

UNCTAD Trade and Development Board

Forty-ninth executive session, Geneva, 8-9 June 2010

President's summary: Key development challenges facing the LDCs: Follow-up to the Third United Nations Conference on the Least Developed Countries and preparations for the Fourth United Nations Conference on the Least Developed Countries

(Agenda item 2 (a))

A. Highlights of the session

1. The first day of the forty-ninth executive session of the Trade and Development Board was held on 8 June 2010 with the objectives of (a) assessing the performance of the least developed countries (LDCs) since the adoption of the Brussels Programme of Action in 2001 in areas covered by UNCTAD's mandate, (b) determining the key development challenges facing the LDCs in the coming period and (c) looking ahead at how to promote structural transformation in LDCs. It comprised two sessions – one high-level segment and one round table. In the high-level segment, the Secretary-General of UNCTAD made the inaugural intervention, followed by statements from the Ambassador of Nepal (Coordinator of the LDC Group), the Ambassador of Turkey (representing the host country of Fourth United Nations Conference on the Least Developed Countries (LDC-IV)) and the representative of the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS). The key speakers at the round table were the Ambassadors of Lesotho and Zambia, and experts from the Overseas Development Institute (ODI) of London, and the Centre for Global Development (CGD) of Washington, DC. Representatives of different country groups and a large number of country delegations made statements and interactive interventions in both the sessions. The sessions were chaired by the President of the Trade and Development Board.

2. The session considered the document “In Quest of Structural Progress: Revisiting the Performance of the Least Developed Countries” (TD/B/EX(49)/2, TD/B/EX(49)/2/Corr.1 and 2). The document, an abridged version of the report of UNCTAD's Inter-divisional Task Force on LDC-IV, provided an evidence-based retrospective analysis of the performance of the LDCs during the previous decade with a view to generate a collaborative development vision for an accelerated structural transformation of the LDCs. Endorsing the findings presented in the document, the speakers appreciated UNCTAD's systematic contributions in providing substantive inputs, in areas of its competence, to the preparation of LDC-IV. They noted in particular the scheduling of a pre-LDC IV event to discuss productive capacities in LDCs (27-29 October 2010) and the fifty-first executive session of the Trade and Development Board to discuss the role of international support mechanisms (29-30 November 2010).

3. Reflecting on the recent performance of the LDCs, it was observed that, until the successive crises hit them, those countries had experienced

relatively high economic growth, certain improvements in macroeconomic indicators, trade expansion with both developed and developing countries, enhanced foreign investment inflows, higher off-take of foreign aid and advances in physical infrastructural and telecommunication connectivity. However, these high overall growth rates were also characterized by highly skewed and fragile intra-group performance.

4. It was pointed out that, although the LDCs faced a set of common structural handicaps, they were increasingly becoming heterogeneous. The nature of their growth, coupled with their geophysical attributes, had led to their varying specialization, dominated by greater dependence on traditional commodity export and, in some cases, on tourism and a narrow basket of manufactured goods (e.g. textiles).

5. It was noted that the growth process in the LDCs, which was largely externally propelled, did not precipitate any progressive changes in the composition of gross domestic product (GDP), diversification of exports, reduction in commodity dependence, broad-based investment flow, substantial strengthening of trade-related infrastructure, and development of science, technological and innovation capability. Development of agriculture and food security remained one of the neglected areas of investment and policy attention. Most of the LDCs remained far from achieving the Millennium Development Goals (MDGs) and graduation from the LDC Group.

6. It was regretted that the improved macroeconomic position of the LDCs had not led to allocation of resources to the productive sectors conducive to more sustained economic growth. The limited deployment of strategic tools relating to trade and industrial policies inhibited channelling of resources to productive capacity-building that would have facilitated structural change of the LDC economies. Flow of foreign direct investment (FDI) remained concentrated in a few extractive industries, particularly petroleum. Official development assistance (ODA) also shied away from financing a productive base in the LDCs, including infrastructure and manufacturing. Indeed, investment in agriculture was also inadequate for greater value addition in the sector. Due to these handicaps, the governments in these countries were usually inhibited from effectively utilizing the policy space notionally available to them.

7. Emphasizing the need for revisiting the conventional development strategies, it was underscored that innovative strategic approaches had to be adopted in the future to make more effective contributions towards fostering structural transformation of LDC economies. In that connection, it was maintained that the strategic policy-oriented role of the developmental state had to be strengthened to create a domestic industrial base and business development services. The traditional approach towards macroeconomic adjustment had to be redefined to enable sustained and inclusive growth.

8. The session underscored the changed global and regional context within which the LDCs now had to deal with their national development challenges. Elements of that new context presented for the LDCs both opportunities (e.g. the rise of the global South) and threats (e.g. adverse implications of climate change). The emerging context had also been underpinned by the aftermath of the global economic and financial crisis, including the recent initiatives in the areas of recovery of global growth and reform of global economic governance.

9. The opinion was expressed that the role of the LDCs needed to be enhanced in global economic governance so as to reflect their interests

more substantively on systemic issues, particularly relating to trade, investment and development finance.

10. There was a general consensus that the outcomes of LDC-IV should herald a departure from the “business as usual” approach towards addressing the development challenges of this group of countries. The outcome of the LDC-IV should be smart and strategic in its approach, with specific measurable targets supported by adequate resources. The outcome should be integrated with other ongoing international development initiatives in favour of the LDCs, including the MDGs, the Paris Declaration on Aid Effectiveness, and the Enhanced Integrated Framework (EIF).

11. The participants were categorical in their expectation to have in place a more effective follow-up and monitoring mechanism of the internationally agreed targets for the LDCs. It was further pointed out that – for a more objective assessment of the efficacy of the performance of the LDCs, as well as that of the international support measures adopted in their favour – there was an urgent need to strengthen the relevant information and database.

B. Major issues discussed at the session

12. The point that was most frequently emphasized during the session was that, during the decade following the adoption of the Brussels Programme of Action, the fundamental conditions of the LDCs had not changed much. Although there had been overall gains in the aggregate, those of LDCs as a group had been limited to a handful of countries, mostly experiencing temporary booms due to high commodity prices. In fact, even those countries were confronting serious problems due to increased price volatility in the international markets. The vulnerabilities of the LDCs to exogenous shocks were most tragically demonstrated by the recent earthquakes in Haiti.

13. It was further argued by some that most of the problems of the LDCs were well known, and thus the emphasis should be on steadfast actions. However, it was generally contended that, in the backdrop of the disappointing development experience and given the new challenges, there was a need for articulating innovative ideas to chart a new development path for inclusive and participatory growth for the LDCs leading to structural transformation of their economies. The importance of commitment on the part of leadership was emphasized in that respect.

14. Reflecting on the nature of the growth in LDCs, it was observed that there was a need to rebalance and diversify the sources of growth through incremental domestic demand. The other structural factors inhibiting sustainable growth in these countries were low productivity, lack of competitiveness, unfavourable business environment, underdeveloped infrastructural services, limited private entrepreneurship and lack of skilled human resources. Accordingly, the need for transformative growth had become important more than ever.

15. The need for structural transformation of the LDC economies was the common thread of almost all interventions. The central point in that regard was the challenge of creating a developmental State that could take policy initiatives and make institutional interventions to create new competitive advantages for the LDCs. The participants highlighted that the envisaged strategic developmental role of the State entailed the formulation and implementation of targeted engagements for enhancing productive capacity, productivity, diversification and value addition.

16. The need to prioritize agricultural development was a consensus view. Many participants regretted the neglect of agriculture in investment decisions and underscored the need to channel more resources to that sector for a number of fundamental reasons, including employment and income generation for the poor, ensuring food security at the national and household level, and promoting diversification of value addition to exportables. That need was further accentuated by the fact that an increasing number of LDCs were experiencing rapidly rising deficits in food products.

17. A significant number of interventions highlighted the critical importance of diversification and specialization of LDCs' exports. The basis of sustained diversification and specialization was considered to be compositional change of the GDP in favour of manufacturing and/or the modern service sector. However, the need for having more tradable products and reduction of dependence on a couple of export markets was also deemed necessary. It was further underscored that LDCs should develop their exports in services, particularly through high-value tourism and temporary movement of natural persons as service providers. Delegates were, however, alerted to the fact that the tourism industry often necessitated a considerable amount of imports, reducing the net foreign exchange earning potential of the industry.

18. Many participants recalled that structural adjustment programmes and across-the-board liberalization had affected the food and manufacturing sectors badly, and urged that caution be exercised in the future with respect to new trade liberalization obligations.

19. The problems of entrenched commodity dependence of a large number of LDCs received special attention during the discussion. The major emphasis was on developing backward and forward linkages of the commodity sector in the national economy. The food-processing sector was singled out as having the most potential in that regard. The macroeconomic challenges of dealing with the boom-and-bust cycle of commodity prices were also discussed. Sudden upward-moving price shocks could appreciate the currency of the commodity-exporting country, making all other exports lose competitiveness.

20. Some participants pointed out the important role that a wide range of informal sector activities played in providing employment and income to the poor in LDCs.

21. The concern about the lack of breadth in the industrial development of LDCs was reflected in the discussion on FDI. It was noted that, despite the rapid increase in FDI flows to LDCs up to the onset of the economic crisis, they were mostly concentrated in the extraction of natural resources, in particular petroleum. Several participants noted the limited opportunity for linkage creation associated with extractive industries. Agriculture, food processing, telecommunications and tourism were mentioned by the participants as promising sectors which could attract FDI.

22. There was broad agreement that a substantial amount of investment was necessary in LDCs to develop infrastructure, such as transport and telecommunications, in order to make industrial diversification possible. The paramount necessity to develop the energy sector was also mentioned.

23. The participants maintained that access to technology was an important development component complementary to trade and financial factors. Technology and know-how were critical to enabling a diversification of LDC economies. Raising the level of science, technology and knowledge capacities was also important in order to reduce

vulnerabilities of LDC to natural disasters and mitigate climate change. It was noted that, to put this into practice, leadership, development governance and an enabling environment were required.

24. The role of South–South cooperation in facilitating structural transformation in LDCs was widely discussed. It was mentioned that LDC exports to the South were currently almost equal to those going to Organization for Economic Cooperation and Development (OECD) countries, although the South was essentially importing primary commodities from LDCs. In that context, it was noted that certain developing countries had initiated duty-free quota-free preference schemes for LDCs. FDI from the South was also increasing, and it had shown more resilience during the crisis. The South could be a major source of transfer of technology and know-how. Regional integration based on better connectivity was also emphasized in that connection.

25. The growing diversity of the LDC Group came up for discussion a number of times. For example, it was pointed out that some were landlocked while some others were island States. LDCs varied quite a bit in terms of resource endowments, including demographic and natural resources. A number of the LDCs were post-conflict countries. All those attributes pointed to the need to address specific concerns within an integrated international support framework for the LDCs.

26. It was further pointed out that, while addressing the country level challenges, one should not miss targeting the most vulnerable sections of the LDCs. Besides the hardcore poor, the need to target women and youth was also mentioned.

27. While ODA flow to LDCs had increased perceptibly in the recent past, it fell short of commitments and the picture was not uniform across the group. As developed countries were likely to enter a phase of physical consolidation, the level of future ODA remained uncertain. As such, the issue of type and quality of aid would become more important for LDCs.

28. The session witnessed a debate on the desirable composition of disbursed foreign aid to LDCs. A large group of participants favoured more targeting of productive capacity-building, including infrastructure and manufacturing. Meanwhile, a number of participants also pointed out that, in most LDCs, social sectors remained underfinanced. As a result, they were failing to meet MDGs and failing to develop the skilled labour force necessary for diversification of the economy. Differing views were also mentioned regarding the advantages of having sectorally dedicated foreign aid as compared to budget support.

29. Issues relating to development finance, other than ODA, were also raised at the session. The role of remittances in LDCs – ranging from providing a cushion to current account balance to the government to supplying poverty alleviating income to rural households – was highlighted. It was opined that the national development finance institutions (DFIs) needed to play a more energetic role to enhance productive investment in LDCs. LDCs also needed to increasingly tap into the funds available with the regional development banks. The Group of Twenty (G20) could also design support measures for LDCs through monetary and fiscal stimuli.

30. Some participants stressed the ways in which the world had changed over the previous 10 years, with greater focus on climate change, the increasing role of South–South cooperation, and the three crises (food, fuel, and global economic and financial) being among the issues mentioned. The importance of food security was raised a few times and

several of the interventions highlighted the negative impact of the crises on LDCs.

31. A number of interventions raised the issue of implications of recent crises on LDC economies. It was particularly mentioned that the LDCs were innocent victims of the recent financial and economic crisis. Adverse consequences of the crisis continued to be felt by LDCs in areas such as exports, investment, remittances, tourism income and development finance. Ways and means to build economic resilience to mitigate future shocks were also discussed.

32. The issue of the adverse impact of climate change in LDCs figured prominently in a number of interventions. It was mentioned that vulnerabilities of LDC economies had increased further due to, inter alia, climate change-induced frequent natural disasters, water stress, negative effects on crop cultivation and fisheries, loss of habitation and the emergence of environmental refuges. Emphasizing the need to undertake climate change mitigation measures in greenhouse gas-emitting major countries, adequate finance for underwriting adaptation measures in LDCs was stressed.

33. The importance of improving developmental governance in LDCs was also highlighted by some participants. It was pointed out that issues relating to governance had become more critical over time, and systematic and sincere efforts were required to deal with inefficiency and corruption to enhance the developmental impact of scarce investible resources. As complete overnight modernization of the public administration was not possible in LDCs, it was suggested that a modest but concrete beginning could be made at a key nodal institution of economic management, e.g. finance or trade ministry, planning commission or central bank.

34. Referring to United Nations General Assembly resolution 43/178, dated 20 December 1988, entitled “Assistance to the Palestinian People”, it was recalled that there was a decision to extend to the occupied Palestinian territory the same preferential treatment accorded to the LDCs.

35. The participants were briefed about the ongoing preparations for LDC-IV. It was mentioned that the national and regional reviews of the Brussels Programme of Action were already completed. The preparatory process had four interlinked tracks: intergovernmental, parliamentary, business and non-government organizations (NGOs). Pre-conference events were being organized by a number of organizations and agencies. Informal meetings to give shape to the outcome document were to begin in New York in September 2010, and the Preparatory Committee for the Conference would meet in January and April 2011, with the conference itself expected to be held in May. The slogan of the conference was “Global Commitment to Partnership”, signifying the need to rebuild solidarity – morally and substantially – based on the enlightened self-interest of the global economy.

36. Expressing their expectations about LDC-IV, the delegates were unanimous in their view that the outcomes should provide concrete and integrated measures to address the real problems of LDCs in the changed circumstances. Most of them called upon the international development community to engage in the LDC-IV process in earnest.

C. Recommendations put forward by the participants

1. New development approach

In view of their past experiences, and taking note of the new global and regional context, the development approaches pursued in the LDCs have to be revisited and put on a more pragmatic basis.

In the efforts to promote structural transformation of their economies, the LDCs have to be supported in making greater and more effective use of developmental policy space.

In designing their national development paths, LDCs have to strengthen and operationalize the strategic and enabling role of the State in leading structural transformation of the economies.

At the same time, in designing the implementation of public policies, the State should respect the principles of transparency, accountability, equity and participation.

2. Reconsidering macroeconomic framework

The macroeconomic framework in the LDCs needs to be reconsidered, putting more emphasis on inclusive growth and employment than on exclusive preoccupation with balancing accounts.

Taking note of specific circumstances, the LDCs have to rebalance and diversify their sources of growth, promoting a greater role for domestic demand.

LDCs need to develop and deploy strategic trade and industrial policies to accelerate structural change of their economies.

3. Addressing specific vulnerabilities

While designing international support measures in favour of LDCs, the heterogeneity of the group has to be recognized and accommodated, particularly addressing the specific development needs of landlocked countries, island States, climate change-affected economies and post-conflict societies.

4. Agriculture and food security

Fostering “agri-renaissance” through higher allocation of public expenditures has to be a primary objective of LDCs for alleviating rural poverty as well as for ensuring food security.

In efforts to revitalize and develop the agricultural sector, there must be a special focus on small-scale farming.

Promoting agri-processing activities has to get greater policy attention.

New technologies have to be made available to LDCs for enhancing productivity growth in the agriculture sector, as well as to allow them to take advantage of “green growth” opportunities.

5. Trade diversification and market access

A major thrust of trade-related measures for LDCs has to be the diversification of the export basket, adding value to export items by developing backward and forward linkages, and through accessing new markets.

Sustainable tourism should be actively promoted to maximize beneficial development impacts;

LDCs should be able to use all the flexibilities provided under WTO rules to foster the development of productive capacities.

The Doha Round of WTO trade negotiations must be concluded as soon as possible, and must address the development concerns of LDCs.

An interim outcome (early harvest) from the Doha Round addressing the trade interests of the LDCs needs to be delivered. Some of the elements of such an interim LDC package may include the following provisions:

- (a) Duty-free quota-free market access by the developed countries and emerging economies for all products from all LDCs;
- (b) Doing away with all non-tariff measures affecting exports from LDCs;
- (c) Improving the Rules of Origin provisions to enhance effectiveness of preferential market access schemes;
- (d) Comprehensive and effective implementation of existing guidelines for fast-track accession of the LDCs to WTO;
- (e) Elimination of trade-distorting domestic support measures and export subsidies in cotton production;
- (f) Support for Mode 4 for promoting trade in services in the sectors where LDCs have supply capacity;
- (g) More resource commitment for Aid for Trade, particularly for broader and deeper use of the EIF facility.

MDG 8 on international partnership, which deals with trade issues, should also be used to deliver the interim package.

Participation of LDCs in bilateral trade agreements should not jeopardize their rights and entitlements under the multilateral trading system.

6. Reducing commodity dependence

Multilateral level actions have to be taken to deal with internal and external factors inhibiting reduction of singular dependence of LDCs on primarily commodities export.

Both horizontal and vertical diversification have to be pursued in commodity-dependent LDCs.

Enabling mechanisms and tools for pre-empting price volatility in commodity markets as well as for the smooth flow of commodity market information have to be operationalized.

Policy measures to counter-balance effects of private standards in commodity markets have to be instituted.

7. Investment promotion

Promotion of domestic investment that boost domestic demand as well as support export expansion should be a fundamental policy objective in LDCs.

Both home and host country measures are to be put in place to guide FDI away from extractive industries to productive sectors in LDCs.

Inflow of FDI has to be refocused on basic infrastructure development, such as building and upgrading roads, ports, communication facilities and production of electricity.

Public policies and incentives have to be designed and implemented to promote productive association between foreign and domestic capitals with a view to promote in-country backward and forward linkages.

A synergy between private investment and ODA has to be sought, including through public-private partnership (PPP), so as to promote productive transformation of LDC economies.

Local financial institutions have to be developed by LDCs to support both domestic and foreign investors.

8. Infrastructure development

As a prerequisite for structural change, infrastructure should be given greater priority in public investment programmes.

Significant amounts of ODA have to be earmarked for infrastructure development in LDCs, desirably by creating dedicated funds.

Domestic capital and inflows of FDI have to be guided to development of physical infrastructures in LDCs.

Different forms of PPP, such as build–operate–transfer (BOT) may be more purposefully practised to expedite development of physical infrastructure.

9. Science, technology and innovation capacity-building

The national science, technology and innovation (STI) system in LDCs should receive greater public policy support.

The STI system in LDCs has to be linked to public service and business activities.

A dedicated capacity-building fund, supported by earmarked ODA, has to be created to develop national STI systems in LDCs.

To utilize the full potential of information and communications technology (ICT) and to overcome the “digital divide”, the infrastructural backbone of ICT systems in LDCs has to be developed.

10. Access to technology

There should be immediate implementation of the flexibilities and preferential provisions related to WTO and WIPO rules on intellectual property, which promise technology transfer flows to LDCs. For example, article 66 of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, which requires developed countries to provide incentives to their companies that transfer technology to LDCs, has to be operationalized.

A “technology bank” may be created to facilitate transfer of technology to LDCs.

11. Official development assistance

International commitments have to be fulfilled by the development partners by providing long-term concessional aid in a predictable fashion.

The quality of the foreign aid delivered has to improve as well in line with the Paris principle of aid effectiveness.

Foreign aid must give stronger support to productive capacity-building efforts in LDCs, including financing physical infrastructure and manufacturing industries.

More predictable and additional resource availability for trade-related capacity-building, particularly for EIF, has to be ensured.

12. Other forms of development finance

Greater efforts to mobilize domestic resources in LDCs, particularly taxes, have to be undertaken to have additional resources to underwrite development expenditures.

Remittances from expatriate workers have to be more effectively utilized to spur investments.

LDCs have to have greater access to the facilities of the regional development banks.

LDCs need to explore new and innovative sources of development finance, including sovereign wealth funds.

13. South–South and triangular cooperation and regional integration

LDCs need to approach economic interactions with the emerging economies and other advanced developing countries as a vehicle for structural transformation of their economy.

The emerging economies need to, among others, provide the LDCs with improved market access without any tariff or non-tariff barriers, encourage FDI flow to productive sectors in LDCs, support transfer of own technologies to LDCs and allocate concessional development finance to underwrite structural change of LDC economies..

LDCs should fruitfully engage in triangular cooperation, involving the developed countries along with the developing countries.

Participation of LDCs in regional integration schemes has to be strengthened in order to scale up productive capacity and improve economic efficiency, particularly through greater connectivity and other trade-related measures. In this connection, participation of LDCs in numerous regional integration schemes has to be consolidated and streamlined to reduce stress on government as well as on business people and entrepreneurs.

14. Global crisis

Any specific measure undertaken as a part of stimulus and other policy packages to deal with post-global crisis circumstances in any country, but affecting the competitiveness of the LDCs, should be discontinued.

Special measures have to be designed to protect LDCs from the adverse impact of global economic and financial crises in the future.

15. Climate change

Mitigation measures have to be put in place to reduce the disproportionate effects of climate change on LDCs.

Adequate financing has to be made available for undertaking necessary adaptation measures in LDCs.

Access of LDCs to environmentally-friendly technology has to be ensured.

Removal of fossil fuel subsidies has to be encouraged.

16. Occupied Palestinian territory

Facilities and preferences to which the LDCs are entitled must be made available to the occupied Palestinian territory.

17. Information base

The informational and statistical bases pertaining to LDCs have to be significantly strengthened to help achieve an effective, reliable and informed policymaking process, a deeper understanding of the performance of LDCs, and a better assessment of the state of delivery of international commitments.

18. Representation and participation

Access, representation and participation of the LDCs have to be effectively increased in all international and regional platforms – formal and informal – so as to reflect the concerns and interests of the group. When designing approaches and measures to reform global financial architecture and other areas of economic governance, implications of such measures for economic development of the LDCs have to be taken into account.

19. LDCs and the MDGs

In the MDG review exercise, the importance of developing productive capacity and gainful employment should be fully recognized.

20. Outcomes of LDC IV

The outcomes of LDC-IV have to be substantive with specific and prioritized targets that will promote accelerated structural transformation of the LDC economies.

The measures and targets to be set by LDC-IV have to be owned genuinely by all concerned partners and confirmed through firm resource commitments, and they should not lead to an excessive management burden for LDCs.

The developmental measures to be endorsed by LDC-IV have to be interfaced with other ongoing international processes and initiatives concerning the LDC Group.

A transparent, accountable and result-oriented mechanism has to be put in place to ensure the smooth and systematic follow-up of the implementation of the targets to be set by LDC-IV.