

**First Substantive meeting of GA's Ad Hoc
Working Group on Smooth Transition for
Graduating Countries**

“Existing Smooth Transition Measures”

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Smooth transition measures: State of Play

What are the key features of the existing smooth transition measures?

1) At present smooth transition measures concern three countries: Cape Verde and Maldives, which are in their “smooth transition” phase; and Samoa – soon to start preparing its smooth transition strategy in anticipation of graduation in 2014.

2) Therefore, to date, our experience with smooth transition process is limited to two countries only. It is important that we listen carefully to the transition experiences of these countries and learn from that experience.

3) Existing smooth transition measures are time-bound extension - beyond a graduating point - of existing support measures in order to avoid abrupt disruption. In effect, therefore, the immediate reward package for graduating countries is having more of the same measures – albeit, in modest doses – rather than new incentives or measures to help them achieve a smoother landing.

4) A point worth mentioning at this point is - as shown in the Least Developed Country report 2010– there are shortcomings in some of the existing international support measures for LDCs, which means that the same shortcomings also apply during the smooth transition period. The LDC Report shows that the design of some of the ISMs limits their implementation and effectiveness from the outset. If we take – as an example - the granting of preferential market access to LDCs – which is one of the important ISMs provided by development partners, it is offered under the following assumptions:

a) that markets in LDCs work (i.e, producers and consumers respond to market signals);

b) that preferential market access will help LDCs attract more foreign investment;

c) that LDCs produce almost competitive products;
and

d) that restricted market access poses major
challenges for LDCs.

5) These assumptions are highly questionable, since, as shown by various studies, a major weakness in LDCs is their limited supply capacities that constrain their ability to respond to market opportunities. The failure to distinguish between market access and market entry requirements and the fact that one of the common characteristics of the LDCs is their lack of productive and supply capacities have diminished the effectiveness of generous preferential market access opportunities offered to LDCs by development partners. This is not to suggest that LDC-specific trade preferences are unnecessary or have no value. Not at all. In fact, for LDCs that have managed to develop significant manufacturing and processing capacities, special market preferential offers are essential. But, at present, LDCs with such capabilities are in the minority.

6) Existing smooth transition is a multi-stakeholder process – involving the UN; development partners; and, of course, the graduating countries themselves. Understanding the role of each player is critical for “strengthening” the smooth transition

measures and making the process “systemic”, “predictable” and “reassuring”.

7) The United Nations: provides a framework for smooth transition – including assisting graduating countries to assess their post-graduation needs; design a smooth transition strategy; prepare position papers to help with the negotiations for smooth transition measures, monitor progress in the transition phase, etc. Regarding the process, we believe that the UN has done its fair share, since 2004, to provide a sound framework for preparing smooth transition strategy. In this respect, the role of the UN Resident Coordinator is paramount to the success of the process – serving as a front-line contact office to mobilize other relevant UN entities at the right time, and to foster national ownership of the process.

8) One lesson we learnt from the Cape Verde and Maldives experience worth mentioning is the importance of timing in the preparation of the smooth transition strategy during the three-year grace period. The ideal point of time to start the analytical work to identify vital benefits is the second year - this leaves, once the analytical part is complete, the remaining third year for negotiating the smooth transition measures.

9) Following this logic, Samoa should begin its analytical work this year so that 2013 is devoted for dialogue on exit modalities with its development partners. As I said, in our opinion, the United Nations has done its part in making the smooth transition phase more systemic and predictable. One example is the GA's decision to extend travel-related support. However, more could be done and should be done. In fact, in our view, among the various ISMs provided to LDCs, the most critical in terms of capacity-building are the support provided by the UN through its operational activities. According to the most recent estimates, the United Nations system's expenditures on operational activities for LDCs increased from \$2.4 billion in 2000 to \$7 billion in 2008. This represents an increase from 28 per cent of total expenditures to 38 percent, both for developmental and humanitarian operational activities. It is also estimated that more than 50 per cent of country-level expenditure in 2008 went to LDCs, up from 39 per cent in 2003. As I have already alluded, these activities help LDCs to build their human, institutional and productive activities -- and they are, therefore, critical not only for assisting the LDC meet the graduation threshold but also for smooth transition in the post-LDC phase. We understand that the current thinking is to extend these measures to the smooth transition phase. This will contribute greatly to the strengthening of the smooth transition process.

10) Equally critical in smooth transition process is the role of development partners, both at bilateral and multilateral levels. As already noted in the concept note, efforts have been made by development partners to make the transition phase as ‘smooth’ as possible by allowing graduating countries to continue to benefit from special support measures. In this respect, the actions taken by EU to extend the duty-free and quota-free (DFQF) market access opportunities for at least additional three years and also the decision by the EIF Board to continue supporting LDCs in the post-graduation smooth transition period are exemplary and important signals for others to follow. In terms of LDC-specific trade preferences – in addition to the EU - other developed and developing countries – a total of 22 countries have introduced initiatives to improve market access for the LDCs. Trade preferences are an area where there is perhaps the greatest momentum to provide special treatment for LDCs. Some of these initiatives are regional and more specific in product coverage and, therefore, important for some LDCs than the EU or other developed countries markets. There is no doubt that an extension of support from these partners to graduating countries will help strengthen the smooth transition arrangement.

11) The third key player in the smooth transition process is, obviously, the graduating countries themselves. From the experiences of two recently graduated countries, it would be fair to say that they have understood clearly the importance of ‘owning’ the process of formulating a strategy for smooth transition. UNCTAD had the privilege of supporting both Cape Verde and Maldives in the preparation of their smooth transition strategy and we are also ready to assist Samoa – as usual in collaboration with other UN sister agencies. According to existing smooth transition process, graduating countries are encouraged to make an inventory of the existing international support measures that they consider to be critical for them and those that they would like to see continuing during the transition period. In general, the purpose of the inventory is three-fold: To identify:

- * existing support measures that the country can afford to see phased out;

- * the support measures that the country wants to maintain for the transition period, in anticipation of the challenges that the graduating country may face in the immediate post-graduation phase; and

* additional (hypothetical) support measures that the country believes are desirable for smooth transition, but were never offered as LDC-specific benefits by development partners.

12) This may sound very basic and a mundane exercise, but it is decisive. In fact, in some cases, it is through such detailed investigation of the support measures provided that graduating countries begin to realize the types and range of support measures offered - because of their LDC status - and, more importantly, whether the existing support measures have made a difference or not. Furthermore, the inventories constitute the basis for determining the negotiation strategy of the government.

13) As noted above, efforts to strengthen the smooth transition process with a view to making it systemic and reassuring for graduating countries must begin with a clear understanding of experiences to date with smooth transition process, and also better understanding of the development path that helped these countries reach the graduation point.

14) In the last 16 years, 8 countries have been considered pre-eligible for graduation from LDC status or officially earmarked for graduation? Naturally, the question of smooth transition has been or will be relevant to all of them.

a) Two have already graduated from LDC status: **Cape Verde (2007) and Maldives (2011).**

b) One is earmarked for graduation in 2014: **Samoa.**

c) One was pre-eligible for graduation once, and will be in the same situation again in 2012: **Kiribati (2006).**

d) Two have been pre-eligible for graduation three times since 2006: **Tuvalu and Vanuatu.**

e) One was earmarked for graduation by ECOSOC (2009), but not by the General Assembly: **Equatorial Guinea**

f) Finally, one country is now found pre-eligible for graduation, joining the club of potential graduates: **Angola.**

15) From a closer examination of the experiences of these countries, a number of observations can be made that have direct implications for ISMs offered to LDCs and the existing smooth transition process.

The first observation – is that (since Botswana) all graduation cases in recent and current history have been: either small island developing States (6 of them), or oil-exporting economies (2 of them);

The second observation is that the two leading factors contributing to progress toward graduation have been: tourism growth (dominant among the SIDS) and quick prosperity based on oil exports.

The third observation is that tourism and oil - the two resource-based sectors that helped the eight countries reach the graduation threshold - are export activities that did not rely on preferential market access for their growth. It seems, therefore, that - for countries that have already graduated as well as those that are in line for graduation - ISMs such as DFQF market access and SDT provisions in WTO have not been critical factors. Thus, it is unlikely that they will be seen by graduating countries as essential support measures during the transition period (save for some small cases such as tuna exports from Maldives to EU).

The fourth observation is that one must not assume that all types of ISMs are necessary for all LDCs, including during the smooth transition period. Indeed, what is needed is not a one-size-fits-all approach but a “differentiated” approach to smooth transition.

For example:

For SIDS - which are identified as special category countries in the UN because of their specific and unique challenges and special needs - the most important support measures are official financial inflows flows, technical support in attracting investment, climate change-related projects and funding, the financing of regional public-goods type projects on infrastructure, etc. SIDS have structural weaknesses and constraints that go beyond the specific economic situation and criteria that qualify them as LDCs. Even when they cease to be LDCs, they need SIDS-specific support measures to help them improve on their vulnerability problem. It is not by coincidence that – of the three criteria for graduation – the only one that all small Island LDCs that are graduating or being considered for graduation perform badly is the Economic Vulnerability criteria. The continuous concern of SIDS about their vulnerability was highlighted in a recent expert group meeting of SIDS held in Mauritius, which suggested, among other things, for

consideration of special support measures for SIDS tailored to their specific needs, including EIF type of initiative for SIDS.

In contrast to SIDS, the oil-rich graduating countries are less concerned about official development assistance – since the amount of aid provided to these countries have already diminished dramatically over the last decades as a reaction by donors to the fast accumulation of reserves from oil exports. At present, the exports of Angola and Equatorial Guinea consist largely of oil and the range of other types of products requiring LDC-specific preferential market access is limited. What may be relevant for smooth transition in these countries is their continuous need for technical assistance, because their limited institutional and trade facilitation capacity, which are essential for economic diversification and structural transformation.

For non-SIDS and non-oil-based LDCs, especially those that have developed a sizeable manufacturing sector, preferential market access along with official development finance and capacity-building technical cooperation will continue to be important components of their smooth transition strategy.

To sum up, the limited experience from graduated and graduating countries points towards the need for differentiated approach. For graduating LDCs that are small island developing

States (SIDS), "smooth transition" implies much more than retaining existing LDC benefits: it calls for "SIDS treatment", some of which will involve measures that were not part of LDC concessions. For graduating LDCs that are oil exporters, aid has already been scaled down, and it will take many years before the merchandise export structure involves competitive non-oil products in need of preferential market access. For all other LDCs outside these two groups, smooth transition will remain an important safety net, but development partners' response cannot be a one-size-fits-all set of smooth transition measures. The right mix of desirable concessions will have to be designed by each graduating country in cooperation with its partners and in line with the development path to be followed.

The discussion on "smooth transition" should be seen as a subset of the wider, closely related international debate on the design and implementation of international support measures and the quest for more satisfactory differentiation in the special treatment of developing countries.