

## **ABSTRACT**

*Department: Political Science*

*Candidate: Federica Colagiovanni, 063242*

*Supervisor: Michele Battisti*

*Subject: Political Economy*

### **The dynamics of Least Developed Countries. The case study of North-South African corridor**

## **INTRODUCTION**

The present study proposes a discussion about the condition of the Least Developed Countries (“LDCs”) within the multilateral trade system. These Nations represent the poorest and weakest segment of the International Community and they face particular weaknesses that do not let them take advantage of a greater access to the market.

The “Aid for Trade” initiative, launched in occasion of the VI WTO Ministerial Conference, and its pilot program “The North-South African corridor” represent a concrete effort of the International Community and the LDCs in favor of an improvement of economic and commercial conditions of the poorest Countries.

## **LEAST DEVELOPED COUNTRIES IN THE MULTILATERAL TRADING SYSTEM**

In 1971 the United Nations established the category of the “Least Developed Countries”, in order to group the poorest Countries in the world. At the beginning there were 25 Nations, today there are 48 Countries which are designed as LDCs, where most of them are African Countries. The standards that are used to identify the LDCs are: the low income, the weakness of human resources and the economic vulnerability.

According to an historical perspective, the LDCs, during the creation of the GATT, owned, instead, a trade policy addressed to the substitution of importations and protectionist. These Nations didn't consider trade as an economic growth engine and, in addition, the GATT system didn't include the economic trades of textile and agricultural products.

In 1960 there started to be a new strong participation of poor Nations. Inside the GATT these Countries were prone to preferential trade agreements, or rather, a special treatment

regarding them. The Special and Differential Treatment had been established during the Kennedy Round in 1964, where, for the pressure of the Developing Countries a IV Part called “Trade and Development” had been introduced. Instead, in 1968, the “Generalized System of Preferences” was established, which, thanks to the introduction of a new “Enabling Clause”, let the principle of non-reciprocity among Industrialized and Developing Countries become a standing element of the multilateral trade system. The GSP can be considered as a profit, but also as a weakness for the LDCs because of its optional nature and its modest weight.

The LDCs didn't obtain great benefits from the Uruguay Round in 1986, instead, during the period of the Conference, they got an economic and trade aggravation.

The establishment of the World Trade Organization, whose purpose was to reinforce the commercial ability of the LDCs, was an important result for the UR. The Ministerial Conferences of the WTO created only programs of formal actions, without producing substantial results for the LDCs. On the threshold of the Millennium, both the International Community and the Developing Countries became promoters of new initiatives. The International Community launched the project of a new “Millennium Round”, the first commercial Round at the multilateral level. With the failure of Seattle's Summit, the following Ministerial Conference, the Doha Round, received the charge of effectuating an Agenda for the Development. The Doha Round negotiations occupied three Ministerial Conferences: Doha, Cancun and Hong Kong. After the Hong Kong Conference, the Doha Round and the “Doha's Agenda for the development” got suspended.

The weakness of the LDCs inside the multilateral trade system does not have to be considered only throughout an historical analysis of the GATT and the WTO, but above all in relation with all the particular features of these Countries. Poor Nations do not have the required skills in certain fields such as: information, procedures, policy and infrastructures to be able to join and compete inside the international trade system. The exclusion of the LDCs from a full participation in the global economy particularly depends on:

- Lack of competitiveness
- Technological deficiencies
- Inadequate physical and institutional infrastructures
- High concentration of exports

- Low participation, in terms of Exports and Imports level
- Complicated process of accession to the WTO

In synthesis, the commercial liberalization creates only the opportunity for economic development. It needs to be supported by a conjoined action of the International Community and the LDCs in order to remove their own weaknesses. Above all, the poor Nations should promote the use of new technologies, to invest more on education and development of the own skills, to guarantee more transparency and legality of the own government system and to avoid the protectionist choice. Resolving the own failures of market could let these Countries take place, in an active way, into the multilateral trade system.

### **THE ROLE OF THE INTERNATIONAL COMMUNITY: THE EFFORTS AND THE INITIATIVES TO GUARANTEE MARKET ACCESS TO THE LDCs.**

In order to resolve the own market failures, the LDCs need the support of the International Community. Many International Organizations come up as fundamental actors in the process of a greater intervention towards the problems of the Developing Countries. Especially the World Bank, the Organization for Economic Cooperation and Development, the United Nations (and in particular the UNCTAD), and finally the WTO, where there are 31 of the 48 LDCs. The measures of special support provided by the International Community for the LDCs are:

- A Special and Differential Treatment for the trade agreements.
- Duty free-quota free marker access.
- Technical assistance, strengthening of the production capacity, Official Development Assistance.

The Special and Differential Treatment is based on the importance of the applications concerning different measures for the LDCs, in order to guarantee a particular and more favorable treatment.

This is an integral part of the WTO agreements and it guarantees a “zero tariff”, or in general beyond 5%, of the exports of main products from the underdeveloped Countries. The system envisages many inefficiencies at the same time: it does not include all the typologies of

goods, the transition periods are not enough, sometimes they do not correspond to the specific needs of a Country, they are not always effective.

An improved access to the market constitutes the key for any effective policy for the integration of the LDCs into the trade system. The commercial preferences reduce taxes applied to the imports from a beneficiary Country, allowing more exports. In the later years, Developed Countries extended the scope of their own schemes of tariff preferences towards the LDCs, allowing a “duty free-quota free access” to the imports from these Countries. Among the main initiatives undertaken by the International Community in order to permit more favorable market access conditions for the LDCs, there are the “Everything but Arms”, promoted by the European Union and the “African Growth and Opportunity Act”, promoted by the United States.

The preferential systems are widely utilized even if they have a weak impact on the exports. The main aspiration of the LDCs is, instead, a duty free-quota free access, as established by the Hong Kong Conference in 2005. Inside the WTO the members have to guarantee this access for at least 97% of the LDCs products. The issue is that this commitment has not been undersigned yet by all the nations.

The preferential access to the market does not necessarily guarantee an improvement of the LDCs condition. These Countries have a series of weaknesses that don't let them take full advantage of the opportunities to accede into the market. This is especially true for those Countries in the Sub-Saharan Africa, which have the lowest rate barriers to accede into the market. For these Countries, it's not about a lack of opportunities to accede, but an inadequate response from the supply-side to the existing commercial opportunities. The technical assistance programs would let them resolve these difficulties.

Among the main programs for a technical assistance there are the “Enhanced Integrated Framework” and the “Aid for Trade” initiative.

The “Enhanced Integrated Framework” (EIF) is an institution that was created with the name of “Integrated Framework” in 1997. It represents a mechanism of coordination among six multilateral agencies to give technical assistance to the LDCs and let these Countries improve their trade skills and benefit from a greater integration.

The “Aid for Trade” initiative was launched on the occasion of the WTO Ministerial Conference in Hong Kong in 2005. It is a multi-agency program for technical assistance to the LDCs and it is a key component of the ODA. Its purpose is to create a link between development and trade policy working through four main categories:

- Trade Policy and regulations
- Trade related infrastructure
- Production skills
- Trade related assistance

Through this initiative the WTO, in collaboration with other International Organizations, is getting a key role in letting the LDCs increase their participation inside the multilateral trade system and to fulfill the development targets.

### **THE CASE STUDY OF THE NORTH SOUTH AFRICAN CORRIDOR**

The case study of the North South African corridor is used in order to study how an improvement of the LDCs trade skills, through joint actions of these Countries and the International Community, can lead to an improvement of the poor Nations inside the multilateral trade system. The focus on the African case comes from the fact that Africa presents itself as very representative of the LDCs position. The data got from the continent show how the African poverty is not really linked to an unfavorable access to the market, due to high rate barriers to the exports, but rather to high trade costs.

The trade costs represent for the LDCs a higher barrier than the rates. The trade costs are a central element of the international trade. They can be defined as all those costs that are needed to conduct a finished product to a final customer, included the cost for the production of the good itself. Several experts have realized various classifications of these costs. The classification realized by the African Development Report presents itself as very representative, distinguishing into:

- Border related trade costs
- Behind the border trade costs
- Transport costs

In the case study of the NSC, the transport costs are taken in a very high consideration. Those are influenced by inadequate infrastructures, which influence the main part of trade costs; the costs connected to the borders are determined especially by the customs delays.

The NSC represents the pilot-project of the “Aid for Trade” initiative, launched by three African regional economic communities: COMESA, EAC and SADC (the Tripartite). The NSC is the most efficient transport corridor in Africa. It connects all the corridors of regional transport and the ports of the southern and eastern African regions. The NSC has the double purpose of serving as way of interregional trade among Zambia, the Democratic Republic of Congo, Malawi, Botswana, Zimbabwe, Tanzania, Mozambique and South Africa; as well as to serve as link to the ports of Durban and Dar es Salaam. Especially, the port of Durban is the most efficient one at the logistic level.

The NSC mostly passes through Landlocked Developing Countries (LLDCs) namely Botswana, the region of Katanga of the Democratic Republic of Congo, Malawi, Zambia and Zimbabwe until the ports of Dar es Salaam and Durban. Africa, in general, is the continent with the higher concentration of LLDCs. These Countries are located at long distances from markets and are subject to long delays during board-crossings and underdeveloped infrastructures. The average cost of transports for LLDCs is almost 50% higher than in a coastal Country. The economies in these Countries depend on the transit of the neighboring Countries, increasing the costs of transaction. The transport corridors are fundamental for the LLDCs, since they allow the development of common infrastructures and the creation of regional trade cooperation.

The effectiveness of the NSC can be valued by analyzing the problems connected to the size of the hard/physical infrastructures (roads, railways, harbors) and soft/regulatory ones (customs procedures). These infrastructures are the main reasons for the costs of transport. The costs of transports constitute an important part of the trade costs and they represent a protection barrier which is more effective than the rates. Moreover these costs are responsible of the net reductions of the trade volumes.

Regarding the hard infrastructures, roads represent the main transport system across the NSC, which carry 95% of the volume of the load transported in the Tripartite regions.

The transport network in Africa is weak, especially due to territorial characteristics: geographical conditions, low population density as well as a large number of LLDCs.

Regarding the soft infrastructures, the procedures of boarding-cross represent the main source of delays in transporting the goods along the corridor. Long and complex procedures and inspections increase the number of delays, which increase the time and the costs of transport. Especially the Sub-Saharan Africa has the higher number of procedures for imports and exports. The border posts represent the main source of these delays, one more day, due to a delay at the border, increases the cost by 0.8% of the transport and it reduces the trade by 1%.

The NSC program has realized important improvements in the Southern and Eastern African regions thanks to trade facilitations. The trade facilitation consists in removing the international trade barriers. Examples of trade facilitations interventions are in relation with the infrastructures, with the regional integration and the south-south trade.

The commitment of the donors in favor of the transport infrastructures arrived to 1,3 US billion dollars thanks to the Aft program. Some soft infrastructure improvements have been achieved through the trade facilitation and the customs services. The Aft program has inaugurated the Chirundu One Stop border post between Zambia and Zimbabwe, reducing the border posts from two to one, simplifying the procedures of control and halving, in this way, the time and the crossing costs.

The Tripartite (COMESA-EAC-SADC) through the NSC program showed how a deeper regional integration can increase the interregional trade, allowing a greater internal growth.

Despite the fact that intra-Africa trade levels are pretty low, if compared with other realities as the European or the American one, this trade typology presents many benefits. The Tripartite agreement was undersigned by three RECs in 2006, with the purpose of strengthening the economic integration and harmonizing the policies and the procedures of the Southern and Eastern regions. The Tripartite, with its NSC program has realized important benefits at the level of regional integration: it constitutes a valid solution to the plurality of regional economic communities in Africa, characterized by different and conflicting norms and commitments; it has allowed an harmonization of the procedures, reducing the time and the adjustment costs at different standards; and it has realized an increase of the interregional trade by 16% every year.

With the emerging of new Asian partners, like China and India, next to the traditional markets, represented by the EU and the US, there are at the moment new trade opportunities for the Countries of Sub-Saharan Africa. In addition, the south-south trade has the advantage of being less competitive and the advantage of offering a facilitated access. China, especially, presents itself as the favorite partner of Africa, since it imports raw materials and exports manufactures. The main south-south trade barrier is represented by some trade barriers and the weakness of the infrastructures. The NSC program, through the benefits that are brought both in relation with the infrastructures and the other trade barriers, has allowed the achievement of greater opportunities from this kind of trade. The intra-regional trade promoted the initiative of the NSC itself, as complement of the support offered by the donors.

## **CONCLUSION**

The Sub-Saharan Africa, and especially its Southern and Eastern regions, have showed with the NSC initiative that a higher integration can lead to a higher participation level and to the resolution of development problems. The slow progressions achieved inside the WTO, and the Doha Round failure, don't have to forbid these Nations to mitigate autonomous regional integration programs. This does not mean only a regional commercial approach. The role of the International Community in a full participation of the LDCs in the trade system has to represent a concrete commitment, and not only a vague product of a WTO Round.