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**Outcome of the expert meeting in preparation for
UNCTAD XII: identifying issues and priorities for
least developed countries for action during and
beyond UNCTAD XII**

Held in Arusha, United Republic of Tanzania, 22–24 October 2007

Note transmitted by the UNCTAD secretariat

I. Introduction

1. The expert meeting was convened by UNCTAD with the financial support of the Governments of Austria and Norway. The objective of the meeting was to assist the participation of least developed countries (LDCs) in preparation for the twelfth session of the United Nations Conference on Trade and Development (UNCTAD XII). The expert meeting had before it the study sponsored by UNCTAD titled "Export competitiveness and development in least developed countries" and national case studies on Benin, Bhutan, Burkina Faso, Burundi, Mozambique, Rwanda, Senegal, Sudan and Uganda. The research paper together with the national case studies provided a basis for the deliberations and the outcome of the Expert Meeting. The meeting had greatly assisted LDCs in identifying their issues of interest during and beyond UNCTAD XII and in forming a common platform for their engagement with their trading and development partners.

2. The expert meeting was opened by H.E. Mr. Basil Mramba, Minister of Trade, Industry and Marketing of the United Republic of Tanzania, and was chaired by H.E. Mr. Arsene Balihuta, Ambassador and Permanent Representative of Uganda in Geneva. The outcome of the meeting as contained hereunder and as decided by the expert meeting will form part of the documentation for UNCTAD XII and to the meeting of LDC ministers scheduled to take place during the Conference.

II. Negotiating proposals for LDCs in the preparatory process for and at UNCTAD XII

A. Sub-theme 1: Enhancing coherence at all levels for sustainable economic development and poverty reduction in global policymaking, including the contribution of regional approaches

1. Challenges for LDCs in the context of globalization

3. There is an emerging consensus now that the process of globalization has presented both opportunities and challenges to all peoples, countries and regions of the world. The LDCs are yet to reap the full benefits of globalization and are lagging behind other developing countries, particularly in economic growth, technological progress and income. The current form of growth is not leading to structural transformation in these countries and sustainability of growth remains a challenge.

4. The marginalization of LDCs is evident from their negligible share in world trade, international investment, financial flows and technology. LDCs with nearly 12 per cent of the global population contributed only 0.69 per cent of global output in 2005.¹ Their share in world merchandise export also fell, from 2.95 per cent in 1950 to 0.67 per cent in 2004, while the nominal value of merchandise exports declined in 23 LDCs between 2000 and 2002.² Currently, the share of LDCs stands at about 0.5 per cent of world exports and 0.7 per cent of world imports. Despite strong market integration, what is being seen in LDCs is liberalization without technological learning and innovation.

5. The challenges facing LDCs are multiple and complex. These include (a) massive poverty and underdevelopment; (b) lack of infrastructure; (c) weak supply capacities; (d) lack of institutional and technological capabilities; (e) low labour

¹ Key Development Data and Statistics, World Bank Database, 2005 (www.worldbank.org/DATASTATISTICS).

² World Trade Organization (WTO) 2006 Trade Report.

productivity; (f) weak statistical base; (g) brain drain; and (h) lack of domestic resources for development. These are further reinforced by (a) civil strife and conflict; (b) political instability; (c) desertification, drought and land degradation; (d) high population growth; and (d) ill health. All of these hinder the growth and development prospects of LDCs. Most LDCs are also landlocked while some others are small island developing States. This physical handicap and the high transit-transport cost associated with it have further compounded the ability of LDCs to produce and trade on the regional and international markets, thus undermining their international competitiveness.

6. However, LDCs are diverse in their performance. In recent years, a few LDCs have made some progress in achieving the agreed targets on primary education, eliminating gender disparities in education and in attaining a 7 per cent GDP growth rate.³ This modest progress in some areas has been accompanied by improved national policies, increased world commodity prices and strengthened partnership with the international community.

2. Actions and policies required at all levels

7. There is no simple, uniform and universal blueprint that enables LDCs to arrest and reverse their continued marginalization. LDCs should design their home-grown and endogenous development policies and strategies based on their specific socio-economic circumstances, resources base, institutional capability and overall local conditions. They should assume primary responsibility of ownership and leadership in designing and implementing their development policies and strategies.

8. With a view to enhancing the benefits of global integration, the LDCs need to diversify their economic basis through developing their productive capacities into production of higher value – added goods and services leading to structural transformation. They should also encourage private sector development by creating an enabling environment through stable fiscal and monetary policy, stable investment regimes and sound financial systems.

9. However, national efforts and policies alone are not sufficient to effectively address complex development problems facing LDCs. Global action is crucial both to ensure that opportunities from globalization benefit poor people in poor countries and to manage risks of insecurity and exclusion that the LDCs face today. This should include in particular (a) bridging the digital and knowledge divide; (b) opening the markets of rich countries to the goods and services of LDCs; (c) providing financial resources, including through official development assistance (ODA) and debt relief; and (d) realigning international support measures to the needs and priorities of LDCs.

10. The external economic environment has recently witnessed some improvement for LDCs. World commodity prices for their key exports have continued to improve and foreign aid more than doubled between 1999 and 2004.⁴ Foreign direct investment (FDI) flows to LDCs have also shown modest increases in recent years, reaching \$9.7 billion in 2005, although FDI flows still remain heavily concentrated in few countries and sectors.

11. Efforts should be redoubled to sustain the recent progress in partnership and shared responsibility so as to substantially improve the performance of LDCs in poverty reduction. To that end, LDCs and their development partners should strive to improve the quality of growth which should be inclusive, participatory and

³ Refers to the agreed gross domestic product (GDP) growth target contained in the Programme of Action for LDCs for the decade 2001–2010, which was adopted at the Third United Nations Conference on LDCs (UNLDCIII) in Brussels in 2001.

⁴ UNCTAD *Least Developed Countries Report* 2004, 2006.

sustainable. LDCs and their development partners should also make efforts to ensure strengthened and mutual accountability in development cooperation through the establishment of effective monitoring and evaluation mechanisms at the national level.

3. Policy coherence

12. International policies and rules governing trade, investment, finance and environment should work in harmony and in coherence with national policies and strategies, including Poverty Reduction Strategy Papers (PRSPs). In many LDCs, PRSPs have provided a framework for coordinating national and donor policies. However, the growing multiplicity of uncoordinated policies and programmes has resulted in “policy and process overload” in most LDCs. Governments in these countries strive to implement different international frameworks of cooperation in parallel with their national development policies and strategies.

13. In most cases, the objectives and priorities of the various frameworks, policies and programmes are often viewed as competing with – instead of complementing – each other. As clearly stated in the Paris Declaration on Aid Effectiveness, there is therefore an urgent need to ensure coherence and consistency as well as strengthen coordination among the different policies, strategies and initiatives at the national, regional and international levels.

14. The Economic Partnership Arrangements (EPAs) with the European Union can be important for beneficiary LDCs. In negotiating EPAs, the LDCs should seek to ensure that these agreements are coherent and consistent with their development policies and strategies as well as with Multilateral Trade Agreements. In particular, EPAs should (a) promote their development objectives, particularly through strengthening their productive and supply capacities, including transfer of technology, knowledge and technological know-how; (b) contribute to consolidating regional integration processes; and (c) enhance inward FDI flows including their sectoral orientations. Flexible provisions and long transition periods may also be required to minimize the costs and potentially adverse impacts of adjustment and reform in LDCs.

B. Sub-theme 2: Key trade and development issues and the new realities in the geography of the world economy

1. Trade policy challenges for LDCs

15. Over the last several decades, most LDCs have pursued wide-ranging economic reforms and adjustment programmes, notably aimed at trade liberalization. Trade can be an engine of growth and trade liberalization can create substantial benefits, but only when countries have the necessary infrastructure and institutions to underpin strong supply responses.

16. In the case of LDCs, trade liberalization has not resulted in substantial socio-economic benefits and structural transformation. In fact, their share of world trade has continued to decline over the years and remains marginal, accounting for an average of 0.5 per cent of world exports and 0.7 per cent of world imports from 2002 to 2005.

17. Trade liberalization in LDCs should be gradual, better designed and properly sequenced, based on country-specific circumstances. It should be linked to the development of supply capacities and realigned with the development priorities and objectives of implementing countries.

18. The most important condition for boosting exports and attracting FDI to productive sectors is improvement in the domestic business climate, including governmental provision of public goods. LDCs have made impressive progress in ensuring macroeconomic stability and trade liberalization. They should make further efforts to sustain and deepen their reform efforts, including structural and institutional reforms.

19. Trade should be mainstreamed and sufficiently integrated within national development policies and strategies, including the PRSPs. However, poverty reduction strategies in LDCs should pay particular attention to building productive capacities and generating more employment opportunities.

2. International support measures

20. Greater engagement of LDCs with the international economy as part of a carefully sequenced process of liberalization, matched by increased assistance in strengthening the domestic economy's capacity to adjust and respond to new trading opportunities, can make a significant contribution to the growth and development of LDCs' economies.

21. In this regard, the current Doha Round of WTO negotiations needs to be complemented by significant Aid for Trade for the LDCs. The Aid for Trade Initiative should include trade-related technical assistance to build capacities to formulate a locally-owned trade policy, participate in trade negotiations, and implement trade agreements. It should also include assistance to build supply-side capacities, including trade-related infrastructure. The Enhanced Integrated Framework for Trade-related Technical Assistance to LDCs (EIF), which is an important vehicle to strengthen the institutional capacities of LDCs, should be further strengthened through the Aid for Trade Initiative.

22. The importance of trade preferences in jump-starting the manufacturing sector in some LDCs is crucial, especially in textiles and apparel, where preference margins remain substantial and where LDCs have a potential comparative advantage. Efforts should be made, particularly to secure more simplified, flexible and liberal rules of origin for LDCs.

23. Moreover, market access conditions for LDCs need to be further improved and made more predictable and sustainable, through the elimination of remaining tariff and non-tariff barriers, relaxation of rules of origin, expansion of product coverage and simplification of administrative procedures in relation to the Generalized System of Preferences (GSP) and other market access arrangements. In this regard, the decision taken in the WTO Ministerial Meeting in Hong Kong (China) on duty-free and quota-free market access for products originating from LDCs should be implemented as soon as possible, preferably by 2008. Administrative procedures in relation to the GSP and other market access arrangements also need to be simplified. Special and differential treatments in favour of LDCs should also be made operational, more effective, sustainable and mandatory.

24. It is recognized that most favoured nation (MFN) tariff liberalization would erode preference margins enjoyed by the LDCs. In this regard, negotiations in WTO should incorporate provisions to address the erosion of preferences, including longer implementation period of tariff reduction of products identified by LDCs as vulnerable to preference erosion.

25. In view of the growing importance of service exports from LDCs, the modalities for special treatment for LDCs in WTO negotiations on trade in services should be fully implemented. In this regard, priority needs to be accorded to

methods and supply of export interest to LDCs, particularly on movement of natural persons under mode 4.

26. Regional economic and trading groups are also proliferating in the developing world. In Africa alone, there are some 30 regional groups, and on average each of the 53 countries on the continent is a member of four (typically overlapping) groups. Yet official intra-African trade flows remain very low, at less than 10 per cent. A drawback of regional trade blocs is that they create complex rules of origin and discriminatory trade taxes, leading to possible trade loss or diversion. Efforts to deepen regional integration should be pursued, particularly to simplify the rules of origin and trade taxes, as well as to harmonize trade with other development policies and strategies.

27. EPAs could involve significant costs to countries from the African, Caribbean and Pacific Group of States (ACP) from forgone tariff revenue, reduced intraregional trade, and increased pressure on local agriculture, industry and services sectors. These possible negative impacts of EPA are more likely to outweigh the potential benefits of greater access to the European Union market, particularly given the generally low European Union MFN tariff levels. EPAs could also impose on LDCs trade rules and obligations that go beyond the current multilateral trade agreements (MTAs) in areas such as the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS), investment and services.

28. The complex and costly accession processes of WTO are beyond the financial, technical and human resources capacities of LDCs. LDCs that are in the WTO accession process should be provided with adequate financial and technical assistance to adjust and build their institutional, regulatory and administrative capacities. The accession processes, procedures and requirements should, therefore, be simplified and tailored to the developmental needs and objectives of LDCs. Acceding LDCs should not assume commitments and obligations that go beyond what the current developing country members of the WTO have undertaken.

29. UNCTAD should continue and strengthen its assistance provided to the LDCs acceding to WTO. In this regard, UNCTAD, in collaboration with relevant organizations, will seek to undertake a review of the guidelines for LDC accessions agreed in 2002 in WTO so as to examine whether the letters and spirits of the guidelines are adhered to by WTO members and whether the guidelines are facilitating the accession of LDCs into WTO.

30. South-South cooperation, especially the Global System of Trade Preferences among Developing Countries (GSTP), should be strengthened, taking into account the special trade and economic needs and prospects of LDCs.

31. UNCTAD should analyse the opportunities arising from flexibilities available to the LDCs in MTAs so as to enable them to benefit more from such agreements.

3. Commodities and export diversification

32. Diversification not only broadens the scope for employment creation and poverty reduction, but it also increases a country's economic resilience to external shocks, thereby making income more stable and predictable. It can also promote technological advance and efficiency, and boost labour productivity and incomes. Most importantly, successful export diversification is both indicative of and conducive to technological upgrading and knowledge acquisition.

33. For LDCs, dynamic gains and poverty reduction can also accrue, particularly from other non-traditional exports such as horticulture, fishing and tourism. There is also considerable scope for many LDCs to join the group of successful agricultural commodity exporters in specialty and niche markets. However, most LDC exports

face intense competition and must satisfy the demanding quality and delivery schedules of developed-country markets. Development and trading partners of LDCs should provide technical and financial assistance to LDCs to help them meet safety requirements of consumers and industries. They should also make efforts to harmonize their national standards with those agreed at the international level.

34. LDCs can also take much greater advantage of their traditional commodity exports, both for minerals and agricultural commodities, if credible domestic and international agencies of restraint on rent-seeking can be instituted. Presently rising commodity and fuel prices are an opportunity for some LDCs to seize.

35. The key trade policy challenge in commodity-dependent LDCs should be to upgrade their primary commodity sector, coupled with a vigorous export promotion strategy to exploit dynamically changing comparative advantages, which can be part of a strategy of diversification into exports of labour-intensive manufactures.

36. The global tourism industry is also highly competitive and a successful country must pass the market test of attracting tourists through provision of a quality product that encompasses transport services, accommodations, attractions and security. Office services such as call centres and data processing are another promising but so far largely untapped area of potential comparative advantage for some LDCs.

37. UNCTAD should strengthen its work on commodities in cooperation, in particular with the Common Fund for Commodities, the International Trade Centre UNCTAD/WTO, and other relevant bodies in: improving access to markets and reliability of supply, enhancing diversification and value addition, improving the competitiveness of commodities, strengthening the market chain and market structures, and ensuring the effective participation of all stakeholders.

C. Sub-theme 3: Enhancing the enabling environment at all levels to strengthen productive capacity, trade and investment: mobilizing resources and harnessing knowledge for development

1. Challenges for LDCs

38. Developing productive capacities is key to economic and export diversification, sustained economic growth and lasting poverty reduction in LDCs. However, building productive capacities poses enormous challenges to the LDCs, mainly due to lack of adequate development finance, low savings and investment rates, low levels of technological development, insufficient managerial skills and lack of skilled manpower, the confluence of which undermines their international competitiveness.

39. Moreover, most LDCs are either landlocked or small island developing States. Such geographical limitations mean exorbitant transport and transit costs for exports and imports, which further erode their capacity to trade and their ability to compete internationally. It is unlikely for LDCs to attain sustained and accelerated economic growth without structural transformation accompanied by the development of productive capacities for diversification and international competitiveness.

2. Actions and support measures required at all levels

40. LDCs, with the support of the international community, particularly donors, should make efforts to convert the challenges of landlockedness into opportunities by expanding and enhancing regional integration and by modernizing their transit

transport infrastructure, including through the use of information and communications technologies (ICTs).

41. The overall lack of structural change and very slow rate of productivity growth in the LDCs as a group are the result of slow technological learning and a lack of innovation in their economies. There should be an enabling environment for private-sector-led growth with particular attention to the nature of the domestic firms, domestic financial systems and domestic knowledge systems. Success in the development of productive capacities depends on the existence of firms which are capable of investing, learning and innovating.

42. Getting infrastructure, technology and knowledge to LDCs and their people requires addressing multiple challenges at national, regional and international levels. At the national level, LDCs should attempt to put in place appropriate policies that alleviate problems of assets deprivation, through public support and a range of institutional and participatory approaches. However, the provision of social and economic infrastructure – including transport, telecommunication, schools, health services and electricity – particularly to rural areas, requires the support of their development partners.

3. Mobilizing resources for development

43. In the short and medium term, the LDCs and other structurally vulnerable economies will continue to rely more heavily on external resource flows – mainly in the form of ODA and other grants to finance their development needs, including enhancing productive capacities – than on domestically-generated resources and private capital flows.

44. Development partners (donor countries) that have not done so should make additional efforts to meet the special ODA targets of 0.15 per cent to 0.2 per cent of their respective gross national income (GNI) to the LDCs by 2010. Aid conditionalities must not restrict policy choices in recipient countries. In the framework of international support measures to LDCs, there should also be a rebalancing of priorities between social sector development and production-related issues, with greater emphasis on the latter.

45. Development aid should also be coordinated, made predictable and linked to purposes that will contribute directly to the growth and development of LDCs. In this context, a significant improvement in the approach to aid policies is highly desirable if LDCs are to achieve greater ownership of public expenditure. This implies adherence to the internationally adopted Declarations of Rome (2003) and Paris (2005) on Aid Effectiveness: Ownership, Harmonization, Alignment, Results and Mutual Accountability, which are increasingly regarded as important factors for the legitimacy of national development plans. Donor countries which have not signed to the Paris Declaration are encouraged to adopt similar measures.

46. For their part, LDCs should demonstrate a commitment to sound development strategies and to the effective and purposeful mobilization and use of domestic resources. This should be accompanied by improved political, economic and corporate governance, free and fair elections, respect for human rights and freedom of expression, and devolution of political power through political or economic decentralization.

47. LDCs should also put in place effective social policies so as to ensure that improved growth performance is translated into pro-poor growth and that the benefits from growth are equally redistributed to the poor and vulnerable sections of society. Too often in the past, economic growth has failed to “trickle down” to the poor in the LDCs. Pro-poor growth also needs to be underpinned by improvements

in the quality of governance, through greater transparency and accountability in public policy.

48. FDI and other forms of technology transfer are crucial. LDCs have been actively pursuing policies aimed at attracting and benefiting from FDI as a means of acquiring capital and technology, providing employment and export opportunities. Similar efforts should be made to enhance the role and contribution of domestic investment so that the crowding-out effect on domestic producers of goods and services could be avoided. Donors can also play a catalytic role through technical assistance and financing of infrastructure.

49. In the light of the growing economic importance to a number of LDCs of remittances from nationals living and working abroad, there is a need for greater and coordinated efforts by the international community to promote channels, mechanisms and international policies to reduce the transaction costs that hamper the use of remittances as a source of development financing in relevant countries. Intensifying or redirecting remittances towards productive investment schemes should be seen as a desirable policy objective.

D. Sub-theme 4: Strengthening UNCTAD: enhancing its development role, impact and institutional effectiveness

50. For LDCs UNCTAD has an important role to play and through its research and policy analysis functions it should continue to address the development challenges facing them. This should particularly contribute to improvements in the substantive content of national development policies and strategies as well as in international support measures for LDCs, so as to ensure more sustained growth and development.

51. UNCTAD should strengthen its policy analysis and consensus-building activities in favour of LDCs. This should be complemented with financial and technical support to ensure effective participation of LDC delegations in major UNCTAD Conferences and intergovernmental meetings.

52. UNCTAD should also put in place a vibrant and meaningful strategy to reach out to policymakers, research and academic institutions, private sector actors and civil society organizations in LDCs. This will enable it to serve as a forum for dialogue and networking aimed at improving the substantive content of national policies and policymaking capacities in LDCs. There should be well-structured and regular interaction between the UNCTAD secretariat and the national and/or regional institutions, particularly in conceptualizing the research work, in integrating the national and regional perspectives, and in disseminating the final products of the research work in the LDCs.

53. UNCTAD should design and develop technical cooperation and capacity-building activities for LDCs, drawing from the findings of its research and policy analysis function, and implement them according to the LDCs' needs and priorities. This will enable them to contribute effectively to institutional and technical capacity-building as well as human resources development efforts of LDCs, and maximize the developmental impact of such activities.

54. UNCTAD's capacity-building and technical cooperation activities in LDCs need to be supported by predictable and sound funding. Therefore, UNCTAD should make further efforts to cluster its various technical cooperation activities, including developing multi-donor-funded and multi-year programmes. This will contribute to greater continuity and sustainability of human resources development and institution-building in LDCs.

55. UNCTAD should assist LDCs in building their domestic statistical capacities, including in developing databases on potential export opportunities and market information, particularly for their trade in goods and services.

56. The UNCTAD-LDC Trust Fund remains an important vehicle for initiating, designing and implementing technical cooperation and capacity-building activities in LDCs. There is an urgent need for the regular replenishment of the Trust Fund, including diversifying the sources of funding, as only a few donors have made contributions to it so far.

57. UNCTAD, with the support of member States, should also design a methodological framework to track, evaluate and assess the substantive impact of its policy and research work as well as the technical cooperation and capacity-building activities, especially at the country and regional levels, and report regularly to the Trade and Development Board.

58. The Secretary-General of UNCTAD has already taken an important and encouraging step in the right direction in clustering and strengthening the work of the Division for Africa, Least Developed Countries and Special Programmes. He is encouraged, with the support of member States, to strengthen further the Division of by allocating adequate human and financial resources to enable it to discharge fully its duties and functions.
