



trade hot topics

Delivering on Development: A New Ten-Year Programme of Action for LDCs

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Background

The international community is meeting in Istanbul, Turkey, on 9–13 May 2011 to forge a ten-year programme of action for the 48 least developed countries (LDCs). This will be the fourth such programme in as many decades. In the past, the words have been lofty. In 2001 for instance, governments pledged to ‘free our fellow women, men and children from the abject and dehumanising conditions of extreme poverty’. But implementation has been weak. Only three countries have ever graduated out of LDC status and economic and social deprivation remains pervasive. LDCs are home to more than 800 million people, one in eight of the global population, and half of these people live in extreme poverty while one-third do not have enough to eat. This issue of

Commonwealth Trade Hot Topics explores what would it take for a new Programme of Action to deliver where previous programmes have failed.

Decades of divergence

For much of the past half-century, LDCs have been left behind. While the rest of the world experienced high growth and rapid increases in living standards, the socio-economic fortunes of LDCs did not improve much. By the year 2000, per capita incomes in LDCs were lower than they had been three decades before. They were more than six times lower than the developing country average, and seventy times lower than the developed country average.

Prospects have looked up during the past decade. LDCs experienced the first period of sustained

Table 1: GDP per capita (constant 2000 US\$)

| | 1970 | 1980 | 1990 | 2000 | 2009 |
|----------------------------|--------|--------|--------|--------|--------|
| Developed Countries | 13,070 | 17,023 | 21,191 | 25,393 | 27,296 |
| Other Developing Countries | 728 | 1,041 | 1,192 | 1,633 | 2,321 |
| LDCs | 275 | 260 | 247 | 268 | 392 |

Source: Data from UNCTAD

* This article draws on a number of studies commissioned by the Commonwealth Secretariat. The author is a project associate at the Global Economic Governance Programme, Oxford University. Views expressed here are the author's own and do not necessarily represent those of the Commonwealth Secretariat.

growth since the 1970s, with annual growth averaging more than 7 per cent and investment averaging 22 per cent of GDP. These figures are close to the targets that were set in the Brussels Programme of Action in 2001. External flows have more than doubled in real terms, with substantial increases in foreign direct investment (FDI), remittances, and aid.

Yet for all this growth, the gap between LDCs and the rest of the world keeps expanding, and among LDCs, growth has not been evenly spread. While resource-rich countries like Angola and Equatorial Guinea experienced double-digit growth, five countries grew at less than 3 per cent per annum. When high population growth is factored in, the figures are more sobering. Per capita growth averaged 4.9 per cent per annum, and in seven countries average incomes were *lower* in 2010 than in 2001, including in Comoros, Kiribati, and Liberia.

Even more troubling is that high growth has not led to significant reductions in poverty and hunger, and there have only been very modest improvements in wider human development indicators. Inequality, particularly in resource-rich countries, is extremely high. Unlike other developing countries, LDCs are off-track for meeting nearly all of the Millennium Development Goals (MDGs). By 2015, about 45 per cent of people in LDCs are expected to be living in extreme poverty, compared with 15 per cent in other developing countries.

Challenges beyond simple economic growth

The growth experience of LDCs during the past decade is a stark reminder that quality is as important as quantity. Growth has been driven largely by the international commodity boom rather than economic transformation within LDCs, and it has not led to increased productivity or generated new work opportunities.

Even after decade of high growth, productivity is far lower than in other developing countries and the gap is growing rapidly. Agricultural productivity is particularly low — a major source of concern it remains the principle source of livelihood in most LDCs. In Zambia for instance, agriculture contributes only 22 per cent to GDP, but is the source of 72 per cent of employment. In most LDCs, food production per person is now lower than it was in the late 1960s, contributing to high levels of food insecurity. Fifteen LDCs, including Sierra Leone, Liberia and Uganda, are in a state of 'protracted food crisis'.

Low productivity is partly due to low levels of technology. Record levels of FDI have not led to technology transfer, in part due to its concentration in the extractives sector, and in part due to extremely low capacity in LDCs to absorb new technologies — levels of technical and post-secondary education are extremely low, as is public funding for local research and development.

The manufacturing sector plays a vital role in development as it enables higher levels of value-addition and creates jobs. Yet on average, manufacturing accounts for less than 10 per cent of GDP and its share is declining. There has been expansion of textiles and garments production in a few LDCs, notably Lesotho and Madagascar, but in many others there are signs that the expansion of the extractives sector has come at the expense of manufacturing. Half of all LDCs appear to have experienced deindustrialisation during the past decade, most notably Lao PDR and Sudan.

Firms in LDCs struggle to expand, which undermines their competitiveness: an estimated 98 per cent of firms in LDCs are micro or small in size. Lack of access to finance is an impediment, only 14 per cent of firms use banking facilities.

Weaknesses in infrastructure drive up production costs. Energy remains a major bottleneck: only 21 per cent of people in LDCs have access to electricity, far lower than the developing country average of 72 per cent, and regular power outages cost LDCs between 1 and 4 per cent of GDP. Transport infrastructure is very poor, and a major problem for landlocked states. There is also evidence of a growing digital divide. Despite exponential growth in mobile telephony, fewer than 2 per cent of people in LDCs have internet access.

Greater vulnerability to international shocks

Recent growth has been driven by rapid increases in commodity exports and this has led to greater integration into the world economy, an explicit aim of the Brussels Programme of Action. On average, trade now accounts for 59 per cent of GDP and the share of LDCs in world merchandise trade has doubled to 2 per cent (although the share of services trade has been static, at about 0.5 per cent). However, the value of exports remains very low. At only US\$180 billion, exports from LDCs in 2008 were lower than Malaysia's, even though Malaysia's population is less than 30 million, twenty-six times smaller than the combined population of LDCs.

Greater integration has been accompanied by increased export concentration and commodity dependence, leaving LDCs even more vulnerable to external shocks. Although some LDCs such as The Gambia and Nepal have managed to diversify their exports, nearly half of LDCs have an export structure that is more concentrated now than it was in 2000. While primary commodities and fuel accounted for 51 per cent of LDC exports in 2001, by 2008 this had risen to 81 per cent.

There has been a marked diversification of export markets over the past decade. Developing country markets have overtaken developed countries, with China rivalling the European Union as the primary export destination. However, exports to developing country markets are overwhelmingly primary commodities; nearly 90 per cent of textiles and apparel products, by far the most important manufactured export, are still destined for industrialised markets.

Weak implementation

The Brussels Programme of Action was not blind to the need to stimulate economic transformation and raise productivity in LDCs — indeed it argued that these were vital for sustained development and poverty eradication. Yet it is in precisely these vital areas that the many promises made in the BPoA failed to materialise.

Aid flows have doubled in real terms over the past decade, a welcome reversal of the declining flows in the previous decade. Yet the scale of transfers remains paltry and well below what is needed. At only 0.09 per cent of gross national incomes of the world's wealthiest countries, it is only about half of the amount committed to in 2001. The aid provided to LDCs in 2009 was less than one-third of the funding that one donor country (the USA) spent in bailing out one financial institution (AIG) in the same year. Moreover, aid allocations remain biased against the productive sectors, with agriculture and manufacturing only receiving 5 per cent and 1 per cent of total aid respectively.

Where commitments have been acted upon, benefits have often been eroded by the 'devil in the detail'. Debt relief, the shift towards budget support and the untying of aid have been widely welcomed, but there are concerns that LDC ownership over aid programmes remains weak, aid disbursements remain highly volatile and many aid projects remain *de facto* tied. Greater attention on 'aid for trade' is laudable, although it is unclear that this

has really led to additional financing, and accessing the funds remains complex.

In trade, there are many new schemes to improve market access for LDC exports but they provide negligible gains for all but a few countries, and a plethora of new public and private standards are creating new barriers. LDCs are the group of countries most affected by such standards and the least able to address them. Despite having a 'development' round at the World Trade Organization (WTO), the most important issues for LDCs have been brushed aside, including improving market access for unskilled and semi-skilled workers, and pledges to encourage firms to transfer technology. Meanwhile, industrialised countries are making stringent demands in the context of bilateral trade agreements.

With support from the international community, LDC governments have undertaken domestic policy reforms to improve the business environment, most notably Rwanda, Mali and Burkina Faso. Some have been successful; the average number of days it takes to start a business in LDCs has reduced from 64 to 40. But other reforms have failed to deliver. Zambia, Mali and Uganda, for example, eliminated all barriers to foreign investment in banking but access to finance did not improve. Reforms have been criticised for poor design and failure to address regulatory weaknesses.

LDC governments continue to finance the bulk of infrastructure expenditure, which is so critical for economic development. In agriculture, some governments have managed to dramatically improve food production: Malawi for instance turned from a net food importer to net food exporter within a few years. However, there are major areas for economic transformation that have been neglected by LDC governments including research and development, scientific training, and targeted support to manufacturing.

Breaking with the past? The Istanbul Programme of Action

As its headline target, the draft Istanbul Programme of Action includes the laudable aim of seeing half of all LDCs reach the point of graduation out of LDC status by 2020. While this is no doubt feasible, it requires a definitive break with the past.

Most crucially, the Istanbul Programme needs to be fully implemented. In the past implementation focused on areas that mirrored other international initiatives such as the MDGs, which had much more

momentum and support. To ensure that this Programme has significant added-value, it should concentrate on areas where other international initiatives are weak, and to this end, a new focus on economic transformation is needed. Eight key areas require attention.

1. Strong advocacy, monitoring and enforcement

It is imperative that the Istanbul Programme has stronger mechanisms for advocacy and monitoring than in the past, and a means to hold development partners and LDC governments to account. At the very least this requires a high-profile task force that can champion its cause, and a fully resourced secretariat that can track implementation, highlight successes, and call for improvements in areas where the parties fall short of their commitments. To facilitate monitoring, information gathering within LDCs needs significant upgrading.

2. Specific headline targets on economic transformation

To have traction, a core set of high profile targets that are measurable, can readily be monitored and that prioritise economic transformation are needed. A clear lesson from the past decade is that broad economic targets on growth and global integration can be met without meaningful structural transformation. Without structural changes, long-term economic growth and poverty reduction may not be sustained.

3. Greater voice for LDCs

The failure of past initiatives is symptomatic of a wider problem, the lack of representation of LDCs in international policy circles. The combined population of LDCs is similar to the combined population of the USA and European Union, yet the voice of LDCs is conspicuously absent from most international discussions. The Istanbul Programme should explicitly aim to increase the representation of LDCs in major institutions such as the International Monetary Fund, World Bank and G20, and to strengthen the negotiating capacity of LDCs, including at the WTO.

4. Harness natural resources

Laying the foundations for economic transformation is capital intensive and LDCs face a massive financing gap. In the coming decade, the commodity boom is likely to result in historically unprecedented financial inflows to resource-rich LDCs. To harness this opportunity for development, a series of steps can be taken. These include strengthening the capacity of LDC governments to negotiate with investors, reforming the tax

regime, and investing in public systems to manage revenue surges. LDC governments could also consider collectively endorsing common guidelines for their management.

International donors could scale up provision of advice on resource taxation to governments of LDCs — the pay-off would be very high because resource extraction companies are expert at minimising tax bills. They could also support the creation of a voluntary international standard for encouraging and policing competition in awarding contracts for resource extraction through auctions, in order to gain maximum benefit to governments.

5. Mobilise and channel finances

Sustained increases in external aid from traditional and emerging donors would be invaluable, particularly for LDCs that do not have large mineral endowments. Donors should adhere to the target of 0.20 per cent of GNI, and a greater proportion of aid needs to be targeted to the productive sectors. Meanwhile social sector spending could be better tailored to economic development needs, by expanding technical and tertiary education for instance. To improve LDC ownership, more aid should be given through budget support.

International co-operation to reduce capital flight, including through transfer pricing, and to reduce fees on remittances would mobilise significant resources. Internally, LDC governments should improve access to the banking sector for households and firms to leverage savings and remittances, and improve the efficiency and design of tax systems.

6. Create jobs

Creating decent jobs in LDCs will be a political imperative in the coming decade, particularly in light of unprecedented rates of urbanisation and growing inequality. Commercially meaningful market access into industrialised and emerging markets could stimulate the expansion of the LDCs' manufacturing and services sectors. Product coverage of preference schemes needs to be expanded and rules on product eligibility relaxed. Key export markets such as the Organisation for Economic Co-operation and Development (OECD) and the BRICS countries (Brazil, Russia, India, China and South Africa) could create common preference schemes for LDCs, including a scheme for services. To ensure LDC exporters can use these opportunities, hard infrastructure for standards compliance needs upgrading. Regional markets are a source of largely untapped potential for value-

added exports, and more investment is needed in intra-regional infrastructure and the formulation of regional trade and industrial policies.

Domestically, there is the need to focus on closing the infrastructure gaps that are most pressing for value-added, labour-intensive production. LDC governments should identify priority sectors and work to stimulate accumulation of productive capacities by promoting, *inter alia*, sector-specific training and skills acquisition, technology transfer, and research and development. To strengthen vital network services such as banking and telecoms, there is a clear need to strengthen regulatory oversight. For such domestic policies to be effective, industrialised countries should exercise restraint in trade negotiations, and refrain from making stringent requests that restrict the ability of LDC governments to use policies to stimulate economic transformation.

7. Promote food security

As agriculture is the main source of employment in LDCs, improving productivity is crucial for meeting poverty reduction targets. Given stringent standards and stagnant growth in industrialised markets and food insecurity in LDCs, greater focus should be placed on producing for emerging, regional and domestic markets. This requires investment in key infrastructure such as feeder roads and irrigation, and Malawi's recent experience suggests a role for targeted policy interventions. Concerted efforts should be made to create a vibrant agro-processing sector, providing employment and helping stem dependence on food imports.

8. Reduce vulnerability to shocks

Constant external shocks mean that LDC governments and businesses operate in a highly unpredictable environment. Terms of trade fluctuate dramatically, as do inflows of aid and

foreign investment, while heightened price volatility in international agricultural markets looks set to stay, undermining food security. To reduce shocks, aid flows could be made more predictable, speculation on derivatives of essential food commodities restricted, initiatives taken to stabilise commodity prices, and safety nets created to insulate the most vulnerable.

Conclusion

Graduating 24 countries from LDC status by 2020 is a goal that both deserves and requires the focus and commitment of the entire international community. With a meaningful and comprehensive international support regime, the 400 million men, women and children who currently live in abject poverty in LDCs could see major improvements in their livelihoods.

Leaving LDC status requires, by definition, significant increases in per capita income; major improvements in the human asset base in areas such as nutrition, health and education; and ensuring that economies are resilient in the face of external shocks. As the past decade has shown, high levels of growth can contribute, but are unlikely to be sufficient.

For LDCs to 'catch up' with the rest of the developing world, a major injection of finance is needed, particularly in resource-poor LDCs, and more funds need to be channelled into supporting structural transformation, raising productivity and creating jobs. The interests of LDCs also need to be better reflected in the rules that govern the international economy. As the balance of power shifts towards the emerging markets, care should be taken not to marginalise the voice of LDCs — their needs are perhaps the most pressing of any group of countries.

International Trade & Regional Co-operation Section at the Commonwealth Secretariat

This Trade Hot Topic is brought out by the International Trade and Regional Co-operation (ITRC) Section of the Economic Affairs Division (EAD) of the Commonwealth Secretariat, which is the main intergovernmental agency of the Commonwealth — an association of 54 independent states, comprising large and small, developed and developing, landlocked and island economies — facilitating consultation and co-operation among member governments and countries in the common interest of their peoples and in the promotion of international consensus-building.

ITRC is entrusted with the responsibilities of undertaking policy-oriented research and analysis on trade and development issues and providing informed inputs into the related discourses involving Commonwealth members. The ITRC approach is to scan the trade and development landscape for areas where orthodox approaches are ineffective or where there are public policy failures or gaps, and to seek heterodox approaches to address those. Its work plan is flexible to enable quick response to emerging issues in the international trading environment that impact particularly on two highly vulnerable Commonwealth constituencies — least developed countries (LDCs) and small states.

Scope of ITRC Work

ITRC undertakes activities principally in three broad areas:

- It supports Commonwealth developing members in their negotiation of multilateral and regional trade agreements that promote development friendly outcomes, notably their economic growth through expanded trade.
- It conducts policy research and consultations increase understanding of the changing of the international trading environment and of policy options for successful adaptation.
- It contributes to the processes involving the multilateral and bilateral trade regimes that advance the more beneficial participation of Commonwealth developing country members, particularly small states and LDCs.

ITRC Recent Activities

ITRC's most recent activities focus on assisting member states in the WTO Doha Round and the Economic Partnership Agreement (EPA) negotiations involving the African, Caribbean and Pacific countries (ACP) the European Union (EU), undertaking analytical research on a range of trade policy and development issues, and supporting workshops/dialogues for facilitating consensus-building on issues of Commonwealth members' interest, exchange of ideas, and disseminating results from informed analysis.

Selected Recent Meetings/Workshops supported by ITRC

9 March 2011: Consultative Meeting on Trade Effects of Rules on Procurement for Commonwealth ACP members held in London, UK.

8 March 2011: Consultative Meeting on Making Trade in Services Supportive of Development in Commonwealth Small and Low-Income countries, held in London, UK.

16-18 February 2011: Conference on Regional Integration titled 'Caribbean Community and the Commonwealth: Collective Responsibility in the Twenty First-Century', held in Kingston, Jamaica.

17-19 December 2010: 3rd South Asian Economic Summit titled, Regional Economic Integration, Climate Change and Food Security Agenda for the Decade 2011-2020, held in Kathmandu, Nepal.

25-26 November 2010: Regional Seminar on Trade Policy for Commonwealth Caribbean Parliamentarians, held in St. Kitts & Nevis.

24-26 November 2010: International Dialogue titled, Exploring a New Global Partnership for the LDCs in the Context of the UN LDC IV, held in Dhaka, Bangladesh.

15-17 November 2010: Workshop on Competitiveness Strategies with Special Reference to African and Indian Ocean Small States, held in Port Louis, Mauritius.

3 November 2010: Pre-LDC IV African Civil Society Forum, held in Arusha, Tanzania.

16 September 2010: WTO Public Forum Session on Africa in international trade: impediments and opportunities, in Geneva, Switzerland.

28 June 2010: Consultation Meeting on WTO Accession, held in Brussels, Belgium

26 June 2010: Workshop on Policy Barriers in Intraregional Trade in South Asia, held in Dhaka, Bangladesh

Selected ITRC Publications

Collier, P. (2011). *Catching Up: What LDCs Can Do, and How Others Can Help*, London: Commonwealth Secretariat.

Cali, M., Razzaque, M. A. and Te Velde, D. W. (2011). *Effectiveness of Aid for Trade in Small and Vulnerable Economies*, Economic Paper No. 91, London: Commonwealth Secretariat.

Cali, M with Kennan, J (2010). *The Global Financial Crisis and Trade Prospects in Small States*, Economic Paper, London: Commonwealth Secretariat.

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Jones, E., Deere-Birkbeck, C. and Woods, N. (2009). *Maneuvering at the Margins: Constraints Faced by Small States in International Trade Negotiations*. London: Commonwealth Secretariat.

Razzaque, M. A. (ed) (2009). *Trade, Migration and Labour Mobility*. London: Cameron May.

Srinivasan, T N (2009). *LDCs, Landlocked Developing Countries and Small States in the Global Economic System*. London: Commonwealth Secretariat.

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Grynberg, Roman and Newton, Samantha (eds) (2008). *Commodity Prices and Development*. Oxford University Press.

Milner, Chris (2008). *Trading on Commonwealth Ties: A Review of the Structure of Commonwealth Trade and the Scope for Developing Linkages and Trade in the Commonwealth*. London: Commonwealth Secretariat.

Turner, L (2008). *'Quantifying Aid for Trade: A Case Study of Tanzania'*. Economic Paper, London: Commonwealth Secretariat.

Qalo, Veniana (ed) (2008). *Bilateralism and Development: Emerging Trade Patterns*. London: Cameron May.

Grynberg, Roman and Bilal, Sanoussi (eds) (2007). *Navigating New Waters: A Reader on ACP-EU Trade Negotiations*. London: Commonwealth Secretariat.

Razzaque, Mohammad A and Laurent, Edwin (eds) (2007). *Global Rice and Agricultural Trade Liberalisation: Poverty and Welfare Implications for South Asia*. London: Commonwealth Secretariat.

Selected Ongoing Policy Research Projects

- Aid for trade in small states and Sub-Saharan Africa
- Trade and climate change issues for LDCs
- Rise of emerging developing countries and implications for Sub-Saharan Africa and small vulnerable economies (SVEs)
- Commonwealth Investment Framework Agreement
- Trade effects of Government Procurements on developing countries
- Development issues under EPAs
- Development aspects of trade-related issues and trade in services
- Regional trading arrangements in South Asia and their implications
- Trade in services issues for small states and low-income countries
- Fiscal implications of Pacific trading arrangements
- Issues in the context of the Fourth UN Conference on LDCs
- The development impact of the Doha Round on least developed countries (LDCs)
- The impact on small vulnerable economies (SVEs) of the Doha negotiations on agriculture, non-agricultural market access (NAMA), trade in services and development issues
- Non-tariff barriers in South Asia and Sub-Saharan Africa
- Textiles and clothing trade after the end of the Multi-fibre Arrangements
- Global value chains and the impact on growth in developing countries
- LDCs and SVEs in South-South trade



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hot topics

ISSN: 2071-8527 (print) ISSN: 2071-9914 (online)

Series editor: Dr Mohammad A Razzaque

Produced by the Economic Affairs Division of the Commonwealth Secretariat

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