



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD



THE LEAST DEVELOPED COUNTRIES  
REPORT 2016

*The path to graduation and beyond: Making the most of the process*



# Short courses for Permanent Missions in Geneva

## What are the costs and benefits of graduation?

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**Geneva 19 May, 2017**



UNITED NATIONS



## **Structure of the presentation**

- **General considerations on LDC graduation**
- **The role of smooth transition**
- **Empirical evidence on potential costs and benefits**
- **Conclusion and policy implications**



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# General considerations

***Graduation marks the point at which an LDC should have escaped any vicious circles, and be able to engage in international markets on an equal footing with ODCs***

***Long-term implications of graduation are influenced by***

- 1. Process that led to graduation***
- 2. Phasing out of International Support Measures (ISMs)***
- 3. Political economy considerations***
- 4. Investors' perceptions***



# Costs of graduation

- ***Essentially stem from the **PHASING OUT OF LDC-SPECIFIC ISMs*****
- ***Albeit gradually (2 consecutive reviews + transition period) and with some flexibility, the phasing out take place “mechanically”***
- ***Anticipating adverse consequences requires an understanding of **LDC-specific ISMs** and their relevance for each country***
- ***Many different ISMs (136) but their effectiveness is often undermined by narrow scope, non-binding nature, inadequate commitment, slow operationalization, & institutional constraints***

# What specific ISM is available to LDCs?

## **FINANCE**

- ***ODA target***
- ***ODA modalities***
- ***Climate finance***
- ***General measures***

## **TECHNOLOGY**

- ***TRIPS flexibilities***
- ***Technology transfer***
- ***Technology Bank***

## **TRADE**

- ***Accession to WTO***
- ***Preferential market access***
- ***Preferential Rules of Origin***
- ***Special & Differential Treatment***

## **TECHNICAL ASSISTANCE**

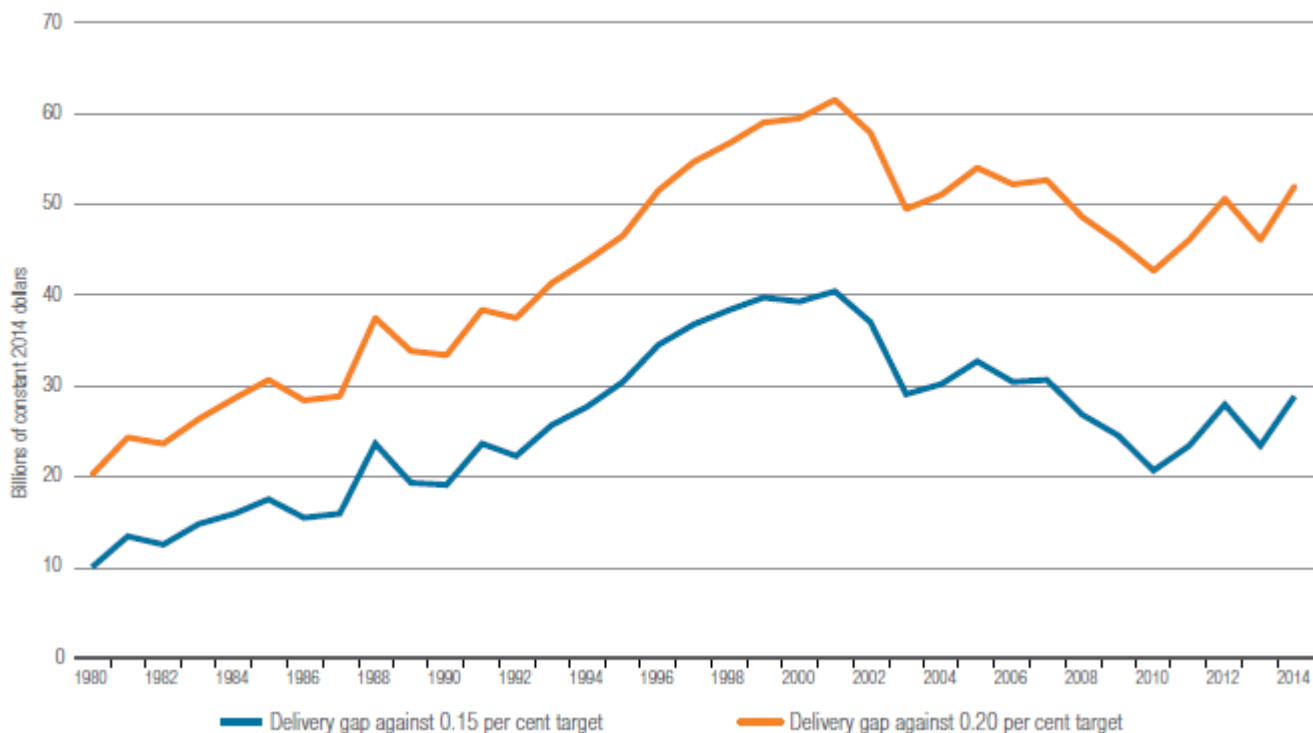
- ***Enhanced Integrated Framework***
- ***Aid for Trade***



# An example of ISM...

***Donor countries pledge of 0,15-0,20% of GNP as aid to LDCs (1981)***

Figure 3.4. Net ODA to LDCs: Annual delivery gap vis-à-vis United Nations targets for DAC donors





# Benefits of graduation

- ***Largely influenced by the process that led to graduation***
- ***Graduation may signal the improvements in a country's socio-economic outlook and thus enhance investors' confidence***
- ***Yet there is a lack of empirical evidence that LDC status features among FDI determinants; it is rather macroec. fundamentals***
- ***Graduation confers international recognition to the country's long-term developmental vision, & potentially strengthens the social & political coalitions supporting it → "political calculus"***





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# The role of smooth transition

- ***Beyond in-built flexibilities in the process, after graduation ISMs should be phased out gradually under a "smooth transition" to avoid disruption***
- ***Though some institutions/development partners have established practices (eg. EU), there is a lack of formal procedures and clarity regarding smooth transition for most ISMs.***
- ***Maintaining access to some ISMs depends on the graduating country's negotiating capacities (eg. Cabo Verde GSP+)***



## Structure of the presentation

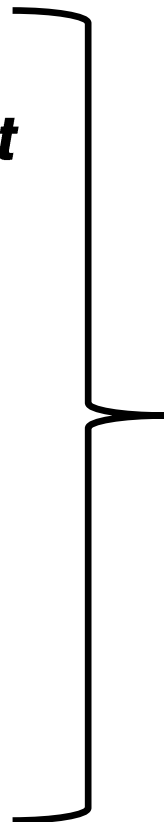
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# Empirical evidence - trade

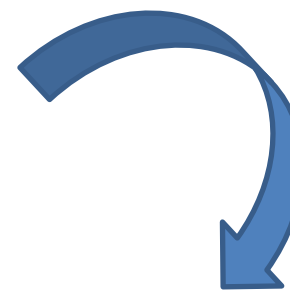
**Effect of losing *PREFERENTIAL MARKET ACCESS* depends on:**

- ***coverage & structure of preferential schemes that will be discontinued***
- ***product composition of exports, & distribution across markets***
- ***fallback tariffs after graduation***



*Possible change in tariffs faced by competitors*

***Change in own tariffs***



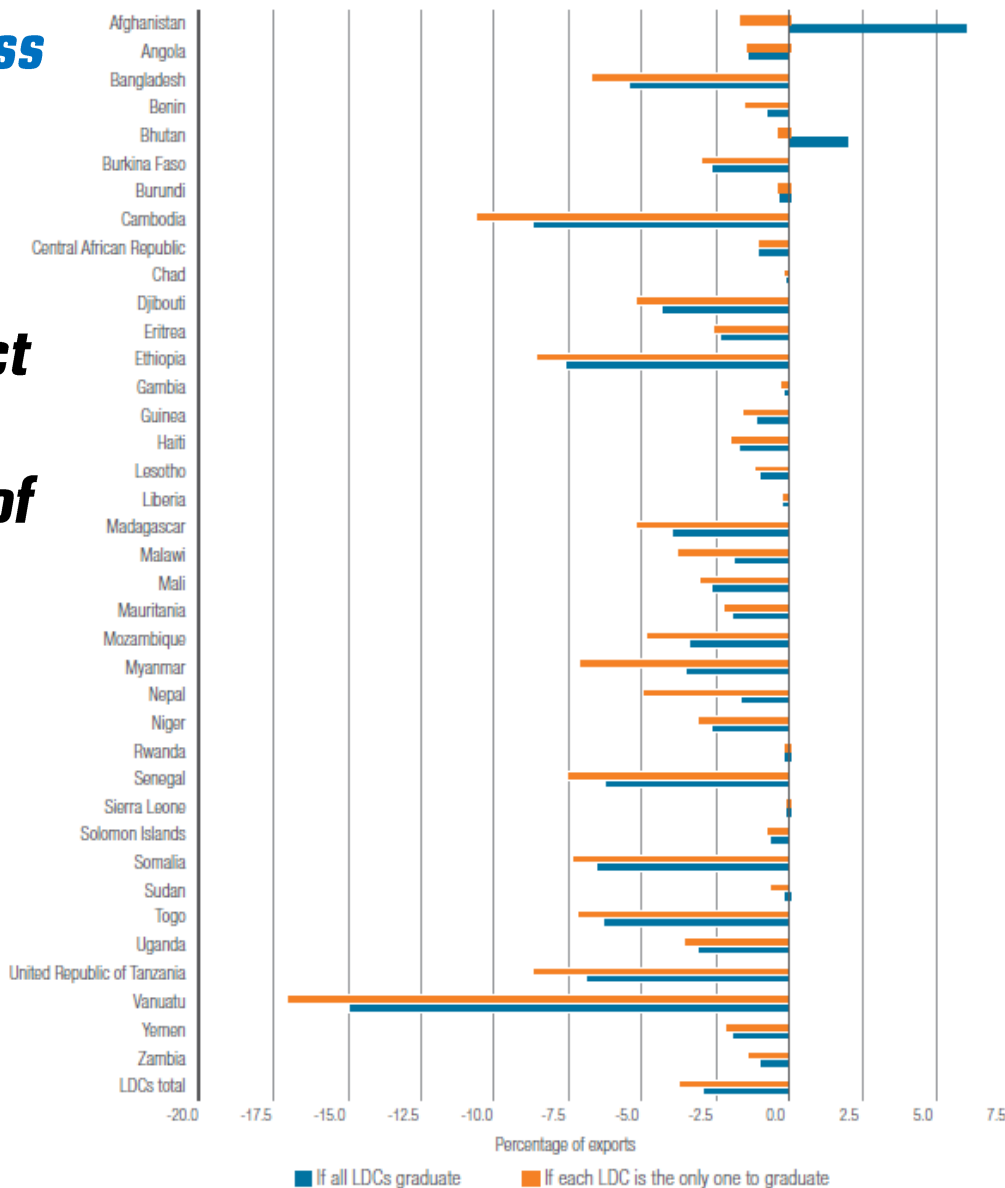
***Change in preference margins***



Figure 4.3. Effects of preference losses related to LDC graduation vis-à-vis G20 countries

## Loss of preferential market access at graduation vis-à-vis G20

- **2 scenarios  $\approx$  max & min effect**
- **On average 3-4% reductions of export revenues (-\$4.2 billion per year across all LDCs)**
- **Substantial costs but with large variation across LDCs**





# Discussion of results

## ➤ **EXPORT COMPOSITION MATTERS**

***Lower costs for exporters of “hard commodities”, since these products face relatively lower tariffs regardless of LDC status; higher adverse effects for exporters of agricultural products, textiles and apparel, which tend to face higher protection***

## ➤ **EXISTING TRADE AGREEMENTS MATTER TOO**

***Asian LDCs would retain significant preference margins in regional markets, but face losses to key developed country markets; African LDCs would retain significant margins in Western markets (eg. AGOA)***

## ➤ **CAVEATS: preference erosion, NTB**



# Empirical evidence - ODA

*Bilateral donors rarely use LDC status to guide aid allocation, & very few have LDC-specific programmes*

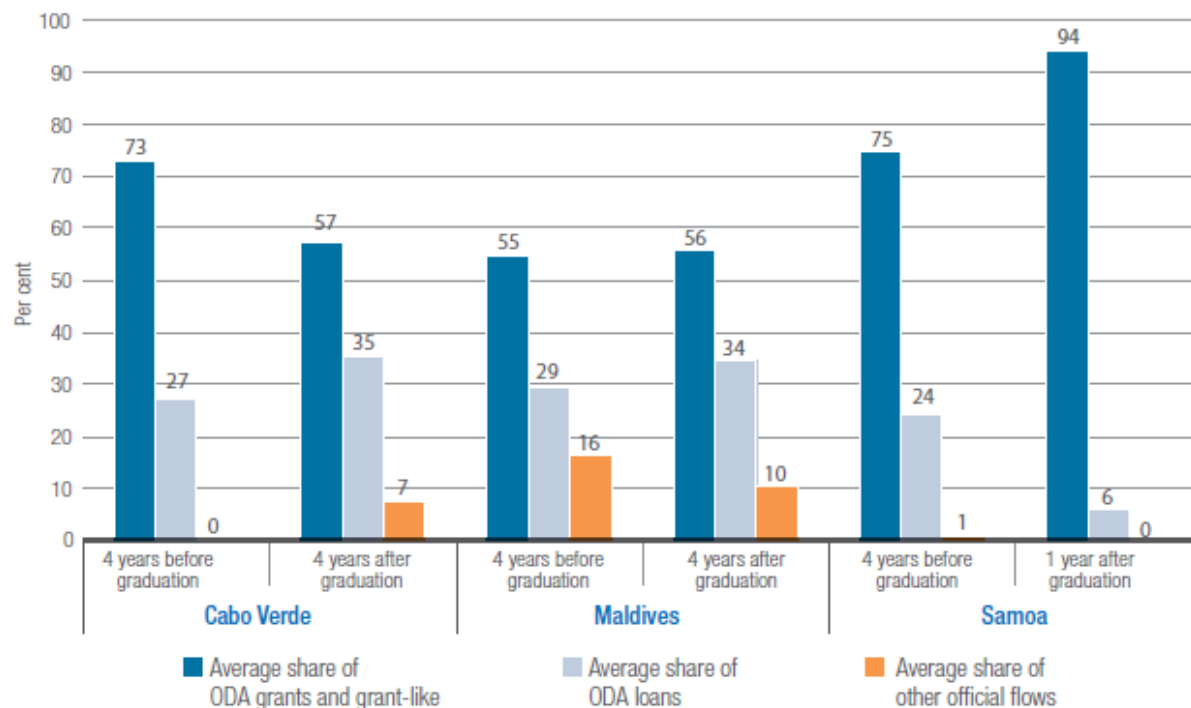
*Eligibility for concessional financing by multilateral development bank (MDB) is typically linked to GNI p.c. not LDC status; however, GNI threshold is very close to the LDC graduation threshold*

*All current LDCs except Equatorial Guinea retain access to concessional financing, 4 of them through “small island exception” and 6 through “blend category”*

*Middle income trap?*

# Empirical evidence - ODA

Figure 4.2. Composition of total official flows before and after LDC graduation



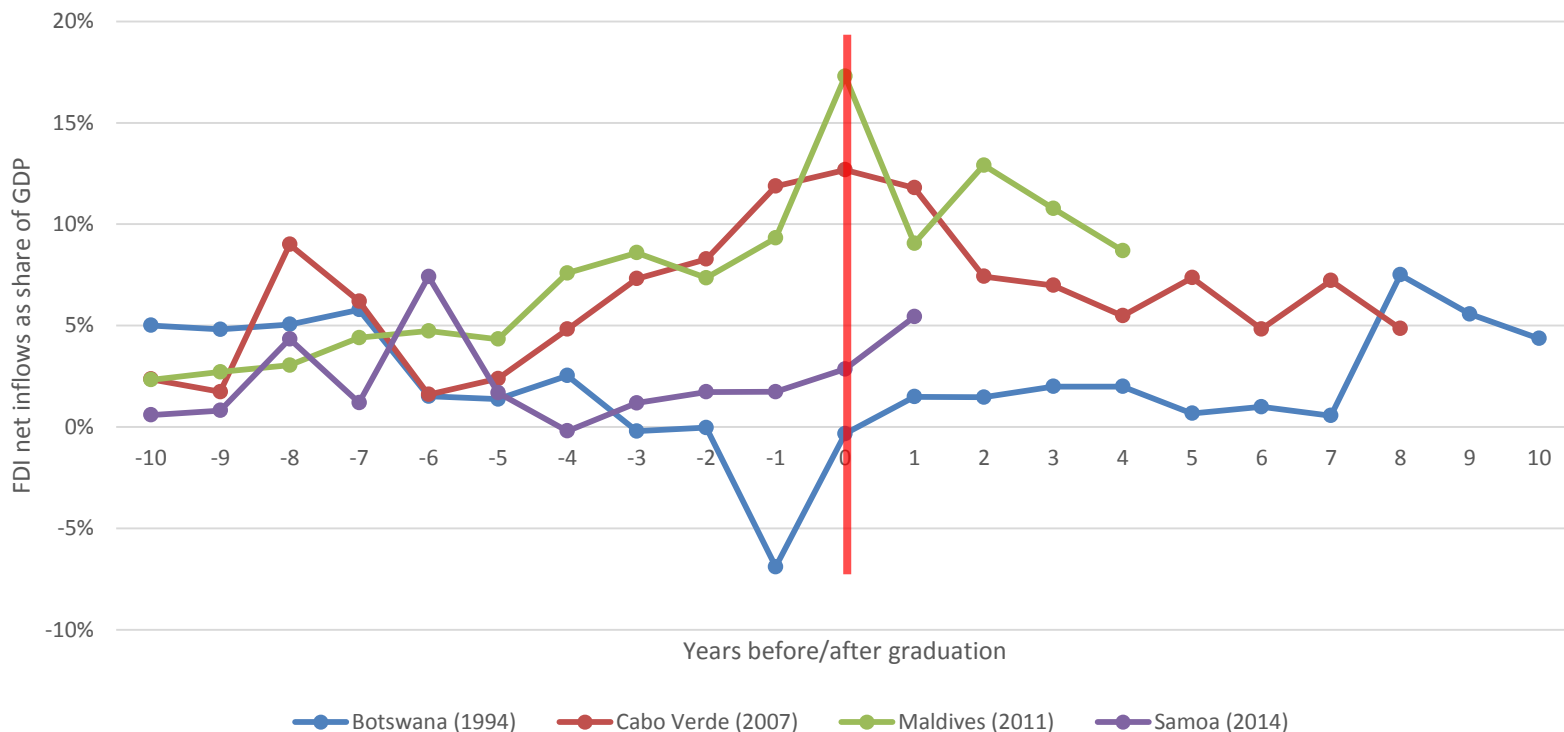
***Graduation seems unlikely to trigger abrupt changes in access to development finance, with the exception of “climate finance”***

***It may however affect the degree of concessionality***



# Empirical evidence – investment flows

Inward foreign direct investment flows, before and after LDC graduation



**CAVEATS: limited sample; the key is not LDC status but the process**



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# Which graduation strategy?

- ***While economically “how you graduate” is more important than “when”, the reverse may be the case from a political point of view, giving rise to a potential tension***
- ***There is a need to move from graduation strategies focused on meeting the statistical criteria, to “graduation-plus” strategies that take a longer-term perspective***
- ***A more stable & development-oriented international environment is conducive to graduation with momentum, as well as better and more effective ISMs.***



# How you graduate matters!

- ***With few exceptions, the impacts of losing access to LDC-specific ISMs are likely to be circumscribed for most LDCs***
- ***Loss of eligibility for SDT provisions in WTO agreements may result in some loss of policy space following graduation, but this effect is limited by the narrow scope of such provisions***
- ***Sound preparation for the post-graduation phase (incl. by proactively engaging development partners) and effective smooth transition can go a long way in minimizing adverse effects***
- ***Development of productive capacities is key to enable producers to compete globally on an equal footing with those from ODCs***



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# Thank you!

<http://unctad.org/en/pages/ALDC/aldc.aspx>

