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The need for a new International Development Architecture for the Least Developed Countries (LDCs)

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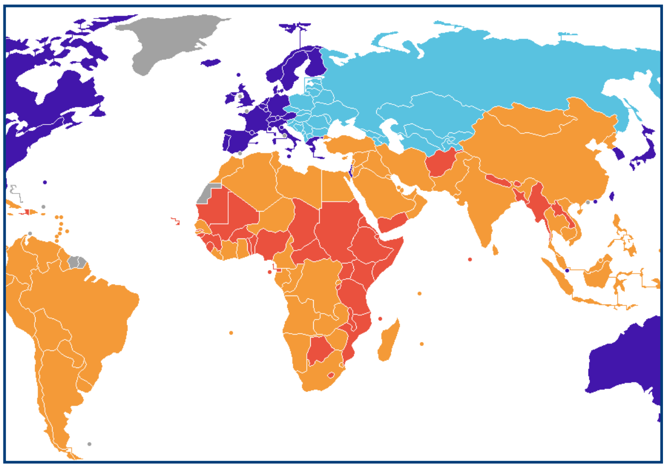
The mixed performance of the LDCs in the last decade

Between 2001 and 2010 economic growth in the least developed countries (LDCs) accelerated strongly (6.9 percent annual GDP growth rate) as compared with the dismal performance of the two previous decades (when annual growth rates of 3.9 percent and 2.2 percent, respectively, were recorded). The major factors pushing this performance have been external, namely export revenues enhanced by more liberalised markets and surging commodity prices (leading to improved terms of trade), higher debt forgiveness and increased inflows of aid, remittances and foreign direct investment (FDI).

The impact of the Great Recession of 2008–09 on LDCs highlighted once again the external vulnerability and lack of resilience of LDC economies. These are consequences of their structural weaknesses and of the form of their integration into the global economy. The main structural weaknesses of the LDCs are weak human resources, poor physical infrastructure, low technological capabilities, and excessive dependence on external sources of growth, low share of manufacturing in GDP and high levels of debt. Their forms of insertion in the international economy derive from these weaknesses: reliance on exports of commodities and low value-added manufactures and structural dependence on foreign capital inflows. Despite the best growth performance in 40 years, these weaknesses and shortcomings were essentially not addressed during the boom period of the 2000s. LDCs were unable to promote a pattern of catch-up growth based on the development of productive capacities which would increase the resilience of their economies and set them on a more inclusive growth path. Unless structural weaknesses and forms of integration are directly addressed, LDCs will remain marginal and their vulnerability to external shocks and pressures will persist.



http://www.forbes.com

International support measures for LDCs

Since the creation of the LDC category in 1971 the international community has devised and put in place international support measures supposed to assist them overcome their structural weaknesses. However, 40 years later it is clear that existing measures do not effectively address the structural weaknesses of these countries or how the LDCs interact with the global economic system, as once again made clear during the 2000s. In spite of an apparently very favourable external environment, their major development challenges remain. The reasons for the ineffectiveness of these measures are:

a) They are focussed too narrowly, especially on trade. Many concentrate on enhanced market access for LDCs, but contain exceptions that render them commercially meaningless (for example, duty-free market access that covers 97 percent of tariff lines in major markets, but exclude products of exports interest of LDCs). Moreover, measures fail to address the fundamental shortcoming of LDCs' productive capacities.

b) Several measures are designed so that their development effectiveness is limited from the outset. Most provisions for special and differential treatment of LDCs in the World Trade Organization (WTO) are not oriented towards development benefits, but rather to provide transitional arrangements for facilitating implementation of those agreements by the LDCs.

c) Often measures and programmes are announced but their implementation is hampered by insufficient funding. For example, the financial flows which have followed from the Diagnostic Trade Integration Study (DTISs) and from national adaptation programmes of action (NAPAs) on climate change.

d) Some measures are hortatory, but are not complied with. This is often the case of ODA (official development assistance) targets of 0.15 percent or 0.20 percent of donor's gross national income (GNI) to be allocated to LDCs, of recommendations to unite aid or of WTO's TRIPS provisions for technology transfer to LDCs.

e) The result of these shortcoming is that the impact of support measures is often more symbolic than developmental.

International Development Architecture (NIDA)

In order to overcome the shortcomings of the existing international support measures for LDCs the United Nations Conference on Trade and Development (UNCTAD) has proposed the establishment of a New International Development Architecture (NIDA) for LDCs. The objectives of the proposed NIDA for LDCs are to: (i) reverse the marginalization of LDCs in the global economy and help them in their catch up efforts; (ii) support a pattern of accelerated and sustained economic growth which would improve the general welfare and well-being of all people in LDCs.

NIDA has five major pillars: finance, trade, commodities, technology and climate change. These pillars consist of *new* international support mechanisms designed in favour of LDCs. "Mechanisms" is used instead of "measures" because providing special international support for LDCs is not simply a matter of designing new policy measures but also ensuring the financial and institutional means through which these measures are implemented. Some examples of new international support mechanisms in favour of the LDCs in these are provided hereafter.

Finance

(i) increasing LDCs' access to development finance by meeting donor-county aid commitments (0.15–0.20 percent of GNI); (ii) increasing the share of ODA for development of productive capacities through more aid for infrastructure and skills, innovative uses of aid; (iii) supporting better aid management policies in LDCs; and (iv) devising innovative sources of funding for LDCs, including in particular allocation of special drawing rights (SDRs). Aid should play a catalytic role in leveraging other forms of development finance, for example, promote greater domestic resource mobilization, and ultimately help LDCs to reduce their dependence on aid.

Trade

(i) "early harvest" for LDCs within the Doha Round of trade negotiations of the WTO, including the full implementation of duty-free quota-free (DFQF) market access for all products originating from all LDCs, and a waiver decision on preferential and more favourable treatment for services and service suppliers in LDCs; (ii) LDCs should be empowered to use all the flexibilities already available under WTO rules to foster the development of their productive capacities and pursue their own form of strategic integration into the global economy; (iii) accelerate flows from the Enhanced Integrated Framework to LDCs, and ensure that they are directed at enhancing their productive capacities and international competitiveness.

Commodities

(i) support to LDCs for improving the use of resource rents and avoiding Dutch disease effects; (ii) investment in improving the knowledge of their natural resource potential; (iii) provision of technical assistance for LDC negotiations with transnational corporations (TNCs) to ensure that a greater proportion of the rents from natural resource exploitation accrue to the LDCs; (iv) financial and technical assistance to enable greater local value added and linkages from resource-based diversification

Technology

(i) incentives for regional and national technology sharing consortia in LDCs; (ii) technology licence bank; (iii) a multi-donor trust fund for financing enterprise innovation in LDCs; (iv) Diaspora networks to pool LDC talents from abroad.

Climate change finance

(i) adequate financing of the LDC Fund; (ii) increasing technical assistance for LDCs to incorporate climate adaptation needs into their national development strategies; (iii) constructive engagement in helping LDCs to reduce emissions from deforestation and forest degradation (REDD); (iv) improved access for LDCs to the Clean Development Mechanism (CDM) as a means of overcoming the financial barriers that prevent LDCs' access to renewable energy technology; (v) implementation and adoption of LDC proposals on transportation levies and carbon taxes.

South-South development cooperation

South-South cooperation is a cross-cutting issue relating to all the pillars of the proposed NIDA. In general, the increasing integration of LDCs with some large and fast-growing economies can help LDCs develop their productive capacities. At present, this potential is being realized only to a limited extent —far below its possibilities. In order to fulfil the development potential of the evolving South-South economic relations, the NIDA proposal includes: (i) intensifying Southern development cooperation activities and projects; (ii) sharing knowledge of successful alternative development strategies adopted by non-LDC developing countries; (iii) strengthening the synergy between North-South and South-South development cooperation; (iv) deepening regional integration through regional trade agreements; (v) large and dynamic developing countries' financing of the transfer of their technologies to LDCs on preferential terms.

Reforms in global economic regimes

Beyond LDC-specific mechanisms, UNCTAD claims that changes have to be introduced in global economic regimes. This is because these special mechanisms have to work within a general framework of rules, norms, standards, practices and understandings which guide the international economic and trade relations of all developing countries, including the LDCs. This general framework at present includes, for example, a very weak global governance regime for private financial flows, strictly defined aid architecture and debt relief regimes, agricultural subsidies in rich countries, no international commodity regime and a global knowledge regime that is geared towards protection of intellectual property, rather than the transfer and acquisition of technology. All these add up to a global environment that is not conducive to sustainable, inclusive development. Given the weaknesses in the design and implementation of existing special international support measures for LDCs, these general regimes now exert a greater impact on development and poverty reduction in the LDCs than the special measures. Broader systematic reforms are therefore necessary, and the international support mechanisms will only be effective if they are embedded within a more general policy framework as represented by the NIDA for LDCs.

The full exposition of NIDA is made in UNCTAD's publication *The Least Developed Countries Report 2010 –Towards a New International Development Architecture for LDCs*, available at:

http://www.unctad.org/Templates/webflyer.asp?docid=14129&intItemID=5737&lang=1&mode=downloads

Endnote:

[1] This policy brief is an extraction of the paper "Macroeconomic aspects of the microfinance revolution" presented at the International workshop on the "Economic Perspectives of Least Developed Countries" held at EPRC Conference Centre, Kampala-Uganda on May 24-26, 2011. The workshop was organized by Economic Policy Research Centre, Makerere Business School and HTW Berlin – University of Applied Sciences.

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