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# LDCs AFTER BRUSSELS AND DOHA: CATCHING UP OR FALLING FURTHER BEHIND?

*by*
*Ratnakar Adhikari*[28]
*South Asia Watch on Trade, Economics and Environment (SAWTEE),*
*Kathmandu, Nepal*
*(currently at the World Trade Institute, Berne, Switzerland)*

## *I. INTRODUCTION*

While the decade of 1980s was dubbed the "lost-decade" for developing countries in general, the 1990s have become the decade of increasing marginalization, inequality, poverty and social exclusion, LDCs in particular.[29] The decade of the 2000s may well become a decade of rhetoric and inaction, if the present trend continues. The 49 LDCs, which collectively are home to 10.7 per cent of the global population, have a 0.5 per cent share in global GNP.[30] Furthermore, despite resounding rhetoric, their share in global trade is rapidly falling and it now stands at 0.4 per cent.[31] The efforts made to integrate these countries into the multilateral trading system have so far largely failed.

Against this backdrop, the objective of this paper is to identify the weaknesses plaguing the LDCs; to indicate the measures taken to date to integrate them into the multilateral trading system and the reasons for their failure; and finally, to propose some recommendations based on the progress (or lack of it) made during the Third United Nations Conference on the LDCs and the recently concluded Fourth Ministerial Conference of the World Trade Organization (WTO).

## *II. WEAKNESSES PLAGUING THE LDCS*

There are serious social, economic, political and structural weaknesses persisting in the LDCs, which are responsible for their exclusion from the global economic mainstream. While some of these are due to their specific geographical location (such as landlockedness), some are political (such as civil strife), some are social (poor health and education), while some others are structural (low productivity). However, all these factors are inextricably intertwined. Thus at the outset a short description of such weaknesses is in order.

[28] The views expressed by the author in this paper are personal and should not necessarily be ascribed to SAWTEE.
[29] Cuddy, John (2001). "The State of Development in Least-Developed Countries" in *Bridges*, Year 5, No. 4, May 2001, International Centre for Trade and Sustainable Development (ICTSD), Geneva: 2.
[30] UNCTAD (2001). *Statistical Profiles of the Least Developed Countries*, prepared by the UNCTAD Secretariat, United Nations, New York and Geneva: 4.
[31] While LDCs share of global trade declined from 0.48 percent in 1990 to 0.4 percent in 1999, exports nevertheless now represent 49 per cent of their gross domestic product compared with 35.8 per cent a decade ago, thus signifying increased openness to trade in the LDCs. See, ICTSD (2001), "Least-Developed Countries: No New Trade Concessions Before Doha," in *Bridges*, Year 5, No. 4, May 2001, ICTSD, Geneva: 2.

### A. Competitive ability

In the era of global competition, it is not sufficient for LDC companies to be locally competitive. They need to be globally competitive, for which they should possess some competitive advantage such as economies of scale, cutting edge technology, marketing calibre, efficient production and distribution systems or cheap labour. Of these attributes, by way of example, the LDCs do not have comparative advantage in any one of them except for labour.[32] However, because of the low productivity of such labour, resulting mainly from lack of education and skills, poor health and other factors, even this aspect of comparative advantage of the LDCs has not been fully exploited. In sum, the precarious socio-economic situation and structural weaknesses inherent in the economies of the LDCs relegate these countries to a very weak competitive position in the current global economic setting.[33]

### B. Supply-side constraints

The lack of linkages within and between productive services and infrastructural sectors, insufficiently developed human resources, shortcomings in production technologies, deficiencies in physical infrastructure, and an inability of the LDCs to generate adequate resources to address these problems constitute the major supply side constraints that they are faced with.[34] Other infrastructural bottlenecks include transport and communication problems, lack of requisite credit facilities, cumbersome bureaucratic procedures, lack of reliable data on exportable items, and limited awareness among the LDC business communities of the rules and procedures applicable to international trading. The small size of these economies, and their disadvantaged geographical locations far away from the major metropolitan centres of international trade and finance place formidable constraints on their integration into the WTO system. LDCs also suffer from a number of other specific deficiencies, especially in respect of export promotion and export marketing.

### C. High export concentration ratio

The LDCs have not been able to diversify their domestic production structures, not only with regard to manufactured goods, but even to their primary commodities. This renders them especially vulnerable to international market volatility. Of the 4,162 products exported by LDCs to 30 major trading partners in 2000, 127 products accounted for 90 per cent of their total export trade. On an average, the top three commodities exported by each LDC usually account for over 70 per cent of its total exports.[35] The export concentration ratios (defined as the share of the principal export product in the total export value) have remained high and broadly stable since 1980 for all LDCs. Several countries greatly depend on particular primary commodity exports. Such concentrations tend to be highest in sub-Saharan Africa.[36] What makes the situation even worse for many LDCs is

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[32] Adhikari, Ratnakar and Hiramani Ghimire (2001). *Integrating LDCs into the Multilateral Trading System: Rhetoric Galore*, Monograph No. 2, South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu: 7.

[33] UNCTAD (1999b). *Integrating Least Developed Countries into the Global Economy: Proposal for a Comprehensive New Plan of Action in the Context of the Third WTO Ministerial Conference*, adopted at The Challenge of Integrating LDCs into the Multilateral Trading System: Coordinating Workshop for Senior Advisors to Ministers of Trade in LDCs, Sun City, South Africa: 21-25 June 1999: 1.

[34] See UNCTAD (1999a). *Overview of the UNCTAD Least Developed Countries Report 1999*. United Nations, New York and Geneva. For further details refer to UNCTAD's website www.unctad.org.

[35] WTO Sub-Committee on Least-Developed Countries (2000), Market Access Conditions for Least Developed Countries (WT/LDC/SWG/IF/14).

[36] For example, coffee occupies 82.7 per cent, 69.4 per cent and 63.6 per cent of the share of total export value of Uganda, Rwanda and Ethiopia respectively. Chandrasekhar C.P. and Jayati Ghosh (2000), "WTO and Poor Countries" *CUTS-CITEE Briefing Paper*, Jaipur: 3.

that, while such exports (of any single item) may dominate their export basket, they count for relatively little in terms of the international supply, so that these countries are also unable to influence world prices in a way beneficial to them.[37]

### *D. Implementation problems*

For a variety of reasons, many LDCs have not been able to comply with several WTO provisions. At the time of signing of the Uruguay Round (UR) Final Act (December 1994), it was decided to provide certain transitional periods for LDCs for the implementation of some agreements such as TRIPS and TRIMs. However, pointing out the need to extend the transitional period for the LDCs, an UNCTAD report states that such "time bound transitional periods" given to LDCs have serious shortcomings.[38] The LDCs are also required to bring their trade policy regime in line with the WTO rules. This requires new laws, new institutions, and skilled human resources. Even the administrative machinery has to undergo change. These are extremely costly exercises, which LDCs cannot afford to undertake with their present level of resources and range of expertise.

### *E. Tortuous accession process*

The accession process of the countries or customs territories of the WTO are governed by Article XII of the Marrakesh Agreement. According to this provision, existing WTO Members decide whether or not a particular country is 'capable' of acceding to the WTO. During the accession negotiations the objectives of the existing Members will be to extract the maximum concessions from any new applicant. It is a harsh reality that countries applying for WTO membership *do not get what they deserve but what they negotiate*.[39] This is one of the reasons why not one LDC has been able to enter the WTO since its inception, despite the fact that 20 new Members have been admitted to the WTO over the past six years.

The accession of Vanuatu, a small island LDC, which was programmed to take place during the Fourth Ministerial Conference of the WTO, could not materialize. The degree of frustration that Vanuatu was subjected to during its ongoing accession process is aptly described by Grynberg and Joy (2000). They remark, "While it remains one of the enduring convenient clichés of the multilateral trading system that the WTO is a 'rule-based system', the actuality is that accession is inherently power based and the very antithesis of the WTO's credo."[40]

[37] Chandrasekhar, C.P. and Jayati Ghosh (2000). op.cit., note 8: 4.
[38] *Cf.* SUNS (n.d) "LDCs to lose $ 3 billion from Uruguay Round, says UNCTAD" in South-North Development Monitor (SUNS) No. 3620, Geneva: 2.
[39] Bhattacharya, Debapriya and Mustafizur Rahman (1999). "The Least Developed Countries in The WTO: Strengthening Participation Capacities", paper prepared for the "Meeting of Senior Officials on Future WTO Trade Agenda and Developing Countries", organized by UN-ESCAP at Bangkok on August 23-25, 1999.
[40] Grynberg Roman and Roy Mickey Joy (2000). "The Accession of Vanuatu to the WTO: Lessons for the Multilateral Trading System" in *Journal of World Trade,* Vol. 34 No. 6, December 2000, Kluwer Law International, Dordrecht: 159.

### F. Digital exclusion

In the era of globalization, the information and communication technologies (ICT) revolution offers genuine potential, but also presents the risk that a significant portion of the world will lose out on this.[41] Since LDCs are excluded from the digital global economy, it has created a sharp digital divide in an already divided world. As indicated in the ILO Employment Report 2001, the digital divide looms large in the global economy. This Report stresses that despite the phenomenal growth of ICT in the industrialized world and its increasing penetration into developing countries, “vast swathes” of the globe remain “technologically disconnected” from the benefits of the electronic marvels that are revolutionizing life, work and communication in the digital era.

The Report further highlights the very real constraints facing developing countries in their capacity to join the communications revolution. Those countries and regions that fail to make the “technological leap” not only risk missing out on the large and growing trade in information and communications technology products, but will be unable to profit from the economic efficiency and productivity gains that derive from these industries, the Report states. Such a development has created, by implication, additional barriers to the LDCs for their integration into the global economy. Access to these technologies will continue to be extremely restricted because a vast majority of LDC institutions and individuals cannot afford to buy them.

## III. A BRIEF REVIEW OF FAILED EFFORTS

Recognition of the problems inherent in the LDCs and their realization of the need to integrate into the world economic system have led their development partners to make some genuine (some not so genuine) efforts to assist in this process. Such attempts have mostly failed; this paper concentrates only upon some of the major efforts undertaken.

### A. Market access

Market access opportunities of the LDCs are not only impeded by tariff barriers, but also by non-tariff barriers. Among the tariff barriers the most pernicious one is tariff escalation, which discourages LDCs from advancing along the processing chain, where much of the added value of a product is realized. FAO studies have shown that tariff escalation even in the post-UR era has averaged 17 per cent in Europe, the United States and Japan, and in many countries of interest to LDCs it has been much higher (e.g., 85 per cent on second-stage fruit products entering the EU, 82 per cent on first-stage sugar products entering Japan and 28 per cent on second-stage sugar products entering the United States).[42] However, this is not to suggest that tariff peaks are not also a major problem for LDCs.

The prevalence of tariff peaks and tariff escalation on products emanating from LDCs is the great scandal of our time. Though the idea of providing zero tariff access was conceived at UNCTAD VIII, held in Cartagena in 1992, nothing concrete has yet come from this proposal. Zero tariff market entry is a necessary, but not a sufficient, condition for the better integration of LDCs into the multilateral trading system, but this idea has been used and abused over the years, more for political purposes than for economic reasons. The idea was reborn in the Singapore Ministerial Meeting of the WTO, when the then Director-General of the WTO made a plea to the Members of

[41] See UNNGLS (2001). *Go Between,* No. 84, January-February 2001, United Nations Non-government Liaison Service, Geneva: 30.
[42] Cuddy, John (2001). op.cit, note 1: 4.

WTO to consider the proposal seriously, but there was lukewarm response to his proposal.

This was followed by the proposal of the EU to provide zero tariff access to “essentially all” products originating from LDCs. Finally, just two months before the U.N. LDC-III Conference, the EU made its ‘Everything But Arms’ (EBA) proposal, which kept rice, sugar, bananas (and arms) outside of the zero tariff. The LDCs were jubilant, thinking of better market access opportunities, but little realizing that rules of origin requirements and non-tariff barriers could still hamper their trading prospects.

### *B. Special and differential treatment*

Acknowledgement of the difficulties, which the developing countries as well as LDCs are likely to encounter in fulfilling their obligations under the UR’s Multilateral Trade Negotiations (MTN), led to the continuation of the special and differential (S&D) provisions of the GATT in various WTO agreements. These provisions, in sum, entail: (i) a lower level of obligations; (ii) a more flexible implementation schedule; (iii) best endeavour commitments by developed countries; (iv) more favourable treatment for LDCs; and (v) technical assistance and training.[43]

The GATT 1994 section of the UR final act contains special and differential provisions for the LDCs in 16 different agreements[44]. These provisions allow LDCs to undertake smaller reduction commitments and a longer time frame in which to implement some of the agreements. Such agreements include the Agreement on Agriculture (exemption from reduction commitment), the TRIPS agreement (higher transitional period of 11 years, technology transfer), and the Agreement on Subsidies and Countervailing Measures (non-prohibition of export subsidies). However, these commitments, often known as ‘best endeavour clauses’ are not legally binding. Therefore, developed countries have not even made any explicit attempts so far to fulfil these commitments.

### *C. Integrated Framework*

During the Singapore Ministerial Meeting held in December 1996, a Comprehensive and Integrated Plan of Action was devised, which, *inter alia*, stipulates a closer cooperation of the WTO with five other agencies to help LDCs better to integrate into the multilateral trading system; enhanced market access conditions for LDCs and technical assistance to help them implement the WTO Agreements. For this, the LDCs were required to formulate and present their trade-related technical assistance needs. However, some of the LDCs have not so far been able to prepare such needs assessment documents.

A follow-up plan was undertaken at the “High-level Meeting on LDCs” held in Geneva in October 1997. The outcome of this meeting was to entrust the tasks of preparing “trade-related technical assistance needs” of the LDCs to a consortium of six agencies, namely, WTO, World Bank, IMF, UNCTAD, UNDP and the International Trade Centre (ITC). Some months before the U.N. LDC-III Conference was held, this consortium started a pilot programme for two of these countries, with the hope that this would then be replicated to other LDCs if found to be successful.

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[43] Bhattacharya, Debapriya and Mustafizur Rahman (1999). op.cit, note 11*:* 3-4.
[44] Adhikari, Ratnakar and Hiramani Ghimire (2001). op.cit., note 4: 5

## *IV. U.N. LDC-III: WAS IT A WINDOW OF OPPORTUNITY ?*

The Third U.N. Conference on LDCs (May 2001) provided one more opportunity to the international community in identifying ways and means to integrate the LDCs into the world economy. Its main focus was the *Paris Declaration and the Programme of Action for the Least Developed Countries for the 1990s*. In this Declaration, the international community had committed itself to urgent and effective action, based on the principle of shared responsibility and strengthened partnership, to arrest and reverse the deterioration in the socio-economic situation of the LDCs and to revitalize their growth and development.

The Conference focused on making objective assessments with regard to commitments made in the areas of Official Development Assistance (ODA), debt relief, investment promotion, and international trade. The Conference agreed on seven areas of commitment, where both the international community and national governments would work together. These being a people-centred policy framework, good governance, capacity building, productive resources, trade and development, environmental protection, and mobilization of financial resources.

The Conference recognized the need to transform trade into a powerful engine for growth and poverty alleviation in LDCs. The role of trade in generating resources for financing growth and development as a complement to ODA and FDI was fully underscored. Accordingly, the international community has undertaken to assist LDCs in capacity building in trade policy and related areas, developing human and institutional capacities for meaningful participation in multilateral trade negotiations, and removing procedural and institutional bottlenecks that increase transaction costs. Similarly, LDCs have been assured of assistance in the areas of trade diversification, infrastructure development, regional/sub-regional cooperation, and protection of women's interests. The Conference also underlined the need for improving preferential market access to LDCs, full implementation of special and differential treatment measures foreseen by the WTO system, simplified accession procedures, and due representation of LDCs in international standards organizations. In the area of market access, however, the Brussels Programme of Action cautiously states that development partners will 'aim at' (rather than 'commit to') enhancing LDCs participation in the multilateral trading system. For example, paragraph 68 (h) of Commitment 5 (Enhancing the role of trade in development) should be read as follows:

> "Development partners will aim at…(h) Improving preferential market access for LDCs by working towards the objective of duty-free and quota-free market access for all LDCs' products."

This contrasts with earlier draft language that would have committed the partners to aiming a little higher, i.e., "removing all trade barriers facing LDC exports in the markets of developed trade partners in the shortest possible time, and in any case no later than 2003."[45]

Despite the use of 'soft' languages, the Conference emphasises on an effective implementation of the Integrated Framework and encourages new and additional contributions to the Trust Fund created under the Framework. Importantly, the Conference requested developed countries and multilateral agencies to provide assistance to LDCs in their efforts to develop infrastructure for tradable services in which they have comparative advantage.

The Brussels Conference outcome could still be considered as a major breakthrough in overcoming the semantic barriers. However, if past experiences are any guide, at best they provide a basis for further talks on the possibility of implementing Conference decisions. As mentioned

[45] ICTSD (2001). op.cit, note 3: 1.

above, what is intriguing is the language in which these decisions are presented. They are expressed as being "commitments" on the part of the respective governments/agencies. However, the Programme of Action adopted at the Conference uses a recommendatory language for them. In fact, the so-called "commitments" are even weaker than recommendations. Reviewing the text of the Programme, one gets the impression that participants of the Conference wanted to present to the international community an ideal situation without bothering about how this could be realized. In other words, this is again the expression of `best-endeavour' language, not a series of binding commitments.[46]

## *V. THE DOHA MINISTERIAL CONFERENCE: CONFIDENCE BUILDING AT A SNAIL'S PACE*

Despite their meagre achievements in the Brussels Conference, the LDCs were of the opinion that whatever precious little had been achieved, it should be reviewed in the Doha Ministerial Conference (November) in order to ensure that "commitments" could be made binding. In fact, one of the objectives of the Zanzibar Meeting of the LDC Trade Ministers (July 2001) was to achieve the same objective. This Meeting did conclude with a few concrete proposals, not only on the Brussels issues, but also on many other fundamental issues, including, but not limited to, the development agenda. Core issues raised by the development agenda include market access for LDC exports, the implementation of existing provisions, built-in agenda, and "new issues". Similarly, the Meeting emphasised the full implementation of existing provisions with special reference to the UR Agreements on agriculture, trade in services, subsidies, technical barriers to trade, trade-related investment measures, textiles, and intellectual property rights.

However, the momentum gained during the Zanzibar Meeting could not be sustained in Doha in the true sense of the term for several reasons. First, developed countries may have considered that there were many other more pressing needs during the Doha Conference than fulfilling the demands of the LDCs. Second, LDC issues became diluted because of the fight between developed and developing countries on implementation issues versus a new round of negotiations, which also implies the possibility of inclusion of new issues. Third, LDCs, as a group, despite being generally cohesive, could not create the required impact on the Conference. Although there was some mention of the LDCs concerns in the final Ministerial Declaration, issues like market access, technical cooperation, special and differential treatment, capacity building, addressing the supply side constraints, effective participation of the LDCs in the multilateral trading system could not, and did not, receive due consideration from the ministers with many diverse interests.

### *A. What did the LDCs gain from Doha?*

The single major achievement for LDCs is probably best expressed in the following sentence in paragraph 42 of the final Doha Declaration:

> "We commit ourselves to the objective of duty-free, quota-free market access for products originating from LDCs. In this regard, we welcome the significant market access improvements by WTO Members in advance of the Third UN Conference on LDCs (LDC-III), in Brussels, May 2001. We further commit ourselves to consider additional measures for progressive improvements in market access for LDCs."

[46] Ghimire, Hiramani (2001). "Least-developed countries in search of identity in the WTO" in Amit Dasgupta and Bibek Debroy (eds.), *Salvaging the WTO's Future – Doha and Beyond*, Konarak Publishers, New Delhi.

Contrasting this with the content of paragraph 68 of the Brussels Programme of Action, one can assume that Doha offers a much better formulation, even though the developed countries might still be reluctant to act concretely in this regard. Having realized that the prevailing attitude of both the ministers of developed Member countries as well as of the WTO secretariat was to provide "lip service", the LDCs ministers insisted on a time-bound action programme for use by the Sub-Committee for Least Developed Countries to design a work programme concerning trade-related elements of the Brussels Declaration and Programme of Action, and to report on the agreed work programme to the WTO General Council at its first meeting in 2002. Similarly, the following sentence is contained in paragraph 43 of the Declaration related to the Integrated Framework:

> "We request the Director-General, following coordination with heads of the other agencies, to provide an interim report to the General Council in December 2002 and a full report to the Fifth Session of the Ministerial Conference on all issues affecting LDCs."

There is sporadic mention of LDCs in several places in the Doha Declaration and the two other documents attached to the same. These are related to, *inter alia*, marginalization, accession, services negotiations, industrial tariff negotiations, investment, competition policy, trade facilitation, environment, debt and finance, technical cooperation and capacity building, and special and differential treatment.

### *B. Bridging the gap?*

To some extent, the Doha Conference can be considered as an attempt to bridge the gap between the developed and the developing as well as least-developed countries. However, a number of proposals made by the LDCs post-Zanzibar were not included in the text. For example, the LDCs were resolutely opposed to the launching of the new WTO round – for a multiplicity of reasons, including the possibility of the expansion of WTO's jurisdiction into the areas in which they have no expertise and the imperative of not diverting attention from the earlier commitments made (but as yet unimplemented) in favour of LDCs.[47] Similarly, the market access text does not cover most of the decisions of the Zanzibar meeting. Nonetheless, on the whole, the Doha Declaration cannot be considered as a "third-best" outcome for the LDCs, given their limited political influence during the Conference; since first-best was not possible for the time being, they had to settle for the second-best, which they did.

## *VI. CONCLUSIONS*

Reversing the scandalous trend of the marginalization of LDCs within the global trading system despite their relative openness to international trade, is not an easy task. Some of the genuine efforts by various multilateral, bilateral and intergovernmental agencies to achieve such a reversal have not produced the desired results. Clearly, there is a need to arrest this adverse trend by moving beyond rhetoric. However, the LDCs are equally to be blamed for the continuation of the status quo.

As time passes and the international community becomes increasingly aware of the need to better integrate LDCs into the multilateral trading system, things seem to be moving in the right direction. The LDCs have been gaining incremental support or commitments from their

[47] See Ghimire, Hiramani (2001), "The WTO at a crossroads: Implications of Doha meeting for LDCs" in SAWTEE newsletter No.22, September-November 2001, SAWTEE, Kathmandu: 9.

development partners. Starting from the Marrakesh Ministerial Conference, and traversing through the meetings held in Singapore, Geneva and Brussels, the Doha Ministerial Conference did offer a window of opportunity for LDCs. But, considering the attitude of the developed countries, and taking their past record of fulfilment as a guide, the commitments made during the Doha Conference should also be closely monitored by the LDCs to ensure that they are translated into reality. The danger is that LDCs might trip over the fine print of the Declaration and lose sight of the major goals that they are trying to achieve.

Finally, it is necessary for the LDC governments to understand that they need to keep their house in order, so as to ensure the benefits of improved market openings, if at all. Therefore, they should *inter alia* focus on enhancing the product profile; developing their human resources; restructuring administrative institutions; promoting technologies; mobilizing international support; providing incentives for innovation; compensating the losers and creating safeguards.

## *VII. RECOMMENDATIONS*

Taking account of the lack of sincere commitment and paucity of efforts on the part of various actors, integrating LDCs into the multilateral trading system is not likely to become a reality unless an organization like UNCTAD continues its untiring efforts, as in the past, to realize the following objectives:

### *A. On the issue of market access*

(a) Zero tariff and quota free access must be provided to all LDC exports, and exports of LDCs should be totally exempted from anti-dumping and/or safeguard measures.
(b) Standard setting should be done strictly on the basis of scientific criteria and the LDCs' capacity to meet standards should be enhanced to cope with them.
(c) The WTO in association with UNCTAD should address the problems of the lower product price realization by the LDCs.

### *B. On the issue of implementation of the WTO Agreements:*

(a) Special and differential treatment must be made binding, with proper provisions for notification and monitoring. Transitional periods provided under various WTO Agreements should not be based on some milestones, but should be dynamic, taking into account the prevailing economic conditions in countries at various stages of development.
(b) Preferential treatment should be provided to the export of textiles and clothing from LDCs after 2004.

### *C. On the issue of participation of LDCs in the WTO processes*

(a) All the acceding LDCs should be provided fast track accession to the WTO. No such conditionality should be imposed upon acceding LDCs, which are stricter than those applied to the founding LDC members.
(b) The WTO system should provide resources to the LDC members and capacity building opportunities to enhance their participation in the WTO processes.

*D. On the issue of overcoming supply side constraints*

(a) The Integrated Framework should focus on strengthening critical infrastructure sectors in the LDCs.

(b) Accelerated debt relief should be provided to the LDCs, the gains from which can be utilized by them for the purpose of overcoming their supply side constraints.

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