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# International Political Economy (IPE) and Major Agenda of Least Developed Countries(LDCs) in World Trade Organization(WTO)

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## Abstract

International trade is one of the major discourses of international political economy. Under the WTO framework, issues of LDCs are under the regular negotiation process. These days, trade, investment and economic development are getting much attention in the scope of international political economy. The WTO recognizes the least-developed countries, as per the designation by the United Nations. There are currently forty six least-developed countries as per the UN list, in which thirty five are WTO members and eight countries are in negotiation process for the accession. LDCs have exclusive access to certain international support measures particularly in the areas of development assistance and trade. The benefit of joining the WTO differs from country to country and mostly depends on the role of political economy. The common perception is that, the agenda of LDCs in the WTO are not getting proper attention in the negotiation of multilateral trading system. Some of the decisions and agreements are still in the process of implementation. This paper deals with the major agenda of LDCs in WTO in the context of Nepal. Since the government of Nepal has already decided for the LDC graduation, the review and analysis of the agendas are instrumental in order to analyze the possible impact of multilateral trade in our development endeavor.

*Keywords: International trade, Agreement, Negotiation, Economy, International Relation*

## Background

Politics is a super structure of the society as it influences most of the sector of the societies. International political economy is a complex, dynamic and contemporary discipline which covers; broad array of potentially competing interests. The most debatable and major disciplines of political economy are economics, politics, law, history, sociology and other related areas. Since, the phrase ***"Political Economy"*** has many different connotations for different scholars and intellectuals. It is a dynamic and interdisciplinary branch of the social sciences that focuses on the interrelationships among market and government as well as individuals, governments, and public

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policy. Political economists study how economic theories and economic thoughts such as capitalism, socialism and liberalism work in the contemporary world.

Political economy of the least developed countries (LDCs) and trade capacity of LDCs is relatively new discourse but has utmost role for the growth and economic development of these countries. Political economy is the study of production, productivity, trade, investment and their links with other cross cutting areas. Further, political economy is an area of study that permits a variety of conceptual discourses, ideological dimensions and theoretical paradigms. At the contemporary and interdependence world, the academic return to political economy is especially invigorated by the mounting interest in interdisciplinary study and research. For instance, a political economy approach in trade is applied to study the trends of the export and import performance of the particular country.

## International Political Economy(IPE)

The international political economy (IPE) is ultimately concerned with how political forces such as the state, government, political parties, and the concerned institutions shape the economic system and how such action affect the political structures and outcomes. International political economy, also known as global political economy, stems from an interdisciplinary approach which analyzes the link between economics and international relations. As it stems from an interdisciplinary approach, it draws many different academic areas such as political science, international relation, economics, sociology, cultural studies and history.

Multilateral trade has always been at the center of IPE and is likely to remain same in the future. It is a mirror that reflects each era's most important interaction of state and market as well as the tension on it. Sometimes international political economy was viewed as an area of study (the interrelationship between economics and politics) while on the other way it was viewed as a methodological approach to the study. Even the methodological approach was divided into two parts i.e. the economic approach and political approach. However, according to the various economists, political economy is the methodology of economics applied to the analysis of political behavior and institutions. This paper mainly deals about the international political economy and agendas of LDCs in WTO.

### *International Political Economy and Least Developed Countries*

The least developed countries (LDCs) represent one of the major segments of the international community. LDCs comprise more than 880 million people which is about 12 percent of the global population, but this accounts less than 2 percent of world GDP and less than 1 percent of global trade in goods. The major economic challenges faced by the LDCs in the contemporary global context is how to improve investment climate, enhance productive capacity, and add value in products and services. To address these developmental challenges some LDCs are implementing new trade policies to enhance and sustain export growth by diversifying products and services. A key challenge for most of the LDCs is how to interface the trade policy and other economic policies. The socio-economic development of the LDCs is characterized by weak human and institutional capacities as well as low and unequally distributed income. Their largely agrarian economies have been affected by a low productivity and low level of investment. The category of LDCs was officially established in 1971 by the UN General Assembly with a view to attracting special international support.

Least developed countries have been designated by the United Nations and recognized by WTO. As per the classification of the United Nations, there are 46 least developed countries, of which 35 are already member of the World Trade Organization (WTO). Eight least developed countries are negotiating to join the WTO, which include: Bhutan, Comoros, Ethiopia, Sao Tome & Principe, Somalia, South Sudan, Sudan and Timor-Leste. By this, three LDCs are outside the WTO negotiation process. Least developed countries (LDCs) have no other way than seeking to improve the overall political economy, trade capacity, exports potential and to build trade related infrastructure. In this context, the World Trade Organization, which establishes the rules of international trade and plays a key role in achieving LDCs trade objectives. Long standing LDCs' priorities such as market access for agricultural products, a rapid industrialization of economies, and the development in service sector are in the negotiation process, over the years. The issues such as intellectual property, technology transfer and aid for trade (AFT) are other important agendas under the negotiation. These agendas are actually instrumental to enhance the trade capacity of the LDCs. Most of these issues have been in debate for decades since the beginning of different Ministerial Conference and General Council after the WTO creation. As a result, a number of decisions have been made at WTO Ministerial Conference, since 1996 in Singapore. However, the major question is whether decisions made in favor of LDCs have served in a meaningful way to integrate in the multilateral trading system.

### *Least Developed Countries and World Trade Organization*

The World Trade Organization (WTO) is a global organization that dealing with the rules and disputes of trade between nations and economics. This international organization was established in 1st January 1995, but the rules for the trading system had been implementing since 1947 when the General Agreement on Tariffs and Trade (GATT) was signed. The utmost goal of this organization is to ensure free, transparent, predictable and smooth trade flow between the economies and the countries. The WTO is the outcome of the different rounds of negotiation. In most of the WTO agreements, special and differential treatment (S&DT) has provisioned for the least developed countries (LDCs). The major negotiations that defined the work of the WTO include (1986–94) Uruguay Round negotiations and earlier negotiations under the GATT.

The WTO acts as a forum for negotiating trade agreements aimed at reducing barriers, constraints and obstacles for international trade. It settles trade disputes between its members and supports the needs of developing countries. The organization has currently 164 members, of which 117 are developing countries or separate customs territories. All major decisions in the WTO are made by the member government based on the consensus. The highest body for the WTO is the Ministerial Conference, which generally meets in every two years. The latest ministerial conference was held in Argentina in December, 2017. A General Council conducts the day-to-day business in the intervals between the breaks of Ministerial Conferences.

The guiding principles of the WTO are the assurance of most favored nation (MFN) principle, non-discriminatory treatment by and among members and the principle of national treatment (NT). The general prediction is that liberalization and opening of national markets with some limitations will encourage or contribute to social and economic development, enhance people's welfare, reduce poverty, and foster peace and security. On the basis of the WTO principle, members are motivated to formulate similar trade policies and regulations, which ensures the better trade flow and investment as well as encourages the confidence of the individuals, companies and governments. Being a member of the WTO, members can predict better access, better transparency and policy stability. The long pending agendas of the LDCs, under the WTO, have direct correlation to the development endeavors of the least developed countries.

## Major Agenda of Least Developed Countries in World Trade Organization

One of the major agenda of the LDCs is duty free quota free market access for the products originating from the LDCs. WTO Members agreed at the Singapore Ministerial Conference to take steps to ensure preferential market access for LDCs products. As per the full duty-free quota-free (DFQF) decision on Hong Kong WTO members agreed for at least 97% of products originating from all LDCs. In 2015, four developed countries offered full duty-free access for LDCs exports. These countries are Australia, Norway, New Zealand and Switzerland. Most of the developed countries grant either full or nearly full DFQF market access, while developing members including Chile, China, India, Republic of Korea and Thailand have made notifications concerning their respective DFQF schedules from LDCs.

The plan of the Nairobi decision was to improve the level of access for LDCs products to develop and developing countries. The Nairobi Ministerial Decision (MC 10) states that preference-granting members shall allow the use of non-originating materials up to 75% of the final value of the product. Following this decision, the LDC group developed a template for the notification of preferential rules of origin. If we consider the country specific scenario, In the case of Canada, it allows the use of non-originating materials up to 75% for clothing and textile products. For other products, Canada allows the use of up to 80% non-originating materials (i.e., 60% of the value may originate anywhere, 20% must originate from a current or former Generalized System of Preferences(GSP) beneficiary, the remaining 20% must originate in an LDC).

The next agenda is the service waiver which was negotiating since 2011 and the background understanding was reached at MC 8 held in Geneva. Those including national treatment and domestic regulatory measures require a consensus in the Council for Trade in Services. LDCs have continuously argued that notifying members have yet to initiate program in LDCs to build awareness and orient LDCs services suppliers on how to utilize the preferences notified. This was one of the signature elements in the Nairobi decision on the implementation of the services waiver results. After agreement on the waiver, no notifications were received for more than two years. The decision in Bali provided modest elements attempting to operationalize the waiver in the form of setting out a two-step process of requiring LDCs to come up with a collective request to represent common and combined LDC sectors, modes of supply, and measures of interest for preferential treatment. Another important gain for LDCs in Nairobi was the recalibration of the diminishing duration period of the standing waiver decision, restoring the duration to 15 years to regain the lost time since 2011 where no notifications had been submitted to the WTO, so that notifications would last the full 15-year period. In services, during the period 2005-2016, LDCs appeared to do better than other developing countries with increases in services exports of 12% on average per year, compared to 8% for other developing countries. However, since 2014, the LDCs growth in services exports as a group declined.

Similarly, agriculture is one of the major crux for LDCs. Agriculture is also a major issue which agitates members in most of the WTO negotiation. Agriculture is essential for LDCs that accounts for a large share of the creation of national wealth created. As per the World Bank report, agriculture accounts in average for 25 % of LDCs GDP. In addition, agriculture accounts for more or less 50% of jobs employment in LDCs. In this respect, the LDCs attach great importance to negotiations on agriculture. If we compare this with the developed country scenario, the employment rate in the agricultural sector was 3.8% in 2015.

The rationale is that the substantial domestic support provided by developed countries, in particular, to their domestic producers, leads to significant market distortions and unfairly competes with LDCs producers. This represents a real obstacle to trade opportunities for LDCs. During the year 2017, and in the perspective of the MC11, the LDCs position on domestic support was clearly to set a consolidated limit to distorting supports. LDCs also require a limit by product to avoid concentration of support on specific products, particularly those of interest to LDCs. LDCs want a gradual reduction towards the new consolidated limit. In addition, they request a special and differential treatment which takes into account the evolution of their needs regarding food.

More specifically on the question of public stocks for food security purposes, the position of LDCs is quite clear: it is about ensuring food for rural and poor people but that should not distort the market at any reasons. On the issue of the special safeguard mechanism (SSM), LDCs are in favor of considering its importance to address the problem of volatility that impacts negatively to poor small farmers. The proposal submitted by the G 33 could not receive a positive response from several member countries, despite the existence of a Ministerial mandate for a solution on the SSM. For the time being, there is impasse in the discussions, notably because of a link with market access that some countries need to introduce. In conclusion, there are many divergences in the area of agriculture negotiations that need to be overcome between the members, despite the strong activism in terms of proposals submission.

Negotiation on Public Stockholding for Food Security Purposes (PSH) came to the forefront in the run up to the Bali Ministerial Conference, when Minister took up the G-33 proposal for an exemption of food purchased at administered prices from low income or resource-poor producers to be exempted from the calculation of maximum permitted ceiling on trade-distorting support at the WTO. Ministers agreed in interim solution as peace clause on recourse to the dispute settlement pending agreement on a permanent solution by 2017. In November 2014, the General Council agreed on a decision to clarify the Bali decision to ensure that the interim solution on a peace clause would continue to apply after 2017 if no agreement on permanent solution was reached.

In July 2017, together with the G 90, the LDC Group submitted a revision of their longstanding special and differential treatment (S&DT) proposals pursuant to the Doha Declaration paragraph 44 mandate. A very similar proposal had already been defended by the G 90, tabled for the Nairobi Ministerial in 2015 (MC 10), without success, because of the unwillingness by the developed country. Industrialization, structural adjustment and diversification is the core theme of the S&DT. Considering the production capacity of goods and services, it is important to underline their importance for generating income, employment and social protection services. However, these dimensions are very limited or even non-existent in some LDCs. Hence there is an interest in finding solutions as part of the WTO rules. If we talk regarding the industrialization of agro sector, including LDCs, barely 30% of the agricultural production is subject to industrial transformation, while in high-income countries this level rises to 98%, according to the United Nations. To go further in exposing the situation, to date, the average level of contribution of the industrial sector to LDCs GDP is 24%. However, the contribution of manufacturing output to GDP is only 10%. One of the key issues for LDCs is that industrial production is of low value-addition. It is mainly concentrated in the primary sector and on the extraction of natural resources, and oil, which also generates little job employment. In this context, LDCs legitimately consider that special and differential treatment should be granted to them, as part of the application of certain WTO agreements, and in accordance with paragraph 44 of the Doha declaration.

The new G 90 proposals addresses ten important topics: Trade-related investment measures (TRIMs); Tariffs and Trade 1994 (GATT 1994); Balance of payments; Sanitary and phyto-sanitary measures; Technical barriers to trade; Subsidies and countervailing measures; Customs valuation; The enabling clause; Technology transfer and Accession.

At the MC 11, there was a decision to extend the moratorium for preventing non-violation complaints pursuant to Article 64 of the Trade-Related Aspects of Intellectual Property Rights(TRIPS) agreement by MC 12. An NVC is a legal action under WTO that allows a country to bring a case under the WTO Dispute Settlement Understanding (DSU) when it feels deprived of benefits arising from trade concessions by another government's action, even if such an action does not violate existing commitments. The TRIPS Council held was suspended on the matter of extending the moratorium until the e-commerce issue is resolved. If the e-commerce moratorium is extended, the TRIPS Council will be reconvened to take the decision on extension of the NVC moratorium. In the area of e-commerce, the 1998 mandate is again up for renewal. Since last year, new proposals have surfaced to revise the 1998 work program on e-commerce to explore new areas or negotiate new rules on the free flow of data, the banning of localization requirements, the protection of consumers and vis-à-vis a possible permanent moratorium on customs duties for electronic transmissions. Many developing countries, including LDCs, recalled that starting negotiations on e-commerce is not in the mandate. The MC 11 decided to extend the moratorium for next two years but unfortunately this was linked up with the moratorium of NVC.

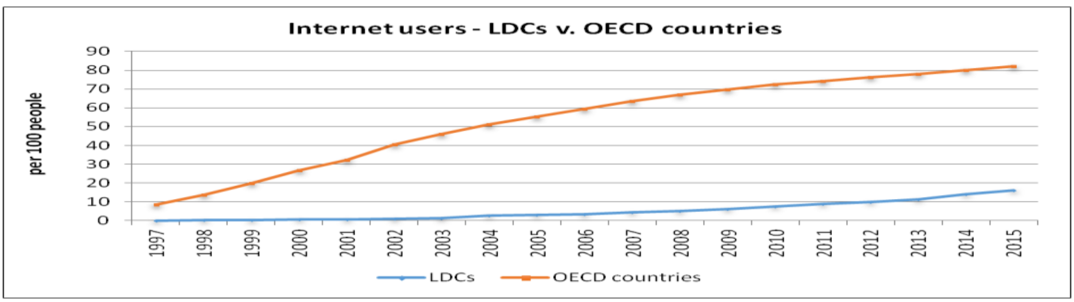
Beyond the negotiations on the topics discussed above, the aid for trade (AfT) initiated by the WTO and the Enhanced Integrated Framework (EIF) are important dimension for achieving the goal of better LDCs integration into the global trading system. The AfT initiative was launched in December 2005 during the Hong Kong Ministerial Conference, with the aim of helping developing countries, particularly the least developed countries, "To build the trade-related infrastructure and supply-side capacity that, they need to implement and benefit from WTO Agreements and more broadly to expand their trade". Since the launch of the program, LDCs have reportedly made progress in articulating, mainstreaming and communicating their trade-related objectives and strategies. According to the Secretariat, in 2015, 97% of LDCs, as per the survey, indicated that trade was fully integrated into national development plans.

## New Issues in World Trade Organization

### *E-Commerce*

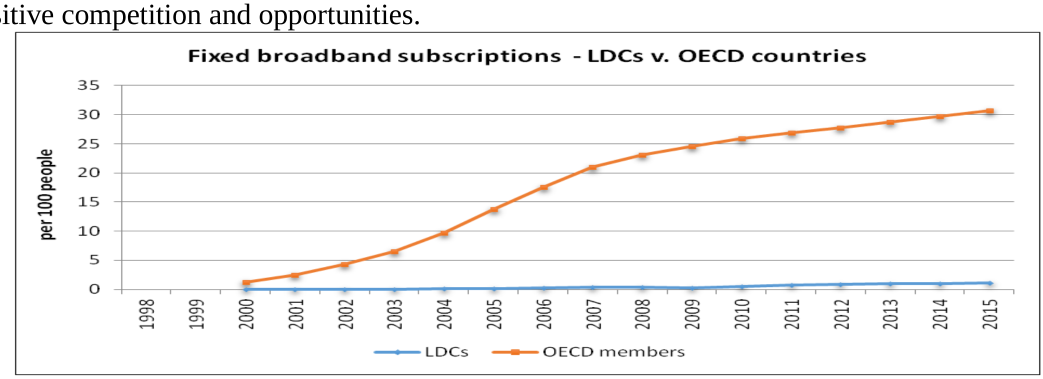
The aspect of E-commerce that could be considered as a new issue found in proposals from several WTO Members is the element of some of the proposals to launch negotiations. To date, most LDCs have no interest in new disciplines on this topic in the WTO. Most of the LDCs believe that they do not benefit sufficiently from new issue of information and communication technologies. LDCs are not ready to consider this as part of the work program or negotiation agenda. The digital divide situation between developed countries and LDCs is still wider. For example, the use of internet by the population was only 16% in 2015 among LDCs, compared to 82% in 2015 among OECD countries. The charts below show the extent of the digital divide between the developed OECD members and the LDCs.

**Internet User – LDCs and OECD Countries**




Source: Data from International Telecommunication Union

The level of connection to the fixed broadband Internet is also very low among LDCs, where the subscription rate is only 1% of the population share, in 2015, compared to 31% for developed countries, which are OECD members. The gaps are equally significant if we take into account the issues of internet server's security, or the availability of a cybercrime legislation or a legislation which protects consumers. To date, only 43% of LDCs have e-transaction legislation, 40% have cybercrime legislation, and 29% have an online consumer protection law. LDC small enterprises will face challenges on the e-commerce platform facing dominant players, which may hamper positive competition and opportunities.




Source: Data from International Telecommunication Union

### *Micro-Small and Medium Sized Enterprises (MSMEs)*

Micro-small and medium sized enterprises is a dynamic segment that is highly dynamic sector for LDCs. MSMEs produce and manufacture a variety of products for both domestic as well as international markets. MSMEs have played an essential role in providing employment opportunities in rural areas. They have helped in the industrialization of these areas with a low capital cost compared to the large industries. The new MSMEs issues have compiled a draft ministerial decision that seeks to establish a work program for MSMEs in the WTO. The primary purpose of the work program is to delve deeper into issues affecting MSMEs, including identifying and raising awareness regarding horizontal and non-discriminatory measures facing MSMEs and to improve access to information relating to trade requirements to facilitate a predictable regulatory environment for MSMEs. But this proposal was unable to deliver any output in MC 11.

### *Investment Facilitation*

At the General Council meeting held at the end of October 2017, Argentina, as coordinator of the Friends of Investment Facilitation group, informed the membership that at its latest meeting on 23 October, it had pursued two objectives: 1) Addressing the last theme on their proposed Work Agenda, namely "other investment facilitation-related issues" such as government-investor cooperation, systems to resolve investors' grievances, and corporate social responsibility; and, 2) Taking-stock of deliberations to date and beginning the exchange of views on possible next steps towards MC 11. Brazil indicated that as far as an outcome document was concerned, they preferred a ministerial declaration. The friends’ proponents have stressed that the focus in these discussions is on not on investment protection, market access, nor investment as a Singapore issue, but instead on "facilitation" only. China has contended that the discussions will always be development-oriented and focus on enhancing the understanding, participation and benefits of developing Members.

## Conclusion

Trade and Development is one of the fundamental scope of political economy. Politics takes the major decision on various trade instrument mainly on tariffs, subsidies, import quotas, and voluntary export restraints, local content requirements, Antidumping policies and other administrative policies which directly affects the economy of the country as well as international trade. These instruments are the major concerns of the political economy and trade. The discussion and negotiation under the WTO shapes the relation of market and the state. The WTO recognizes as least-developed countries (LDCs), which have been designated as such by the United Nations. As WTO, a rule making body looks to increase the transparency and accountability in the world trading system. The benefit of joining the WTO differs from country to country and as per the environment of political economy. The WTO has contributed to promote trade in many ways and worked towards reducing the barriers of the international trading system. But in the case of LDCs the benefit from the MTS is not as per the expected level. If we see the major exports from the LDCs, fuel is about 50 percent, clothing 14 percent, food 8 percent, raw materials 3 percent, other semi manufactures 3 percent textile 2 percent and so on. By this reference, it is quite clear that, the export of LDCs is concentrated in few products and limited countries.

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