



*Economic Commission for Africa*

*African Trade Policy Centre*

**BRIEFING NOTE ON UNRESTRICTED MARKET ACCESS FOR  
THE LEAST DEVELOPED COUNTRIES<sup>1</sup>**

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<sup>1</sup> The views expressed are those of the authors and do not necessarily reflect those of the United Nations.

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### **Executive summary:**

*The following are the highlights of the results from the simulation of an expanded unrestricted market access for LDCs in the QUAD markets:*

- (a) Our study shows that unrestricted access to the Quad markets for least developed countries would benefit all of these countries.*
- (b) However, African countries would gain significantly less than Bangladesh and other South Asian countries.*
- (c) The measure would also lead to a deterioration in the trade balance of Sub-Saharan African countries, as local demand for imports would grow more than exports to the Quad.*
- (d) Besides, the measure would lead to a reinforcement of agricultural specialization in this region to the detriment of industrial production.*
- (e) Of particular significance though is the overall result that the extension of unrestricted market access from African countries only to all LDCs does not seem to alter the benefits Africa could draw from it.*

### **1. Methodology**

The methodology used in this model is the same as the one used in the paper written by the Economic Commission for Africa (ECA) on Unrestricted Market for Africa (UMA)<sup>2</sup>. The simulations, whose results are presented here, are based on the version 6.0 of the GTAP database<sup>3</sup>. The scenario includes a complete elimination of the QUAD tariffs on the LDCs exports with no reciprocation from these countries. The baseline was updated to include the phasing-out of the multi-fiber agreement<sup>4</sup>, as well as the enlargement of the EU to 25 members. The standard version of the model was modified so that the full utilization of the unskilled work hypothesis is relaxed for all Least Developed Countries (LDCs)<sup>5</sup>.

The present results must be interpreted with caution, as the data used refers to the 2001 year, and does not include the economic changes that have occurred post 2001, except the ones mentioned above. Besides, the statistical data regarding LDCs are rather aggregated, which forced us to some approximations in the geographical aggregation. Some LDCs could not be included in the LDC category as they were aggregated with significant non-LDC economies, namely Kiribati, Samoa, Solomon Island, Tuvalu, Vanuatu, Haiti,

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<sup>2</sup> “Unrestricted Market Access for Sub-Saharan Africa: Important Benefits with Little Cost to the QUAD”, ECA, 2005.

<sup>3</sup> Among the updates introduced through the version 6.0 of the GTAP database, preferential tariffs give a more accurate perspective on the impact of UMA for Africa.

<sup>4</sup> All quotas on textile and clothing have been eliminated, except on Chinese exports, where 50% of the quotas have been maintained.

<sup>5</sup> See the discussion on that hypothesis change in the reference paper.

Afghanistan, Bhutan, Yemen, Maldives, Lesotho and Nepal. On the other hand, Brunei, which is not an LDC, is included in the group of LDCs “Southern Asian LDCs”, while Mauritius, Seychelles, Cameroon, Congo, Côte d’Ivoire, Gabon, Ghana, Kenya, Nigeria, Reunion, Saint Helene and Mayotte are among the African LDCs. Of note, most of these non-LDCs African countries are eligible for the Heavily Indebted and Poor countries initiative, which could justify their inclusion in the aggregation<sup>6</sup>.

## 2. Analysis of the results

### a) Trade perspectives

The LDCs would all benefit from UMA, but African LDCs would benefit less than the others. The LDCs would enjoy significant growths of their exports to the Quad. The South Eastern Asian LDCs would be the main beneficiaries of this growth of exports to the quad (USD 1.1 billion), while Bangladesh (+USD 0.9 billion) performances slightly exceed the performances of all the African LDCs (+USD 0.5 billion).

**Tab. 1: Bilateral trade impact of UMA for all LDCs (in million USD)**

	Canada	EU	USA	Japan	S.A.	LDCs	Bangladesh	African LDCs	ROW	Total
South Asian LDCs	61	-42	1,092	38	0	-3	-4	-479	663	
Bangladesh	168	-685	1,450	-35	0	0	-7	-259	631	
African LDCs	1	174	347	3	1	8	-27	-247	261	
Canada	0	18	-13	4	3	20	15	30	76	
EU	-37	-26	-257	-10	99	152	362	60	343	
USA	33	327	0	48	55	80	105	579	1,226	
Japan	-5	30	-36	0	64	69	30	75	227	
Rest of the world	-158	19	-2,201	-72	894	1,095	368	-14	-69	
<b>Total</b>	<b>62</b>	<b>-184</b>	<b>382</b>	<b>-24</b>	<b>1,115</b>	<b>1,420</b>	<b>842</b>	<b>-255</b>	<b>3,357</b>	

*Source: GTAP 6.0 and author’s computations*

Bangladesh will export more textile and clothing to the USA (USD +1.6 billion) and Canada (+USD 0.1 billion), as it is currently facing significant tariff barriers in these market. All other exports from this country should decrease, with significant drop in the other industrial sectors (USD -0.2 billion), and a shift of textile and clothing sales from the EU markets (USD -0.3 billion) to the Northern American markets.

In the same vein, other South Asian LDCs should improve their sales of textile and clothing to the North American markets (USD1.2 billion), yet without shifting textiles and clothing sales from other quad markets. In the mean time, these countries could also benefit from a better access to the vegetables and cereals markets of Japan (+USD 0.1 billion).

The African LDCs increase their sales of textiles and clothing to the American market up to USD 0.2 billion, but would benefit more from the liberalization of the vegetables

<sup>6</sup> See the discussion on the geographical aggregation in the reference paper.

market of the European Union (+ USD 347 million), and of the agro-processing markets of the Quad (+USD 274 million).

**Tab. 2: Changes in the exports structure of the African LDCs**

	Canada	EU	USA	Japan	ROW	Total
Agriculture	-2.7	215.6	37.0	-6.7	-81.8	161.4
Agro-process	2.0	228.9	18.1	24.6	-15.8	257.8
Textile	1.4	-7.4	60.6	0.0	-2.3	52.3
Clothing	2.2	-4.4	121.3	0.9	-0.5	119.6
Lowtech	0.0	-35.7	-2.5	0.4	-6.6	-44.3
Medtech	-0.3	-84.6	-0.7	-2.2	-56.2	-144.0
Heavy industries	-0.3	-33.8	-1.5	-0.3	-18.7	-54.6
Services	-3.3	-54.7	-34.3	-10.7	-51.5	-154.6
Total	-0.9	223.9	198.0	6.1	-233.4	193.6

This trade expansion will be associated with a sharp growth of imports in LDCs, which lead to slight deterioration in the balance of trade of these countries. The trade imbalances are particularly significant in the industrial sectors other than textile and clothing, confirming the reinforcement of the specialization in agriculture, textile and clothing of these countries (see part 2). Yet, these imbalances are partially offset by the price effect of the UMA, as the terms of trade of the LDCs tend to improve thanks to the measure.

**Tab. 3: Trade implications of the UMA for all LDCs**

	Trade balance	Industrial trade balance*	TOT**
African LDCS	-406	-630	0.42
South Eastern Asian LDCs	-183	-788	3.67
Bangladesh	-574	-745	3.77

Source: GTAP 6.0 and author's computations

#### b) Output structure

In terms of output and welfare, the UMA appears to be beneficial for all the LDCs. Bangladesh captures 41% of the total welfare gains created by UMA, versus 37% for the other Southern Asian LDCs, and 21% for the African LDCs. The output implications of

the measure seem also uneven, with significant output creation in Bangladesh (+4.1%) and other Southern Asian LDCs (+2.2%), and a minor output increase in Africa (+0.53%). The gaps are even stronger when the price effect is taken into consideration, as the growth in the value of output of Bangladesh reaches 9.1%, versus 1.1% in Africa.

**Tab. 4 Welfare and output implications of UMA for all LDCs**

	Welfare (USD million)	GDP (%)	Volume	GDP Value (%)
Quad	-1,014	0		0
South East Asia	2,069	2.37		8.04
Bangladesh	2,627	4.99		11.7
SSA	1,237	0.58		1.32
Other developed	41	0		0
Other developing	-63	0		0
Total	4,897	0		0

*Source: GTAP 6.0 and author's computations*

In terms of output structure, the UMA proposal should reinforce the specialization of LDCs in agriculture, textile and clothing. It should slightly affect the industrial potential<sup>7</sup> of Asian LDCs, but leave unchanged the Sub-Saharan African industrial output. The Asian producers will need to reallocate the production factors used by these industries to cater for the surge of the demand of textile and clothing in the USA. This process of reallocation will lead to the rise in land prices, compared to the prices of other production factors.

**Tab. 5: Economic specialization changes**

	South East Asia LDCs	Bangladesh	SSA LDCs
Agriculture	0.1%	2.4%	0.5%
Textile clothing	15.6%	15.7%	6.6%
Industries	-0.2%	-1.1%	0.1%
Services	2.4%	5.1%	0.5%

*Source: GTAP 6.0 and author's computations*

### **3. Comparison with the scenario whereby Africa would be the only beneficiary of UMA**

Compared with the scenario in which Africa is the only beneficiary of UMA, this expanded scenario seems to be slightly more favorable to Africa. Neutral in terms of output, the enlargement of the UMA privileges to all LDCs would raise the welfare and improve the terms of trade of Africa.

<sup>7</sup> Without taking into account the output of textile and clothing.

**Tab. 6: Implication of different UMA scenarios on the African economies in USD million.**

	Africa only	All LDCs
Welfare	1225	1237
Trade balance	-423	-406
GDP Volume	0.58	0.58
GDP Value	1.32	1.32
Terms of trade	0.41	0.42

*Source: GTAP 6.0 and author's computations*

Furthermore, African LDCs would focus more on textile and clothing, and less on agriculture under this scenario, which is favorable to the industrialization strategy of the region. The main difference would occur on the textile and clothing markets of Northern American countries, where the African exports would be slightly higher than in the scenario “Africa sole beneficiary”. These paradoxical results—one would have expected the increased competition from Asian exporters to reduce the sales of African exporters—can be explained by the impact of the growth of Asian exports to the USA on the prices of textile and clothing. While the prices of textile and clothing remained practically unchanged in the previous scenario, they would be boosted by the enlargement of the UMA privileges to all LDCs, which, in return, would boost the African exports of textile and clothing.

**Tab. 7: Implication of different UMA scenarios on the African specializations**

	Africa only	All LDCs
Agriculture	0.6%	0.5%
Textile clothing	5.8%	6.6%
Industries	0.1%	0.1%
Services	0.5%	0.5%

*Source: GTAP 6.0 and author's computations*