

A Smoother Trade Transition for Graduating LDCs

Kimberly Ann Elliot

For nearly 50 years, the world’s “least developed countries” have received extra financial support and preferential trade treatment to help them grow and develop. In the first three decades after the United Nations (UN) created the LDC category in 1971, only one country—diamond-rich Botswana—outgrew that status. Since then, four more countries have graduated, and the pace is set to accelerate over the coming decade. Moreover, the countries approaching graduation in the next decade will pose different adjustment challenges than those that preceded them.

When a country successfully graduates, it loses access to the special finance and trade programs that come with LDC status. In the case of trade, that can mean the graduating country’s exporters suddenly face the higher tariffs that their more advanced competitors face, so-called most-favored nation (MFN) tariffs. Even if these countries remain eligible for the Generalized System of Preferences (GSP) that is available to developing countries, those programs are typically much less generous than the duty-free, quota-free market access that most advanced economies provide for LDCs.¹ Moreover, outside the European Union (EU), few countries provide transition measures for graduating LDCs (see Annex A). Nor does there appear to be much planning to prepare for the coming wave of graduations.

The United Kingdom has already committed to provide barrier-free market access for LDCs, similar to the EU’s Everything But Arms (EBA) program.² But British policymakers have a unique opportunity to improve on that model as part of post-Brexit trade and development planning, including to address the coming wave of graduations. And if the UK remains in the customs union, it can work with EU policymakers to improve the graduation process as part of the review of the GSP regulation that expires in 2023.

1 Maximiliano Mendez-Parra provides a summary of these programs in *Designing a New UK Preferences Regime Post-Brexit*, ODI Working Paper 521, London: Overseas Development Institute.

2 This commitment is contained in the Taxation (Cross-Border Trade) Act, 2018, c.22(10), which bars the government from introducing a trade preference scheme that applies tariffs on LDC imports, see <http://www.legislation.gov.uk/ukpga/2018/22/section/10/enacted>.

EXPERIENCE WITH LDC GRADUATION TO DATE

For the first two decades after the UN General Assembly created the LDC category, there was not even a plan for how countries would graduate.³ Three years after the UN defined the conditions for graduation in 1991, Botswana became the first country to make the leap. After another relatively long lag with no further graduations, the pace picked up in the late 2000s. Four more countries graduated from 2007 to 2017 and five more are scheduled to graduate between 2020 and 2024 (table 1). Of those 10 countries, six are UN-designated “small island developing states” that have passed the criteria for per capita income and human assets. The three other countries that have or will soon graduate are natural resource exporters, like Botswana, with per capita incomes more than twice the graduation threshold (see Annex B for details on the process).

Table 1. Status of LDCs with respect to graduation eligibility

<i>Recent graduation decisions</i>	<i>Potential future candidates</i>	<i>Remaining LDCs</i>
<u>Graduated:</u> Botswana (1994) Cape Verde (2007) Maldives (2011) Samoa (2014) Equatorial Guinea (2017)	<u>Met criteria for first time in 2018:</u> Bangladesh Laos Myanmar	Afghanistan Benin Burkina Faso Burundi CAR Chad DRC Eritrea Ethiopia Gambia Guinea Guinea Bissau Haiti Liberia Madagascar Malawi Mali Mozambique Niger Rwanda Sierra Leone Somalia South Sudan** Tanzania Togo Uganda Yemen
<u>Graduating:</u> Vanuatu (2020) Angola (2021)	<u>Over per capita income threshold:</u> Cambodia (HAI)* Comoros Djibouti Lesotho Mauritania	
<u>Recommended for graduation:</u> Bhutan (2023) Sao Tome & Principe (2024) Solomon Islands (2024)	Senegal Sudan Zambia	
<u>Eligible but graduation deferred:</u> Nepal (CDP decision) Timor-Leste (CDP decision) Kiribati (ECOSOC decision) Tuvalu (ECOSOC decision)		

Notes: CDP = Committee for Development Policy (a subsidiary body of ECOSOC); ECOSOC = UN Economic and Social Council

* Cambodia was just below the per capita income threshold at the time of the last triennial review in 2018, but, if recent growth rates continue, is likely to be close to or over it by the next review. At that time, if its score on the human assets index (HAI) is still above the threshold, it could meet the criteria for graduation for the first time in 2021.

** The 2018 triennial review, which used data from 2014-16, showed South Sudan above the per capita income threshold; more recent World Bank data shows it falling well below that level.

3 Alassane Drabo and Patrick Guillaumont, Graduation from the category of least developed countries: Rationale, achievement and prospects, Development Policies Working Paper 208, Fondation pour les Etudes et Recherches sur le Développement International (FERDI), December 2017, p. 1.

In the next tranche of countries eligible for graduation, there are three more small Pacific island states, plus Nepal. These countries have twice passed the required thresholds, but decisions to schedule graduation have been deferred to 2021 because of concerns about continued economic vulnerability. Nepal is also notable among past and potential graduates in being the only one to pass the thresholds for the two indicators of structural handicaps without having reached the low-middle-income threshold. At the 2018 triennial review, three more countries—Bangladesh, Laos, and Myanmar—met the graduation criteria for the first time. If they are still eligible on at least two of the three thresholds again in 2021, they could be scheduled for graduation as early as 2024.

In sum, 12 of the 14 past and currently eligible LDC graduates are either small island states, or mineral resource exporters with per capita incomes well above the graduation threshold. Some of the island states export fish and fish products that face relatively high tariffs in the EU, and Cape Verde sought access to the EU's GSP+ program to ease the of graduation impact on its apparel exports (Annex A). Overall, however, the withdrawal of trade preferences after graduations does not seem to have created major problems. The next tranche of potential graduates looks quite different, however, and the process will raise thornier questions for preference providers and recipients alike.

THE CHANGING FACE OF LDC GRADUATES

Over the coming decade, potential LDC graduates will be economically larger and more dependent on the European and British markets than the countries that preceded them (table 2). In addition, starting with Nepal, several potential graduates export labor-intensive manufactured goods—apparel, carpets, footwear, and bicycles—that face higher-than-average tariffs, even under the standard GSP program. That makes the trade costs of graduation potentially more severe than for most graduates to date.⁴

⁴ The UK government released a temporary tariff schedule in case of a no-deal Brexit that eliminates tariffs on bicycles, carpets, footwear, and other products, meaning exporters could face a near-term preference erosion problem rather than a longer-term graduation problem. See below and the March 2019 posts on this Overseas Development Institute blog, <https://www.odi.org/blogs/10741-brex-it-and-global-development>.

Table 2. EU, UK imports from least developed countries (LDCs), average 2016-18

<i>Exporter</i>	Imports from LDCs (million dollars)		Share of total LDC exports (percent)		Imports as share of LDC GDP (percent)	
	<i>EU</i>	<i>UK</i>	<i>EU</i>	<i>UK</i>	<i>EU</i>	<i>UK</i>
<i>Scheduled or eligible for graduation:</i>						
Angola	3,877	175	13.92	0.63	3.54	0.16
Bhutan	19	3	7.68	1.14	0.79	0.12
East Timor	19	1	24.48	1.35	0.75	0.04
Kiribati	negl.	negl.	0.25	0.05	0.16	0.03
Nepal	107	27	14.08	3.51	0.43	0.11
Sao Tome and Principe	9	negl.	56.49	0.08	2.36	0.00
Solomon Islands	72	9	12.54	1.61	5.44	0.70
Tuvalu	negl.	negl.	0.61	0.16	0.40	0.10
Vanuatu	5	1	2.42	0.26	0.64	0.07
<i>Average</i>	457	24	14.72	0.98	1.61	0.15
Without Angola	29	5	N/A	N/A	N/A	N/A
Without STP	N/A	N/A	9.50	1.09	N/A	N/A
<i>Potential future candidates:</i>						
Bangladesh	19,459	3,602	47.18	8.73	7.83	1.45
Cambodia	5,695	1,289	31.93	7.23	25.59	5.79
Comoros	23	0	24.96	0.20	2.14	0.02
Djibouti	23	6	15.82	3.98	1.21	0.30
Lao PDR	293	34	8.09	0.95	1.73	0.20
Lesotho	317	1	28.76	0.11	12.37	0.05
Mauritania	555	1	25.55	0.05	11.06	0.02
Myanmar	1,855	298	16.63	2.67	2.77	0.44
Senegal	539	51	18.08	1.71	2.52	0.24
Sudan	195	12	4.56	0.27	0.23	0.01
Zambia	458	19	7.77	0.32	1.87	0.08
<i>Average</i>	2,674	483	20.8	2.4	6.3	0.8
Without 4 outliers at top	602	59	N/A	N/A	N/A	N/A

negl. = negligible; N/A = not applicable.

Sources: United Nations Comtrade database; World Bank, World Development indicators.

Upcoming graduates will be larger

Of the countries currently eligible for graduation, Angola is an outlier as a result of its large exports of petroleum, which are mostly MFN duty-free. The other countries in this group are tiny in global trade terms. The average value of total exports for the other eight countries in 2016-18 was under \$30 million in the EU and \$5 million in the UK (table 2), and just \$255 million globally. For the 11 countries that might graduate later in the 2020s, the average value of global exports was \$8 billion, with more than a third of that going to the EU and nearly half a billion dollars shipped to the UK (lower part of table 2).

Excluding the two largest (Bangladesh and Cambodia) and two smallest (Comoros and Djibouti) exporters, the average value of exports from this group was still 10-20 times larger than what the current group of pending graduates sends to the EU and UK. This means that the treatment of imports when these countries graduate has larger implications for global trade and for British consumers and importers. Because of the large size of its exports, Bangladesh (at least) would also be ineligible for a more generous GSP+ type program after graduation (see below).

And more dependent on the UK/ EU

Upcoming graduating countries are also relatively more dependent on the EU and UK markets. Of these 11 countries, eight send more than 15 percent of total exports to the EU, compared to just two of the nine currently in the process of graduating (table 2). And one of the latter—Sao Tome and Principe—exports mainly cocoa beans that are MFN duty-free. The UK is, of course, smaller, but it is still important for several of these economies. Overall, the potential future graduates are more than twice as dependent on the EU and British markets as those in the process now (excluding Sao Tome and Principe).

In addition to the past or scheduled graduates that trade relatively little with the EU, there are others like Angola, Botswana, East Timor, Equatorial Guinea, and Sao Tome and Principe, that mainly export products—oil, diamonds, cocoa beans—that are duty-free even without preferences. By contrast, the next tranche of potential graduates includes several that are highly dependent on exports that the EU considers “sensitive” and therefore shields with high tariffs.

Some graduates will face substantial barriers to their major exports

Table 3 shows LDCs potentially approaching graduation that have a nontrivial share of exports going to the EU and UK markets. These include Nepal, which has had the decision on its graduation postponed to at least 2021, as well as Bangladesh, Laos and Myanmar, which could become eligible at that time to graduate three years later. Later in the decade, other countries with a significant share of exports going to the EU and UK could approach graduation, including Cambodia, Djibouti and Senegal.

Table 3. Upcoming LDC graduates: major exports to EU, UK, 2018

(exports that account for > than half of total exports to these markets)

<i>LDC exporter</i>	<i>To EU</i>	<i>Average (GSP)/MFN tariff (%)</i>	<i>To UK</i>	<i>Average (GSP)/MFN tariff (%)*</i>
<i>Scheduled for graduation</i>				
Angola	Crude oil	0	Crude oil	0
Bhutan	Ferro-silicon	(2.2) 5.7	Negligible	N/A
Sao Tome & Principe	Cocoa beans	0	Negligible	N/A
Solomon Islands	Tuna, prepared or preserved Palm oil	(20.5) 24 (~3) 9.5	Palm oil	(~3) 4-6
<i>Eligible but final decision deferred</i>				
East Timor	Auto parts Unroasted coffee	0.85-1.6 0	Negligible	N/A
Nepal	Carpets Apparel	(6.4) 8 (6.4-9.6) 8-12	Carpets Apparel	0 (6.4-9.6) 8-12
<i>Met criteria in 2018</i>				
Bangladesh	Apparel	(9.6) 12	Apparel	(9.6) 12
Laos	Apparel Telephone sets, nec Unroasted coffee	(9.6) 12 0 0	Apparel Footwear	(9.6) 12 0
Myanmar	Apparel Rice Precious gems	(9.6) 12 Quota 0	Apparel	(9.6) 12
<i>Have met one criterion and > 1% of exports to UK</i>				
Cambodia	Apparel Footwear Bicycles	(9.6) 12 (4.5-12) 8-17 (10) 14	Apparel Footwear Bicycles	(9.6) 12 0 0
Djibouti	Razors Unroasted coffee Cigarette papers	2.7 0 0	Unroasted coffee, tea Cigarette papers	0 0
Senegal	Fishery products Mineral resources Fresh vegetables	~11-17 0-4 ~9-10	Fresh vegetables Clays	0-10 0

Note: Includes countries that have met one graduation criterion and send more than 15 percent of total exports to the EU and more than 1 percent to the UK; excludes three small Pacific Island states that have negligible exports to the EU and UK (Kiribati, Tuvalu, Vanuatu).

*Based on this temporary tariff schedule, <https://www.gov.uk/government/publications/temporary-rates-of-customs-duty-on-imports-after-eu-exit/mfn-and-tariff-quota-rates-of-customs-duty-on-imports-if-the-uk-leaves-the-eu-with-no-deal#fats-and-oils>.

Sources: United Nations Comtrade database, online; International Trade Centre, Market Access database, online

With the exception of Djibouti, this group of potential graduates will face relatively high tariffs on their major exports to the EU—even if they are still eligible for standard GSP benefits. Of the African countries in the table, only Senegal will have to contend with high tariffs and onerous regulations on its fish and agricultural exports. The four Asian LDCs, however, export apparel, footwear, and other labor-intensive manufactures that often face tariffs of 10 percent or more, even under GSP. Moreover, these countries are highly dependent on a relatively narrow range of exports in these high tariff sec-

tors. For Bangladesh and Cambodia, the exports listed in the table account for more than 90 percent of everything they export to the EU and UK. For Laos, Myanmar, and Nepal, the average is around 70 percent, and for Senegal, fish and vegetable products constitute more than half of total exports.

This pattern of trade means that future graduates could see tariffs on their exports jump by several percentage points overnight. Even with careful planning and improvements in competitiveness—which are absolutely necessary—this change would be difficult to overcome, and it would almost surely reduce exports and destroy jobs. In addition to providing aid for trade to address infrastructure and other competitiveness issues, the UK, EU and other preference providers should also use trade measures to ensure a “smooth transition.”

SUPPORTING THE GRADUATION PROCESS IN A WTO-COMPATIBLE WAY

It will not be difficult for British policymakers to do better than their counterparts elsewhere when it comes to crafting a more effective transition process for LDC graduates. Most preference providers have no formal rules for graduation and they either remove preferences immediately, or they extend preferences on an ad hoc basis with little transparency (Annex A). The EU’s EBA program is better in that it provides a three-year transition period systematically to all graduates. But at the end of that period, countries can still face a sudden jump in tariffs.

How the UK approaches these issues depends, of course, on the exact terms of its exit from the EU. In October 2019, the Department of Trade released a temporary tariff schedule that would apply in the case of a no-deal Brexit. That schedule eliminates tariffs on a broad range of products, including bicycles, footwear and carpets that could affect LDC exports (table 3).⁵ Yet the government also stated that it was maintaining tariffs on bananas, sugar and certain fish products—and it later added more clothing items—to preserve preference margins for developing countries.⁶ It would not be surprising if domestic interests also had some influence on that list.

Assuming that the post-Brexit tariff schedule will maintain some tariff peaks, British policymakers will face the conundrum of what happens to LDC exports of those high tariff products when they graduate. One option would be for the UK to replicate the EU’s GSP+ program and help LDCs transition into that as they graduate, as the EU did with Cape Verde. But if the eligibility conditions and other provisions remain the same, this will not be an option for some graduating LDCs. Most notably, Bangladesh would not meet the vulnerability criteria that exclude large exporters and other apparel exporters would struggle with the more restrictive rules of origin (Annex A). In other cases, countries may not be ready to take on the commitments involved with ratifying and effectively implementing 27 international conventions related to labor standards, the environment and good governance.

Whether or not GSP+ is an option, the UK—and other preference providers—**should have a clear strategy for graduation that includes a transition period**—such as the three years that the EU currently offers. During that period, full benefits continue. This gives a graduating country, which is likely to still be relatively poor, additional time to consolidate its progress. At that point, however, a sudden

5 Carpets and footwear are the second most important exports, after clothing, for Nepal and Laos, respectively. Since a gradual phase-out of tariffs as proposed below would be difficult in the case of a no-deal Brexit situation, the UK government should consider targeted aid for trade to help those countries improve competitiveness and to cushion the impact. See also the ODI blog posts, *op cit*.

6 The announcement of the initial schedule is here, <https://www.gov.uk/government/news/temporary-tariff-regime-for-no-deal-brexit-published> and that announcing the revisions here, <https://www.gov.uk/government/news/temporary-tariff-regime-updated>.

jump in tariffs could still have a significant negative impact on the country's exports.

To avoid sudden trade shocks related to graduation, the UK should go beyond what the EU does and **phase in the higher MFN or standard GSP tariffs slowly**, adding no more than, say, two to three percentage points per year. So, for example, an apparel exporter transitioning to a MFN tariff of 12 percent would gain an additional four to six years to adjust to increased competition from other exporters.⁷ The gradual phasing in of UK tariffs should be authorized in the trade preference legislation and it should apply automatically to all graduating LDCs—unless they become ineligible for another reasons. Since it would be available equally to all LDCs, it should not conflict with World Trade Organization rules governing nondiscrimination (Annex A).

In addition, just as countries have safeguards to address sudden import surges that injure domestic industries, including under the GSP regulation, the UK should adopt a reverse safeguard for preference recipients that would **temporarily suspend tariff increases if a former LDC's exports drop dramatically**. These measures would keep pressure on the exporting country to improve its competitiveness while giving it space to do so. And, if it does not, tariffs could be reinstated.

TRADE PREFERENCES, HUMAN RIGHTS AND GOOD GOVERNANCE

Competitiveness is not the only challenge that some potential graduates face. The three largest users of the EBA program are Bangladesh, Cambodia, and Myanmar, and all three are currently involved in an “enhanced engagement” process with the EU as a result of serious concerns about human rights.⁸ Cambodia's government has become increasingly autocratic and repressive over the years and its continued eligibility for the EBA is currently under formal review. EU officials are also discussing with Myanmar the military's actions against the Rohingya minority that sent nearly 1 million of them fleeing to Bangladesh. And with Bangladesh, the EU is pushing for further reforms to ensure the safety and freedom of association rights of garment industry workers in the wake of the Rana Plaza building collapse in which more than a thousand workers died.

In general, most preference providers seem to have taken the view that economic development can help strengthen political institutions and facilitate the development of democracy as well. Thus, LDC trade preferences have not been tightly tied to political conditions and when the programs were introduced, all LDCs were generally eligible. That creates a dilemma for countries deciding what to do in cases such as those described above. On the one hand, the EU and other preference providers do not want to be seen as rewarding serious human rights abuses. On the other hand, revoking preferential market access would potentially punish hundreds of thousands of workers, many of them female, who could lose jobs as a result.

The EU's GSP+ program offers a carrot to persuade countries to improve protections for workers and the environment in return for additional trade access.⁹ In the case of a graduating LDC, however, the GSP+ carrot can look more like a stick because they face the loss of significant market access if they do not meet the extensive eligibility conditions. Recognizing the potential costs, the UK will have to

7 Special provisions might be necessary for agricultural products such as sugar and meat that are subject to quantitative restrictions and face MFN tariff equivalents of 50-80 percent; see Mendez-Parra op cit., p. 12.

8 See here <https://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/> and here https://europa.eu/rapid/press-release_IP-19-882_en.htm.

9 The EU can suspend GSP+ benefits if it concludes that a country is no longer in compliance, and it has done so in the case of Sri Lanka. But that is a different situation than an LDC being faced with the sudden loss of EBA preferences that it has enjoyed for many years.

decide what degree of conditionality is useful, reasonable, and necessary for political support.

SUMMARY AND RECOMMENDATIONS

When LDCs are deemed to no longer need that designation, they are often just a little bit richer and a little less vulnerable to shocks than they were the day before. For that reason, the UN process for graduation is relatively long and the relevant UN bodies emphasize the need for development partners to take steps to ensure the transition is as smooth as possible. The transition risks being highly disruptive because MFN, and even standard GSP, tariffs on key products are in double digits.

Measures to mitigate the trade shock include extended periods in which former LDCs can continue to receive special treatment, including duty-free, quota-free market access for their exports. But only the EU systematically provides such a transition period, and at the end of the period, graduates still face a potentially significant jump in the tariffs their exports face.

British policymakers can create a model for doing this better by going beyond the EU's EBA program, the current gold standard for LDC trade preferences. In addition to providing a post-graduation transition period of at least three years, the UK should also provide a period beyond that during which tariffs will be phased in gradually and in which the increases can be suspended if the former LDC suffers a sudden drop in exports. Policymakers should avoid introducing new political conditions during this period, though preferences may still be suspended or withdrawn in the face of violence or other serious human rights abuses.

This enhanced transition would help recently graduated LDCs consolidate their progress in raising incomes and reducing poverty. And it would cost the UK government nothing. Indeed, British firms and consumers would benefit by avoiding the potential for sudden price increases and disruptions to supply chains. It simply makes no sense to provide preferences for years and then yank them away just as the country is emerging from the depths of poverty.

ANNEX A. TRADE PREFERENCES FOR LDCS

In 1971, parties to the General Agreement on Tariffs and Trade agreed to waive key nondiscrimination rules and allow developed countries to provide preferential market access to developing countries to promote global integration and economic growth. The Enabling Clause, approved in 1979, made that waiver permanent and, along with provisions recognizing LDCs as a special category within the developing country group, the Enabling Clause was incorporated into the World Trade Organization when it was created to succeed the GATT in 1995.¹

Advanced economies responded by creating Generalized System of Preferences (GSP) programs that lowered or eliminated duties on a wide range of goods imported from developing countries. But these programs had significant weaknesses, including limited product coverage in areas that posed problems for domestic producers. These exclusions often hit agricultural and labor-intensive manufactures that developing countries can export. The programs also often have complicated rules of origin that effectively keep countries from utilizing the preferences they do receive.

Beginning around 2000, developed economies began expanding trade preferences for LDCs and all but the United States eventually enacted programs that provide duty-free, quota-free market access on almost all tariff lines. By the early 2010s, after removing restrictions on rice and sugar imports and reforming the rules of origin, the EU's Everything But Arms (EBA) program joined Canada's as the most comprehensive (all civilian products) and accessible (flexible rules of origin).²

The EBA is the only LDC preference program that explicitly provides a three-year transition period during which graduates retain eligibility for full market access. Other preference providers have extended preferential trade access for graduating LDCs on an ad hoc basis, including Australia, Canada, New Zealand, Norway, and Switzerland. According to the UN resources page for LDCs, Japan, Russia, and South Korea revoke special trade benefits immediately upon graduation.

The EU's GSP+ program could provide an extended transition mechanism for some countries. It provides duty-free access for about 98 percent of tariff lines—versus 99.8 percent under the EBA program. But, in addition to the product exclusions, the rules of origin require more domestic value-added, in apparel for example, than those under the EBA. Moreover, GSP+ is available only to “vulnerable” exporters—those with exports concentrated in a few sectors and with total GSP-covered exports accounting for less than 6.5 percent of the EU's GSP-covered imports from all GSP-eligible countries. Eligible countries also have to have ratified and be implementing 27 international conventions promoting worker and human rights, protection of the environment, and good governance.

Norway also has a GSP+ program that provides continued duty-free market access for most industrial goods but fewer agricultural goods than its program for LDCs. This program covers only countries with fewer than 75 million people, however. The eligibility conditions under both these programs would thus exclude Bangladesh.

1 See the UN description of GSP here, <https://unctad.org/en/Pages/DITC/GSP/About-GSP.aspx>, and the text of the Enabling Clause here, https://wto.org/english/docs_e/legal_e/enabling1979_e.htm.

2 Kimberly Ann Elliott, Trade Preferences for the Least Developed Countries: Opportunities Not Panaceas. E15 Expert Group on Trade, Finance, and Development Think Piece. Geneva: International Centre for Trade and Sustainable and Development and the World Economic Forum, October 2015. See also Center for Global Development, *Open Markets for the Poorest Countries: Trade Preferences that Work*, Report of the CGD Working Group on Global Trade Preference Reform, Washington: Center for Global Development, 2010. For a detailed analysis, see Sam Laird, *A Review of Trade Preference Schemes for the World's Poorest Countries*, Issue Paper No. 25, Geneva: International Centre for Trade and Sustainable Development, 2012.

ANNEX B. THE LDC GRADUATION PROCESS

Designation as an LDC is reserved for countries that are very poor—below the World Bank’s low-income threshold—and have low levels of human assets—measured by health and education indicators—and high levels of economic vulnerability—including by being small and remote, having undiversified exports, or being otherwise vulnerable to trade or other shocks. In 1991, the UN decided that countries would become eligible to graduate when they pass designated thresholds for two of the three criteria, or achieve a per capita income that is twice the graduation level.³

The Committee for Development Policy (CDP) of the UN’s Economic and Social Council (ECOSOC) reviews the LDC category every three years and determines where countries are with respect to the thresholds. After a country has passed the eligibility criteria for the first time, the CDP receives an ex ante impact assessment and vulnerability profile prepared by other UN agencies. Based on that information—and assuming the country stays above the graduation thresholds—the CDP will decide whether to recommend the country for graduation at the next triennial review. If ECOSOC endorses a positive CDP recommendation, and the General Assembly accepts that decision, the country will graduate three years later. At that point, the UN expects preference providers to implement measures to ensure a “smooth transition” for the graduating LDC.

To illustrate, Laos met the criteria for graduation for the first time in 2018. If it is still above the designated graduation thresholds at the next triennial review in 2021, the CDP could recommend it for graduation, which would then occur in 2024 if ECOSOC and the General Assembly agree with the decision.⁴ At that point, under the EU’s Everything But Arms program, Laos would continue to receive preferential market access for another three years, until 2027. At that point, Laos would be eligible for the much less generous standard GSP program (depending on what happens with changes to the program in 2023), or it could try to meet the additional conditions for the EU’s GSP+ program. It would also be eligible for Norway’s GSP+ program for graduating LDCs. But what would happen in other markets would be ad hoc.

While that is an illustration of what could happen, crossing the numerical thresholds does not automatically lead to graduation. Countries can receive additional time to prepare if either the CDP—as with East Timor and Nepal—or ECOSOC—as with Kiribati and Tuvalu—has concerns about the country’s continued vulnerability (table 1). In those cases, countries continue to receive LDC trade preferences and other support until they graduate.

3 United Nations Department of Economic and Social Affairs, Committee for Development Policy, *The Least Developed Country Category: 2018 Country Snapshots*, p. 6. See also Drabo and Guillaumont, op cit. for details on how the criteria have evolved and how that has affected graduations.

4 See UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS), *A Guide to Least Developed Country Graduation*, New York, 2017.



WWW.CGDEV.ORG

This work is made available under the terms of the Creative Commons Attribution-NonCommercial 4.0 license.

KIMBERLY ANN ELLIOT is a non-resident fellow at the Center for Global Development.