DISCUSSION PAPER

IMPROVING ACCESS FOR THE PRODUCTS OF THE LEAST DEVELOPED COUNTRIES (LDCs) TO THE CANADIAN MARKET

March 27, 2002

Objective

The purpose of this discussion paper is to outline a specific proposed initiative by the Government of Canada for the world's poorest countries. The proposal would extend duty-free and quota-free access to Canada's imports from Least Developed Countries, with the exception of supply-managed agricultural products (dairy, poultry and eggs). All remaining dutiable imports would be assessed a tariff rate of zero. Under this initiative, quotas (quantitative restrictions) on eligible products from these LDCs would be also be eliminated. The Government seeks the views of interested Canadians on this proposed approach. At the same time, the Government wishes to consider what economic and social effects this initiative might have on Canadians and what measures, if any, may be appropriate to address these effects.

The Context

Canada and other developed countries have recognized the need to look beyond aid to find effective tools to address global poverty. With this came the determination to adopt a comprehensive approach to poverty reduction that addresses economic, social, environmental and institutional, systemic issues. Joint initiatives such as the Heavily Indebted Poor Countries Initiative and the Global Health Fund, as well as individual efforts such as the Canadian Debt Moratorium and CIDA's Social Development Priorities are part of this approach. In the context of strengthening global economic growth, education, the use of technology for development, aid effectiveness and trade are areas of work for this year's G8 Summit.

Developing countries most successful at alleviating poverty are those whose economies have grown through trade. Without economic growth, poverty does not decrease. Enabling economic growth therefore includes the important task of enhancing trade opportunities for developing countries. Improved market access removes constraints to greater trade and acts as an incentive for investment in developing countries. Market access, while not sufficient for poverty reduction, reinforces the efforts of countries to make full use of their comparative advantage.

Market access for developing countries will be addressed in the context of the Doha Development Round of multilateral trade negotiations. A new round of negotiations could promote global growth and development by: improving market access for goods and services in all countries; strengthening markets by improving the predictability and transparency of rules; and reducing trade-distorting support and protection. However, the situation of LDCs is so critical, that the Government considers it necessary to move as quickly as possible.

Who are the Least Developed Countries (LDCs)?

The UN has designated 49 Countries (listed in Annex I) as least developed. About 614 million people, 10% of the world, live in LDCs. These countries are the poorest in the world. They have very low per capita incomes, low levels of human resource development and highly vulnerable economies. To be included in the LDC group, countries must have a Gross Domestic Product per capita less than US$900. The average annual per capita income of LDCs is US$287 (1995 dollars), less than US$1 per day.

LDCs represent a very small proportion of the world economy. They have seen their share of world trade decline over the past two decades and now account for less than 0.5% (one half of one percent) of world trade. Developing countries like China, India, Indonesia, and Brazil, are not LDCs. The only LDC in the Americas is Haiti.

Why should we be considering special measures for Least Developed Countries?

The gap between LDCs and all other countries has been widening on key indicators like life expectancy, child mortality, primary school enrollment and rate of economic growth. Life expectancy in LDCs is approximately 50 years, in other developing countries between 60 and 70 years and in developed countries just under 80. In the Least Developed Countries about 150 children in every 1,000 die before they are 5 years old. In other developing countries this number is about 50 and in developed countries 6. In LDCs, annual health expenditure per person is less than $10 as compared to almost $200 in other developing countries and more than $2,000 in developed countries like Canada.

Assuming current rates of growth, the UN estimates that only four countries (Bhutan, Laos, Lesotho and Sudan) will graduate from the LDC group within 25 years. Bangladesh is expected to take between 25 and 50 years to do so. To achieve the Millennium Development Goal of reducing poverty by half in 2015, LDC economic growth would need to be approximately 7% per year. This rate of growth is only possible with trade and investment.

Revenue from exports is a major component of resource flows to LDCs. Resource flows into LDCs include aid (official development assistance), foreign direct investment and export revenue. International Official Development Assistance to LDCs is now lower in real terms than in 1990. Foreign direct investment to LDCs has been increasing, but only makes up 10% of total inflows. LDC exports, however, at US$21 billion, represent almost twice official aid flows to LDCs and ten times foreign direct investment flows.

Certain studies examining the relationship between growth and poverty have concluded that in almost all cases where per capita GDP grew, the incomes of the poor also grew. In case studies of 80 countries over four decades, the income of the poor rose one-for-one with overall growth. Those countries that have been able to achieve sustained economic growth are those that have taken advantage of the opportunities of global markets, improved governance, and strengthened the capacity of domestic institutions and investors.

Developing countries that have succeeded in improving the lives of their citizens have liberalized their markets, exploited new market openings for their exports and put in place infrastructure and regulatory frameworks to attract foreign investment. These countries have also used trade to gain access to new technologies and increase competition in their own economies. As LDCs' share of global trade shrinks, however, they are in danger of being even further cut off from the forces that are improving standards of living in other developing and developed countries.

Given Canada's longstanding interest in helping developing countries to reduce poverty, it is time to join in the growing international consensus to provide market access for LDCs free of tariffs and quotas. New Zealand and Norway have gone to full duty-free and quota-free access for LDC products, as have the 15 member countries of the European Union, except for access for sugar, rice and bananas which is to be phased in. Provisions of the USA Africa Growth and Opportunity Act (AGOA) enhance market access conditions for apparel products from 6 African LDCs. These provisions include duty-free and quota-free access for apparel products from some countries within a given time frame. Legislation has been proposed to improve access under an AGOA II package.

Canada's Trade with Least Developed Countries

Canada's imports from LDCs are one one thousandth (0.1%) of our total imports, half of what they were in 1991. These imports from LDCs are much smaller in absolute terms compared to Canada's major trading partners. This is not surprising, given the size of our market. Canada imported C$367 million of products from LDCs (excluding Burma) in 2000. Over the past decade, imports from LDCs have averaged just over C$300 million a year.

The composition of Canadian imports from LDCs can vary from year to year. The major LDC imports are apparel, food and crude oil. Over the last decade there has been a clear trend of increased apparel exports from LDCs to Canada. These exports of apparel from LDCs amounted to less than $200 million, accounting for 4% of all Canadian apparel imports in 2000 of which 75% came from Bangladesh. Apparel imports from Bangladesh grew at an average rate of 23% per year over the last eight years.

Canada's imports of agri-food products from LDCs amounted to $30 million in 2000. Over the last four years, the main agri-food products imported from LDCs were coffee, cotton, fruit and nuts, tobacco, rubber, and oilseeds. In 2000, crude oil represented approximately 11% of Canadian imports from LDCs, but is one of the items that can fluctuate.

Tariffs and Quotas on LDC Products

The Government of Canada periodically consults with Canadians on expanding the list of products coming from the Least Developed Countries eligible for preferential treatment. On the basis of this process, goods are put on an LDC Tariff list and assessed a tariff rate of zero. Canada provides duty-free entry for 47 LDCs under 90% of the tariff lines in the Canadian Tariff Schedule. Senegal has only recently been listed as an LDC. Burma is not eligible for the Least Developed Countries Tariff for political reasons.

Tariffs continue to be applied on some products originating in LDCs. In 2000, approximately 54% of imports from LDCs faced tariffs averaging 19% on a trade-weighted basis. The remaining 46% entered free of duties. Imports from LDCs are subject to a special LDC Tariff that gives them considerable preference over the Most Favoured Nation (MFN) Tariff applied to industrialized developed countries that are not covered by free trade agreements.

- Essentially all current agriculture imports from LDCs (more than 99%) enter free of duty. Tariffs continue to be levied on refined sugar, baby carrots and manufactured tobacco substitutes.

- 60% of textile items face duties of 14-16%. The tariff rates on textiles will fall to 12-14% on 1 January 2004 with full implementation of Uruguay Round WTO tariff cuts.

- Most apparel imports face duties of approximately 19%. These duties will fall to 18% in 2004.

- Most tariffs on footwear are 19.5% and will fall to 18%. There are a few duty-free footwear items.

For the items under consideration in this proposed initiative, Canada also maintains tariff rate quotas (TRQs) on beef and veal, wheat and barley and their products, margarine. Under these TRQs, LDCs can export all these products to Canada on a duty-free basis up to a specified quantity (within access). Above this quantity (over access), they face the Most Favoured Nation (MFN) tariff rates that are applied to most countries (exceptions include the USA, Mexico and Chile which may export duty-free some of these products "over access"). However, LDC exports of these agricultural products have been limited, and well within their duty-free access limits.

Canada imposes quotas on certain categories of apparel imports from 6 of the 49 LDCs (Bangladesh, Lesotho, Burma, Cambodia, Laos, Nepal). In 2000, approximately one half of the imports of apparel from LDCs were under quota. As of January 1, 2002, Canada eliminated some quotas pursuant to its commitments under the Agreement on Textiles and Clothing.

In 1995, as part of the Uruguay Round of multilateral trade negotiations and under the WTO Agreement on Textiles and Clothing, Canada and other countries agreed to eliminate all quotas on textiles and apparel as of January 1, 2005. Thereafter, only tariffs will apply to imported products.

This 10 year transition period was provided to enable the textile and apparel industries to adjust to the increased competition which would come when all quotas were removed.

How would moving to duty-free quota-free access for LDC products change the current situation? How would Canadians be affected?

Actual country experiences usually confirm that reducing barriers to trade leads to a number of benefits. Consumers have access to lower priced goods resulting in higher real incomes and increased product choice. Trade liberalization can also increase economic growth in a number of ways. Higher savings lead to increased investment spending and competitive pressures result in a more efficient use of resources, all of which benefits the economy as a whole.

The experience of Canada has been consistent with these general statements on gains from trade. Tables IV and V illustrate developments in the apparel sector over the last decade, a period of significant challenges and successful adjustment. Over this time, Canadian imports of apparel rose considerably. This was a factor in keeping the cost of apparel affordable for Canadian families. During this period, the Consumer Price Index indicates that of food, shelter and clothing, clothing prices remained the most stable. At the same time Canadian apparel manufacturers taking advantage of market access negotiated in other countries, experienced higher export growth. Canada's apparel exports increased from C$615 million in 1992 to over C$3 billion in 2000. While, some 27, 600 net jobs have been lost in the apparel industry in the late 1980s, since 1992 employment in the apparel industry has grown.

While Canada was able to quickly take advantage of increased market access, many LDCs will be able to do so only in the medium to longer term:

- Most LDCs are not significant exporters of those agricultural products on which the remaining tariffs would be eliminated. Afghanistan, Bangladesh, and Haiti currently export some of these products at modest levels. Preliminary analysis indicates that 20 LDCs might have a potential to export such products to Canada on the basis that they currently export some of these products to other destinations, including the European Union, the United States and Japan.

- Producing food products for an export market is difficult for many LDCs because they lack the technical capacity and infrastructure to support production, quality control and to implement the appropriate levels of health protection required by Canadian standards. In these cases market access alone will do little to improve export performance without trade related assistance.

- LDCs are not as involved in the production of textiles as they are in the making of apparel, a more labour intensive industry. In total, imports of textiles from LDCs account for only 0.4% of all Canadian textile imports. (See Table II) The Canadian textile sector is a capital intensive industry supplying different market segments. Employment has been increasing over the last ten years, while the number of textile establishments has dropped. In the last eight years shipments have increased by approximately 45%.

- LDCs are not a major source of footwear imports to Canada. Together, they made up 0.05% of total Canadian imports in 2000. Cambodia is the biggest supplier ($374,500), followed by

Bangladesh and Burma ($124,400 and $110,000 respectively). See Table III. The Canadian footwear industry has been severely impacted by market liberalization since 1988. In 2000, the industry comprised 74 establishments employing some 7,500 people, half of what it was in 1988.

The greatest potential for increased imports is in the apparel sector. While many factors affect the purchasing decisions of Canadian importers, removal of tariffs and quotas may prompt some importers to switch their sources of apparel to LDCs to take advantage of lower import costs. Canadian imports of apparel as a whole could rise. This increase would be dependent on the ability of LDCs to meet demand. Some Least Developed Countries, Bangladesh in particular, have the ability to increase their exports of apparel to Canada considerably in the short term. For other countries, this supply response may be slower.

New imports could compete with those firms in Canada which produce similar products. If imports continue to increase, it is possible that jobs may be lost in some manufacturing segments. At the same time, this employment loss could be offset by opportunities in those segments of the industry that are exporting as well as in related services sectors.

It is difficult to accurately predict the level of increase in apparel imports from LDCs or its impact on Canada. It would likely be similar to Canada's experience to date but on a much smaller scale as LDC imports are only 4% of total apparel imports. Annual total LDC imports have been far less than the increases in Canadian exports to the U.S.A.

The Canadian apparel and textile industries will face increased pressure in 2005 when all quotas are eliminated under the World Trade Organization Agreement on Textiles and Clothing. Currently, Canada applies some quotas to LDC apparel imports but none to LDC textile imports. The Canadian apparel industries have been adjusting in anticipation of the implementation of WTO commitments in 2005. The proposed market access measures would accelerate the timelines for removing quotas on apparel imports from LDCs.

How much would LDCs benefit from a Canadian initiative on trade?

While it is difficult to predict how much a Canadian initiative will assist LDCs, data shows that countries which have had access to larger, global markets have grown faster and have, over the medium term, been able to reduce poverty. In these countries not only has income increased but other indicators such as average years of schooling and life expectancy also improved. The World Bank has estimated that if all high-income countries adopted a scheme similar to the EU's, LDCs could raise their revenues by more than 10% over time.

Issues for Consideration

The Government would welcome the views of Canadians on this approach, or on modifications to this approach which would expand access to the Canadian market for Least Developed Countries. In submitting views, interested Canadians may wish to address:

- the implications of removing duties and quotas on imports from LDCs: for Canadians; for the Least Developed Countries; for specific industries; for individuals

- how opening the Canadian market to imports from LDCs may affect employment in Canada; the likely scale of these effects; the geographic distribution of effects

- how adjustment as a result of such an initiative might be minimized or made more manageable

Submission

Interested parties are invited to submit their views by 02 May 2002. Submissions should be sent to the attention of: The Director, Economic Relations with Developing Countries Division, Department of Foreign Affairs and International Trade, 125 Sussex Drive, Tower C, 6th Floor, Ottawa, Ontario K1A 0G2,
E-mail:

consultations@dfait-maeci.gc.ca

ANNEX I: LIST OF THE LEAST DEVELOPED COUNTRIES

	Country	Date of inclusion on the list	WTO Status
1.	Afghanistan	1971	
2.	Angola	1994	Member
3.	Bangladesh	1975	Member
4.	Benin	1971	Member
5.	Bhutan	1971	In accessions process
6.	Burkina Faso	1971	Member
7.	Burma	1987	Member
8.	Burundi	1971	Member
9.	Cambodia	1991	In accessions process
10.	Cape Verde	1977	In accessions process
11.	Central African Republic	1975	Member
12.	Chad	1971	Member
13.	Comoros	1977	
14.	Democratic Republic of Congo	1991	Member
15.	Djibouti	1982	Member
16.	Equatorial Guinea	1982	
17.	Eritrea	1994	
18.	Ethiopia	1971	Observer
19.	Gambia	1975	Member
20.	Guinea	1971	Member
21.	Guinea-Bissau	1981	Member
22.	Haiti	1971	Member
23.	Kiribati	1986	
24.	Lao People's Democratic Republic	1971	In accessions process
25.	Lesotho	1971	Member
26.	Liberia	1990	
27.	Madagascar	1991	Member
28.	Malawi	1971	Member
29.	Maldives	1971	Member
30.	Mali	1971	Member
31.	Mauritania	1986	Member
32.	Mozambique	1988	Member
33.	Nepal	1971	In accessions process
34.	Niger	1971	Member
35.	Rwanda	1971	Member
36.	Samoa	1971	In accessions process
37.	Sao Tome and Principe	1982	Observer
38.	Senegal	2000	Member
39.	Sierra Leone	1982	Member
40.	Solomon Islands	1991	Member
41.	Somalia	1971	

42.	Sudan	1971	In accessions process
43.	Togo	1982	Member
44.	Tuvalu	1986	
45.	Uganda	1971	Member
46.	United Republic of Tanzania	1971	Member
47.	Vanuatu	1985	In accessions process
48.	Yemen	1971	In accessions process
49.	Zambia	1991	Member

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* Least Developed Country (LDC) is an official classification conferred by the United Nations Committee on Development Policy and is reviewed every three years. In 1971, 24 countries were designated LDCs on the basis of per capita GDP ($100 or less at 1968 prices), low share of manufacturing in GDP (10% or less) and poor rate of adult literacy (20% or less) .

The criteria have been revised and now include population size, an augmented quality-of-life index (indicator of weak human resources) and an index of economic vulnerability. The upper income threshold for inclusion, as of April 2000 is US$900 GDP per capita and for graduation $1035 per capita. Only Botswana has graduated from LDC status.

There are no WTO definitions of “developed” or “developing” countries. Developing countries in the WTO are designated on the basis of self-selection although this is not necessarily automatically accepted in all WTO bodies. The WTO recognizes as least-developed countries (LDCs) those countries which have been designated as such by the United Nations.

Amended 04/04/02

TABLE I: CANADA'S AGRI-FOOD IMPORTS FROM LDCS
IN RELEVANT CATEGORIES WHICH ARE STILL DUTIABLE
$Canadian

HS	Description	1999	2000	2000	2000	2000
		Canada		EU	Japan	US
1517102000	Margarine, excluding liquid margarine, over access	91	284	0	0	88,267
1701910011	Refined sugar, brown, in solid form, put up for re	1,393	4,040	0	0	0
1701910099	Refined sugar, in solid form, flav/colord, o/t put up	0	0	0	0	0
1701990021	Sugar, granulated, not cubed, put up for retail sa	8	0	22,555,681	0	0
1701990090	Refined sugar, nes, in solid form	0	0	0	0	0
1901905400	Food prep, nes, exc ret, of hds 04.01 to 04.04 >=5	0	7	435,672	0	79,005
1905309310	Sweet biscuits, nes, cntg >= 25% wt of wheat, pack	0	0	2,794	0	13,300

Source:
Statistics Canada

Notes:
There were no imports for all other dutiable agri-food products during this period.
The EU, Japan and U.S. statistics are for comparison purposes and compiled at the 6 digit HS code level.

TABLE II: CANADA'S TEXTILE IMPORTS, 1998 - 2000							
$Canadian							
HS	Product Description	1998	1999	2000	1998	1999	2000
					LDC as % World		
From the World		6,413,709,228	6,259,700,810	6,544,108,299			
From LDCs		24,232,283	38,597,633	25,392,792	0.38%	0.62%	0.39%
50	Silk;silk Yarn,fabric	99	15,962	1,209	0.00%	0.05%	0.00%
51	Animal Hair+yarn,fabrc	5,593	19,077	237	0.00%	0.01%	0.00%
52	Cotton+yarn,fabric	16,860,135	20,970,727	9,464,328	1.63%	2.28%	1.00%
53	Other Veg Textile Fiber	3,099,034	4,231,247	4,473,915	13.40%	16.64%	18.29%
54	Manmade Filament,fabric	410	2,720	14,745	0.00%	0.00%	0.00%
55	Manmade Staple Fibers	958	1,290	168	0.00%	0.00%	0.00%
56	Wadding,felt,twine,rope	146,092	81,646	61,575	0.03%	0.02%	0.01%
57	Textile Floor Coverings	1,082,092	1,741,668	2,614,401	0.15%	0.23%	0.34%
58	Spcl Woven Fabric,etc	14,988	196,277	135,107	0.01%	0.11%	0.07%
59	Impregnatd Text Fabrics	149	11,631	64	0.00%	0.00%	0.00%
60	Knit,crocheted Fabrics	9,630	10,347	128	0.00%	0.00%	0.00%
63	Misc Textile Articles	3,013,103	11,315,041	8,626,915	0.42%	1.51%	1.05%

Source:
Statistics Canada

TABLE III: CANADA'S FOOTWEAR IMPORTS, 1998 - 2000						
$Canadian						
	1998	1999	2000	1998	1999	2000
				LDC as % World		
From the World	1,414,328,663	1,457,325,363	1,484,688,216			
From LDCs	250,804	784,735	665,801	0.02%	0.05%	0.04%

Source:
Statistics Canada

TABLE IV: CANADIAN APPAREL STATISTICS (1992-2000)										
	1992	1993	1994	1995	1996	1997	1998	1999	2000	Import share in 2000
Employment in Canada	75,795	85,050	83,790	84,328	84,977	87,936	90,365	89,389	93,152	
Domestic shipments (C$ million)	5,841	5,986	6,229	6,568	6,678	6,947	6,968	7,392	7,380	
Imports (C$ million)										
China	571	656	607	670	662	872	998	1,089	1,340	25%
United States	344	493	573	646	633	807	883	787	766	14%
Hong Kong	501	503	472	495	452	498	530	488	512	10%
India	112	131	173	198	217	226	269	314	366	7%
Korea, South	272	263	247	202	136	168	242	265	307	6%
Mexico	15	19	25	39	66	93	129	162	206	4%
Italy	118	112	125	139	139	154	176	163	166	3%
Bangladesh	33	47	61	90	79	103	125	129	155	3%
Other 47 LDCs (under LDCT)	18	12	10	11	12	19	21	28	44	1%
Total 48 LDCS	52	59	70	101	91	123	146	157	199	4%
OTHERS	969	1,033	1,120	1,163	1,051	1,210	1,417	1,353	1,520	29%
TOTAL (ALL COUNTRIES)	2,874	3,207	3,349	3,589	3,373	4,062	4,705	4,718	5,308	100%
Total Canadian exports (C$million)	615	826	1,083	1,355	1,661	2,036	2,496	2,750	3,042	

Source:
Statistics Canada
Trade Data Online, Canada Trade by Industry

TABLE IVA: EMPLOYMENT BY PROVINCE IN THE APPAREL INDUSTRY								
	Ontario	Quebec	Manitoba	Sask	British Columbia	Alberta	New Brunswick	NovaScotia
	SIC24	SIC24	SIC24	SIC24	SIC24	SIC24	SIC24	SIC24
	L673206	L669561	L676963	L0679944	L685921	L682701	L667088	L664374
1983	39699	44419	6142	N/A	3811	1528	N/A	N/A
1984	42413	50014	6788	N/A	4175	1360	N/A	N/A
1985	39570	59149	7580	N/A	3320	1286	N/A	N/A
1986	40499	64323	7763	N/A	3864	1756	N/A	N/A
1987	41753	61439	8069	N/A	4546	1965	N/A	N/A
1988	40387	61662	7753	N/A	5909	2070	N/A	N/A
1989	38935	59307	7314	N/A	5764	1922	N/A	N/A
1990	33487	59209	6802	N/A	5829	2035	N/A	N/A
1991	24271	52650	5413	N/A	4269	1846	N/A	N/A
1992	22234	40705	4858	N/A	4253	1662	N/A	N/A
1993	22215	49189	5276	N/A	4566	1750	N/A	N/A
1994	21423	48302	5123	N/A	4709	1955	N/A	N/A
1995	21987	48325	5011	N/A	5365	1164	737	N/A
1996	21233	50594	4925	N/A	4254	N/A	719	N/A
1997	22941	51752	4739	N/A	4363	N/A	758	905
1998	24818	52088	4788	N/A	4363	N/A	794	N/A
1999	24789	51395	4576	N/A	4507	1823	764	N/A
2000	25478	53544	4856	545	4944	2090	788	N/A

Notes:
N/A not available
Data not available for PEI and Newfoundland and Labrador

Source:
Statistics Canada