

Statement by Ambassador Dr. Dinesh Bhattarai, Permanent Representative of Nepal at a pre-conference event on *the 'Role of trade in the development of productive capacities in LDCs for inclusive and sustainable development'* organized by the UNCTAD, on October 28, 2010 in Geneva.

Mr. Chairman,

Hon'ble Felix Mutati, Minister of Commerce, Trade and Industry of Zambia

Distinguished delegates

I would like to thank the UNCTAD for organizing this important pre-conference event on *Building Productive Capacities in LDCs for inclusive and sustainable Development.*

On behalf of the LDCs group in Geneva, I would like to express gratitude to Hon'ble Minister of Zambia, for his insightful thoughts he has provided to our discussions.

I wish to thank Mrs. Mina Masayeki for her presentation that highlights key issues and strategies for building trade and productive capacities of LDCs.

Mr. Chairman,

I have divided my presentation into three parts. First, I will briefly touch on the role of trade in development, second part will deal with the challenges/troubles that LDCs are confronting and final part will list the deliverables for LDCs in the Istanbul Programme of Action.

Trade has a vital role to play in socio-economic development. A fair and free trade can be an engine of growth. It can help widen the range of people's choices, reduce poverty and improve human conditions, unleash individual potentials, generate job opportunities, create a web of infrastructures and rule based institutions, lay the foundation for growth, development and prosperity, and foster comprehensive interactions, better understanding, tolerance and harmony among nations. Thus trade has to be seen in a holistic manner with other determinants including development related issues. Linkages among them are mutually reinforcing and deficits in them have developmental implications of trade.

Trade is closely associated with the development of civilizations. It has been an instrument of invention. J.S. Mill saw rapid increase in trade as being the principle guarantee of the peace of the world, great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race.' If we look at the experience of the past 20 years it reveals that trade can be an effective instrument for poverty reduction. Exports reached to cover up 21% of world GDP

from mere 12%. Developing countries registered 3.42% GDP growth, BASIC countries 5.54%, and Least Developed Countries {LDCs} 2.45%. However the growth has come to those countries that are equipped with appropriate economic policies, functional institutions, sound regulatory mechanisms, well targeted capacity building and development aid, thus contributing to their competitive capacities to produce, trade and compete.

The trade issues and concerns of LDCs have been well known and documented. I would like to underline troubles being confronted by LDCs and then present specific suggestions that could be developed further as possible deliverables for the UN LDCs IV.

Least developed countries which are considered to be the poorest and most vulnerable members of the international community constitute 12% of the global population, but account only 1% and 0.5% of the global trade in goods and services respectively. 7 LDCs account for 74% of total LDCs' exports. Oil exporting LDCs account 62% of total LDCs exports. 80% of total exports receipts in LDCs comes from unprocessed primary commodities and extractive industries. This demonstrates that despite deep reforms carried out, and market diversification and structural transformation aimed at, structure and direction of LDCs' trade remains unchanged and they are overwhelmed by transition costs, supply side constraints, stringent market access conditions, inequalities, and most formidable structural problems. This has been further compounded by a series of crises beyond the control of LDCs group.

Mr. Chairman,

Current system of international trade is fundamentally unfair and imbalanced. Whereas all trade barriers have been dismantled in LDCs, agriculture trade in developed countries is well protected behind high tariff walls, farm subsidies, loan guarantees and non-tariff barriers. This has deprived LDCs of their comparative advantages in agriculture. UNDP estimates that the real cost for developing countries of rich country agricultural protectionism and subsidies may be as high as USD 72 billion a year which is unfortunately almost equivalent to annual aid flow.

Since 1990, reports indicate that more than 3 million people have died from armed conflicts, and many more from famine and epidemics. Insecurity and economic deprivation have been equally lethal in parallel. Conflict, trade and development have emerged as interlocking elements with far reaching implications on peace, security and stability.

African continent has 33 LDCs out of 49 and contains 61% of the total LDCs population. Largest numbers of armed conflicts are reported from Africa, where half of the United Nations' global peacekeeping operations are at work. South Asia which houses 5 LDCs is projected with the highest human deprivation, and most militarized amidst most illiterate and most malnourished people. A survey of 170 countries published last week lists South Asia as the world's most climate vulnerable region, its fastest growing population badly exposed to flood, drought, storms, melting of Himalayan glaciers and sea level rise. 18 LDCs are acutely disaster prone. Conflicts and climate change have exposed the fragility of the LDCs development process. Small island developing states face the greatest challenge from climate change to their existence. Climate change is a growing threat with global ramifications.

Two thirds of LDCs have either experienced conflicts or undergoing conflicts. Conflicts are highly associated with low human development and low economic growth. World Bank reports tell that poverty and conflict go hand in hand. Over the past 15 years, approximately 80% of the world's poorest countries have experienced a major war. Countries emerging from war have a 44% chance of relapsing within 5 years.

Financial supports and other non- trade related interventions in the wake of financial crisis have been discriminatory in nature. The rich countries adopted a variety of trade distorting protectionist measures which have distorted trade flows at a time when the accumulation of food crises and economic recession has pushed the number of hungry people beyond the one billion mark, which has been described by FAO chief as unacceptably high.

LDCs face trade barriers and distortions. Different studies have given varying figures on how much net gain can be made by removing all trade barriers, which have limited LDCs' access to much needed market access. The lowest estimation puts it somewhere at USD 287 million per year.

Agricultural and food policies, particularly adopted by the developed economies, are responsible for 63% of the cost of merchandise trade distortions to both developing and high income countries. Another research reveals that restrictions on market access are far more damaging than subsidies.

Cotton subsidies cause a loss of upto \$300 million in revenue to African cotton producing countries in single year, which is greater than the total debt relief {\$230 million} approved by the World Bank and IMF under the HIPC.

Against the background just outlined, what could be the concrete actions that can improve economic growth, enhance development prospects, develop the supply and productive capacities of LDCs, and make a difference to the life of our peoples? What could be the possible deliverables for the UN LDCs IV? I would like to make the following suggestions:

First: Given the context and reason that produced DDA, there should be an early conclusion of Doha Development Round with development at the center. It should be well functioning, universal, rules based, open, non-discriminatory and equitable.

Second: Market access opportunities for LDCs like Nepal are about the bread and butter for millions of people in the country. It is about transforming peace into a functioning democracy, it is about sustaining and strengthening the democratic process, it is about retaining a powerful section of society youth into constructive channel, institutionalizing the non-violent means for peaceful resolution of conflict, and moving toward equitable and sustainable order. Since we are in a stalemated situation at Doha Agenda, duty free quota free provision should be delinked from the Doha Agenda for immediate delivery to LDCs for addressing the dire situation just outlined. Early harvest of packages including in duty free quota free market access for all products of all LDCs, with simplified and transparent rule of origin to promote their exports, cotton and services, special modalities including on preferential market access for LDCs' services waiver and Mode 4.

Tourism is not only a major source of foreign exchange earnings, it can act as a powerful medium of generating much needed international goodwill, harmony and better relations among nations.

Third: The flow of financial resources into LDCs is important to achieve sustained and inclusive growth, sustainable development, poverty reduction and gender equality. Supporting world's poorest members is an investment in maintenance of global peace, security and stability.

Fourth: It is urgent to give high priority to enhancing supply side capacities of LDCs in agriculture, industry and services and open up market access for products of LDCs into the developed markets. LDCs should be provided finance and technical assistance, foreign direct investment, technology transfer, trade facilitation measures, supportive technologies to enhance industrial as well as agricultural productive capacities including the SMEs. There should be an effective and operational use of Special and Differential Treatment to make effective use of trade preferences which currently remain underutilized by most LDCs.

Fifth: LDCs could be assisted in registering their products with unique identities as geographical indications. Article 66.2 of the TRIPS Agreement should be implemented effectively to help LDCs upgrade their technological base. LDCs have

abundance of bio-diversity. Reports point out that over 80% of the major armed conflicts that occurred between 1950 and 2000 took place within bio-diversity hot spots. Efforts should be geared to turn hot spots as wealthy spots.

Sixth: International product standards, in particular, voluntary sustainability standards are major non-tariff obstacles to exports of LDCs. Undue restrictions should not be placed on environmental, social and economic impacts of the codes of conduct on modes of production and processing. LDCs should be provided adequate financial and technical assistance to improve infrastructural and institutional capacity.

Seventh: Integration of LDCs into the multilateral trading system is a necessary condition for long sustainability of poverty reduction measures. LDCs constitute 1/4th of the UN membership, 32 of them are in the WTO. They participate in WTO meetings but they are yet to become real partners in global trade. Since the formation of WTO, only two LDCs have been able to enter into the Organization. Accession route to the WTO for LDCs is long and tough. 12 out of 26 countries that are currently in line of accession to WTO happen to be LDCs. There should be a fast track accession of LDCs, and it should happen before we go to Istanbul for UN LDCs IV.

Eighth: Upscale Enhanced Integrated Framework {EIF} Fund with a wide mandate. Aid for Trade in the present form does not appear sufficient for overcoming supply side constraints and build trade competitiveness of LDCs. Its potentials should be set out in realistic and concrete terms to help LDCs carry out structural transformation and economic and market diversification.

Ninth: Climate change has become a *tragedy of commons*. If early actions are not taken, estimates are that the overall costs and risks of climate change will be equivalent to losing at least 5% of global gross domestic production each year and forever. Climate change is affecting the productive capacities of developing countries, and least developed countries in particular for no fault of theirs. As we look to the fourth UN Conference on LDCs in Istanbul early next year, it is important that new Programme of Action include a financing architecture to mitigate the adverse consequences of climate change, address the challenges of adaptation, and rehabilitation and encourage 'Green Growth'.

Tenth: Third world has emerged as a New South. South-South economic cooperation and trade has emerged as vital potentials to shape the future landscape of the world trade. Given the increasingly important roles of emerging economies in global trade, finance, investment and governance, potentials of South-South cooperation need to be tapped.

Eleventh: The mantra of the last three decades has been the primacy of market forces. Economic crisis has brought forward the role of the state. A strong, and democratic state can best act as an effective enabler, catalyst, and facilitator, and move beyond usual business and ensure the balancing role of state and market forces.

These are some ideas, which could be prioritized as concrete deliverables and supported by development partners to affect structural transformation and economic diversification in LDCs to improve the life of their people and thus contributing to the maintenance of peace, security and stability.

I thank you for your kind attention.