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Research report

Forum: Economic & Social Council

Issue: Establishing corporations to promote development of LEDCs through international trade

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Introduction

In a world that is becoming more and more interconnected, the issue of promoting the development within Less Economically Developed Countries (LEDCs) stands at the forefront of our global concerns. The installations of big corporations can aid economic growth, employment generation, poverty alleviation, and more social inclusion for marginalized groups in LEDCs.

Corporations which aid the LEDCs they are based in can serve as conduits for technological transfer, investment, and knowledge exchange, catalyzing economic progress in regions where resources are scarce, and opportunities are limited. Moreover, these corporations can grant LEDCs the opportunity to form cross-border partnerships, forging stronger connections between LEDCs and MEDCs.

Keep in mind that with the promise of such greatness comes a wave of intricate challenges and ethical dilemmas that demand thorough examination.

This report will not delve into the potential pro's and con's of such corporations but also examine the ethical implications of such deals thoroughly. The delicate balance between promoting development and safeguarding against exploitation will be a central focus.

General overview

Progress and the recent trend

(*State of the least developed countries 2021, OHRLLS*).

LDC total goods and services exports increased by 35 per cent to reach USD 234 billion over the course of the past decade (2010-2019). This performance was mainly driven by LDCs' services exports, which more-than-doubled over this period, albeit from a low base (USD 20.9 billion). Merchandise exports, on the other hand, have increased more slowly – by 25 percent – to USD 190.3 billion in 2019.

LDCs have achieved a fair degree of export diversification since 2010, marked by a shift away from commodity dependence to manufactured products and services. The share of oil in LDC exports has declined steadily from 54.5 percent in 2010 to 32.3 percent in 2019 while the share of manufactured exports has increased from 18.2 percent to 31.5 percent over the same period, including a considerable increase in the share of clothing products. Imports of total goods and commercial services of LDCs grew by 3.6 per cent in 2019 compared to 2011. Imports exceeded exports by USD 77.0 billion in the case of goods, and by USD 23.0 billion in the case of commercial services in 2019. LDCs' 2019 trade deficit was US$ 100 billion, more than two times higher than in 2011 (USD 40.5 billion), when the trade balance of goods was slightly positive.

COVID-19

(*Trade impacts of the COVID-19-19 pandemic on graduating LDCs. Reports prepared under the auspices of the Enhanced Integrated Framework-WTO project on LDC graduation, 1 December, unk*

COVID-19 had an influence on all of us in the past few years; In regards to the LEDCs it made the value of trade decrease heavily, There is evidence that LEDCs that were more fully integrated into global corporation chains, were more deeply affected by the COVID-19 fallout on global trade.

During 2020 the merchandise exports of LEDCs fell by 10.3 percent compared to the global average of 7.7 percent. The commodity prices fell by 30 percent in the first half of 2020 and kept spiraling down. The drop of the commodity prices was and still is heavily felt by LEDCs that are heavily reliant on their commodity exports. In 2020, merchandise imports of LDCs also decreased by 10.3 percent against the global average of 7.7 percent at the same time. LDC merchandise trade balance was negative 13 billion in 2011 which has increased to a whopping negative 75 billion in 2020. The value of LEDCs' services exports experienced a sharp decline in the first half of 2020.

In LEDCs the tourism branch accounts for roughly 47.9% of their service exports in 2019 whilst for the rest of the world it is less than 24%. The implementation of strict lockdowns and travel restrictions worldwide have thus resulted in a drop of LEDCs' service exports by 39% in the first nine months of 2020. Whilst in MEDCs the tourism branch dropped by only 19% on average in the first 9 months of 2020.

Aid for Economic Infrastructure

Between 2011 and 2018, (the last year for which I could find the figures), the United States supported LEDCs with an estimate of 73.8 billion USD for trade to support them in strengthening their economic infrastructure (57% increase), building productive capacity (by a 41% increase) and enhancing trade policy and regulations (2% increase).

In 2018, aid-for-trade flows to LEDCs became 37% higher than what they were at the start of the IPoA in 2011. Aid-for-Trade funding to LEDCs has grown 13% annually since 2006, reaching a shocking 13.5 billion USD in 2018. Given their serious capacity constraints, LEDCs need more support through aid for trade, including the Enhanced Integrated Framework (EIF).

Definitions of key terms

LEDC

Lesser Economically Developed Country.

MEDC

More Economically Developed Country.

Commodity

Raw materials, or primary agricultural products that are bought and sold. Examples are coffee, water, copper and oil.

Flexicurity

Flexicurity is an integrated strategy for enhancing, at the same time, flexibility and security in the labour market. It attempts to reconcile employers' need for a flexible workforce with workers' need for security – confidence that they will not face long periods of unemployment.

IPOA

The Istanbul Program of Action. The Istanbul Programme of Action (IPoA) charts out the international community's vision and strategy for the sustainable development of LDCs with a focus on developing their productive capacities during the decade 2011-2020. Via the IPOA, a program to help LEDCs grow their trade designed by Istanbul, LEDCs were aided and supported and have accepted an estimate of 100 billion USD for economic infrastructures over the past decade.

Major parties involved

Amnesty International

Amnesty International is a global organisation that campaigns for human rights. They have more than 10 million members spread over 150 different countries and territories to help people in need. They have been helping people reclaim their rights since 1961 and have played a major role in researching and ensuring safe working conditions.

WTO

The World Trade Organisation deals with global rules and laws of trade between nations. WTO agreements are signed by the majority of the world's trading nations and ratified in their parliaments. They ensure a smooth, predictable, and free flow of trade.

Timeline of Key Events

50s-60s

Decolonization and early industrialization efforts in many of the LEDCs created opportunities for foreign corporations to establish manufacturing and production facilities.

1971

Intel established its first offshore manufacturing plant in Malaysia, marking a significant shift towards globalized production by multinational corporations.

1980s

The rise of export-processing zones (EPZs) in countries like Taiwan, South Korea, and China attracted many multinational corporations seeking low-cost manufacturing bases to increase their profit margins.

1990

The North American Free Trade Agreement (NAFTA) came into effect, encouraging investment and trade between the U.S., Canada, and Mexico, benefiting corporations in all three countries and setting an example for many others.

1991

India introduced their economic reforms. They liberalized their economy and by doing so attracted foreign investments, leading to the growth of IT outsourcing companies.

2001

China's entry into the World Trade Organization (WTO) opened up its market to foreign corporations, and that resulted in a surge in manufacturing and exports.

2005

The United Nations Global Compact encouraged multinational corporations to adopt sustainable and socially responsible business practices, changing how they operated in LEDCs.

2010

The expansion of e-commerce and digital technology led to increased investment by international tech giants like Amazon and Aliexpress in LEDCs' logistics and e-commerce infrastructure.

2016

The Paris Agreement on climate change prompts some corporations to invest in renewable energy and sustainable practices in LEDCs to reduce their carbon footprint. Forcing nations to cooperate with the (green) industrialisation of LEDCs.

2020s

The COVID-19 pandemic disrupts global supply chains, prompting some corporations to diversify their production bases in LEDCs to mitigate future risks.

Previous attempts to solve the issue

This isn't a new issue; there have been multiple attempts to address the issue of promoting development in Less Economically Developed Countries (LEDCs) through international. Below you can find three examples.

Bretton Woods Conference and the IMF/World Bank (1944)

The Bretton Woods Conference held in 1944 was a pivotal moment in the post-World War II era, with a focus on international monetary cooperation and economic stability. Out of this conference emerged the International Monetary Fund (IMF) and the World Bank, both of which played key roles in assisting LEDCs. The IMF provided short-term financial assistance to countries facing balance of payments problems, while the World Bank financed long-term development projects.

These institutions aimed to stabilize global economies and promote development by providing financial support to LEDCs. However, critics argue that their policies often came with strict conditions, known as structural adjustment programs, which sometimes led to austerity measures and social consequences in recipient countries.

United Nations Conference on Trade and Development (UNCTAD) (1964)

UNCTAD was established in 1964 with the goal of promoting trade, investment, and development in LEDCs. It provided a platform for LEDCs to voice their concerns about the international trading system, including issues like commodity prices, market access, and technology transfer.

UNCTAD emphasized the need for a fairer global trading system and advocated for policies that would enable LEDCs to benefit more from international trade. While UNCTAD has made significant contributions to discussions on development, it has faced challenges in implementing concrete measures that address the trade imbalances between developed and developing nations.

Generalized System of Preferences (GSP) Programs (1970s)

Several developed countries, including the United States and members of the European Union, introduced GSP programs in the 1970s. These programs offered preferential tariff rates to imports from certain LEDCs, helping them access developed markets more easily.

GSP programs aimed to promote LEDC exports by making it cheaper for their products to enter developed markets. While these programs have provided benefits, they've also faced criticism for being limited in scope and sometimes tied to specific conditions, such as labor and environmental standards.

These attempts had varying degrees of success, but all were crucial to reflect on the challenges faced by LEDCs in international trade and development.

Possible solutions

Investment in Infrastructure Development: LEDCs can attract foreign corporations by investing in infrastructure such as transportation networks, ports, and energy facilities. Improved infrastructure reduces production costs, enhances supply chain efficiency, and therefore makes LEDCs more attractive for international businesses to settle.

Trade Facilitation and Simplification: LEDCs can streamline trade procedures and reduce bureaucratic hurdles. This simplification can include implementing electronic customs systems, reducing import/export tariffs, and harmonizing trade regulations to make it easier for multinational corporations to engage in international trade.

Special Economic Zones (SEZs): Establishing SEZs with favorable tax policies and regulatory environments can attract foreign corporations. These zones provide designated areas for businesses to operate with reduced tax burdens and streamlined regulations, encouraging investment and job creation.

Skills Development and Education: Fostering a skilled workforce through education and training programs ensures LEDCs have necessary people to meet the demands of multinational corporations. This can lead to more advanced manufacturing and service industries.

Trade Agreements and Partnerships: LEDCs can negotiate trade agreements and partnerships with developed countries and neighboring nations to expand market access for their goods and services. Regional trade agreements and preferential trade arrangements can boost exports and economic growth.

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Further Reading

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