appropriate public stockholding regime for food security. Hence they argue that, it is necessary to strengthen the discussion on export restrictions of food and agricultural items. While current WTO rules does allow the use of export prohibition and restrictions in the face of domestic shortage, there remain concerns about right and justice between the food security of domestic and the importing Members (including the issue of food aid).[21]

A closer look at India's public stockholding reveals that India has failed to release its public stockholding during the times of food emergencies effectively. For instance, during 2007-2008 world food crisis, India's food stockholding increased significantly, but instead of using its national buffer stock to combat price inflation, India resorted to export restrictions and chose to ban export of non-basmati rice. This aggravated rice shortages in other neighbouring countries, particularly in Bangladesh by putting inflationary pressures on rice prices (Vokes and Jayakody, 2010; CPD, 2009). Thus, if India commits to enacting the Food Security Act without proper monitoring and strengthening of the customs administration that can keep in check illegal border trade of the subsidised food, then the apprehension is that its formidable food security programme could have trade-distorting effects and undermine food security of the other South Asian countries.

It is to be recognised that, food security concerns for developing countries such as India and the food-importing LDCs are genuine, and if managed effectively, support and subsidies beyond the AMS threshold can significantly lower the food prices in those countries. Therefore, in the post-Bali phase when WTO Members have started to work towards a permanent solution, several options are being considered. Some of these are proposed by the G-33 in a non-paper circulated at the time of run-up to the MC-9 at Bali (ICTSD, 2013). The first option relates to accepting the G-33 proposal as it is; however this is rather unlikely in the absence of a broader Agreement on Agriculture (AoA) (Bellmann, 2014). Second option entails allowing countries to reflect the effect of inflation in calculating price support. This is because if the increase in price support only reflects domestic inflation, it cannot be argued to be creating trade distortions in the world markets (Matthews, 2014). Hoda and Gulati (2013) have shown that if the 1986-1988 reference price for rice or wheat had been adjusted for inflation, then the administered price guaranteed by the Indian government would have been systematically below the reference price for the previous six years. The third proposed option concerns updating the 1986-1988 fixed reference price as the benchmark for calculating the level of price support as it does not reflect the reality of current global food price environment, and hence, "grossly exaggerates and overstates the economic subsidy provided" (ICTSD, 2013). To capture the effective distortion resulting from price subsidies, the reference price should therefore be based on a more recent period or alternatively be calculated as a three-year rolling average world prices as suggested by the G-33. A similar way of addressing the G-33's concern has been addressed by Diaz-Bonilla (2013), who points out that in case of rice in India, while the administered price have been well-above the 1986-1988 reference price, it has been consistently below the world market price. This means there had been no trade

[21]Sen (2010), in his book *The Idea of Justice*, challenges the Rawlsian Contractarian notion of justice, where entitlement is based on the interests of the members (in this case, domestic citizens), and stresses the need to transcend parochialism to protect fundamental rights of beyond the membership. This is not to suggest that countries export in the face of their domestic shortage, but to specify that, in the long-run, WTO needs to balance the food security concerns with a monitoring system to ensure that countries are not hoarding in the face of food shortage in other countries.

distortion created by the administered price, even when WTO considers the administered price as a trade-distorting subsidy. Diaz-Bonilla (2013) therefore suggests that if the administered price is at or below the world market price, it should not be considered as providing price support, and hence could be considered green box compatible. As noted earlier, while these approaches remain relatively uncontroversial from a purely economic perspective, in practice, concerns continue to persist as regards undermining of food securities of other countries. Accordingly, whether these approaches would be acceptable to other WTO Members remain to be seen.

3.4 Cotton

The issue of cotton was of heightened interest to the four cotton-exporting African countries – Benin, Burkina Faso, Chad and Mali (also known as the C4 countries). Ever since the C4 countries launched the cotton initiative, the issue of cotton has been high on the WTO's agenda. The cotton initiative focused on the "coherence between trade and development aspects of the cotton issue": while the trade component covered negotiations on trade barriers, domestic support and export subsidies, the development component covered various aspects of helping the less developed cotton-producers face market conditions and other needs. The proposal of the cotton initiative described the damage that has been caused to the poor producers of these four cotton-exporting countries by trade-distorting subsidies in rich countries (such as EU and US) that depresses the world prices. While in Hong Kong, Members recognised the need to "address cotton ambitiously, quickly and specifically", in absence of progress on the broader agriculture negotiations no deal could be reached as regards the cotton issue. It is noteworthy that the context and conditions that prevailed for cotton when it was first tabled at the WTO's Cancún Ministerial in 2003, have changed drastically. Prices have increased significantly, reducing the pressure in the EU and US to provide farm payments; as a result, subsidies in the US have now declined from historical highs.[22] Higher prices for alternative crops (e.g. corn and wheat), together with declining yields and rising production costs of cotton have also provided incentives to farmers of the rich countries to move away from cotton production (Bellmann, 2014). Nonetheless, while EU's cotton production have become negligible, at present, EU remains the biggest subsidiser of cotton on per unit basis and 78 per cent of total Greek production – which accounts for 80 per cent of EU production – is now exported, 90 per cent of it to outside of Europe (Agritrade, 2013). Since the market share of major subsidisers (such as EU and US) has decreased, and is likely to continue to do so given the current budgetary pressure in these countries, this has also contributed to easing the political challenge of reforming trade-distorting payments in these countries.

At the global level, patterns of trade have shifted and new players have emerged. India has moved from a net importer to the second largest exporter of cotton, while China is now the largest producer, importer and consumer of cotton worldwide. Since 2009-2010, China has become the biggest subsidiser of cotton in terms of the size of subsidy; this is also keeping China's cotton largely protected from the international market. In 2012, the subsidy amount was about USD 3 billion. To compare, total support provided by US was about USD 820 million. Furthermore, China's current cotton stocks account for around 60 per cent of world cotton stocks (ICAC, 2014). Recent trade trends also show that China is

[22]It is important to note here that Brazil (an important trade partner of the US) had attacked excessive cotton subsidies of the US on the basis of dispute settlement arguing that US was not respecting its obligations under the Uruguay Round (AoA), and this has caused injury to its cotton farmers. The Brazil dispute case established that US subsidies did have impact on the world prices and led to injury in other countries, which strengthened the case of the C4 as US could longer pretend that their subsidies did not affect poorer countries (Ideas Centre, 2014). US was also censured by the WTO for its subsidy policy. It was recognised that Brazil had the right to take counter-measures. This led to serious review of US policy, resulting in new farm bill in 2014. Although the likely impact of this farm bill is still unclear, C4 countries can learn from the experience of Brazil. They may consider raising the issue in the dispute settlement body either individually or collectively. Furthermore, it is politically significant that for the first time, cotton is treated differently from other commodities.

looking to African LDCs as alternative source of cotton.[23] In this backdrop, the C4 countries must adapt their proposal to the newly emerging scenarios in the international market and in light of the evolving negotiations in Geneva (Imboden, 2014).

The decision adopted in Bali only shows that WTO is yet to deliver on the cotton initiative. It was decided that dedicated discussions on this area are to be held on biannual basis. Linking cotton with the broader agricultural negotiations, WTO Members reaffirmed that all forms of export support and subsidies would be eliminated. This would also apply in the case of domestic support for cotton, tariff and non-tariff measures applied to cotton exports from LDCs in markets of interest to them. The post-Bali negotiations on cotton also indicated that the issue of domestic support for cotton will be put to intensive negotiations in 2014 in order to reach an agreement by the end of the year concerning substantial reductions (WTO, 2013d). Members have already agreed to cut distorting subsidies for cotton by more than the reductions on other agricultural products (paragraph 11 of the 2005 Hong Kong Ministerial Declaration), but have not agreed on how to achieve this. This is partly because Members have not agreed on the domestic support cuts for agriculture as whole. The proposal also envisages strengthening development assistance for cotton (currently dealt with in meetings that are separate from the negotiations), including coupling it with the broader AfT agenda (WTO, 2013d). The proposal also envisages regular monitoring and improved information on cotton. The impact of MC-9 decision regarding the elimination of domestic and export subsidies on cotton for cotton-importing LDCs is still unclear. It is also to be noted that, if the matter of cotton remains related to broader domestic support cuts for agriculture as whole, division within the LDC group may continue to persist.

4. STRATEGIES FOR FUTURE NEGOTIATIONS

It is to be conceded that the Bali Package was a compromise and that the consensus in Bali was informed, for the most part, by the lowest common denominators. Some of the outcomes were not legally binding; many of the issues were not fully addressed. To add to the challenge, the Bali Package started to unravel soon after the Ministerial when India declined to ratify the TF protocol on grounds of lack of progress in the negotiations in connection with the public stockholding. There has virtually been no development as regards the post-Bali Work Program. LDCs have also not been actively engaged in the discussions in Geneva, except on occasions when they highlighted that issues where legally binding outcome could not be achieved at Bali should be prioritised in the post-Bali Work Program.

Prevailing heterogeneity among the LDCs have put many of the 'one-size fits all' modalities of WTO under renewed scrutiny. The S&DT provisions do recognise the particular vulnerable status of the LDCs, but concerns continue to persist regarding their enforcement. LDCs will need to have sufficient freedom to design policies that suit them the best and are in line with their development needs. In fact, the major difficulties that the Members faced at the Bali MC-9 (and in the context of the broader Doha Development Agenda (DDA) involved divergent interests between different groups of countries as well as challenges of aligning domestic development objectives with international trade commitments (Jatkar and Mukumba, 2014). A major new development is the involvement of an increasing number of WTO Members in negotiating separate mega regional blocs and trading arrangements, which do not include more than 100 small countries that are already marginalised due to their limited market power. Lack of progress in the context of DDR negotiations are blamed by many for contributing to this emerging trend. Some have suggested that as the world becomes increasingly fragmented into different regional blocs based on comparative advantage, global value chains, green goods and services, investment and competition policies, plurilateral agreements under the WTO umbrella, which advances the agenda of common interest without extending the benefits to

[23] The details of cotton export trends of LDCs are highlighted in the Section 2.2 of this paper.

other WTO Members, could be a viable mechanism to liberalise trade (Hoekman, 2013).[24] According to Hoekman (2013), plurilateral agreements are most likely to be issue-specific, and there is no need for complex issue linkage; they are open and any country can join if they perceive the membership and implementation relevant to the disciplines to be in its interest unlike the mega regionals. Plurilateral agreements, it is argued, could offer a means to contain the continuous erosion of the WTO caused by the growing number of regional trade agreements (RTAs), free trade area (FTA) arrangements and bilateral trade agreements, as it will encourage WTO Members to make further commitments within the WTO system. Such an approach could help break the post-Bali impasse and the broader DDA by providing members the option to join over time in line with their respective trade strategies (Saner, 2012). The plurilateral solution to break the current impasse in Bali has been criticised by others. For example, plurilateral agreements are likely to result in removal of trade barriers, which would erode the price advantage that trade preferences confer to LDCs and other small economies in those countries. This would expose countries whose exports rely on this advantage to greater competition from more cost-efficient suppliers through preference erosion. Furthermore, if the developed and economically powerful countries join plurilateral agreements and set up 'rules of the games' on the basis of their economic interests (standards, IPR regimes, etc.), this would create systemic barriers for the LDCs even when they would like to join these groups later.

Low (2013) argues that this kind of 'club-of-clubs' approach would introduce another element of 'permitted discrimination' into the multilateral trading system. In the long-run, the key question would be whether the WTO can sustain this kind of arrangement without seriously weakening the foundations of the WTO. The reason is that, while the club-of-clubs approach allows like-minded Members to pursue their national interest without facing the opposition from those who feels that embracing the obligations in question would harm their economic interests, it also poses the risk of exclusion and coercion (Low, 2013).

Furthermore, because of the large gap in research and negotiation capacity between the two groups of countries, which results in information cavity about the costs and benefits, low-income countries are likely to face considerable difficulties even if they are interested to explore joining the plurilaterals. Additionally, the plurilateral agreements are also unlikely to have the two-track modality, as reflected in the S&DT provisions in the WTO which takes cognisance of the interests of the low-income countries. Low (2013) suggests a "critical mass decision-making approach" as a way of avoiding the discriminatory downside of the club-of-clubs approach, whereby for this to work trade of the participating countries within the group will need to be significantly high. Furthermore, if the key players refuse to sign up, the agreement does not get done. In theory, critical mass approach is an extension of the plurilateral agreement, which enriches the theory but does little to address the issues (such as preference erosion and rules of the game) associated with the plurilateral agreement approach.

Keeping the fundamental changes of the Bali round in mind, several elements can be envisaged for crafting a meaningful future agenda from the perspectives of the LDCs. Given the wide differences of views and interests among the WTO Members, overcoming the current gridlock requires sharing ideas and exploring new options. Greater involvement and engagement on the part of the LDCs and other stakeholders are therefore central to the post-Bali agenda. The WTO remains the most important institution for global trade regulation as well as the preservation of the interests of smaller countries. Consequently, the agenda for multilateralism, transparency and inclusiveness becomes fundamental in the context of bringing the trading majors back to the negotiating table at the WTO (Draper and Dube, 2014).

[24]While WTO Members subscribe to mainly multilateral agreements, the idea of plurilateral agreements is not entirely new. For example, government procurement and trade in civil aircraft of the Tokyo Round are the two plurilateral agreements that have been inherited by the WTO.

As regards the implementation of decisions reached in Bali, each decision has its own course to follow. Although, the overall impasse is likely to have an impact in implementation of the Bali decisions, work on LDC issues has progressed, though without much meaningful engagement from Members. With specific regard to the key issues of interest to the LDCs, the WTO's CTD is mandated to continue to annually review the steps taken by Members in providing DF-QF access to the LDCs. This annual review will take place in November 2014. It is noted that the issue has not been vigorously pursued by the LDC group in the post-Bali phase. The only notable development was the adoption of Chile's DF-QF scheme for the LDCs, which grants DF-QF access for 99.5 per cent of its tariff lines. However, this needs to be examined in-depth, as margin of preferences may not be high for the LDCs because the average tariffs in Chile is already quite low. LDCs will need to do further work to narrow down their differences with a view to project a united front. Only then specific formulae could be developed to resolve the apparent conflicts of interests among the Asian and African LDCs and address this issue in a mutually beneficial manner. LDCs must strive to push for more legally-binding enforceable commitments in the WTO. LDCs will also need to continue their efforts to bring more clarity to the formulations of RoOs, which requisites to be designed to give effect to the DF-QF decision.

The Bali Decision requires the Committee on Rules of Origin to annually review the developments regarding the preferential RoO. That annual review held in October 2014 took note of Chile's DF-QF scheme and its RoO conditions for LDCs. LDCs also tabled a communication outlining the challenges faced by them in complying with preferential rules of origin. The document reveals that the rules of origin provisions by the US and Japan have remained unchanged since the 1970s, and have not adapted to the evolution in world trade (WTO, 2014b). It also highlights the reforms in EU and Canada's rules of origin, which have led to a better utilisation of their preferences and increased exports from the LDCs. In the report, while RoO calculations can be done in many forms, LDCs had proposed the following: (i) the formulae is carried out on the basis of a value of materials calculation; (ii) percentage level should be set at 15-25 per cent depending on the product categories reflecting the global value chains and adequate to the LDCs' industrial basis; and (iii) special situation of the LDCs should be taken into account so that their transport costs of input materials should also be allowed to be adjusted (WTO, 2014b). LDCs pointed out that most of these practices are already contained in some FTAs. LDCs also ought to be more specific in identifying markets where they want changes in the RoO requirements. It remains to be seen how vigorously LDCs argue their case in the Rules of Origin Committee in 2015.

As regards operationalisation of the services waiver, post-Bali, Members have initiated discussion on the ways to operationalise the waiver at the WTO Services Council in February 2014; they also want the review of the operationalisation of the services waiver once every year making it a standing item on the Council's agenda. LDCs have tabled their Collective Request in July indicating the type of preferences, identifying the sectors and modes of supply where they have particular interest. As expected, the request makes the point that the most staggering market access as well as national treatment restrictions are with Mode 4 (movement of natural persons) (WTO, 2014c). It lists some horizontal points across all sectors (especially regarding Mode 4). These include: creation of a special temporary entry visa quota for LDCs, restrictions on the category of contractual service suppliers and independent professionals, residency requirements, social security deductions. In Mode 3, where small enterprises from the LDCs are facing difficulties to respond to offers or potential clients in other markets, ENT and labour market tests, conditions on local hires, and other obstacles, such as discriminatory regulations that hinder access to hospitals and measures regarding salary threshold are also requested to be waived (WTO, 2014c).

Some of the sectors identified by LDCs for sector specific entries to supplement the horizontal requests include: travel/tourism, transport and logistics, banking and insurance services, along with a number of professions such as education, information and communication technology (ICT), business processing outsourcing and creative industry. LDCs have also identified 'non-tariff barriers' in services in the form of fees, charges and other administrative procedures attached to visas, work permits, licenses and transit that essentially act as market access barriers. Reflecting this, other requests made include: preferential treatment of LDCs as regards licensing/work permit/visa fees, recognition of qualification of LDC professionals and accreditation of LDC institutions (WTO, 2014c). A non-exhaustive list of professions and services identified by the LDCs have also been indicated in the Annex of the Request (WTO, 2014c). Furthermore, in paragraph 3.2, LDCs request technical assistance and capacity-building support to enable suppliers to utilise the preferences that would be granted. However, these supportive measures can only be concretised when the offer and request lists have been reconciled and a list of waivers has been agreed.

In response to the Collective Request of the LDCs, CTS convened a high-level meeting on 5-6 February, 2015, in which over 25 Members indicated services sectors and modes of supply to which they would give preferential treatment to the LDCs (WTO, 2015). There was an active engagement from developed and developing countries in a position to do so. A majority of the 74 services sectors in which LDCs have requested preferences came under the purview of discussion. Some of these preferences include: expanding access for the temporary movement of business people and professionals from LDCs for a range of services (Mode 4); waiving fees for business and employment visas; not imposing ENT; and extending durations of stay of LDC professionals. These will be implemented once the Members have completed their domestic processes. Members also mentioned various technical assistance initiatives to improve LDC services export capacity such as training programmes for service suppliers and support to upgrade infrastructure. LDCs will need to remain proactively engaged in these discussions.

A pre-condition for moving ahead on agriculture is that a permanent solution needs to be found for the present impasse in the Bali Package. Central to this is the work on a dynamic methodology for calculating stockholding for food security purposes that takes into consideration the concerns for developing countries regarding update of the 1986-1988 commodity price reference. Finding a balance between offensive and defensive interests of the LDCs as regards food security and safeguarding interests of the net food-importing LDCs will be important. At the same time, discussion on export restrictions and food aid will need to be pursued more vigorously. In addition, proper monitoring of illegal trading of subsidised food items would be central to ensure domestic food security as well as the food security of the neighbouring countries.

LDCs also need to reconsider their interrelationship with the emerging players. Since the end of the Uruguay Round, traditional providers of farm support have reduced their trade-distorting subsidies, a move often accompanied by a proportionate increase in green box subsidies. However, compositions of their agricultural support remain crucial for the LDCs. In addition, some emerging economies (such as China as in the case of cotton) also provide large amount of trade-distorting subsidies. While the green box subsidies represent the largest share of global agricultural support at present, even a small trade impact per dollar may no longer be small, if multiplied by the large amount that is involved.

In terms of Trade Facilitation Agreement, LDCs should work on identifying the technical and financial needs that will be required to address the various provisions and compliance requirements as per the Agreement. As is known, the related expenditures to be incurred on account of development of infrastructure, putting in place the needed hardware and software, and undertaking the required reforms and regulatory measures will entail significant resource commitments. However, to what extent LDCs can channel AfT towards trade facilitation into their much-needed priority areas would remain a challenge in coming days.

Finally, there are still many unfinished agendas that continue to persist and which were not taken up in Bali (e.g. Non-Agricultural Market Access (NAMA) issues and others). In preparation of a clearly defined Work Programme on the remaining DDA issues by the end of 2014, the post-Bali work has seen very little progress. At the beginning of 2014, Members only talked about ‘well known’ principles (preservation of development dimension, realistic and doable goals, balanced outcome, inclusiveness and transparency). It was also pointed out that the inter-linkages between agriculture, NAMA and services needed to be taken cognisance of, and tackled together and simultaneously. LDCs need to remain proactively engaged in the post-Bali negotiations in Geneva, and try to project a common front and build alliances with a view to pursuing their priorities, addressing their concerns and advancing their collective interests.

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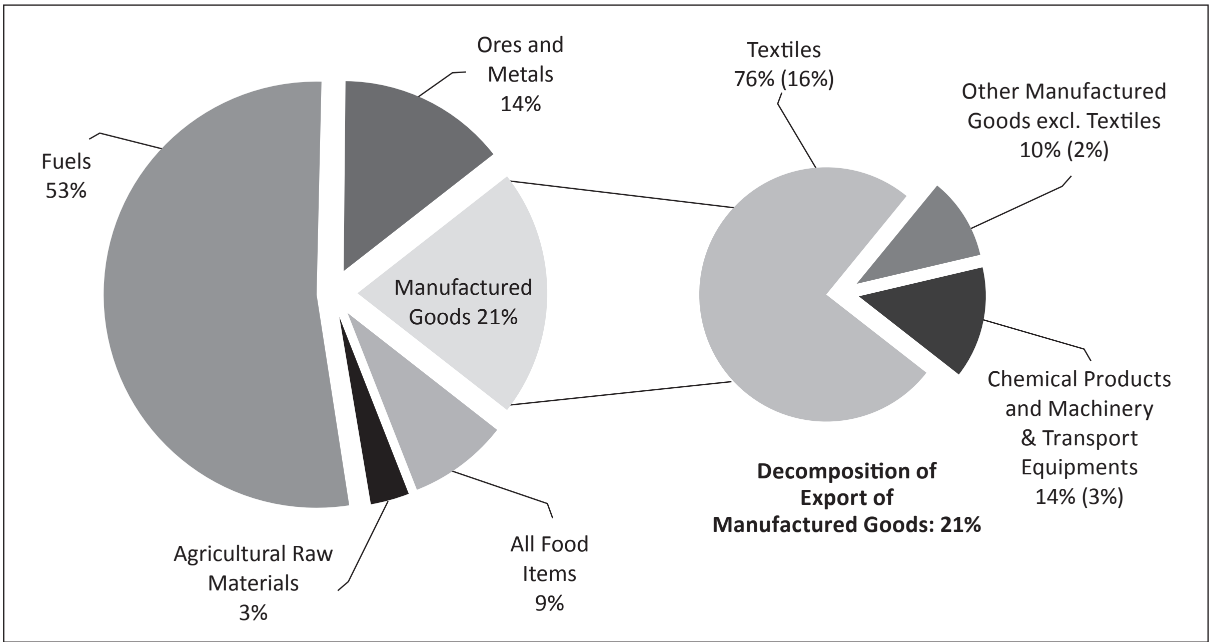
APPENDIX

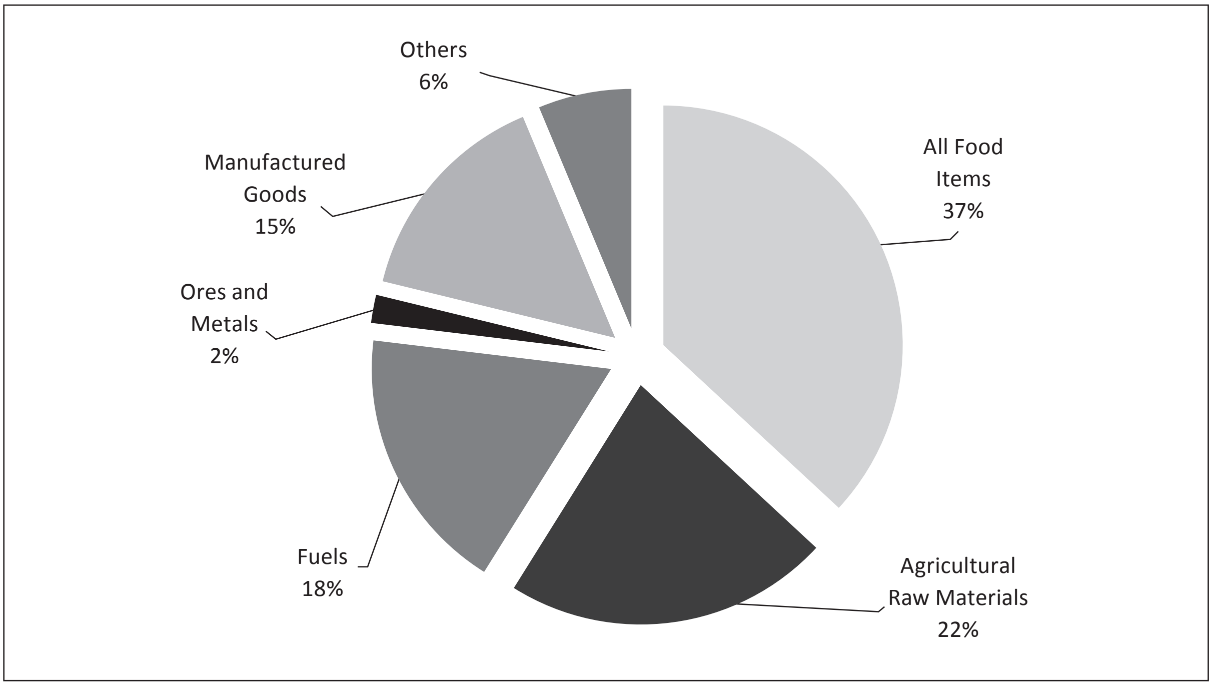
Appendix Figure 1: Composition of LDCs' Exports (% of Total Exports): 2010-2012 (Average)



Source: Authors' elaboration from UNCTAD (2013) data.

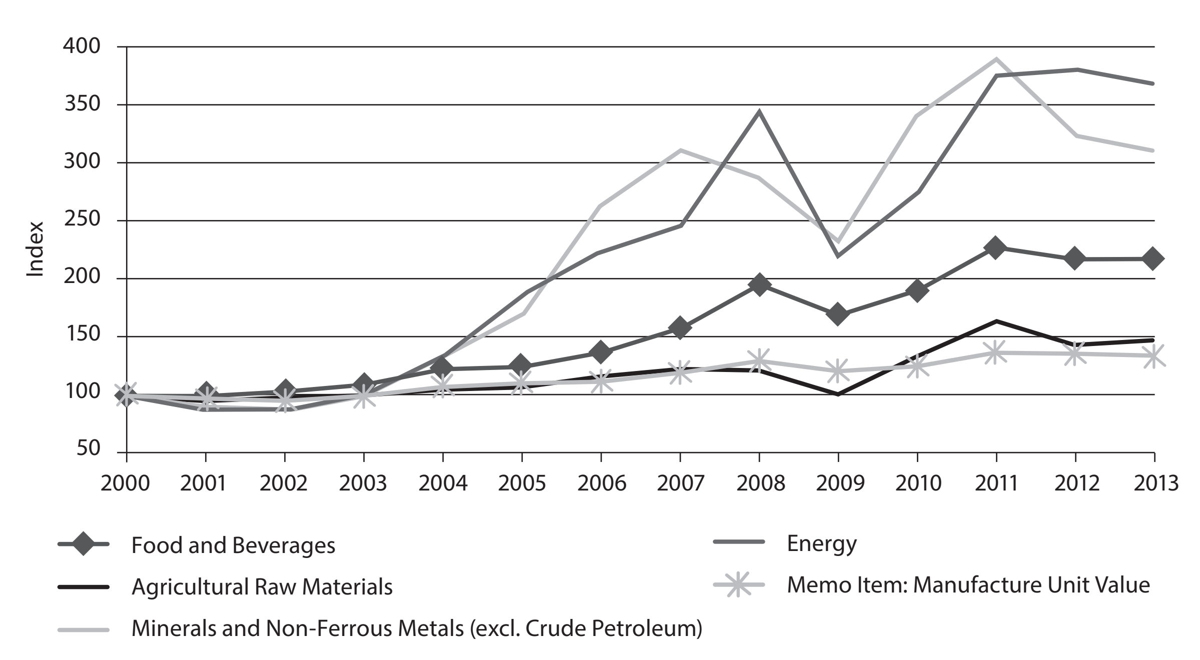
Note: Numbers in parentheses refer to share in total export of manufactured goods.

Appendix Figure 2: Composition of LDCs' Imports (% of Total Imports): 2010-2012 (Average)



Source: Authors' elaboration from UNCTAD (2013) data.

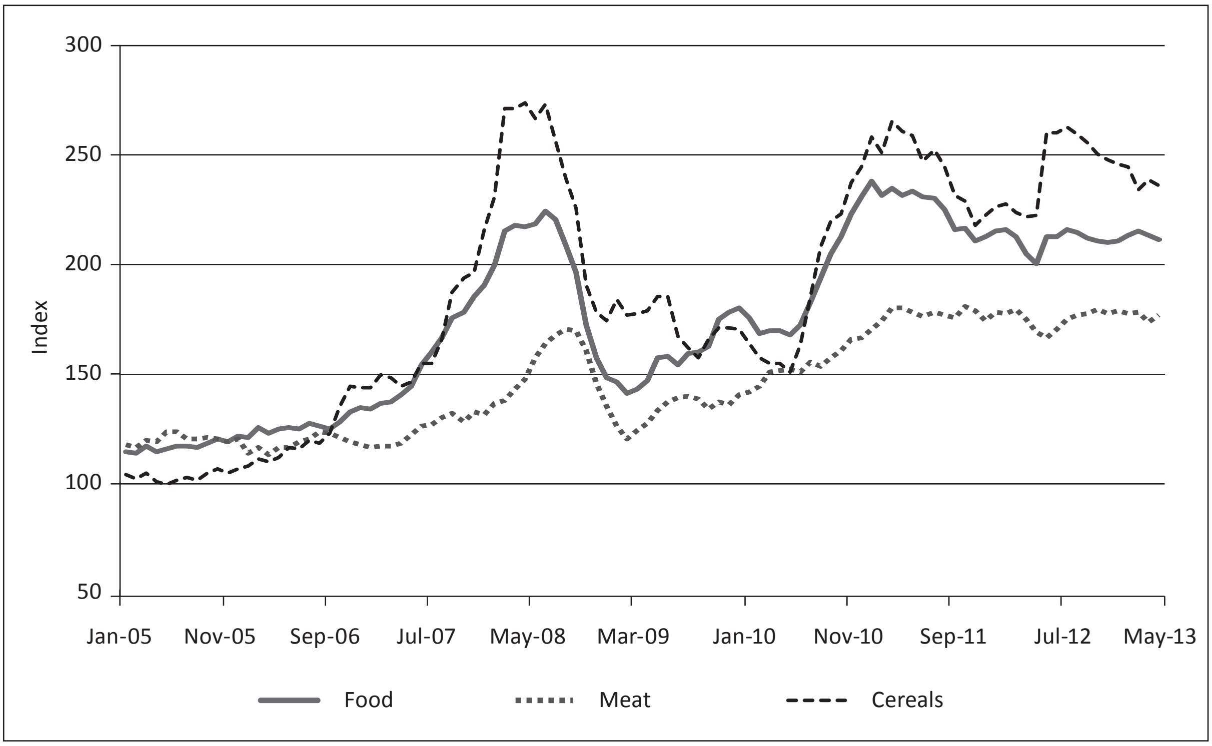
Appendix Figure 3: Export Prices of Primary Commodities: 2000-2013 (Index: 2000=100)



Source: WTO Secretariat calculation from the International Monetary Fund (IMF) indices based on USD prices (2013).

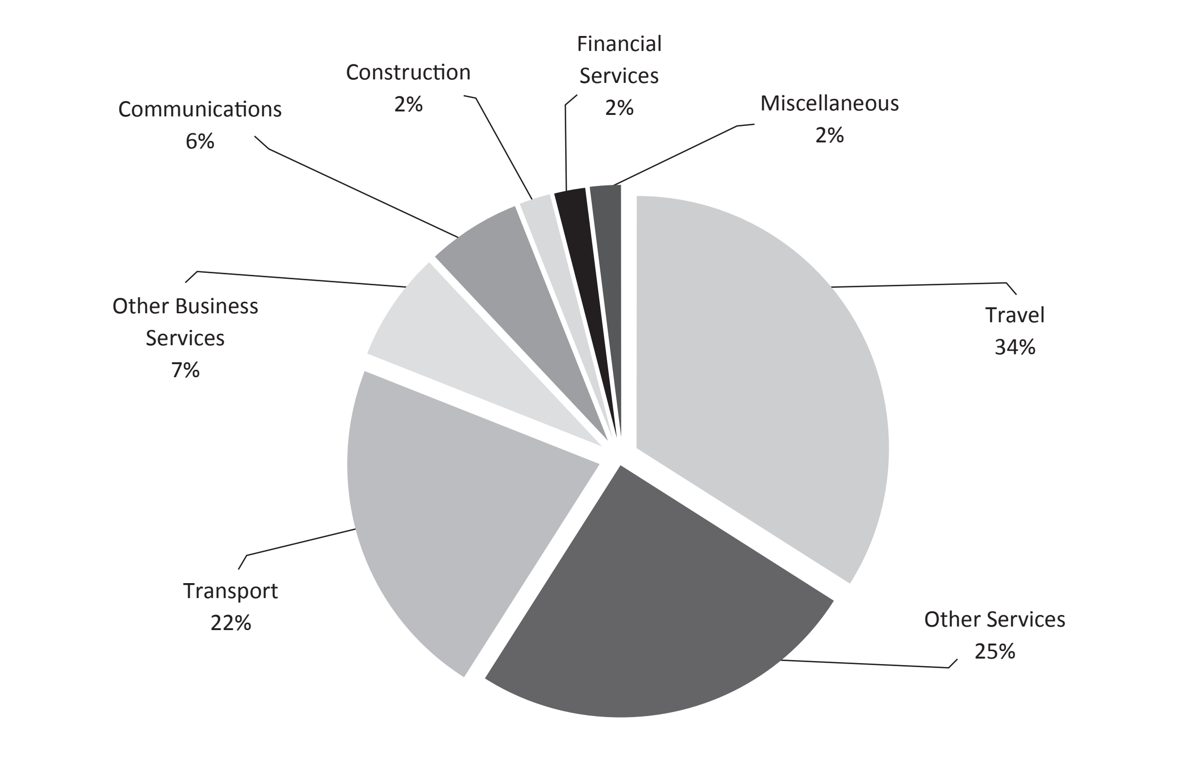
Note: Raw data from IMF (2014) suggests that except food and agricultural raw materials, prices of all primary commodities (including metals, non-fuel, industrial inputs, energy and petroleum) continued their declining price trends in 2013. Notably, prices of food and non-food agricultural raw materials fell by 2.2 per cent and 12.6 per cent in 2012.

Appendix Figure 4: Food, Meat and Cereal Price Indices: January 2005-June 2013 (Index: 2002-2004=100)



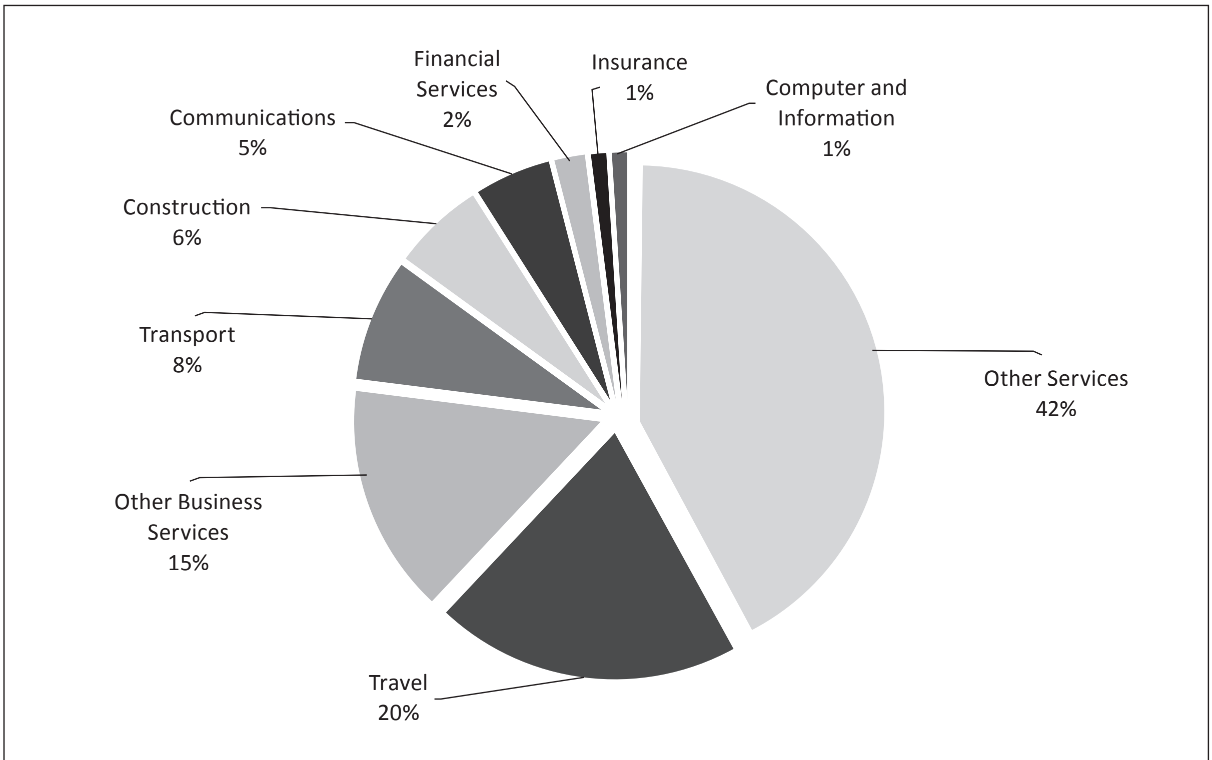
Source: UNCTAD Secretariat calculations based on the FAO (Food and Agricultural Organization of the United Nations) Food Price Index in UNCTAD (2013).

Appendix Figure 5: African LDCs' Structure of Commercial Services by Sector in 2012



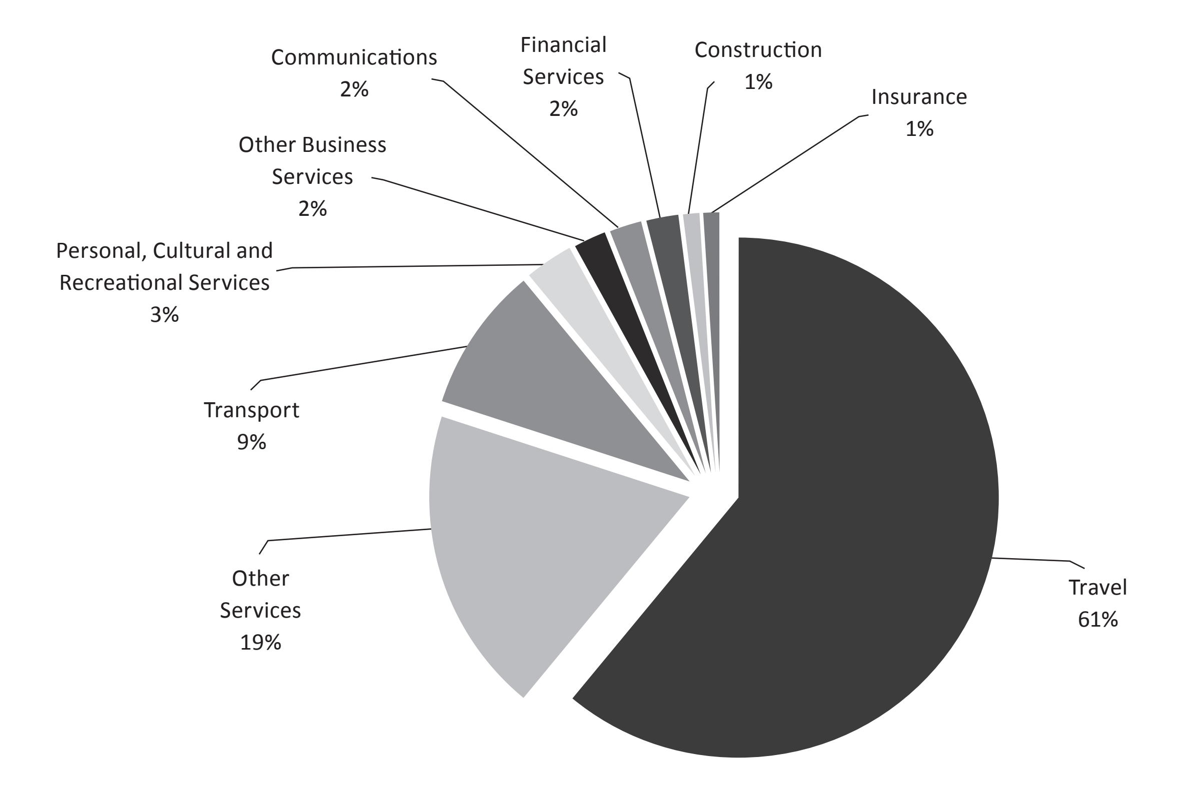
Source: Authors' elaboration from UNCTAD STAT (2014) data.

Appendix Figure 6: Asian LDCs' Structure of Commercial Services by Sector in 2012



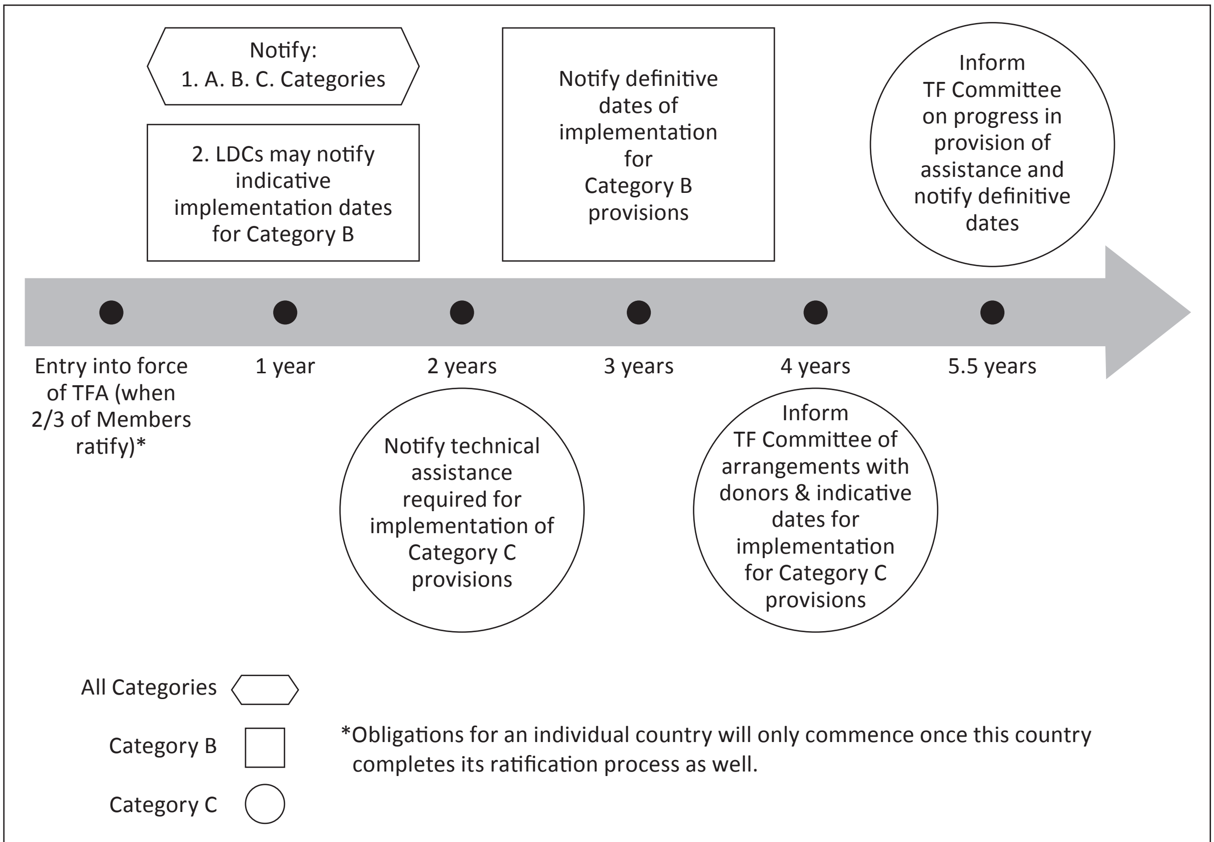
Source: Authors' elaboration from UNCTAD STAT (2014) data.

Appendix Figure 7: Island LDCs' Structure of Commercial Services by Sector in 2012



Source: Authors' elaboration from UNCTAD STAT (2014) data.

Appendix Diagram 1: LDCs' Notification for All Categories of Provisions



Source: WTO (2013b).

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