

**LDC GRADUATION AND THE WTO: ASSISTING LDCS TO ADDRESS THE TRADE-RELATED
IMPLICATIONS OF GRADUATION FROM LDC STATUS**

**TRADE IMPACTS OF THE COVID-19 PANDEMIC ON
GRADUATING LDCS¹**

1 December 2020

¹ The report builds on the analysis carried out in the report "Trade impacts of LDC graduation" issued by WTO in May 2020. It was prepared by Dr. Emily Blanchard, Tuck School of Business at Dartmouth College and Dr. Will Olney, University of Hawaii at Manoa, under the auspices of the EIF-WTO Project on LDC Graduation. The report is without prejudice to the positions of members in the WTO. It is subject to further revisions depending on comments received.

Introduction

The COVID-19 pandemic has had severe consequences for global health and economic activity. International trade in goods and services declined dramatically from March through May 2020, with only partial recovery since. Exports from the group of twelve graduating Least Developed Countries (LDCs)² were especially hard-hit by the COVID-19 pandemic, seeing a sharper initial decline and slower recovery compared to exports in the rest of the world and from other LDCs. The relative severity in the trade collapse among graduating LDCs is in part a reflection of underlying dependence on natural resource exports (i.e. oil and minerals), which saw a particularly steep decline in demand due to the pandemic. At the same time, the relative (under)performance of manufacturing exports from LDCs may signal potential vulnerabilities in GVC-linked industries during periods of disruption that can be exacerbated in countries with less robust digital trade and e-commerce infrastructure.

This report assesses the underlying structural factors that account for the COVID-induced disruption of exports in graduating LDCs. By understanding which factors bear greater responsibility for the COVID-19 collapse in trade flows— and which factors may have offered greater protection from the devastating consequence of the pandemic—graduating LDCs will be able to build on lessons learned to enhance their economic resilience, growth, and engagement with the global trading landscape.

COVID-19 as a Lens

The COVID-19 pandemic has created an unprecedented simultaneous global economic shock to both demand and supply. While aggregate demand fell precipitously during the pandemic, there were substantial differences across industries and products. Demand for some products, like personal protective medical equipment, air purifiers, ventilators, and detergents, increased by orders of magnitude in a matter of weeks, while demand for oil, luxuries, in-person services, and a host of consumer goods declined precipitously.

Supply-side effects were also immediate and profound. Mandated lockdowns to protect public health shuttered factories, leading to temporary but significant disruptions in worldwide production via global value chain (GVC) linkages. The costs of these shutdowns and production disruptions were particularly high for “just in time” GVC-integrated producers with little or no inventory. At the same time, some producers and suppliers demonstrated both agility and resilience. As consumers, workers, and managers were forced to stay home, e-commerce and digital services trade increased. Firms found new ways to reach their employees, suppliers, and buyers on-line, substituting for in-person marketing and collaboration with remarkable speed and agility.

Perhaps most dramatically, global travel cratered as tourists and business travellers cancelled plans in the face of rising case-counts and the global spread of the virus. According to the UN’s World Tourism Organization, global tourism is expected to decline by between 58 to 78 percent in 2020 due to the pandemic, with a fall in visitor spending from roughly \$1.5 trillion in 2019 to between \$310 and \$570 billion in 2020.³

Put simply, 2020 has been a year of dramatic and profound economic disruption.

There are lessons to be learned from the turmoil. Why did some countries fare better than others? While all have been hurt by the pandemic, some economies been relatively insulated from the shock while others have seen significant effects. Focusing on exports as a critical component of countries’ economic vitality reveals that the effects of COVID-19 differ largely based on the structure of individual countries’ trade.

² *Graduating LDCs*: Angola, Bangladesh, Bhutan, Kiribati, Lao PDR, Myanmar, Nepal, Sao Tomé and Príncipe, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu

³ UNWTO (2020)

In some sectors of the global economy, COVID-19 may be best understood simply as a *temporary disruption*, after which global demand, production, and trade will return to pre-COVID levels and growth patterns in short order. Agriculture and other food production, which saw modest (if any) changes in overall demand and supply during the pandemic, might best be cast in these terms. Consumers' demand for leisure travel might also fall in this category if consumers have decided to postpone, but not to cancel, their plans until the pandemic subsides. Indeed, expenditures for certain items like overseas vacations, durable consumer goods, or luxury items might even rise temporarily above pre-pandemic levels as the virus subsides and consumers feel confident undertaking deferred purchases.

In other sectors, the COVID-19 shock has acted as an *accelerant*, amplifying existing trends. COVID-19 has boosted already rapidly growing e-commerce and digital service trade, devastated the already-slipping demand for petrochemicals, and further hampered the already-slipping expansion of GVCs in favour of politically expedient "reshoring".

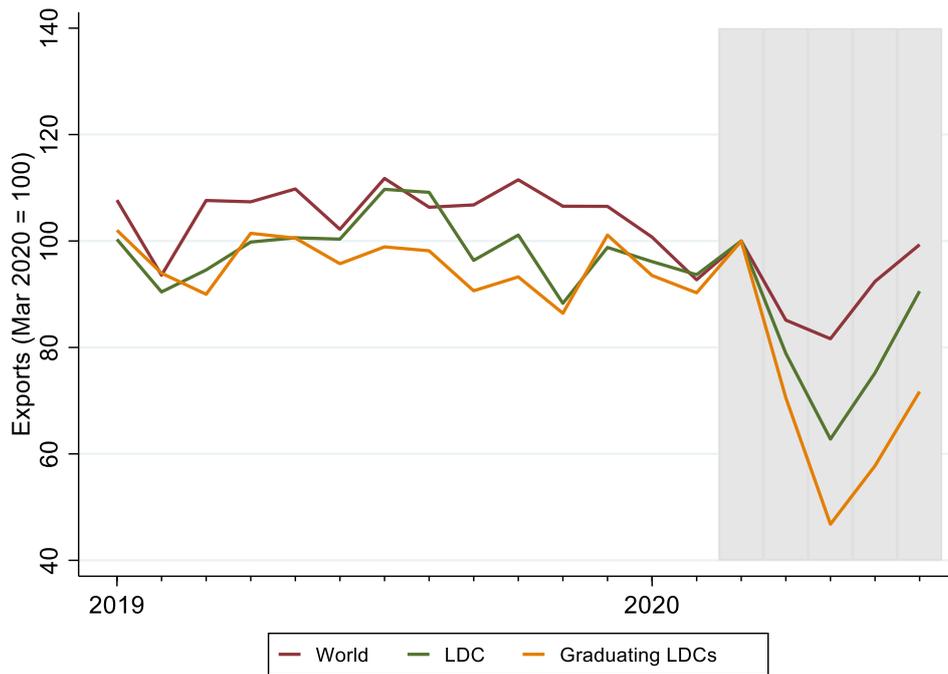
In still other industries, the COVID-19 shock is more accurately characterized as a *catalyst*, inducing changes that may not have occurred otherwise. The simultaneous global adoption of video conferencing may fundamentally reshape global business travel forever. Absent COVID-19, the widespread adoption of online meetings that is required to usher in a new-norm might not have occurred. COVID-19 has also likely changed the way that businesses assess the risks of cross-border operations and supply chain relationships. The early stages of the pandemic saw widespread government experimentation with unilateral and sometimes draconian trade restrictions in the name of national security. One possible unintended consequence of these early policy responses may be a permanent change in the way firms recognize and "price" economic and political uncertainty in the global trading system. Further consolidation of GVC networks or even renationalization of supply chains could result.

Looking ahead, graduating LDCs can draw lessons for trade policy by examining the different experiences across industries in their own economies. The subsequent analysis identifies patterns in the export performance of key industries in the twelve graduating LDCs just before and during the COVID crisis and ties the experience of these cornerstone sectors to four critical trade policy issues: commodity dependence, GVC integration, digital services trade and e-commerce, and the changing travel and tourism landscape. In different ways, COVID-19 has acted as a disruption, an accelerant, and a catalyst for long-lasting change. Together, the experiences of graduating LDCs in these important sectors of the economy during the pandemic offers a cohesive portrait of both the risks graduating LDCs face in the global trading system and the potential opportunities for future growth and resilience in the post-COVID world.

The COVID-19 Export Collapse in Graduating LDCs

Figure 1 compares monthly goods exports between January 2019 and July 2020 for the world, for the entire group of LDCs, and for the twelve graduating LDCs of particular interest in this study. For ease of comparison, each series is indexed to 100 in March of 2020 to coincide with the beginning of pandemic spread of COVID-19 and subsequent global economic COVID downturn. The timing and severity of the COVID shock is readily apparent in the figure. Global goods exports plunged dramatically after March 2020, reaching a nadir in May 2020. At that lowest point, total world goods exports had fallen by roughly 20% in just two months; LDC exports had fallen nearly 40% over the same time period, and exports from graduating LDCs had fallen by roughly half. Since then, global trade volumes have seen a steady recovery, but here again, LDCs continue to lag the world average, and graduating LDCs remain furthest behind.

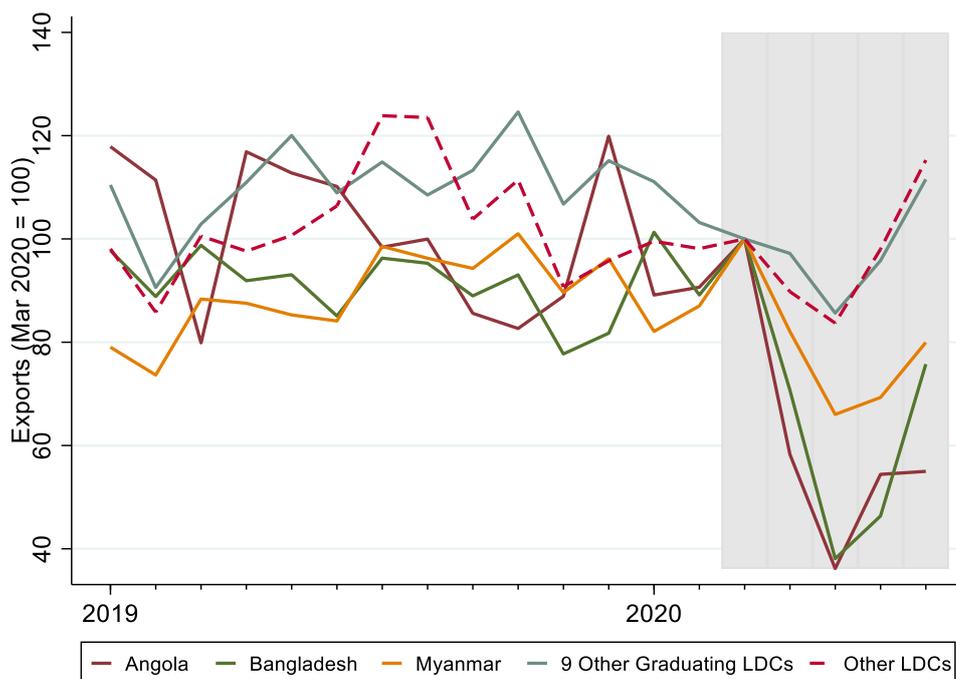
**Figure 1: Monthly Exports of All Goods by Country Group
January 2019-July 2020**



Source: Trade Data Monitor (based on mirror data of close to 100 reporters).

Figure 2 repeats the exercise in Figure 1 with greater detail among individual graduating LDCs. From here it is clear that three countries – Angola, Bangladesh, and Myanmar – are responsible for the graduating LDCs’ disproportionately severe decline in goods exports during COVID-19. In contrast, exports from the other 9 graduating LDCs closely track the average change in exports from all other LDCs, as shown.

**Figure 2: Monthly Exports of All Goods by Graduating LDCs
January 2019-July 2020**

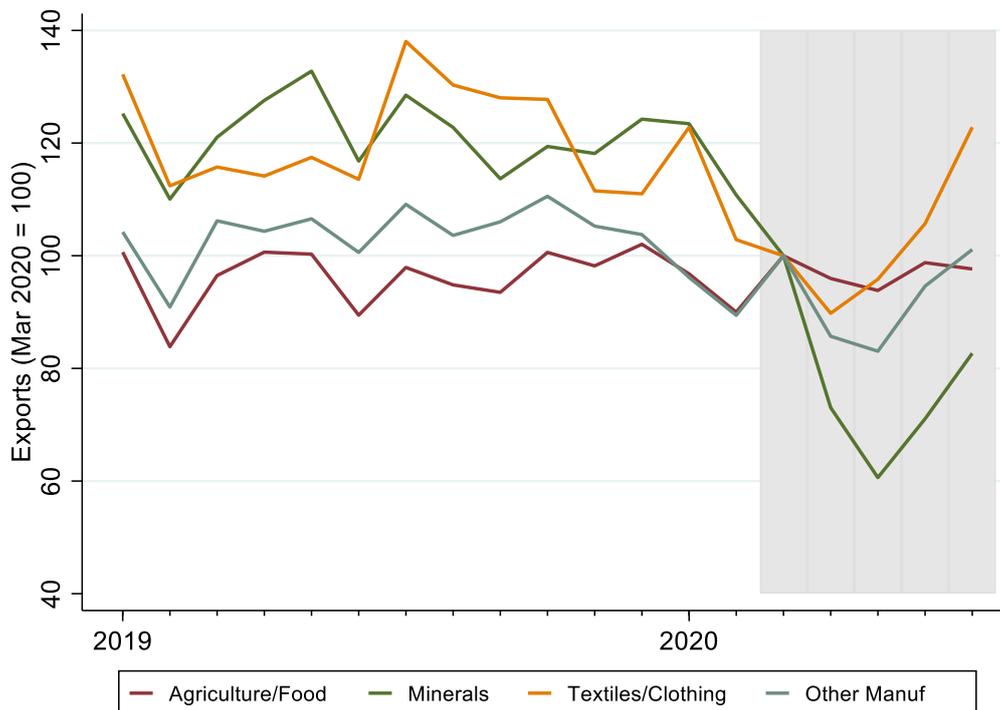


Source: Trade Data Monitor (based on mirror data of close to 100 reporters).

The immediate question is then why exports from these three countries – Angola, Bangladesh, and Myanmar – fell so quickly during the COVID pandemic compared with other developing countries and other graduating LDCs? The answer lies largely in the composition of each country’s trade: Angola’s exports are highly concentrated in primary minerals, especially petroleum oil (87% of average 2016-18 exports).⁴ Myanmar’s goods exports are concentrated in both petroleum gas (roughly 25%) and clothing and textiles (26%), while roughly 91% of Bangladesh’s goods exports are clothing and textiles.⁵ Because the COVID shock had a more negative impact on some sectors, these countries’ exports were more exposed to the COVID downturn than others.

Figure 3 illustrates the differences in global trade across sectors, comparing total world exports of minerals, agriculture, and manufacturing. Because the clothing and textiles sectors are so important to the economies of several graduating LDCs, we separately identify textiles/clothing exports apart from exports of other manufactured goods. As in previous figures, each series is indexed to 100 in March of 2020 to facilitate comparisons on evaluating the change in trade patterns over the time period and across sectors. As is evident in the figure, exports of minerals (including oil) fell most precipitously during the initial phase of the COVID pandemic – falling by roughly 40% from March to May 2020 (and more than 60% from January), while exports of agriculture and food saw a decline of less than 10% over the same time period.⁶ Interestingly, manufacturing trade saw a substantially greater decline than agriculture/food, but has also recovered more quickly, reaching pre-pandemic levels (and roughly flat year-on-year sales) by July 2020. Worldwide trade in textiles/clothing has recovered dramatically since the worst of the COVID trade collapse, but as discussed later, the recovery in that sector has been especially uneven across countries.

**Figure 3: Monthly World Exports of Goods by Sector
January 2019-July 2020**



Source: Trade Data Monitor (based on mirror data of close to 100 reporters).

⁴ WTO (2020)

⁵ Ibid

⁶ This category includes fish products, which are of particular importance to Kiribati, Solomon Islands, Tuvalu, and Vanuatu, and cocoa, which is a key export for Sao Tomé and Príncipe.

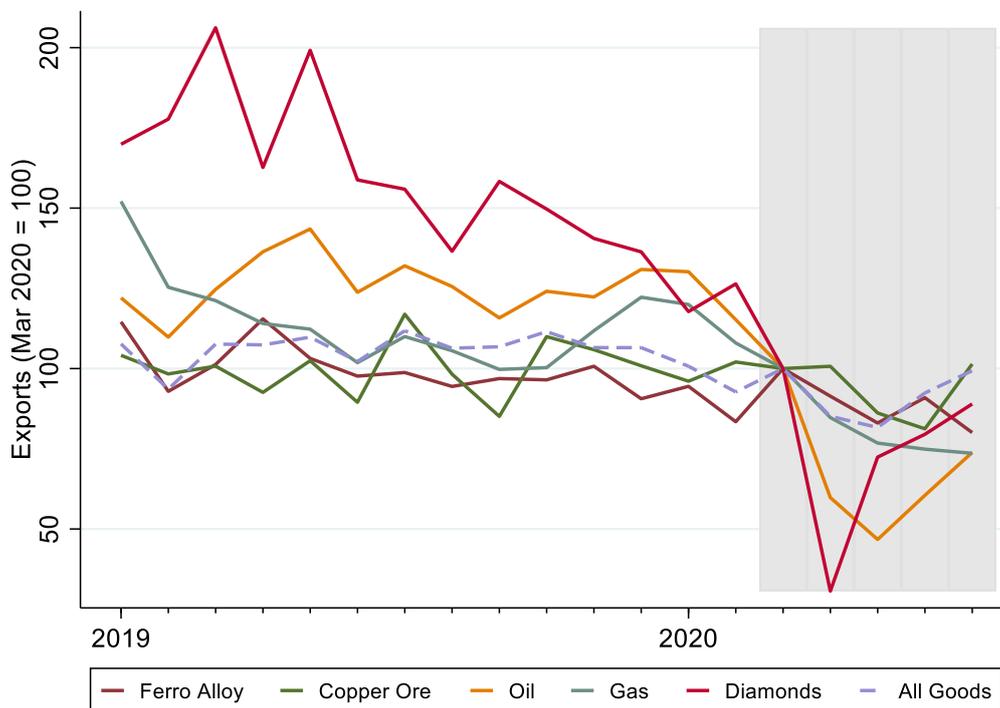
Below, we consider each sector in greater detail, examining data for the most-affected graduating LDCs and using these experiences to draw lessons for future trade policy. We begin with commodities exports in the mining and agriculture/food sectors.

Commodity Exports During COVID-19

The pandemic has exacerbated downward trends in prices for certain primary commodities, particularly crude oil and other mineral commodities. Among the twelve graduating LDCs that are the focus of this study, the most important mineral commodities exports include Ferro Alloys (7202), Copper Ore (2603), Petroleum Oil (2709-10), Petroleum Gas (2711), and Diamonds (7102).⁷

Figure 4 compares the change in world trade in these five key mineral exports relative to world trade of all goods between January 2019 and July 2020. It is important to note that even before COVID-19, monthly trade in primary minerals was more volatile than overall trade flows, reflecting well-known underlying price volatility for these commodities, even in normal times. Diamonds, which had already seen a 62 percent decline in monthly world exports from January to December 2019, fell most precipitously during the first stages of the pandemic, but had nearly recovered to pre-pandemic levels by July 2020. Total world exports of petroleum oil fell to their lowest level in May of 2020, down 50% from March and over 60% from January of the same year. Petroleum gas exports fared better than oil during the depth of the initial crisis but had yet to recover by mid-year. These stark declines contrast with the experience of ferro-alloys and copper ore, which experienced only modest declines during 2020 and showed little if any change from pre-COVID trends.

Figure 4: Monthly World Exports of Key Mineral Commodities January 2019–July 2020



Source: Trade Data Monitor (based on mirror data of close to 100 reporters).

The significant decline in global trade of mineral commodities carries several important messages for developing countries, particularly those graduating LDCs that are most dependent on oil and mineral exports as a key component of trade and GDP.

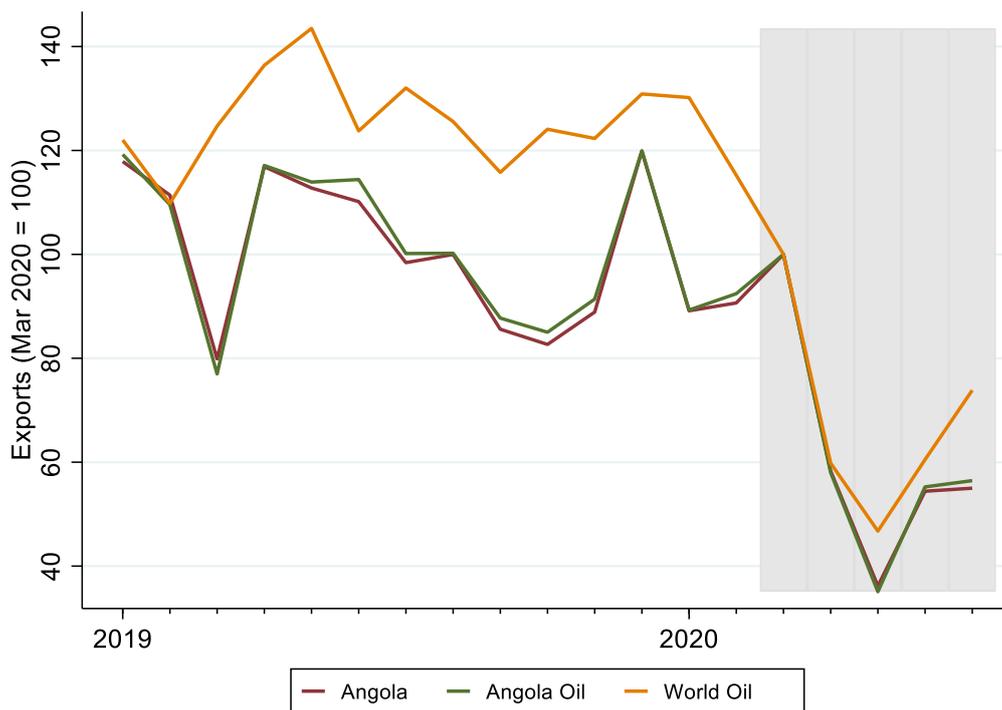
⁷ WTO (2020)

First, the volatility in demand for primary commodities during COVID-19 reinforces the value of export diversification. This is particularly true for petroleum exporters, because the demand for (and therefore the price of) crude oil closely mirrors overall global economic growth. Even if COVID-19 has been just a temporary disruption to global mineral trade, there will be more disruptive events in the future, and diversified economies will be better able to weather those inevitable shocks. Graduating LDCs governments may have an opportunity to leverage COVID-19 as a catalyst for change, using the pandemic as a focal event to generate momentum for a big push towards export diversification.

Second, the downturn in global minerals markets during COVID pandemic offers a sobering preview of the future, if as many predict, global demand for petrochemicals declines due to slowing global growth, a widespread shift toward renewable energy sources, and related climate change initiatives designed to limit extraction and trade in carbon fuels.

Comparing the experience of Angola and Myanmar offers an illustrative case study. As shown in Figure 5, Angola’s oil exports fell by more than 60% in the first few months of the pandemic, closely mirroring the world oil market. Not surprising, given Angola’s marked reliance on oil exports, Angola’s overall export decline is almost entirely due to the decline in its oil exports. As the oil market goes, so go Angola’s exports for better – and recently – for worse.

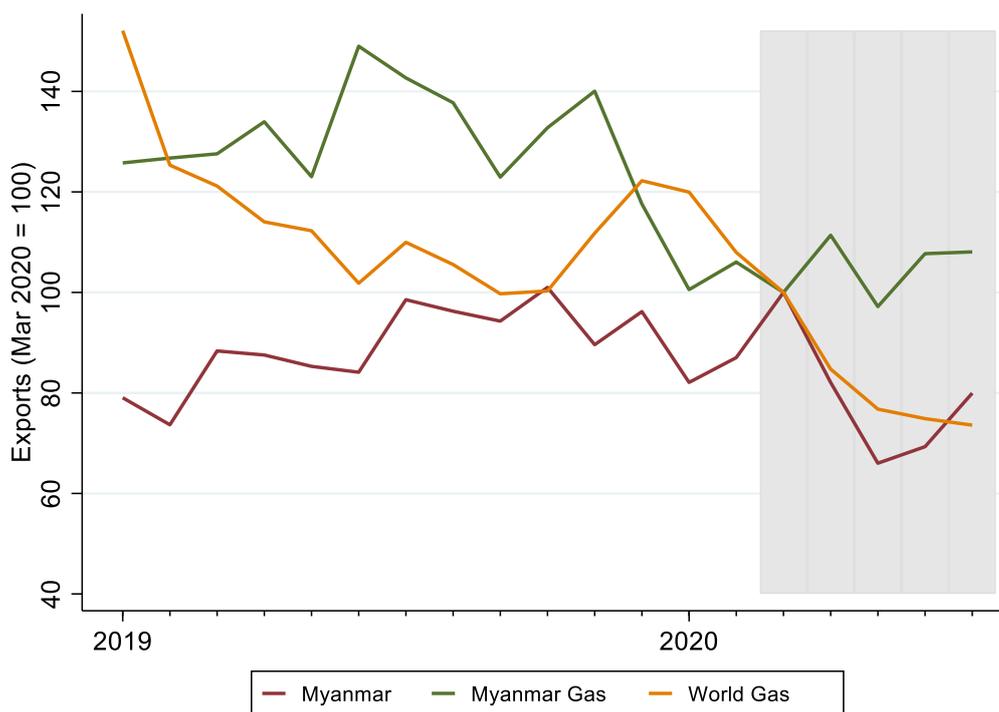
Figure 5: Angola's Monthly Oil Exports Compared to World Oil Exports and Angola's Total Exports January 2019-July 2020



Source: Trade Data Monitor (based on mirror data of close to 100 reporters).

Myanmar’s experience was different for two reasons (Figure 6). First, Myanmar’s exports are less concentrated, with only 43% of exports in all minerals and metals and only 25% in petrochemical gas specifically. Second, Myanmar got a bit lucky. Global gas markets fared better than oil, and Myanmar’s gas exports performed significantly better than world gas exports. Proximity to China, which recovered quickly from the COVID shock, likely helped.

Figure 6: Myanmar's Monthly Gas Exports Compared to World Gas Exports and Myanmar's Total Exports January 2019-July 2020



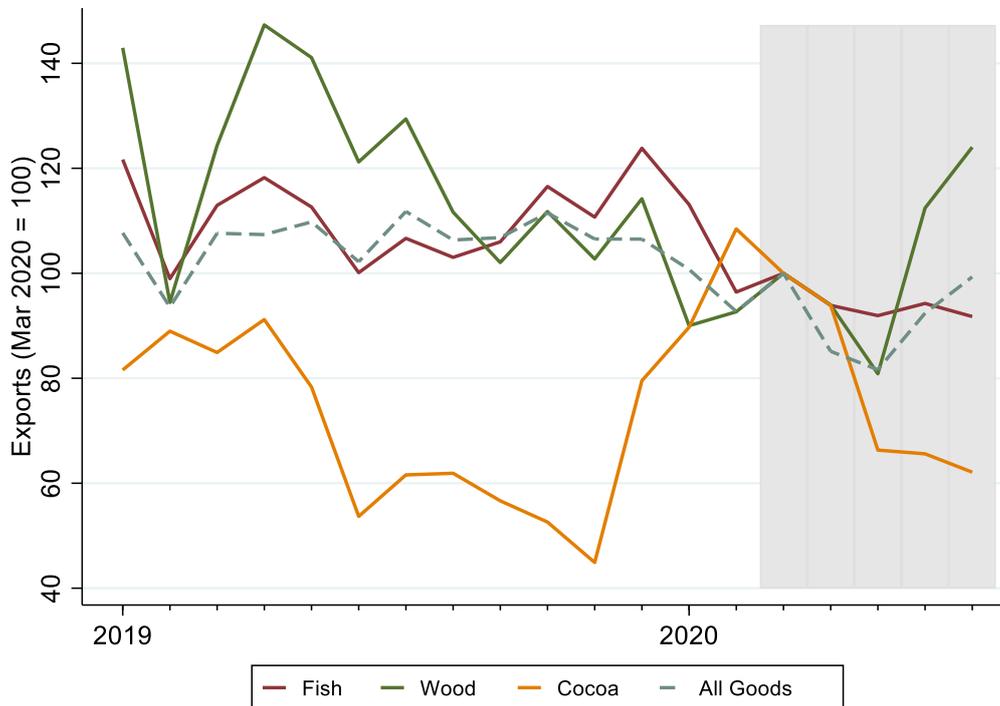
Source: Trade Data Monitor (based on mirror data of close to 100 reporters).

There is another valuable lesson from the pandemic for commodities exporters. Not all primary commodities are subject to the same risks. During the COVID down-turn, many producers of agricultural and food products were insulated from the global trade collapse *because* of their dependence on commodities trade. As seen earlier in Figure 3, world trade in agricultural and food products performed significantly better than any other major category during the worst of the COVID crisis. Still, steady average performance can mask important underlying differences.

Figure 7 focuses on three goods of particular importance to graduating LDCs. Wood and wood products make up roughly 70% of exports from the Solomon Islands, while fish and fish products are critical to Kiribati, Tuvalu, and Vanuatu in addition to the Solomon Islands. Cocoa is a key export for Sao Tomé and Príncipe, making up roughly a third of exports on average between 2016 and 2018.⁸ The figure offers an important reminder. Even though non-mining primary commodities were less impacted by the COVID pandemic than minerals, world trade in these goods is still inherently volatile, even in good times. Diversification remains an important strategy for countries to minimize the volatility of their trade and foreign exchange earnings in the future.

⁸ WTO (2020)

**Figure 7: Monthly World Exports of Key Agricultural Commodities
January 2019-July 2020**



Source: Trade Data Monitor (based on mirror data of close to 100 reporters).

Manufacturing and GVCs During COVID-19 and Beyond

Any analysis of manufacturing trade must recognize the reality of global production fragmentation. Simply put, firms linked by global supply networks produce goods by combining raw materials, innovation, inputs, and labor from across the globe. The resulting global value chain (GVC) linkages knit together the interest and the fortunes of firms and workers across borders. What happens in one country can have profound and immediate impact on its direct and indirect trading partners.

The COVID-19 pandemic focused new attention on these linkages. Production disruptions for parts suppliers in Wuhan, China led to near-instant delays for downstream producers around the world. Although these were typically temporary disruptions, supply chain vulnerabilities displayed during the pandemic has been a catalyst that has led some firms and Governments to reconsider the wisdom of international production sharing. Indeed, some governments have called for 'reshoring' or 'nearshoring'— the idea that downstream producers' needs should be met by local suppliers rather than global partners. Together, firms' experiences during the pandemic and the potential influence of government pressures to consolidate and localise GVCs may accelerate the underlying slowdown in GVC expansion that has been documented in recent years.⁹

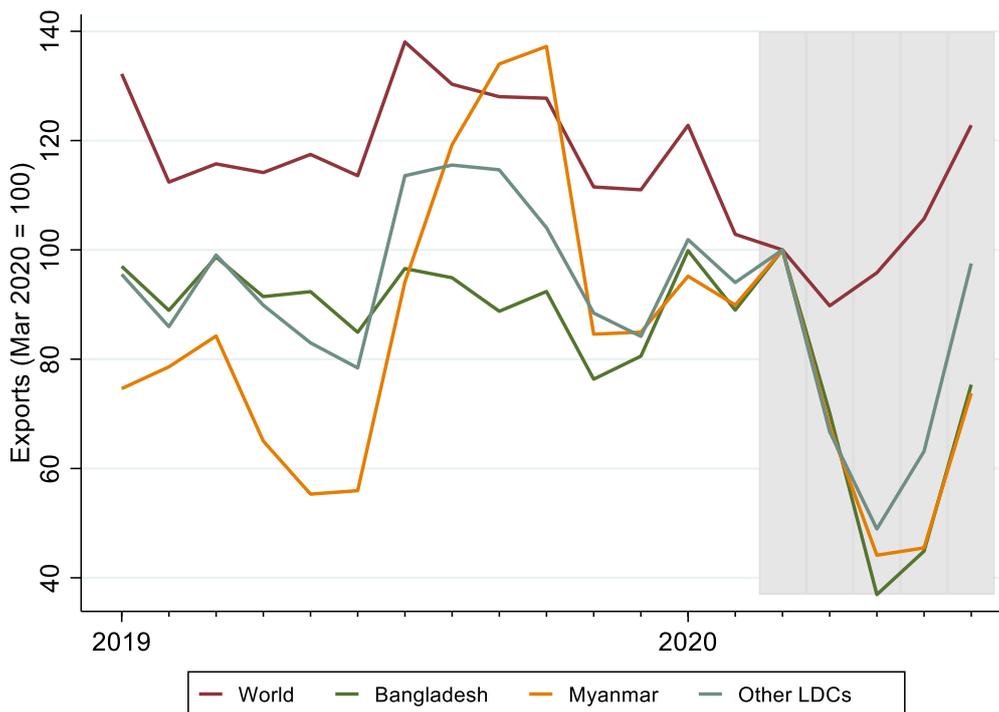
Although there are few concrete proposals to reconfigure GVCs to date (and the economic justification for this form of economic nationalism remains largely unstudied), graduating LDCs can learn from the experience of relevant GVCs during COVID-19. These experiences can offer lessons on how GVCs may evolve in the future both despite – and perhaps because of – government intervention.

⁹ See, e.g., Antràs (2020) Chart 2 (p7).

The experiences of Bangladesh and Myanmar offer insight and raise questions. As shown in Figure 3, global trade in manufactured products fell in the early stages of the pandemic but recovered quickly. World trade in textiles and clothing was particularly quick to recover after the initial downturn, which likely reflects both demand-side and supply-side differences compared to other goods where demand has been slower to recover, or upstream production disruptions were longer-lasting.

The more interesting comparison is not across goods, however, but across exporters. Figure 8 plots monthly exports of textiles and clothing for the World, Bangladesh, Myanmar, and other non-graduating LDCs. The patterns are striking. From March to May 2020, average exports of textiles and clothing fell by roughly 10% on average (for the World), but by more than 60% in Bangladesh, just over 50% in Myanmar, and about 50% in other non-graduating LDCs. Part of the difference between the export performance of the world versus that of Bangladesh, Myanmar, and other LDCs surely lies in the composition of trade. There are significant differences in the product-level composition of textile and clothing production across countries, especially by income level. To the extent that demand fell more for the (often less-expensive and higher-volume) products produced in developing countries, exports in these countries may have been more exposed to the COVID-19 shock. But that explanation overlooks another important – and perhaps more important – lesson from COVID-19.

**Figure 8: Monthly Exports of Textiles and Clothing
January 2019-July 2020**



Source: Trade Data Monitor (based on mirror data of close to 100 reporters).

GVCs can exacerbate the cost of trade shocks, especially if buyer-seller relationships are rigid. For producers in GVC-central industries like clothing and apparel, even temporary disruptions can be costly. If a clothing producer loses access to her fabric supplier, she will not be able to meet demand until she finds a replacement supplier. Likewise, if one of her customers drops an order or goes out of business, then she must find a new buyer for her products. When firms are agile in global commerce, the necessary rematching process can be virtually instantaneous and minimally disruptive. But firms that lack access to fast, efficient, thick markets can find themselves hamstrung

by the upstream- and downstream-disruptions and may even lose market share to more nimble competitors in global markets as a result.¹⁰

The relatively weak performance by LDCs in textile and clothing exports compared to developed countries may signal greater difficulty finding new suppliers/buyers in response to short term supply chain disruptions during COVID. If so, the recent experiences of Bangladesh, Myanmar, and other LDCs raises concerns about their resilience to future shocks in GVC-integrated industries.

The differences in countries' experiences during COVID-19 highlights the importance of minimizing economic vulnerability to *disruptions* to demand and supply, which may be even more important (and likely more successful) than efforts to anticipate changes in overall demand and supply across industries. Resilient and robust economies are those best equipped to adapt to changes in the global marketplace. Rather than try to guess which industries are "the next big thing," governments can reduce risk and leverage growth opportunities when they arise if they foster entrepreneurship, invest in flexible workforces through education and health, and ensure transparent, open marketplaces. These core investments empower firms and industries to quickly respond to market changes when, inevitably, periods of disruption occur.

Closing the Digital Divide Post-COVID

Digital readiness and e-commerce access were among the most important determinants of economic dynamism even before COVID. This is even more true today. COVID-19 has accelerated the already-rapid growth of the digital economy. While emerging markets have experienced modest gains in business-to-consumer (B2C) e-commerce relative to the developed world during the pandemic,¹¹ there is reason to worry that the digital divide has widened in business-to-business (B2B) e-commerce, cross-border digital services trade, and access to the digital platforms and infrastructure that are increasingly-necessary inputs to conventional production and trade. Together, these facets of the "digital economy" are far larger and likely more geographically concentrated than the frequently measured B2C sales.¹² By accelerating underlying trends in the growth of e-commerce and digital trade, COVID-19 offers a powerful reminder to graduating LDCs to invest in digital readiness. The remainder of this section addresses these issues in more detail, beginning with e-commerce.

E-commerce. In April 2020, the UN Conference on Trade and Development reported that global e-commerce had risen to \$26 trillion – or 30% of GDP – in 2018.¹³ Since then, the pace has only quickened. According to UNCTAD Secretary-General Mukhisa Kituyi, "The COVID-19 pandemic has accelerated the shift towards a more digital world. The changes we make now will have lasting effects as the world economy begins to recover."¹⁴

Investments in e-commerce expand firms' potential customer bases, but far more importantly, they help firms find, contact, and forge trading relationships as part of global value chains. The importance of a firm's fast, secure, and transparent connection to the global marketplace cannot be overstated. For manufacturing firms especially, agility and resilience in the global economy require the ability to engage in E-Commerce. In the most recent UNCTAD B2C E-commerce index, the six included graduating LDCs rank between 103rd and 126th out of 152 countries. Notably, all but Angola fell in the index from the previous ranking. Although some products are not well-suited for e-commerce (like minerals, oil and gas) others are, including clothing, handcrafts and accessories, travel services, and a range of other tradeable manufactured goods.

¹⁰ Findings reported in the 2018 World Trade Report (WTO, 2018) suggest that e-commerce is particularly underdeveloped in Bangladesh apparel and clothing sector, which accounted for 86% percent of exports but only 47% of online demand at the time of the report (p89). Digital readiness and e-commerce is the focus of the next section.

¹¹ According to survey results reported in UNCTAD (2020b), consumers in the emerging markets made the greatest shift toward e-commerce (online shopping) during the pandemic.

¹² For instance, According to UNCTAD (2020a), B2B sales were roughly 5 times higher than B2C sales in 2018.

¹³ *ibid*

¹⁴ UNCTAD (2020b)

Digital Services Trade. Due to the public health risks from in-person transmission of the virus, COVID-19 has forced individuals to “stay home”. This aspect of the pandemic may paradoxically have the most profound and long-lasting consequences of all.

Services make up over 60% of global economic activity, the vast majority of which occurs through in-person domestic delivery. But COVID has upended traditional service delivery. Firms, workers, consumers, and communities have taken work and leisure online in both old and new ways. Gaming and streaming services occupy leisure and earn revenues at record levels, and even theatre companies and choruses now perform online. Work has been transformed by video conferencing and cloud computing advances and adoption, which allows many employees to work from anywhere with reliable internet service. The question becomes: when social distancing is no longer required, will the economy return to the old structure of workplace interactions? While some professions will return to their pre-pandemic arrangement, COVID will almost certainly be a catalyst that ushers in a new market for cross-border trade in digital services.

Greater global trade in digital services offers the potential for graduating LDCs to exploit new market opportunities. While new exporting opportunities will surely arise, expanded access to imported digital services may prove far more beneficial for economic growth in developing countries. Digital services – from design services and marketing to accounting and payment platforms – are critical complements to local production in a host of industries, including garments, fishing and food processing, mineral extraction, shipbuilding, and tourism. Digital service imports offer opportunities for graduating LDCs to leverage new and existing strengths by outsourcing some high-fixed cost tasks to external providers and focusing the time and talents of local entrepreneurs and workers on core business operations.

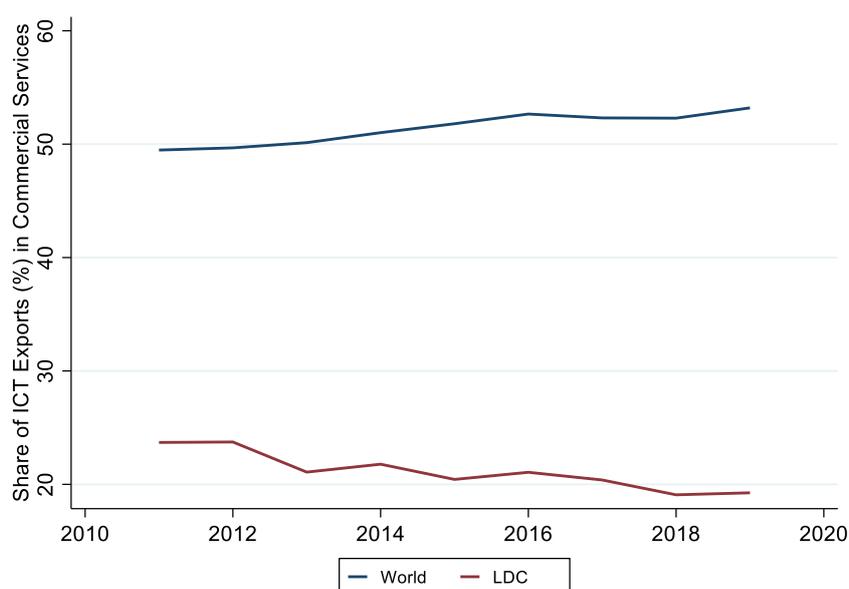
New opportunities to export digital services will emerge as global demand for service trade increases but graduating LDCs still lack some of the necessary infrastructure to share in this growth. According to the 2018 World Trade Report, LDCs lag behind the rest of the world in all indicators of Information and Communication Technologies (ICT) development, including access to mobile broadband.¹⁵ Graduating LDCs appear to fare somewhat better than other LDCs in these metrics,¹⁶ but significant disadvantages remain, especially in services exports. Figure 9 charts service exports in ICT-enabled sectors as a share of all commercial services exports, for the world and for developing countries between 2011 and 2019.¹⁷ The digital divide in service exports is clear. While ICT-enabled exports made up an increasing share of – and over half -- service sector exports in the world on average over the past decade, ICT-enabled exports were a markedly smaller – and falling – share of exports in LDCs. (We do not include graduating LDCs separately due to data limitations.) In light of this clear divide, efforts to increase digital readiness are increasingly crucial to help LDCs catch up as quickly as possible. If core investments are successful, new opportunities to export digital services can also help graduating LDCs diversify their exports away from volatile primary commodities trade.

¹⁵ WTO (2018). At the time of the report, roughly 90% of citizens had access to mobile broadband in developed economies, compared to less than 40% in developing countries and 20 percent in LDCs.

¹⁶ See, e.g., Table 5 in UNCTAD (2020a) which includes rankings for 6 of the 12 graduating LDCs.

¹⁷ We calculate ICT service exports as the sum of SDMX DSD Codes: SF, SG, SH, SI, SJ, and SK.

Figure 9: Exports of ICT Service Sectors as a Share of All Commercial Service Exports: 2011-2019



Source: WTO Trade in Services Annual Dataset.

Digital Readiness. Digital Readiness may be harder to measure than E-commerce or digital services trade, but it is likely a far more important driver of future economic growth. Reliable digital infrastructure and secure payments platforms serve as the backbone for digitally enabled trade; they are also often necessary prerequisites for collaboration with foreign trade partners in GVCs. While it is difficult to measure the marginal benefit of incremental spending in these areas, it is impossible to miss the differences between countries that have these necessary foundations and those that do not: countries that fail to meet the basic (but rising) requirements to foster technology diffusion, data and payments security, and digital connectivity will be limited in their ability to share in global economic growth. From the 2018 World Trade Report:

*"The decline in trade costs can be especially beneficial for MSMEs and firms from developing countries, if appropriate complementary policies are put in place, **and challenges related to technology diffusion and regulation are addressed.**"*
[emphasis added]

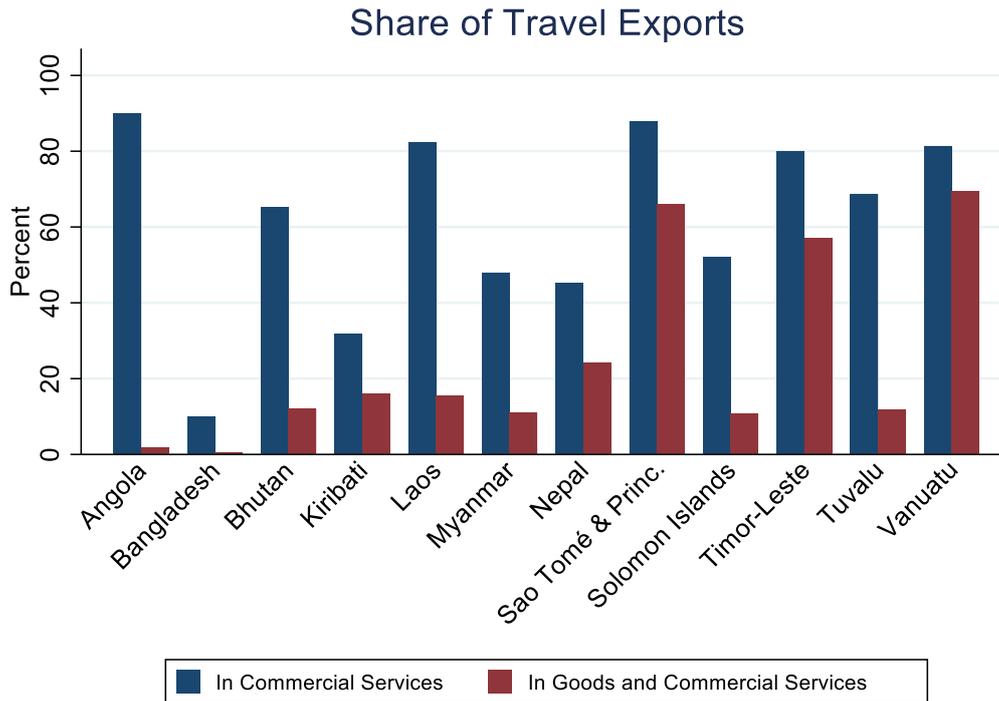
According to this argument, investments in digital infrastructure may yield the greatest returns for small and medium enterprises, which serve as engines of economic growth in graduating LDCs. Targeted efforts to assess and improve the conditions for digital commerce and e-trade are ongoing. As of November 2020, the UNCTAD eT Ready Programme had completed assessments for 9 of the 12 graduating LDCs.¹⁸ These assessments offer a specific, actionable roadmap for participating countries to rapidly and efficiently improve their digital infrastructure and regulatory environment. Doing so will help existing firms become more agile and resilient in the face of global supply and demand shocks, generate new opportunities to reach consumers and increase efficiency through strategic outsourcing through digital services imports, and may offer new prospects for digital services exports.

¹⁸ E-trade readiness assessments are available here: <https://unctad.org/topic/ecommerce-and-digital-economy/etrade-readiness-assessments-of-LDCs>.

Travel During and After COVID-19

Travel is a critically important economic sector for many LDCs. As shown in Figure 10, travel has been a major export in graduating LDCs during the 2011-2019 period, exceeding 50% of exports of all goods and services in Timor-Leste, Sao Tomé and Príncipe, and Vanuatu, and more than 10% of all goods and services exports in every graduating LDC except Angola and Bangladesh. Among service exports, travel is even more dominant, accounting for more than a third of total commercial services exports in every graduating LDC except Bangladesh, and more than two thirds of service exports in the majority of the graduating LDCs.

Figure 10: Travel as a Share of Exports



Source: WTO Trade in Services Annual Dataset.

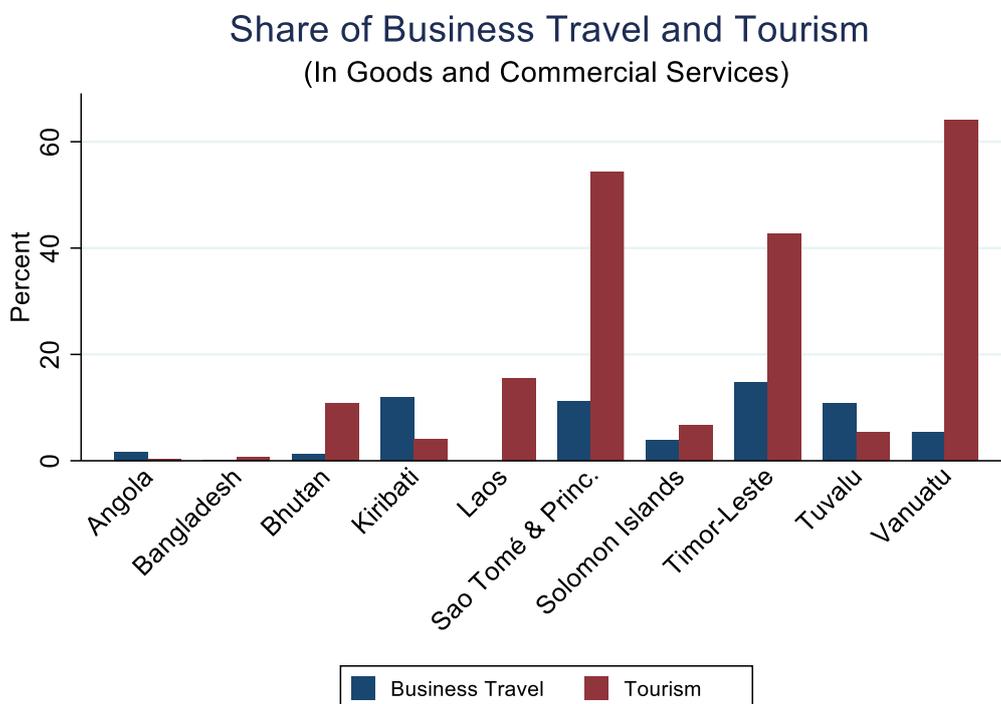
Unfortunately, travel has also been one of the hardest-hit sectors during COVID-19. Travel restrictions and fear of possible future travel restrictions brought tourism and business travel to a virtual standstill in March 2020, with limited recovery since then. The result has been a significant drop in the incomes of tourism-dependent economies in 2020. Perhaps even more important than the collapse of the travel industry during the COVID pandemic, however, is the prospect of permanent, fundamental changes in future travel patterns in the wake of the virus. Is the COVID-19 travel collapse a just temporary disruption, or is it a sign of things to come? The answer may be both and likely depends on the type of travel.

In particular, business travel and tourism may follow different trajectories in the coming years. During the initial COVID lockdowns in early 2020, in-person interactions, meetings, and travel were halted virtually overnight. Yet most businesses continued running and workers continued working. Necessity is the mother of invention: new, online substitutes for meetings, presentations, training, and marketing were developed, adopted, refined, and accepted over the subsequent weeks and months. COVID-19 overcame a longstanding coordination problem by forcing a universal and immediate shift in corporate and professional norms away from in-person travel for business activities. Firms saved money and previous road-warrior workers found they maintain engagement and productivity without boarding an airplane. It seems unlikely that business travel will go back to what it was as soon as the pandemic is over.

Leisure travel, in contrast, has seen no equivalent substitute emerge for tourism. Although many individuals and families have been travelling more in their local communities since COVID, the “been there, done that” aspect of leisure travel – the idea that many people prefer novel travel experiences over repetition – suggests that post-COVID demand for long-distance tourism may actually rise, especially for wealthier consumers who have deferred other expenditures during the pandemic. In sum, while the immediate and near-term effect of COVID on travel has been essentially the same for business and leisure travel, the recovery is likely to be asymmetric.

Figure 11 highlights the difference between business and leisure travel among graduating LDCs. The share of business travel and tourism (leisure travel) over the 2011-2019 sample period is shown for the ten graduating LDCs that report this data. As seen in the figure, business travel accounts for more than a tenth of total exports in Kiribati, Sao Tomé and Príncipe, Timor-Leste, and Tuvalu.

Figure 11: Business Travel versus Tourism as a Share of Exports



Source: WTO Trade in Services Annual Dataset.

A more optimistic interpretation of Figure 11 would note that where travel dominates exports, tourism is considerably stronger than business travel and may therefore prove more resilient post-COVID. These tourism hot spots should not be complacent, however. The prospect of reduced consumer appetite for air-travel due to concerns over climate change may reduce demand for travel to exotic tourist destinations. Or climate change itself could increase concerns about the risks of travel during cyclone seasons. Forward-thinking governments and business leaders should account for these slower-moving risks to the tourist trade as they seek to diversify local businesses and build economic resilience. In the near term, governments can also speed tourists’ return by taking measures to ensure (and communicate) high standards for public health and safety.

Conclusion: Trade Policy Lessons for the Future

The COVID-19 pandemic has adversely affected world exports, but the impact has been particularly stark for graduating LDCs. Exports from these countries fell faster during the initial stages of the pandemic and have recovered more slowly since. The structural differences that underly the disproportionate consequences of the pandemic for graduating LDCs also yield insights for future trade policy.

This assessment focuses on four key dimensions of graduating LDCs' trade patterns that proved especially damaging during COVID-19: primary commodities exports, potential supply-chain rigidity in GVCs, limited digital infrastructure, and economic dependence on the travel sector. These factors offer different lessons for trade policy depending on the nature of the COVID shock.

In some sectors, COVID-19 has accelerated existing trends; for instance, by collapsing the already-slowing demand for petrochemicals, hampering the already-stagnant expansion of GVCs, and boosting already-growing e-commerce and digital service sectors. In other sectors, COVID-19 has been a *catalyst*, triggering unforeseen changes in economic activity. These shifts include rapid new innovation and adoption of business communications that promise to change professional travel, firms' heightened awareness of the risks of cross-border operations and potential reactions to those risks, and many governments' newfound focus on economic resilience and self-sufficiency. In a handful of other sectors the pandemic is more likely a temporary (if dramatic) disruption, after which economic activity will return to pre-pandemic patterns as the virus subsides.

In those parts of the economy where COVID has acted as an accelerant of existing trends, the pandemic serves as a call to action for forward-thinking governments and business leaders in graduating LDCs to anticipate and address coming challenges sooner rather than later. Where COVID-induced changes were unanticipated before the pandemic, they may still fundamentally reshape the future global trade landscape in years and decades to come, requiring governments and business leaders to be both aware of new realities and ready to adapt to the inevitable disruptions to come.

Looking ahead, graduating LDCs can leverage COVID as an opportunity to revisit plans for economic growth and development. More than anything else, COVID-19 serves as a reminder to expect the unexpected. Rather than trying to anticipate what the economy might look like in 5 or 10 years and funding specific industries or sectors, governments should focus on core investments in education, health, physical and digital infrastructure, and transparent governance, which ensure agile businesses, flexible workforces, and a resilient economy.

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