Ministry of Foreign Affairs
of the Rupblic of Turkey

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Achieving the Millennium Development Goals through new development partnership:

Building up sustainable growth and country ownership

Report based on the High-Level Workshop on Status and Trends for Asian, Caribbean and Pacific Least Developed Countries$

Post-UNCTAD XII

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Note

The views expressed in this volume are those of the authors and do not necessarily reflect the views of the UNCTAD secretariat.

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Preface

Despite the unprecedented growth acceleration from 2005 to 2007, which even surpassed the 7 per cent target needed to meet the Millennium Development Goals (MDGs), least developed countries' (LDCs') dependence on exports of few commodities and on external financing (official development assistance (ODA), remittances and foreign direct investment (FDI)) left them vulnerable and fragile, particularly as they face the succession of international crisis: financial, global economic down turn and climate change. At such a critical period, this provided a forum for exchange of views on the understanding of impacts and implications of these crises for the LDCs. Such understandings are expected to pave the way for renewed efforts by both the LDCs and their development partners.

The challenges that LDCs face and the goals they pursue hold a particular place in the agenda of Turkey's foreign policy and UNCTAD's development agenda. In line with this and Turkey's growing interest in global issues and ongoing support to LDCs, Turkey hosted this third high-level workshop (Ankara, 4–5 December 2008), in a series of such workshops designed to support LDCs, including the Istanbul Conference (Making Globalization work for the LDCs, 9–11 July 2007) and Izmir High-level Workshop (pre-UNCTAD XII, African LDCs, 4–5 March 2008). This is an initiative by Turkey, as an emerging development partner for LDCs committed to support the development efforts of LDCs, to contribute towards the required renewed efforts by both the LDCs and their development partners to address LDCs' development challenges.

The workshop addressed the theme "*Achieving the MDGs through new development partnership: building up sustainable growth and country ownership*". It examined "Current economic situation and implications for LDCs", "Financing and managing development" and "Emerging Relations of LDCs with new development partners — what difference can it make in the areas of trade, investment, technology?" The workshop particularly focused on status and trends for Asian, Caribbean and Pacific LDCs with respect to these issues.

Furthermore, it provided a forum for focused attention to the challenges faced by the Asian, Caribbean and Pacific LDCs and a re-emphasis regarding the importance, more than ever, of the need for the international community to deliver on its promises — particularly given the severe resource shortfall implications for the LDCs due to the emergence of a crisis beyond their doing or control.

These discussions were complemented with reflections and debates on the role of emerging development partners and what countries such as Turkey could offer. There was also a visit to the Turkish International Cooperation and Development Agency (TIKA), where the philosophy, practical content and strategic perspectives of Turkish cooperation were presented and discussed.

The workshop was attended by the Permanent Representatives of Asian, Caribbean and Pacific LDCs, with the participation of relevant international agencies. The meeting was concluded in a Chair's summary.

This publication brings together the highlights, some short background analytical papers and the outcome of the workshop — the Chair's Summary — as to disseminate them widely with the dual aim of stakeholder's sensitization and development partner's mobilization. This is expected to contribute towards the efforts in the build-up towards the next United Nations LDC conference in identifying national policy measures and new international measures in support of LDCs' sustainable development and the achievement of the MDGs.

Development strategies and policies that focus on addressing the chronic structural weaknesses in the LDCs needs to find their place on top of the agendas of LDC governments and development partners, and drive the preparation process for the next United Nations LDC conference, to be held in 2011.

UNCTAD has continued to play a crucial role in **emphasizing the development dimension** of issues in the fields of international trade and investment and related areas. In particular, UNCTAD has been addressing the imbalances of globalization and the need to overcome the supply constraints of LDCs, so as **to ensure development gains and poverty reduction.** In this context, UNCTAD and the Government of Turkey will continue to work together to sensitize the international community towards the urgency for support to the LDCs in ensuring not only that there be no reversal, but positive acceleration in the pace of growth and development achieved by the LDCs in the recent years.

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The Ankara workshop was initiated, hosted and financed by the Government of Turkey. The concept was co-developed and co-organized by the Government of Turkey and UNCTAD. This publication is a consolidation of the issues, the analysis, the presentations and the outcome of the workshop held in Ankara, Turkey, 4-6 December 2008.

The vision, leadership and support, without which the workshop and this publication would not have been possible, were provided by the Secretary-General of UNCTAD, Dr. Supachai Panitchpakdi, and H.E. Bozkurt Aran, Ambassador to the World Trade Organization (WTO) in Geneva of the Government of Turkey.

The workshop, under the able chairmanship of H.E. Mr. Kenan Tepedelen, Ambassador, Coordinator for LDCs, Ministry of Foreign Affairs of Turkey, concluded with a Chair's summary which has been circulated to the United Nations group coordinators.

The Chair of the LDC Coordination Council, H.E. Debapriya Bhattacharya, Ambassador, Permanent Representative of Bangladesh to the United Nations Office at Geneva, provided valuable policy guidance and analytical insight.

This publication was prepared by Mrs. Masoumeh Sahami, with guidance from Mr. Charles Gore, UNCTAD, and Ms. Zehra Çagnur Ünlü, First Secretary, Turkish Permanent Mission to WTO.

The organizers are most grateful to the LDC Government Representatives, the Turkish Government's representatives and resource persons from the Ministry of Foreign Affairs, the Turkish International Cooperation and Development Agency, Undersecretariat for Foreign Trade, the Undersecretariat of Treasury and the State Planning Organization of Turkey and Mrs. Harriet Schmidt, Director, United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) for their stimulating presentations and valuable inputs into the discussions which raised the quality and the relevance of the discussions through sharing of experiences and perspectives.

The efficiency and the smooth running of the workshop was secured by dedicated, active and effective support provided by the staff from the Ministry of Foreign Affairs of the Government of Turkey.

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Abbreviations

ACP	African, Caribbean and Pacific Group of States
ALDC	Division for Africa, Least Developed Countries and Special Programmes
DAC	Development Assistance Committee
DDA	Doha Development Agenda
DFQF	duty-free, quota-free
EBA	Everything But Arms
EIF	Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries
FDI	foreign direct investment
GDP	gross domestic product
GNI	gross national income
GNP	gross national product
ICTSD	International Center for Trade and Sustainable Development
IF	Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries
ILO	International Labour Organization
IMF	International Monetary Fund
LDCs	least developed countries
MDGs	Millennium Development Goals
MFA	Multifibre Arrangement
NGO	non-governmental organization
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
PRSP	Poverty Reduction Strategies Paper
SMEs	small and medium-sized enterprises
TIKA	Turkish International Cooperation and Development Agency
TRIPS	Trade-related Aspects of Intellectual Property Rights
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UN-OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
UNOPS	United Nations Office for Project Services
WTO	World Trade Organization

Chapter 1

LDCs:

Current Situation and Status

LDCs — Current Situation and Status

LDCs are characterized by their exposure to a series of vulnerabilities and constraints such as (a) limited human, institutional and productive capacity; (b) acute vulnerability to external economic shocks, natural and man-made disasters and communicable diseases; (c) limited access to education, health and other social services and to natural resources; (d) poor infrastructure; and (e) lack of access to information and communication technologies.

In addition, declining availability of financial resources, domestic and external, including ODA, a heavy and unsustainable debt burden, falling or volatile commodity prices, complex trade barriers, lack of economic and export diversification and market access for key products which LDCs benefit from, as well as supply-side constraints, have seriously affected the growth and development prospects of LDCs.

> While in recent years LDCs as a group witnessed significant economic growth and expanded merchandise exports, this has been very unequally distributed among these countries.

The number of people living on less that $2 a day in LDCs is estimated to be 581 million, with 206 million in Asia and island states. UNCTAD estimates indicate that in 2009, 35 per cent of the population of LDCs lives on less than $1 a day. For LDCs to meet the poverty target of the MDGs, their extreme poverty rate would have to fall to 20 per cent in 2015. However, UNCTAD projections show that, if present trends continue, these countries are likely to only reach a rate of 33 per cent by 2015.

While in recent years LDCs as a group witnessed significant economic growth and expanded merchandise exports, this has been very unequally distributed among these countries. The vast majority of them have a deficit in their merchandise trade and have attracted a falling share of world foreign direct investment (FDI), receiving less real net ODA per inhabitant, seeing decline in the remittances of their nationals working abroad

In recent years, the Asian LDCs have continued to diversify their economies away from commodities towards manufacturing, while island LDCs remained primarily dependent on service exports, mainly tourism, which also exhibit high levels of volatility.

The ability to compete in global markets and to increase manufacturing exports has helped Asian LDCs promote a limited degree of structural transformation in which manufacturing is increasing as a share of gross domestic product (GDP). However, for the LDCs as a group, the recent growth surge is not generally associated with a structural transition in which the share of manufacturing in total output is growing. In fact, compared to 10 years ago, half of the LDCs have experienced deindustrialization as measured by a declining share of manufacturing in GDP.

UNCTAD's *Least Developed Countries Report 2008* found that LDCs' GDP (as a group) grew very rapidly during the period 2005–2007. Indeed, in 2006, the LDCs' GDP growth for the group was the highest for 30 years, exceeding the 7 per cent target of the Brussels Programme of Action. However, the report also showed that the high growth rates were unlikely to be sustainable as they were mainly dependent on high commodity prices as well as increased aid inflows. Using a new poverty data set, it also showed that high rates of growth were not translating into substantial poverty reduction in most LDCs.

There was, nevertheless, a significant difference between the development trajectories of African, Asian and island LDCs in terms of their form of integration into the global economy. In addition, the Asian, Caribbean and Pacific LDCs vary widely, including landlocked states, island developing states and sizes of population ranging from 11,000 people in Tuvalu to over 130 million in Bangladesh. This has resulted in different experiences and results, with some islands developing states beginning to graduate from the list, while others continued to stagnate and to be unable to meet the MDGs.

The key to sustained development and substantial poverty reduction in the LDCs is the adoption of policies aimed at promoting the development of productive capacities.

In recent years, most Asian LDCs have succeeded in developing manufacturing exports which — although they are often concentrated in a few low-skill activities and highly dependent on preference regimes — have helped to initiate a fragile process of structural transformation. Moreover, island LDCs exhibit the most volatile growth patterns and are largely dependent on service exports and migrant remittances.

The key to sustained development and substantial poverty reduction in the LDCs is the adoption of policies aimed at promoting the development of productive capacities. This should be done in a way which generates productive employment opportunities for the rapidly growing population of working age. Expansion of both agricultural and non-agricultural activities are important as many LDCs were experiencing an employment transition in which more and more people were seeking work outside agriculture. But it is particularly important to promote diversification into activities with more domestic value added and high productivity.

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Implementing these policies required effective development governance. Such governance occurs when policy processes and institutions are dedicated to the purposeful promotion of economic development, poverty reduction and other development goals. It involves the state, which acts to animate and channel the energies of the private sector, driven by the search for private profits, towards the achievement of publicly agreed development goals.

Country ownership of national policies is essential for development success.

Country ownership of national policies is essential for development success. But despite efforts to enhance country ownership with the partnership approach to development cooperation, the various processes related to the way in which aid was delivered were continuing to undermine country ownership and this was having adverse consequences for development effectiveness in LDCs.

Overview of LDCs:

Some indicators to highlight LDCs' vulnerability and marginalization

49 LDCs:

- 33 in Africa;
- 15 in Asia and the Pacific; and
- 1 in the Caribbean.

Population:

- The number of people living in 49 LDCs is 785.44 million (2006), representing some 10.1% of world population;
- The average annual population growth rate is 2.37%;
- 80% of the LDC population is living on less than $2 a day. Almost 50% of LDC population lives in extreme poverty with less than a dollar a day;
- Some 72% still live in rural areas dependent upon agriculture, and 25% of small farmers are virtually landless.

Economy:

- LDCs account for 0.62% (2005) of world GDP, and it comes predominantly from agriculture;
- Their share in global trade is just 0.67%;
- LDCs' share in world tourism earnings is just 1% of world total;
- LDCs spent $14.6 billion for food import in 2005, which was equivalent of 4.4% of their GDP;
- Technology remains outside the frontiers of LDCs. Only 1% of LDCs' population has access to internet as compared to 11% in developing countries and 60% in developed countries.

These are some of the indicators that stress the marginalization and deprivation of LDCs. The incidence, depth and severity of poverty continue to be widespread in LDCs. Despite the fact that their main objective of development has been the eradication of poverty, they remain trapped in a vicious cycle of poverty. The flow of ODA into LDCs is declining. Countries that are making transition from conflicts are in even worse situation.

They lack the productive capacity and depend excessively on primary goods for their trade which hinder product diversification. They lack capital, technology, human resources and infrastructures. Though LDCs as a group are shown to have some growth performance in the current decade, they appear to be extremely vulnerable to external shocks, and remain victim of unfair and unequal trade, burdened with unsustainable debt and face shortage of financing for development.

In September 2000, world leaders at the United Nations Millennium Summit vowed to "spare no efforts to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty".

In September 2000, world leaders at the United Nations Millennium Summit vowed to "spare no efforts to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty". They then recognized the special needs and priorities of the poorest countries. They came out with a shared vision for development in the form of Millennium Development Goals (MDGs) — 8 goals and 18 targets — and called for a global partnership for development. The attainment of MDGs in the majority of the LDCs remains elusive. The major constraint has been the programmes–resource gap. A high-level meeting on the MDGs held on 25 September, and the Follow-up meeting on Monterrey Consensus in Doha, have reiterated commitments and emphasized the need for increased financing for development for the attainment of the MDGs in the midst of spreading financial crisis that is having negative impacts on LDCs' capacity towards the achievements of the MDGs.

$2 billion a day is being spent militarily whereas the attainment of MDGs would require a modest $100 billion–$120 billion a year to lift millions of people out of hunger, malnutrition and natural disasters in different parts of the world.

While it is the primary responsibility of national governments to create enabling environments for the attainment of the goals and mobilize necessary resources for development, it is equally important that foreign assistance — both from bilateral and multilateral sources — is available in a predictable manner. It is necessary that external assistance is increased and development partners show greater commitment to set aside 0.7% of their GDP for ODA to compensate the low level of domestic resource mobilization. The World Bank estimates that the recent food and fuel crises have already pushed millions back into poverty and hunger. One estimate suggests that $2 billion a day is being spent militarily whereas the attainment of MDGs would require a modest $100 billion–$120 billion a year to lift millions of people out of hunger, malnutrition and natural disasters in different parts of the world.

Issues

- What role can new donors play in supporting Africa's development efforts?
- What measures can further strengthen the participation of LDCs in South–South cooperation?
- How can new partners, as developing countries, help LDCs diversify their economies and improve their productivity?
- What are the tools that LDCs can use to achieve the MDGs by 2015?
- How can partnerships between LDCs and emerging economies help achieve the MDGs more rapidly?
- How can FDI be used to enhance Africa's positive integration into the global trading system?
- How can LDCs maximize their benefits from FDI? How can FDI ensure win–win outcomes in terms of higher incomes, job creation, transfer of technology and other positive spillovers?
- What are the consequences of the financial crisis on the weak LDCs' economies?
- How can the commodity windfall be used to achieve sustainable development in LDCs?
- What is to be done, at a national and multilateral level, in order to deal with this unprecedented global economic turmoil?
- What are the costs and benefits of non-reciprocal market access for LDCs? Why is the completion of the Doha Round so important? How can it maximize the benefits and minimize the costs of external integration for LDCs countries?

Chapter 2

The Outcome: Chair's Summary

2. The Outcome: Chair's Summary

H.E. Kenan Tepedelen,
Ambassador, Coordinator for LDCs,
Ministry of Foreign Affairs, Turkey

The Republic of Turkey, as a new development partner, convened this High-level Workshop on New Development Partnership to address three major issues:

- How are recent economic trends, particularly the financial crisis, affecting LDCs with regard to their ability to sustain economic growth, reduce poverty and achieve the MDGs?
- What are the priorities for action, in particular regarding trade, finance and managing development?
- What is the role of the emerging relationships with new development partners in the fields of trade, aid, investment and technology, and how can they be made more effective?

The workshop was attended by Permanent Representatives of the Asian, Caribbean and Pacific LDCs to the United Nations, WTO and European Union, representatives of relevant international agencies, the International Centre for Trade and Sustainable Development, and high-level officials of Turkey. The workshop is one in a series of meetings which have been designed to support LDCs, including Istanbul (Globalization and LDCs) and Izmir (pre-UNCTAD XII, African LDCs).

Recent economic trends and implications of the financial crisis

> The financial crisis will have a major negative impact on LDCs, both in terms of growth performance and also achievement of MDGs.

Most LDCs have in recent years enjoyed high rates of economic growth. But this has been associated with slow poverty reduction and, although there is some progress on health and education, there are, in general, slow rates of progress towards most MDG targets in most LDCs. Moreover, the recent high rates of economic growth have been driven by record export performance, particularly related owing to high commodity prices, as well as high levels of financial flows, particularly aid, into LDCs. With little export upgrading and structural change, with low levels of domestic resource mobilization and with about half of the inhabitants of LDCs living in extreme poverty, LDCs are highly vulnerable to external shocks. Island LDCs also face specific vulnerabilities associated with various geographical handicaps.

Against this background, the financial crisis will have a major negative impact on LDCs, both in terms of growth performance and also achievement of MDGs.

> Sustaining development in the LDCs must be seen as a global public good.

Whilst the precise impact is unclear, it was suggested that the main channels of impact would be falling export revenues, aid, investment, tourism receipts and migrant workers' remittances. Commodity prices have already fallen significantly and there is evidence of slackening demand for garment exports. Tightening trade credit is also a problem.

The LDC-specific impact of the crisis also relates to the weak resilience of LDC economies to shocks of all kinds as a result of the structural weaknesses they face. The fact that the financial crisis is occurring just after the food crisis and the spike in energy prices is significant.

> It is vital that LDCs' interests are taken into account in the design of international regimes.

The negative impact of the crisis will be seriously aggravated if aid inflows fall in 2009 and 2010, and if decisions are made to address the impact of the crisis through protectionism or reckless borrowing. It is vital for both LDCs and donors to avoid such policies.

There was danger that the impact of the financial crisis would translate into greater political instability, with negative effects both for the affected LDCs and also the global community. Sustaining development in the LDCs must be seen as a global public good.

Policy priorities in the areas of trade, finance, technology, migration, climate change and managing development

LDCs have the primary responsibility for promoting their own development. But their efforts can be facilitated — or constrained — by the nature of the international trade system and international financial architecture, rules regarding migration, and also rich countries' policies regarding aid and trade, including market access, standards and rules of origin.

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It is vital that LDCs' interests are taken into account in the design of international regimes and in global governance mechanisms. Amongst the LDCs, the needs

Key priorities should be to complete the Doha Round and to operationalize the Enhanced Integrated Framework (EIF) as a mechanism for improving productive capacities, for integrating trade into broader development strategies and for mobilizing additional Aid for Trade funds over and above those in the EIF Trust Fund.

of Asian, Caribbean and Pacific LDCs are often neglected by the international community.

In relation to trade, key priorities should be to complete the Doha Round and to operationalize the Enhanced Integrated Framework (EIF) as a mechanism for improving productive capacities, for integrating trade into broader development strategies and for mobilizing additional Aid for Trade funds over and above those in the EIF Trust Fund. It is also important that duty-free, quota-free access should be implemented 100 per cent, as otherwise market access preferences for LDCs are likely to be economically insignificant.

In relation to finance, whilst there had been increases in the scale of aid inflows since 1999, aid disbursements are still below the commitments of Brussels Programme of Action and significant inflows have been absorbed in debt relief and dealing with humanitarian emergencies.

There are key issues concerning the quality of aid, notably the composition of aid and the question of country ownership. In terms of the composition of aid, the importance of a better balance between aid for social sectors on the one hand, and aid for production sectors and economic infrastructure on the other hand, was emphasized. In terms of country ownership, the ability of LDCs to take the lead in formulating policies is undermined by weak technical capacities as well as incentives which lead government officials to anticipate donor priorities. Moreover, ownership also is undermined in implementation processes owing to the impact of policy conditionality and also donor financing choices. One negative consequence of weak ownership is the inability to integrate trade into national development strategies owing to the disconnect between the export and import forecasts in the macroeconomic framework and trade policy measures in the main text of these strategies.

In relation to technology transfer and acquisition, it was noted that this was a key neglected area which was important to LDCs in terms of development of their productive capacities. Concentrated efforts should be made to operationalize article 66.2 of the Trade-related Aspects of Intellectual Property Rights (TRIPS) agreement, which specifically encourages developed country members to provide incentives to enterprises and institutions in their territories to promote technology transfer and acquisition to LDCs.

In relation to migration, there was a call for closer attention to practices in host countries to boost the gains from migration through remittances.

In relation to climate change, it was noted that increased levels of climate-related threats such as droughts, floods, hurricanes and sea level rise are superimposed upon existing vulnerabilities. Island LDCs are particularly vulnerable to climate change's physical impacts. In all LDCs, competitiveness policies geared to facilitate climate change adaptation, promote diversification, address supply-side limitation, and foster these countries overall capacity to innovate and design local solutions for their own local problems need to be implemented. However, there is a major gap between the requirements for climate change mitigation, adjustment and technology transfer and actual financial commitments. This gap applies to other developing countries as much as to LDCs and must be addressed in the coming period.

In relation to managing development, there is a need to re-assess the role of the state in promoting development. This is likely to be a key feature of emerging new approaches to development after the immediate impact of the crisis is dealt with.

Emerging relations with new development partners

The emergence of other developing countries, such as Turkey, as new development partners for LDCs, is an important feature of the emerging development landscape. An important condition to realize the potential of these new economic relationships is increased knowledge and information about LDCs in these new development partners, particularly the private sector.

The emergence of other developing countries, such as Turkey, as new development partners for LDCs, is an important feature of the emerging development landscape.

New development partners could play various roles in supporting LDCs. In particular:

- They offer new market opportunities for LDC exporters. This is likely to be particularly true in a period of global economic downturn as the growth rates of developing countries are expected to not fall as sharply as those of rich countries. In addition, there is a significant opportunity to expand duty free and quota free access for LDC exports in these markets;
- They have policy experience which is highly relevant for LDCs given their recent experience in successfully initiating and sustaining structural transformation;
- They could provide more contextually-relevant and impartial advice in relation to technology transfer and learning;
- They could deepen trade linkages through investment linkages, particularly for industries facing rising labor costs.

Chapter 3

Opening Statements: Government of Turkey

3.1. Statement by H.E. Mr. Said Yazıcıoğlu, Minister of State, Turkey

"Current economic situation and implications for LDCs"

We are at a pivotal point in the history of trade and development. The world economy and the international trading system have changed profoundly over the last decade alone. So has the nature of the contribution of globalization to development. The challenge now is to ensure that the positive development impulses will reach all developing nations. All efforts should indeed be made to turn the current decade into a growth decade for developing countries.

We are at a pivotal point in the history of trade and development. The world economy and the international trading system have changed profoundly over the last decade alone. So has the nature of the contribution of globalization to development. The challenge now is to ensure that the positive development impulses will reach all developing nations. All efforts should indeed be made to turn the current decade into a growth decade for developing countries.

However, we need to be realistic and to see the effects of globalization in its entirety. While globalization has led to substantial gains in the well-being of millions of people around the globe, a darker side to globalization coexists, manifested in increasing, unprecedented inequalities both between and within the vast majority of countries. According to the Human Development Report 2005, the poorest 40 per cent of the world's population – 2.5 billion people living on less than $2 a day — now accounts for just 5 per cent of all global income. Partly as a result, the LDCs' share of world merchandise exports fell from nearly 3 per cent in 1950 to below 1 per cent in 2004.

I do not have any intention to portray a dark picture at the beginning of our meetings. However, we all witness in our respective countries the spill-out effects of the ongoing financial turmoil in the global system. Developing nations and especially LDCs are not the responsible actors of the current global economic downturn. Still, as the "innocent victims" of this global challenge, while the LDCs are the least responsible for the global crisis, they are disproportionately affected by its negative consequences and they have the least capability to adapt to the economic hardships that lie ahead.

Two and a half billion people in the world make their living through the production and trade of commodities, including agricultural goods, forestry products and minerals. As many as 38 developing countries are estimated to be dependent on a single commodity for more than 50 per cent of their export income, while 48 countries, many of which are LDCs, depend on only two. The recession faced by the developed world may cause further fluctuations in commodity prices that will lead LDCs to face disproportionate costs. The developed world needs to be more generous towards LDCs that may face additional difficulties because of falling commodity prices.

while the LDCs are the least responsible for the global crisis, they are disproportionately affected by its negative consequences and they have the least capability to adapt to the economic hardships that lie ahead.

Another area where LDCs perform fairly well is manufactured goods, mainly dominated by labour-intensive products such as garments. For 2000–2003, the share of manufactured goods in LDCs' exports was 33 per cent. But there are barriers based on the policy choice of the international community, in terms of limits to market access or domestic producer support, that unfairly undermine developing country producers. LDCs deserve more support to enjoy preferential market access to maintain a sustainable development. The voice of LDCs must be heard more in Doha Round WTO meetings.

Two and a half billion people in the world make their living through the production and trade of commodities.

The leaders of G-20 gathered on 14–15 November 2008 in Washington to discuss the global economic crisis and possible solutions to overcome that challenge. The current crisis underlines the necessity to rebalance the overrepresentation of Europe and the United States in the Bretton Woods institutions and to make room for a governance structure that better represents the present and future world economy. We must avoid increased marginalization of LDCs in the new initiatives aimed at reforming the global financial structure. LDCs need further support to strengthen their representation and negotiating capacity, which in turn would improve the policymaking aspects of the multilateral regimes.

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Turkey is eager to play its decent part in supporting the endeavors of LDCs. The ODA offered by Turkey reached the level of $601 million in 2005. In 2006, it has risen to almost $715 million, which stood at 0.18 per cent of our gross national income (GNI). However, Turkey's total development assistance for 2006 including also the funds funneled by the Turkish private sector which reached at $1.7 billion. We hope to continue in expanding our ODA that brings us closer to LDCs. We believe that ODA has a significant importance in such a difficult time, as we all know that LDCs have little capability to fight on its own with the negative impacts of a global crisis.

As I conclude my remarks, I would like to welcome you once again to Ankara, and wish you fruitful deliberations and a pleasant stay in Turkey.

3.2. Statement by H.E. Mr. Celaleddin Kart, Director-General for Economic Relations, Multifibre Arrangement (MFA), Turkey

The process of economic globalization has been under way for some time. It has brought great benefits to many millions of people in the developing world, with the potential to influence positively a billion more. Improvements in infrastructure, agriculture and industrial efficiency have led in turn to advances in health care and education.

But there are also concerns in the global picture, especially for the LDCs. Despite spectacular development of technology around the world, the welfare gap between developed countries and LDCs is widening. LDCs as a group receive proportionately fewer benefits of globalization, but are exposed to proportionately more of the costs and risks. This could exacerbate the current situation of poverty in the LDCs and inequality with the rest of the world. We need to work harder to meet the existing commitments that were already made. We know the problems and the ways to solve them — dedication, common will to act and collective global energy to target the problems are what we need.

LDCs as a group receive proportionately fewer benefits of globalization, but are exposed to proportionately more of the costs and risks.

In turbulent economic times, globalization has become regarded as an ugly word, tainted by a toxic mix of misinformation, misconception and misanthropy. However, in the coming difficult days ahead, we need to reset the debate, re-establishing why interdependent economies and healthy competition are good for the world. I am an optimist in nature and I believe that a strong international trade system is fundamental. Another important element that motivates global growth is continued economic liberalization. The LDCs and developing world suffer more if protectionist tendencies prevail. The main question that we need to pose ourselves is how to be helpful to improve the competitiveness of the LDCs in an ever more globalized world.

In the coming difficult days ahead, we need to reset the debate, re-establishing why interdependent economies and healthy competition are good for the world.

As the Director-General for Economic Affairs in the Ministry of Foreign Affairs, I am not an expert in the specific area of development projects for the LDCs. However, we, all of us in this room, are well aware of the successful

> ... how to be helpful to improve the competitiveness of the LDCs in an ever more globalized world.

initiatives that helped contribute to LDCs' development efforts. Some of the best success stories from LDCs come with the local initiatives of well-guided poor people who just need some limited financial support to encourage their entrepreneurship. It is no surprise that Muhammed Yunus, founder of Bangladesh's Grameen Bank, received the 2006 Nobel Peace Prize for his innovative microcredit scheme. In places where banks do not reach the poor, microlenders (often non-governmental organizations (NGOs) and non-profit organizations) provide capital to people who can put it to good use. Opposite to what the borrowers in developed countries have been doing recently, as Yunus says, repayment rates of microfinance are 95–98 per cent. Let me underline that in many developed countries, credit card holders are not that dependable. Of course we need to strengthen the export capabilities of LDCs with our ODA programmes, but let us not forget that small is beautiful and poor people are not ignorant at all when we approach them with innovative NGO projects such as microfinance. After all, eradication of poverty in LDCs needs local projects as well, in addition to the strengthening of the international competitiveness of those countries.

Having said this, I have to acknowledge that there is not a single unique policy prescription that fits the diversity of the needs of 49 LDCs as a whole. Meanwhile, as declared in the Brussels Declaration adopted at the United Nations Conference on the LDCs in 2001, we recognize that the primary responsibility for development in LDCs rests with LDCs themselves. Still in the same declaration, it was also affirmed that ODA has a critical role to play in the support of LDCs' development and a target of 0.15 per cent to 0.20 per cent of gross national product (GNP) as ODA to LDCs was agreed. At this point, I am delighted to inform you that Turkey, although itself a developing country, managed to reach 0.18 per cent of her GNP as ODA, with $715 million in 2006. It is our sincere wish to continue and expand our ODA that will bring us closer to LDCs. Globally, we need to mobilize more resources to meet rising demands and expectations. Our principles will be of little use without the financial resources to back them up.

> Some of the best success stories from LDCs come with the local initiatives of well-guided poor people who just need some limited financial support to encourage their entrepreneurship.

Referring to Istanbul Declaration on LDCs, adopted at the Ministerial Conference of LDCs held in Istanbul on 9 and 10 July 2007, special emphasis was given to partnership between middle-income countries and the LDCs. It is a given fact that the problems of a middle-income country are closer to the challenges faced by an LDC rather than the problems of a very advanced country. Therefore, an effective model of South–South cooperation has the potential to make important contributions to global development efforts.

Turkey acts in a responsible manner to play its part in the international community's collective efforts towards LDCs. We do not think that this responsibility can be reduced to a simple matter of providing financial resources.

Turkey, as a developing country itself, also tries to alert and raise the awareness of the international community to the benefit of LDCs. However, transformation of the global approach to development problems requires a much more comprehensive and cooperative effort. We know this is a long term task. We remain committed to pursue it for as long as it takes.

There is not a single unique policy prescription that fits the diversity of the needs of 49 LDCs as a whole.

In addition to development and humanitarian assistance, Turkey also attaches importance to the building of trade and commerce capacity for the LDCs. Turkey has been providing duty-free and quota-free market access for the industrial goods originating from all LDCs since 1 January 2006. This shows our commitment to provide special and favorable treatment to the LDCs. We wish to assist their better integration into the multilateral trading system.

Turkey is determined to do its utmost in turning the good words into deeds. The resolve of the Turkish Government is shared by the Turkish private sector and the civil society. This is demonstrated by the presence of their representatives in almost all of the LDCs, be it as investors, traders or participants in humanitarian affairs.

ODA has a critical role to play in the support of LDCs' development and a target of 0.15 per cent to 0.20 per cent of gross national product (GNP) as ODA to LDCs was agreed.

In closing, I want to say that you can count on Turkey to be your voice in the international forums where LDCs are not represented.

Thank you all for coming to Ankara to participate in this workshop.

Chapter 4

Keynote: Secretary-General of UNCTAD

4. Keynote: The Current Global Economic Situation and Implications for LDCs

Dr. Supachai Panitchpakdi,
Secretary-General of UNCTAD

The world is at a critical juncture. The combined crises of the last two years have exposed serious weaknesses in the global financial system and shattered confidence in that system. A major economic slowdown is looming.

No one knows how long or how deep it will be. But the sharpness and increasing severity of the deterioration of the real economy since September has shocked many business executives and investors. Moreover, the bad news about the impact of the credit crunch on the real economy is multiplying.

In my remarks today, I would like to reflect on the implications of this economic situation for the real economy of LDCs and ordinary people's lives in these countries.

The LDCs should not count on the idea that their economic performance is "decoupled" from global events.

I approach this task with some humility as I am reminded of the headline of a column by the United Kingdom Business Editor of the Financial Times of 16 November 2008, which read, "Full impact of the banking crisis aftershocks anyone's guess".

But nevertheless I would like to convey to you six basic messages.

Firstly, the LDCs should not count on the idea that their economic performance is "decoupled" from global events.

The thesis of decoupling — that developing countries are now less vulnerable to slowdown and recession in rich countries — was widely discussed at the start of this year. Some may believe that it is particularly relevant for LDCs. This is because there is a widespread myth that the level of integration of LDC economies with the rest of the world is low.

It is certainly true that the LDC share of global trade and FDI flows is very low. But UNCTAD research has shown that LDC marginalization in the world economy is associated with high levels of trade integration and high levels of dependence on external financial flows, particularly aid, FDI and remittances.

For LDCs as a group, merchandise trade (including both exports and imports) were equivalent to over 56 per cent of GDP in 2006 (*Least Developed Countries Report*). Moreover, aggregate net resource inflows (including both ODA and FDI) were 8 per cent of GDP in 2006, more than twice the level in other developing countries. These foreign capital inflows were equivalent to 34 per cent of gross capital formation in the LDCs in that year.

So my first message is that most LDCs are small and open economies and they are highly integrated into the global economy. They are therefore very exposed to external shocks. LDCs, like other developing countries, should not therefore count on decoupling.

There are various channels through which the global financial crisis will impact on LDCs. These include trade, aid, FDI, financial flows and migration. The importance of these will vary between countries. *But my second message is that the initial channels through which the global financial crisis will affect LDCs is a fall in export revenue and in remittances, and in both these channels it is apparent that the impact is coming VERY quickly.*

The initial channels through which the global financial crisis will affect LDCs is a fall in export revenue and in remittances, and in both these channels it is apparent that the impact is coming VERY quickly.

In emerging markets, one of the first ways in which the financial crisis has had an economic impact is through the drop in stock market share prices. This has occurred as hedge funds and other investors unwind their leveraged positions in these markets. The scale and speed of the loss in value of assets is quite remarkable. The International Monetary Fund (IMF) World Economic Outlook Update reported on 6 November that emerging equity markets lost about a third of their value in local currency terms and more than 40 per cent of their value in United States dollar terms since the beginning of October. Let me repeat this number — 40 per cent in one month.

Although a few LDCs do have stock markets (and it will be interesting to hear from you whether there have been parallel developments to the emerging markets in your own countries), financial development is much less deep in LDCs and most people living in LDCs are not integrated into global financial markets. Thus, I expect the major immediate impact of the financial crisis to come through a drop in export revenue — associated with weaker demand for manufactured exports, falling tourism receipts and weaker demand for commodities and falling commodity prices — and also a fall in remittances.

Our information is incomplete. But there has been a major fall in commodity prices in the last few months as hedge funds and other leveraged investors unwind their positions in commodity markets, just as they have done in the stock markets.

What is particularly shocking is the speed and magnitude of the drop in commodity prices. The UNCTAD non-fuel commodity price index fell by 16.5 per cent (in current United States dollars) in one month between September and October 2008, and is 28.5 per cent down from its peak in April 2008. Moreover, in some categories the fall has been even sharper. For example, in October the price index for minerals, ores and metals was down by 31 per cent from its peak month earlier in the year, and 20 per cent from the previous month; and the index for vegetable oilseeds and oils was down 45 per cent from its peak month and 25 per cent from the previous month.

It is difficult to get information on what is happening to manufactures exports, tourism and remittances. But one straw in the wind is that orders for ready-made garments from Bangladesh to Europe and the United States dropped by 7 per cent in September.

A major elephant in the room is also the impact of the credit crunch on trade finance. Here I shall just note that the short-term lending which finances trade, which has traditionally been seen as low-risk and which is typically short-term lending with the cargo as collateral, dried up with the credit crunch. I expect that this will turn out to have had a major negative impact on the scale of global trade in the last quarter of this year, with negative consequences for people all along the supply chain, particularly those at the bottom.

So — my second message is *trade and remittances are the first key channels* through which the financial crisis is going to affect LDCs and *the negative impact is already here now.*

Thirdly, the impact of the financial crisis on LDCs will be large not only because they are highly exposed to external shocks, but also because they have weak resilience to shocks.

The impact of the financial crisis on LDCs will be large not only because they are highly exposed to external shocks, but also because they have weak resilience to shocks.

The weak resilience to shocks of all kinds, including natural disasters as well as external financial crises, is a basic feature of LDCs. It is rooted in low levels of domestic financial resources above basic subsistence needs.

In this regard, it is worth noting as one positive point that during the period 2005–2007, many LDCs experienced historically high rates of economic growth. Moreover, for the oil-importing LDCs, the drop in oil prices from the highs earlier in the year certainly provides some breathing space. But unfortunately as well, the financial crisis has come right on top of the spike in food prices which occurred in the early part of this year. The fact that the financial crisis is coming so soon after the food crisis will hurt.

Of course, food prices have dropped from their peaks in April and May 2008 when, in many LDCs, basic staple foods were in general 50 to 100 per cent higher than a year earlier. But food prices are still high and the problem has not somehow gone away. It is, for example, estimated that the food import bill of LDCs will rise to $23.7 billion in 2008, one third higher than in 2007 and more than double the level in 2005.

So my third message is – *resilience matters* and the already-low resilience of LDCs to deal with the impact of the financial crisis have been weakened by the impact of the food price spike of 2008. *The intertwining of the global financial* *and food crisis will increase the severity of the impact of both in the poorest countries.*

Fourthly, the slowdown in growth will arrest the already-sluggish progress toward poverty reduction and MDGs in LDCs, and will undermine the incipient structural transformations which have occurred in some more successful LDCs, particularly in Asia.

The slowdown in growth will arrest the already-sluggish progress toward poverty reduction and MDGs in LDCs, and will undermine the incipient structural transformations which have occurred in some more successful LDCs, particularly in Asia.

I would just like to recall here some major findings of the *Least Developed Countries Report 2008*. It showed that, in spite of very high growth rates in the LDCs as a group in recent years, the number of people living on less than $1 a day was still higher than in 2000, the year of the Millennium Declaration, and 75 per cent of the population of the LDCs was living on less than $2 per day.

One positive trend is that the incidence of poverty in Asian LDCs is much lower than in African LDCs, and indeed we note that the number of extremely poor people living on less than $1 a day in Asian LDCs has actually stabilized since 2000. This is attributable to the greater success that Asian LDCs have had in diversification out of commodities, the development of exports of manufactures and incipient industrialization.

But this progress will be difficult to sustain in the coming period. Already, the food crisis has led to reversals. It is estimated (Food and Agricultural Organization of the United Nations (FAO), Asia Pacific Food Situation Update October 2008) that, owing to rising food prices, 41 million additional people in the Asia–Pacific region will be unable to afford minimum nutritional needs. If exports of manufactures and tourism receipts drop, there will inevitably be layoffs. Moreover, there is a real danger that economic growth will fall once again far below the levels which are socially necessary to ensure that the growing numbers of young people seeking work can be productively absorbed in employment.

With regard to other MDGs, progress has also been slow in the past regarding many human development targets. Although there are pockets of success, particularly, for example, in primary education enrolment, most LDCs are off-track to meet most MDGs for which there is data. Once again, it will be difficult to sustain the progress which has been made if economic growth rates slow down significantly in LDCs.

Aid remains vital and the negative economic impact in LDCs will be seriously aggravated if aid also drops as a result of the economic recession in rich countries.

Fifthly, aid remains vital and the negative economic impact in LDCs will be seriously aggravated if aid also drops as a result of the economic recession in rich countries.

I think this point is obvious. There is a real danger that, along with trade and remittances, aid will also fall as rich countries deal with the public expenditure fallout of the economic recession they face. In arithmetic terms, even if aid to LDCs as a share of GNI (which stood at 0.09 per cent in 2006) remains stable, aid inflows will fall simply because rich countries' economies have contracted.

Against this background, UNCTAD wholeheartedly supports the Organization for Economic Cooperation and Development's (OECD's) call to its member countries to join an "Aid Pledge" that would confirm existing aid promises and would avert cuts in budgets for development aid. Aid will be important not only for dealing with the fallout from the financial crisis, but also for holding a steady course, and reinforcing efforts to achieve long-term development goals, including the MDGs.

In this regard, what I would particularly like to stress here is that the composition of aid also matters. It is likely that in the crisis there will be increasing calls to use aid to support social protection to mitigate the adverse effects of the crisis on the most vulnerable. This is certainly important and there are practical Southern policy innovations, like Brazil's Bolsa Escola and India's rural employment guarantee scheme, which are relevant to LDCs. However, there is a danger that this will distract attention and resources from the fundamental task of building productive capacities and creating productive employment opportunities in the LDCs. In the end, building the productive base of LDCs' economies is the only route to substantial poverty reduction rather than perpetual poverty alleviation exercises, and also the only way in which a sustained domestic resource basis for the provision of public services necessary for the achievement of human development can be created.

It is imperative that LDCs also act now to deal with the impacts of the global financial crisis on their economies and people. LDCs should not miss the boat by responding too late to the weakening prospects.

Sixthly — and this is my last message — it is imperative that LDCs also act now to deal with the impacts of the global financial crisis on their economies and people. LDCs should not miss the boat by responding too late to the weakening prospects.

I stress this last point because, although the global financial crisis has its origins in banking practices in rich countries, it is vital that dealing with the mess is not simply left to the donors; LDCs have to proactively develop their own early policy response.

In this regard, I think a major lesson of the crisis of the early 1980s was that excessive optimism — at that time expressed in commodity price forecasts — lulled some poor countries into a false sense of security which led them to build up unsustainable debt levels rather than undertake immediate adjustments. The overhang of this policy mistake has been very long-lasting.

If one looks now at the forecasts for growth in 2009 in LDCs, it is clear to me that they are very optimistic. In the latest World Economic Outlook estimates, for example, GDP growth in Cambodia is expected only to fall from 7 per cent in 2008 to 6 per cent in 2009 and the growth rate in Nepal is expected to increase from 4.7 per cent in 2008 to 5.5 per cent in 2009. I hope these figures turn out to be true. But as I have indicated, the downside risks are very high and getting higher. I would certainly advise precaution and urge that policy action now is as relevant for LDCs as it is for other countries. Thus my sixth message to LDCs is: *be pro-active in managing the fallout from this crisis.*

To conclude, I would say that my basic point is that, although most people in LDCs are not well-integrated into global financial markets, the consequences of the global financial crisis for the real economy in the LDCs, as well as for progress in poverty reduction and the achievement of the MDGs in these countries, will be severe.

Most LDCs must therefore prepare for a drop in trade and workers' remittances, as well, perhaps, as a drop in capital inflows. They must also prepare for a slowdown in economic growth, and for increasing numbers of people living in extreme poverty and below the minimum standards of human well-being enshrined in the MDGs.

This is quite a gloomy prognosis. But I am by nature an optimistic person and I would like to end on a positive note. In policy terms, we should look at this situation as an opportunity as well as a threat. In this optic we should all work together not only to deal with the effects of the crisis but also to forge a new development era.

In this new development era, there should be a better balance between markets and states in the development strategies of LDCs; there should be more coherence between the interrelated areas of trade, finance, technology, investment and sustainable development; and there should finally be more equitable international regimes, in which the worst-off in the world are no longer the most vulnerable in the world, and in which the voices of all countries, including the poorest, count.

Chapter 5

Discussions and Perspectives

5.1. *Session 1:* Current Economic Situation and Implications for LDCs

The financial crisis will have a major negative impact for LDCs through falling export revenues, aid, investment, tourism and remittances.

"We should allow ourselves to see the current financial crisis as a unique opportunity to accelerate rather than stymie progress towards achieving the goals of the Brussels Programme."

Ms Harriet SCHMIDT, Director, UN-OHRLLS

"We should allow ourselves to see the current financial crisis as a unique opportunity to accelerate rather than stymie progress towards achieving the goals of the Brussels Programme."

The current global financial crisis is one of the most serious economic challenges the world has ever faced. As the economies of developed countries are witnessing unprecedented mutations and are trying to address the effects of the current crisis, we cannot afford to neglect its particular impact on the world's 49 LDCs: they are in the weakest position to respond to a global economic downturn and will be hardest hit by external shocks and commodity price volatility. Moreover, the current global financial crisis presents a further burden on the LDCs as it comes on top of the recent spike in food and fuel prices and the adverse effects of climate change.

The situation of LDCs before the global financial crisis

The strong growth performance of the LDCs as a group has been one of the most encouraging features of the global economy in the current decade. However, it must be noted that record rates of economic growth during this period were largely driven by enhanced export performance owing to rising international commodity prices, particularly for oil and mineral-exporting LDCs. Therefore, except for most Asian LDCs, the recent growth surge is not associated with a structural transition towards a growing share of manufactures in GDP. On the contrary, during the last 10 years, half of LDCs (particularly in Africa) witnessed a process of deindustrialization. Contrarily, Asian LDCs had seen steady economic progress mainly as a result of their attempts to diversify their economies away from commodities towards manufacturing. This specialization rendered Asian LDCs much less vulnerable to external fluctuations. For example, in the period

2005–2006, over 92 per cent of all exports from African LDCs consisted of primary commodities, including fuel, while in Asian LDCs this figure was 44 per cent.

> The strong growth performance of the LDCs as a group has been one of the most encouraging features of the global economy in the current decade.

However, the relationship between economic growth and human well-being is complex; almost 50 per cent in one half of the LDCs continues to live in extreme poverty. Consequently, LDCs have to make enhanced efforts to improve access to water and sanitation, to guarantee gender parity in education and to make maternal mortality decrease.

Nevertheless, this situation will be utterly disrupted with the financial crisis; LDCs are likely to see some reversal of the gains achieved in recent years, jeopardizing achievement of the MDGs further.

The financial crisis will affect LDCs in different ways:

> The relationship between economic growth and human well-being is complex; almost 50 per cent in one half of the LDCs continues to live in extreme poverty.

- The credit crunch in donor countries is likely to curtail investment in the LDCs, which in turn will certainly impact on infrastructure projects at the national and local level in poorer countries;
- The drop-off in official assistance will deepen, as many donor countries may be forced to revisit their development commitments; and
- Lost growth will be caused by lower earnings from trade due to declining commodity prices, slowdowns in the developed world's markets, lower investment as firms cut back and falling remittances from relatives overseas as they suffer the impact of the recession.

Therefore, the question to be addressed is how can the erosion of the gains made so far be arrested?

> The question to be addressed is how can the erosion of the gains made so far be arrested?

The Doha Review Conference presented an opportunity to reaffirm the commitment to address the current financial turmoil and the credit contractions in ways that safeguard aid flows and investments in poverty reduction, infrastructure, education, health, and food security, and ensure economic growth and prosperity across the globe.

- It is crucial that developed countries meet their commitments to increase official development assistance. ODA is critical to public finance in the LDCs, with loans and grants accounting for as much as 40 to 70 per cent of public investments. Only 6 of 22 donors have met ODA/GNI targets of 0.20 per cent until now. Aid volume must be matched with better aid quality. Strengthened public investment programmes with targeted social investments are also essential prerequisites for expanding the financial base for development;

- States need to ensure that domestic policy adjustments, particularly those in fiscal spending, are not taken at the expense of the poor and the marginalized. In particular, they should continue their efforts to achieve the MDGs and scale up their efforts for poverty reduction, infrastructure, human capacity and opportunities, and sustainable development;
- LDCs' interests have to be taken into account in multilateral negotiations, such as the Doha Round (which should, by the way, be completed). Furthermore, South–South dialogue has to be enhanced, economic or financial reforms have to be taken in LDCs, and technology transfer has to be promoted;
- LDCs should pursue their efforts to integrate trade policies in their national development strategies. Diversification and productive capacity-building are key elements for LDCs' development. Moreover, the EIF is a strong tool that should be fully used by LDCs. Finally, LDCs have to develop their own development strategies and solutions (which is probably easier for Asian LDCs than for African LDCs). States have to shape a new development model in order to face this financial crisis.

5.1.1. Afghanistan's Perspective

H.E. Mr. Nanguyalai TARZI,
Permanent Representative of the Islamic Republic of Afghanistan to the United Nations

The current global financial crisis is to be remembered as being one of unprecedented magnitude that has touched every aspect of the LDCs' economic activities. In such times, there is, now more than ever, need to pay special attention to the weakest and vulnerable economies of the LDCs. In this distressed financial environment, there is more meaning to international solidarity and partnership as far as the LDCs are concerned. Within this context, the Programme of Action for the LDCs 2001–2010, which has been adopted in Brussels and which is considered to be a unique and an innovative instrument of development, reviewed its objectives and endorsed it in the Mid-term Review process. The specific development targets which were accepted by the donor partners of the LDCs are:

In this distressed financial environment, there is more meaning to international solidarity and partnership.

- Growth and investment;
- Poverty reduction;
- Human development;
- Transport and infrastructure development;
- ODA, debt relief and market access; and
- Progress toward graduation from LDCs category based on defined thresholds.

Therefore, in light of this present globally constrained financial environment, and to fulfill the deliberations of the promises of the international community — and in particular, of the LDCs' development partners — at the Brussels Conference, it is a very timely initiative for the LDCs, and we sincerely hope that this meeting will provide us with an opportunity to exchange. We are convinced that the outcome and conclusions of this meeting will be extremely important for LDCs in general, and to my country in particular. I believe that this event will also significantly contribute to the development of strategies aiming at promoting and improving the political and economic climate in the LDCs and I, as

The Millennium Declaration, signed in September 2000, was an unprecedented commitment among world leaders to work together to ensure a more peaceful, prosperous and just world.

an Afghan Representative, am very much looking forward to participating and sharing my country's experiences and outlooks for the MDGs.

The Millennium Declaration, signed in September 2000, was an unprecedented commitment among world leaders to work together to ensure a more peaceful, prosperous and just world. Aiming at advancing a global vision for improving the human condition in the areas of development and poverty, human rights and democracy, peace and security and protection of the environment, these commitments were translated into the Millennium Development Goals. The MDGs have also helped rally development actors around commonly agreed policy priorities and catalyze energy and resources towards the achievement of tangible and quantified targets.

However, Afghanistan was not among the 191 United Nations Member States represented at the Millennium Summit in September 2000, where the Millennium Declaration was adopted. After the fall of the Taliban regime, the Government of Afghanistan endorsed the Declaration as well as the MDGs in March 2004.

Following this endorsement, an intense process of national consultations was initiated in order to build a broad national consensus around the development priorities and anchor the MDGs in the Afghan reality. Recognizing the capacity constraints, and acknowledging that for Afghanistan, the 1990s was a "lost decade" for development, the Technical Working Groups in my Government recommended that Afghanistan should extend the time period for meeting the MDG targets from 2015 to 2020, so as to have a realistic chance of meeting the targets. The Government has thus adopted "Vision 2020" for meeting most of the MDGs.

Furthermore, the Afghanistan MDGs contain additional targets to take account of Afghanistan's specific constraints in areas such as gender equality and maternal health. Finally, Afghanistan decided to add a 9th Millennium Development Goal to recognize the special importance of security as a precondition for the achievement of sustainable development in Afghanistan.

Since the publication of the First Afghan MDG report in 2005, the Government of Afghanistan has taken major steps to operationalize this vision:

- First, the Afghanistan Compact, which was agreed at the 2006 London Conference, spelt out in more detail, with quantified benchmarks, the steps to be taken by the international community and the Government of Afghanistan to advance development in Afghanistan until 2011;
- Secondly, the Afghan National Development Strategy has been developed, identifying priority policies and programmes that will be implemented over the next 5 years in 17 sectors — including security — to achieve the MDGs; and
- Thirdly, benchmarks were endorsed by the international community at a donor conference in Paris in June 2008.

In accordance with my country's various progress reports on the MDGs, and taking into account the revised targets and Afghanistan's specific context and priorities, we can say that Afghanistan has made impressive progress in recent years on several of its targets, even if challenges remain in many areas

My country has undergone through a difficult political process. Moreover, it has recently been affected by:

- Devastating natural calamities such as earthquakes, heavy rains causing floods, heavy snowfalls and other environmental disasters in recent years;
- High cost of food commodities and falling prices of other commodities, pushing the farming sector and also the weakest segment of our society more toward poverty;
- Increased cost of energy and its far-reaching combined effect on the overall economy;
- Recent financial meltdown in global finance has certainly not helped LDCs in general and countries like ours to seek out more economic assistance.

The role of our development partners such as Turkey takes more priority than ever in fulfilling our development goals.

In light of these important issues facing the LDCs, the outcome and conclusions of this High-level Workshop will be considered very timely and important. Moreover, the role of our development partners such as Turkey takes more priority than ever in fulfilling our development goals. Their plans for investments and participating in joint ventures beyond Turkish national borders in LDCs will not only be beneficial to them, but also will be in line with the ideals of the South–South cooperation.

In the case of my country, we are privileged to have a very close historically and brotherly relationship with Turkey. In Afghanistan, Turkey is seen as a reliable partner and is playing a pivotal and positive role in every field of Afghanistan's reconstruction efforts. Unfortunately, time will not allow me to list all of Turkey's generous cordiality and timely contributions to Afghanistan. Nevertheless, I would like to heartily express our genuine appreciation for Turkey's technical assistance, the development partnership and the guidance deriving from their own development experience, which will no doubt be considered very useful for us in Afghanistan.

5.1.2. Nepal's Perspective

H.E. Dr. Dinesh Bhattarai, Ambassador,
Permanent Representative of Nepal to the United Nations/WTO

In September 2000, world leaders at the United Nations Millennium Summit vowed to "spare no efforts to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty". They then recognized the special needs and priorities of the poorest countries. They came out with a shared vision for development in the form of Millennium Development Goals (MDGs, 8 goals and 18 targets) and called for a global partnership for development. The attainment of MDGs in majority of the LDCs remains elusive. The major constraint has been the programmes–resource gap. A high-level meeting on the MDGs held on September 25, and Follow-up Meeting on Monterrey Consensus in Doha have reiterated commitments and emphasized on the need for increased financing for development for the attainment of the MDGs in the midst of spreading financial crisis that is having negative impacts on LDCs' capacity towards the achievements of the MDGs.

While it is the primary responsibility of national governments to create enabling environment for the attainments of the goals and mobilize necessary resources for development, it is equally important that foreign assistance both from bilateral and multilateral sources resources are available in a predictable manner.

While it is the primary responsibility of national governments to create enabling environment for the attainments of the goals and mobilize necessary resources for development, it is equally important that foreign assistance both from bilateral and multilateral sources resources are available in a predictable manner. It is necessary that external assistance is increased and development partners show greater commitment to set aside 0.7 per cent of their GDP for ODA to compensate the low level of domestic resource mobilization. The World Bank estimates that the recent food and fuel crises have already pushed millions back into poverty and hunger. One estimate suggests that $2 billion a day is being spent militarily whereas the attainment of MDGs would require a modest $100–120 billion a year to lift millions of people out of hunger, malnutrition and natural disasters in different parts of the world.

The financial crisis

Economists have extensively written on the financial crises and pointed out that corporate inefficiencies were at the epicenter of the financial crisis. Excessive zeal and deregulations are said to have caused the eruption of the crisis. It is being termed as the sum total of financial crisis and business crisis leading to development crisis. The chief economist of the World Bank, Justin Lin, has termed the crisis “likely to be the worst since the 1930s”. UNCTAD has termed it “the crisis of century”. Nobel laureate Paul Krugman sees many symptoms of the current banking crisis as functionally similar to that of the Great Depression, including the impotence of monetary policy to remedy financial troubles.

No reliable and definitive data are available to assess its implications. When we pick up morning newspapers, we see headlines of job cuts, lower bank interest rates, slow trade, slow economic growth, reduced flow of ODA and declining rate of remittances across the globe. The crisis impact is rapidly becoming global, affecting countries indiscriminately, causing massive economic difficulties and producing devastating social consequences.

It is being termed as the sum total of financial crisis and business crisis leading to development crisis.

The summit meeting on “Financial Markets and the World Economy” of the leaders of the world’s 20 biggest economies in Washington D.C. on November 15 demonstrated the urgency and severity of the crisis. After their deliberations, the leaders issued a communiqué that has an “Action Plan to Implement Principles for Reforms” that identifies seven areas of action in the governance of financial markets.

They agreed to (a) use government spending to fight a spreading recession; (b) assign a central role for the IMF in terms of crisis response; (c) reform the international financial structure; (d) undertake financial sector reforms; (e) reform the Bretton Woods institutions; (f) resist protectionism; and (g) revive stalemated negotiations to conclude the trade talks of the Doha Development Round. The meeting instructed the finance ministers to report progress on these points by the end of March 2009.

Implications of the financial crisis on the LDCs

Based on the past crises of a similar nature and given the interconnectedness and interdependence of the world we live in, most of the LDCs will be worst affected, though they are not fully integrated into global financial markets. The effects are likely to be transmitted through financial institutions, and trade and capital markets. A number of possible effects of the crisis on LDCs that may arise out of the present financial crisis are listed below.

Trade

Demand has gone down for imports from developing countries. A major effect has been on reduction of prices and low demands for commodities. Most of the LDCs’ merchandise

For the first time since 1982, global trade is projected to fall in 2009.

trade is with United States and the European Union markets. Since they are in declared recession, this will have a negative impact on LDCs' trade with them. For the first time since 1982, global trade is projected to fall in 2009. International Trade Statistics 2008 published by the WTO says that there has been a decline of trade growth from 8.5 per cent in 2006 to 6 per cent in 2007.

Tourism

The financial crisis will have a significant impact on LDCs' tourism earnings. Most of the arrivals in LDCs are from the United States and European countries. The credit crisis will force them to opt out of any future travels which will ultimately affect the foreign exchange earnings.

Aid

The crisis will affect the flow of aid, thus affecting the world's poor.

If the past is any guide, the crisis will affect the flow of aid, thus affecting the world's poor. After the Nordic crisis of 1991, Norway's aid fell 10 per cent, Sweden's 17 per cent and Finland's 62 per cent. Several instances are cited to show that the collapsing economy of the then-Soviet Union had a profound impact on its close trade partners. President Barack Obama of the United States said that the crisis would slow his promise of doubling United States aid.

Economic growth

Earlier this year, the IMF projected a global growth rate of 3.8 per cent. It has now revised this projection to 3 per cent for 2009. There are projections saying that global output growth will reach only 1 per cent in 2009, compared to 2.5 per cent in 2008 and 3.5 to 4 per cent in the four years before that. Slow growth will increase inequality, which could cause economic and political disorder. Lower growth in developed countries will result in less demand for exports from developing countries. The decline in trade will affect development finance, as a result of which LDCs are likely to be the worst sufferers and performers, since the crisis will negatively impact productive and infrastructure capacities.

There are projections saying that global output growth will reach only 1 per cent in 2009, compared to 2.5 per cent in 2008 and 3.5 to 4 per cent in the four years before that.

Millennium Development Goals

The attainment of MDGs in a majority of the LDCs remains elusive. A high-level meeting on the MDGs held on 25 September 2008 and the Follow-up Meeting on the Monterrey Consensus in Doha have reiterated commitments and emphasized the need for increased financing for development for the attainment of the MDGs.

The attainment of MDGs in a majority of the LDCs remains elusive.

Several writings critically point out there could be US $700 billion bailout plans for banks and financial institutions which are responsible for the crisis, but for the poor, resources are always scarce. *One estimate suggests that $5 billion could save 6 million children's lives, whereas world leaders found 140 times that amount for the banking system in a week*. This stimulus does in no way improve the purchasing power of the poor, and therefore is bound to undermine the eradication of global poverty.

Noted economist Jaffrey Sachs says, "Europe and the United States have mobilized around $3 trillion in the past month in guarantees and bailout funds for banks, but failed to mobilize even one ten thousandth of that this year to help the world's poorest to have access to more food, in the midst of a food and hunger crises".

Additional burden to debt servicing

Currency depreciation is expected to increase budget deficits, an additional debt servicing burden. This will mean a cut in expenditures on social programmes and infrastructure projects that help the poor and vulnerable and a diversion of resources to the debt servicing category by the LDCs.

Investment

According to OECD estimates, there is already a 40 per cent decline in FDI flows to developing countries. FDI decline was 10 per cent compared to 2007 and may decline further. The decline in investment will slow economic demand and employment. It will contribute to the weakening of the state capacity to contribute to growth. The slowdown will have negative effects on export trade. Further, several foreign companies are reported to be withdrawing their investments from developing countries.

There is already a 40 per cent decline in FDI flows to developing countries. The decline in investment will slow economic demand and employment.

Predictable FDI can help enhance supply side capacities and generate economic activities in LDCs, the absence of which deprives the LDCs of several economic opportunities. The financial crisis is a threat to the flow of investment and generation of economic opportunities in the LDCs.

Migration and remittances

Foreign employment remains a primary source of foreign exchange earnings. A significant number of workers are reportedly planning to return home from host countries hit by financial crisis and economic difficulties. The United Nations, in a study of the economic impact on workers, says, "News about migrants returning in significant numbers to their home countries has become more common, especially in cases where the economy of the host country sours."

Workers' remittances into developing countries are already slowing, with a direct impact on recipient countries' GDP.

Workers' remittances into developing countries are already slowing, with a direct impact on recipient countries' GDP. The International Labour Organization (ILO) has estimated that there would be an increase of global unemployment of 20 million and an increase of 40 million people living under extreme poverty.

World remittances by migrants have also dropped, from 17 per cent of their wages between 2002 and 2006 to just 7 per cent of their wages in 2007 and 2008. The total of all remittances sent home by migrants around the world amounted to about $283 billion in 2007. In 2009, remittances are expected to decline between 1 and 6 per cent. Quoting World Bank figures, the United Nations projected a further drop of remittances in 2009 and possible recovery in 2010.

Strategic implications

Financial crisis may lead to larger strategic implications. The likely decline in assistance may give rise to various problems of an economic and social nature, leading to upheavals across the developing world. Given the official recession announced in the United States and Europe, and President Obama's warning that the economy is "likely to get worse before it gets better", may lead to strategic implications. The largest contributors to the United Nations are also the countries declared to be in recession.

Education

Education is a great resource and is said to be a global currency for development. The education sector will suffer and the financial crisis may force the curtailment or withdrawal from universal primary education, making education expensive. Reports indicate that students from LDCs are finding their education in developed world unsustainable.

Political implications

The crisis is not confined to the social and economic spheres, but might also have political implications that could affect political and economic stability of some countries, as was seen in the late 1990s. If we look back at the Asian financial crisis, we see change of government in every affected country except Malaysia in 1997 and 1998. The same happened during the debt crisis in Latin America and Africa.

The crisis is not confined to the social and economic spheres, but might also have political implications that could affect political and economic stability of some countries.

Social implications

The crisis is a great setback for social development. It may cause social dislocation, unemployment, organized crime and frustration among jobless youths, thus contributing to social ills. Declining school enrollment, falling levels of nutrition, increased crimes and abuses will have damaging impacts on societies. Crisis in the social sector will bring misery to millions of people in different countries and also threaten with its spillovers. Financial crisis is already making it difficult for governments to protect budgets earmarked for education, health, nutrition, labour and employment programmes aimed at vulnerable groups, the poor, elderly and disabled.

The crisis is a great setback for social development. It may cause social dislocation, unemployment, organized crime and frustration among jobless youths, thus contributing to social ills.

Climate change

Whether it is the melting of Himalayan glaciers, rising sea levels or shrinking forests, climate change will have impacts on life patterns in the LDCs. In the absence of additional financial and technical assistance, they will not be able to improve their capacity to work out designs for local solutions and mitigation strategy at the local level, leading to wider implications.

Technology

Despite the liberalization and globalization of their economies, LDCs remain outside the frontiers of technology. Globalization, though, was expected to lead to the transfer of technology from rich to poor countries, leading to new process, product innovation and trade diversification. UNCTAD's *Least Developed Countries Report 2007* shows that transfers of knowledge and technology remain "extremely limited and the spillovers are minimal". It is also the case that virtually all imported technology has to be adapted to local conditions and this requires considerable time, investment and experimentation. The process of technological

Despite the liberalization and globalization of their economies, LDCs remain outside the frontiers of technology.

Despite having their economies opened and integrated into the multilateral trading system, their exports increased to some extent and investment attracted – are not climbing the economic and technological ladder.

catch-up by poor countries is one of the great challenges of development.

This report argues that most LDCs — despite having their economies opened and integrated into the multilateral trading system, their exports increased to some extent and investment attracted — are not climbing the economic and technological ladder. They need easy access to technology that will improve health, raise productivity in agriculture and lead to the creation of new industries. The crisis will affect the flow of technology in to LDCs.

Conflict, peace and development: Nepal context

After more than a decade-long armed conflict, Nepal has made a historic political transformation in a peaceful manner within the overall framework of democratic polity. The country is now engaged in restoring trust and confidence into the society, creating cooperative relationships among stakeholders, alleviating the suffering of the conflict-affected people, building peace to rebuild the democratic, social and economic structures, repairing and rebuilding physical infrastructures and governmental institutions. There is a strong linkage between the maintenance of peace and economic reconstruction. Only durable peace helps create an enabling environment for development and rule of law. Government's agenda is *peace for development and development for peace*.

There is a strong linkage between the maintenance of peace and economic reconstruction.

Transition is a multifaceted problem and there are complexities in the transition process. The need is to go beyond procedurals and technical elements and address the root causes of violence, inequality and underdevelopment. Nepal's home-grown peace process is unique to resolve the complexities of protracted armed conflict and transform the conflict into a peaceful and democratic process. In this process, lasting assistance and sustained support from the international community will be required to create enabling environment to deliver to the people much needed peace and development dividends.

"Peace for development and development for peace"

Though Nepal's financial institutions are not well connected to international financial institutions, the crisis has not spared Nepal's economy. The value of Nepali rupee against the dollar has declined. This makes imports expensive, debt servicing costly and balance-of-payments situations precarious. Tourism, which remains a main foreign exchange earner, will be most affected, as high-spending tourists come from the United States and European countries. The crisis will severely affect the flow of remittances from Nepali workers in foreign countries with widespread effects. Nepal is dependent on aid for development. The crisis will also affect the potential for any FDI, which will hamper future economic growth, ultimately adversely impacting the peace process.

Response to the crisis

A response strategy to the crisis makes it necessary to address the issues of trade, finance and development together. It is also found that most of the analysis and dialogue get focused on developed countries and on emerging economies. Small, vulnerable and poor economies are forced to remain in the margins. UNCTAD's Secretary-General has said that a cooperative global financial and monetary system would ensure that the same rules of the game apply to all parties in the world in the same way as multilateral trade rules. A code of conduct should reflect this new spirit of multilateralism in global economic governance.

A cooperative global financial and monetary system would ensure that the same rules of the game apply to all parties in the world in the same way as multilateral trade rules.

In a policy brief entitled "Rebuilding Financial Multilateralism", UNCTAD argues that the global cooperation and global regulation are imperative in both trade and finance and that the United Nations is the most credible international organization to take the leadership role in the process. The forty-fifth executive session of UNCTAD's Trade and Development Board, in November 2008, concluded that the financial crisis has the potential to trigger a deep global recession if countercyclical polices are not applied all over the globe in a coordinated manner. The policy brief further concluded that there is a risk for the ODA to be reduced, with serious negative effects on the most aid-dependent economies, the LDCs. It also encourages countries to critically examine past financial sector reforms with a view to minimizing destabilizing speculation and creating financial markets that are more conducive for the financing of investment. It calls for global coordination more than ever before. What has been taught over the years — "what is considered best for the rich must be the best for the poor" or the "one-size-fits-all approach" — has not worked.

The financial crisis has the potential to trigger a deep global recession if countercyclical polices are not applied all over the globe in a coordinated manner.

The following suggestions have emerged to respond to the crisis:

- Bretton Woods II/reengineering global financial architecture: It should be a cooperative framework for the future, and be inclusive. Regulatory deficit of global finance must be corrected. Currently, Europe is overrepresented. New architecture should reflect the new economic realities, including the increased role of emerging economies. Voice and participation should reflect the economic power of the large and rapidly growing countries. Merit and not the nationality should be the basis of representation;

- G-20 should be far more inclusive than the G-7. The G-20 produces 90 per cent of global output, and accounts for 80 per cent of global trade, and represents only two thirds of the world population. The United Nations, which has universal membership of nations, should play a leading role in developing and implementing any package to address the crisis and ensure full transparency, accountability and representation. The UNCTAD Secretary-General says that the United Nations remains a forum to perform "an essential function in generating innovative ideas, fostering universal dialogue and building consensus. It is the forum, par excellence, for universal participation in global decision making when needed";

The United Nations remains a forum to perform "an essential function in generating innovative ideas, fostering universal dialogue and building consensus.

- Make a diagnostic study that caused this crisis and work out to cope up with a future crisis;
- Paul Krugman suggests that economic recovery will be aided by recent advances in economic understanding and further research, particularly in economic behavior, a field that will need to see extensive exploration;
- Make a coordinated global response to address the crisis;
- Need to build social and financial institutions to regulate markets, supervision and greater international financial discipline, and improving regulatory procedures to stop contagion;
- Emphasis on policy reforms in trade, fiscal, monetary, industrial and regulatory policy framework;
- Early conclusion of the Doha Development Round, taking full account of LDCs' needs, priorities and interests to create confidence in the multilateral trading system;
- Additional funds for schemes like Aid for Trade, EIF and their early operationalization to develop their productive capacities, and build trade related capacity and capabilities;
- Social safety nets to ensure that the poorest and most vulnerable people are protected;
- Any package designed should take into account the country specific context, rather than prescribing global templates to LDCs to ensure country ownership;

- Financial and social reconstruction should go hand in hand, as financial stability is not possible without social stability and vice versa;
- Develop an adequate financial data to make an early warning system reliable;
- Collective steps are necessary. Crisis is a global issue and is having a global impact. Global issues call for global solution. Global cooperation should be strengthened;
- ODA flow must not be allowed to slow down. Humanitarian assistance must continue. No conditionality must to be attached to aid flow;
- Assist LDCs to invest in infrastructures, employment generation, meet social obligations such as health and education;
- Include conflict and peace sensitivity in the international assistance programmes;
- Developed countries must deliver on promises made to cancel debt, provide more and better aid and create a level playing field for LDCs.

Developed countries must deliver on promises made to cancel debt, provide more and better aid and create a level playing field for LDCs.

Conclusions

What started as a financial crisis is fast spreading to other sectors of the society and threatening to engulf the entire world. The multiple challenges emanating from the energy crisis, food crisis, environmental crisis and financial crisis are of unprecedented dimensions. They do not remain confined to one part of the globe in this interdependent world. Their complex and multifaceted nature needs an in-depth study to suggest the formulation of a framework for the global management and regulation of monetary matters. Since the financial crisis is turning global, solutions should therefore be global with global participation with a variety of responses and solutions. In working out solutions, we should take into account local characteristics and factors to ensure country ownership for the sake of social stability. This is economically and politically essential. The crisis must not be allowed to marginalize the LDCs.

Since the financial crisis is turning global, solutions should therefore be global with global participation with a variety of responses and solutions. In working out solutions, we should take into account local characteristics and factors to ensure country ownership for the sake of social stability. The crisis must not be allowed to marginalize the LDCs.

One sixth of the population lives in poor countries. Two thirds of the countries in the world are either in the traps of political tensions, violent conflicts or the aftermath of conflict or war. The immediate tasks in these countries include (a) establishing peace; (b) injecting trust and confidence into the society to create an environment of national reconciliation; and (c) rebuilding democratic and economic structures to sustain peace, and democratic and development processes. It is time that all stakeholders come together, develop concrete action plans, work towards the achievements of MDGs and lift millions of people out of poverty and conflicts to ensure global security, stability and prosperity. Investment in the sustainable development of poor countries will act as an investment for the collective security and prosperity of the world.

5.2. *Session 2:* Status and Trends for Asian, Caribbean and Pacific LDCs — Financing and Managing Development

5.2.1. Implementation of the Doha Conference on Financing for Development

H.E. Dr. Debapriya Bhattacharya,
Ambassador and Permanent Representative of Bangladesh and Chair of the LDC Group in the United Nations System

The backdrop of the current meeting is the Doha Conference on financing for development and the follow-up conferences — and particularly the follow-up of the Monterrey Consensus in 2001 which was much attended. The Monterey Consensus was divided into six sub-themes:

- Domestic resources;
- International finance, FDI and other issues related to private flows;
- Trade;
- Foreign aid (ODA);
- External debt sustainability; and
- The systemic issues in the six areas.

Some countries have made significant progress and have succeeded in mobilizing their domestic resource. The state has to play a paramount role regarding these issues.

On the domestic resource mobilization issue, it appears that some countries have made significant progress and have succeeded in mobilizing their domestic resource. The state has to play a paramount role regarding these issues.

We are witnessing a sort of cautious positivism about the role of FDI. The most important issue agreed on is to ensure the impact on development of FDI in these countries. Furthermore, the role of other private flow resources, such as remittances, has been strongly emphasized. However, remittances should not be seen as a substitute for ODA flow or FDI.

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Trade is the engine for growth and an efficient multilateral system is needed to support this idea. Political momentum is needed in these issues and the Monterey–Doha Round needs to be completed by this year. Balance and equity have to be the keywords. Furthermore, the accession issue was really in the centre of the discussions in the Monterey Consensus: the accession process to WTO has to be accelerated in order to build rapidly a more participatory multilateral system. The Lao People's Democratic Republic, Bhutan and Yemen are currently in the process of joining WTO. Other countries have joined WTO since the Monterey Consensus: China, Cambodia, Cape Verde and Ukraine. One may consider this as post-Monterey successes.

ODA issues have been presented as real successes. Indeed, we are now living the reversal of the declining trend of the 1990s: 2005 was the ODA peak for LDCs. However, the question of ODA composition has still to be addressed. The main part of this ODA focuses on debt forgiveness, and does not represent development aid for LDCs. Consequently, the impact of ODA on production capacity-building in these countries is very weak. Thus, even if the increase in ODA since the Monterey meeting has been celebrated (the amount of aid has almost doubled, reaching $100 billion annually — most of this ODA going to the LDCs), we have to be careful and keep an eye on the debt increase.

5.2.2. Progress under the Brussels Programme of Action: "Financing and Managing Development in LDCs: Which Way Now?"

Charles Gore,
Special Coordinator for Cross-Sectoral Issues, UNCTAD

This presentation identifies some of the important trends in financing and managing development in LDCs which have occurred during the Brussels Programme of Action. In the light of that experience and also the current global financial crisis, new priorities for action are put forward.

Progress during the current decade

The Brussels Programme of Action was agreed at the end of the Third United Nations Conference for LDCs (UNLDC III) in 2001. It was based on mutual commitments between the LDCs and donors in seven key areas, as well specific targets to monitor progress.

> Aid inflows into LDCs in 2006 were more than double the level in 2000.

In identifying trends, it is useful to compare what has happened in this decade with what happened in the 1990s — the decade of the last Programme of Action, which was agreed in Paris at UNLDC II. In brief, there was a major disconnect between the actions of LDC governments and the actions of the donors during the 1990s. As demonstrated in UNCTAD's *Least Developed Countries Report 2000*, most LDC governments undertook deep economic reforms from the late 1980s onwards. But real aid flows to LDCs declined throughout the 1990s, particularly during 1994–1999. In real per capita terms, net ODA to LDCs dropped by 45 per cent between 1990 and 1999, and in the later year, was at levels equivalent to the early 1970s.

Since 2000, the situation has been different. LDCs have continued to undertake deep economic reforms — now known as second-generation reforms — but donors have actually seriously increased aid inflows to LDCs. In nominal terms, aid inflows into LDCs in 2006 were more than double the level in 2000. Of course, part of the scale-up of aid is attributable to debt relief and humanitarian aid, leading some commentators to talk of "phantom aid" — aid which the countries never see. The increase in aid has also not been equally shared amongst LDCs. Asian LDCs received half as much aid per capita as African LDCs in 2006, and amongst the latter there are significant and growing disparities between countries which are donor darlings and those which are donor pariahs. Finally, only eight Development Assistance Committee (DAC) member countries met the aid target of 0.15 per cent of GNI to LDCs, which is an important commitment in both the Brussels Programme of Action and the MDGs.

Despite these caveats, it is clear that what is happening in the present decade (what some people call the "noughties") is significantly different from what happened in the 19902. In short, we have moved from a situation of no partnership to some form of development partnership in which actions of LDCs and donors are starting to reinforce each other. However, this partnership is still not as effective as it might be. A key issue which has emerged is weak country ownership of national development strategies. All parties agree that country ownership is essential, as was recently reaffirmed in the Accra Agenda for Action. But it is clear that various practices associated with the delivery of aid continue to undermine the ability of LDCs to exercise leadership in formulating and implementing their own national development strategies.

We have moved from a situation of no partnership to some form of development partnership in which actions of LDCs and donors are starting to reinforce each other.

This is analysed in detail in UNCTAD's *Least Developed Countries Report 2008*. But in brief, country ownership of national development strategies is being undermined not simply by misalignment of aid with national strategies – which nevertheless remains a significant problem — but also through (a) weak technical capacities and strong incentives for national officials to anticipate and internalize donor priorities in policy formulation; and (b) the prioritization of donor agendas in policy implementation through the working of policy conditionality, administrative guidance via monitoring indicators and selectivity in donor financing choices. In effect, most second-generation poverty reduction strategy papers (PRSPs) in the LDCs are so broadly defined and so weakly embedded in a strategic choice that there is an ownership frontier within the PRSP. Part of the policy agenda is strongly owned by national governments, part strongly owned by donors, and in between there is a shifting zone of consensus policies. What tends to get financed and what becomes the source of policy conditionality is drawn particularly from the donor part of the agenda.

What is particularly striking is that the second-generation PRSPs of LDCs are very different from the first-generation documents in that they are particularly concerned with building up the productive base of their economies. But there has been no corresponding shift in the composition of aid. Indeed, the opposite is happening, as a greater share of aid is going to social sectors, particularly governance reforms. The mismatch between the changes in the policy content of the poverty reduction strategies, which emphasize the importance of productive sectors and infrastructure, without a corresponding change in the composition of aid focused on social sectors and social infrastructure, is a primary indicator of weak country ownership.

The second-generation PRSPs of LDCs are particularly concerned with building up the productive base of their economies.

To put some numbers on this: the share of aid to LDCs committed to production sectors and economic infrastructure was just 25 per cent in 2006, down from 50 per cent during the early 1990s and 37 per cent in the late 1990s. Aid commitments to transport storage infrastructure decreased from 11 per cent of total commitments to LDCs in 1995–1999 to 6 per cent in 2006, and commitments to energy infrastructure shrank from 5 per cent to 2 per cent of total commitments.

> The share of aid to LDCs committed to production sectors and economic infrastructure was just 25 per cent in 2006, down from 50 per cent during the early 1990s.

Weak country ownership has serious negative consequences for the effectiveness of national development strategies and the development effectiveness of aid. One illustration — in most LDCs, the macroeconomic framework is narrowly owned within the Ministry of Finance. A consequence of this is that it is impossible to mainstream trade into national development strategies. The export and import forecasts of the macroeconomic framework float freely, having no connection with the more detailed trade objectives and policy measures contained in the main text of PRSPs. More generally, weak country ownership is restraining policy diversity, policy pluralism and policy learning. In the current situation, it is difficult for LDCs to move beyond the past development model which has, at its core, liberalization, privatization and stabilization. The second-generation PRSPs are seeking to put poverty reduction and the achievement of the MDGs in a broad economic development framework. This requires new forms of development governance in which the state plays an active role in animating and channeling the energies of the private sector, driven by the search for private profits, towards the achievement of public-agreed national development goals. But without stronger country ownership the challenge of development governance cannot be met.

> Weak country ownership has serious negative consequences for the effectiveness of national development strategies and the development effectiveness of aid.

The dual significance of the global financial crisis

The imperfect way that development partnership has been working has had important consequences for development results. On the positive side, the shift from the disconnect of the 1990s to the development partnership of the current decade has been associated with higher growth rates in more and more LDCs, as well as higher rates of domestic investment.

> Weak country ownership is restraining policy diversity, policy pluralism and policy learning.

For the LDCs as a group, gross capital formation reached 22 per cent in 2006. But on the negative side, the pattern of growth remains disquieting.

As UNCTAD has argued in its *Least Developed Countries Reports*, LDCs have had a pattern of growth which is exacerbating — or at best not reducing — their vulnerability to external shocks. Rapid economic growth has translated into relatively slow rates of poverty reduction and improvement in human well-being. These outcomes reflect too little investment in the development of productive capacities and the associated expansion of productive employment. As a result, domestic savings rates remain very low, the ability to raise domestic tax revenue is usually weak, export upgrading is slow and most LDCs have rising trade deficits. It is particularly disquieting that food imports of LDCs are expected to rise to $23.7 billion in 2008, more than double the level in 2005. The drive to achieve the MDGs is also, in the absence of efforts to build productive capacities, reinforcing long-term aid dependence in LDCs.

Given their vulnerability, and also low resilience owing to mass poverty and weak mobilization of domestic resources, the LDCs are likely to be hit very hard by the crisis. Economic analysts disagree how 2009 will look. But the World Bank in its *Global Economic Prospects 2009* is estimating that real export growth from developing countries will drop from 12 to 15 per cent per annum during the period 2001–2006 to about 2 per cent in 2009 and that total world trade will actually contract for the first time since 1982. LDCs will not buck this trend. Indeed, it is already clear that export revenues are dropping owing to weaker demand for manufactured exports, falling tourism receipts, weaker demand for commodities and falling commodity prices.

Falling export revenue will have major adverse consequences because most LDCs are not only open economies but also highly import-sensitive economies. That is to say, a high proportion of their imports are essential to the continuation of ongoing activities and their development through investment. Shrinking import capacity will thus create a vicious circle, as import compression hampers the full utilization of domestic productive capacities, curtails investment and also, in some countries, undermines food security. In the light of world trade projections for 2009, the pessimistic scenario of the pre-release of the United Nations *World Economic Situation and Prospects 2009* may not be too far off the mark when it suggests that LDCs will grow at only 2 per cent in 2009. If this occurs, poverty rates will inevitably rise, as GDP growth will be less than the population growth rate.

Falling export revenue will have major adverse consequences because most LDCs are not only open economies but also highly import-sensitive economies.

Against this background, it is clear that there will be a need for new policies — both national and international — to deal with the impact of the crisis in the LDCs. These are likely to include increased spending on social safety nets, perhaps drawing on developing country experience such as Brazil's Bolsa Familia or India's rural employment guarantee. But measures to stimulate domestic demand, for example through infrastructure investment, as well as to promote agricultural productivity and growth linkages to local industries and services, will also matter. Access to trade credit may also be a particularly important issue.

There will be a need for new policies — both national and international — to deal with the impact of the crisis in the LDCs.

However, the main point here is that we should not *only* be thinking about how to cope with the impact of the crisis but also of the financial crisis as marking the end of a development era and as a turning point to a new development era. The financial crisis thus has a dual significance in policy terms. We should not only be dealing with the impact of the crisis, but also thinking ahead and trying to shape new policies for this coming new era.

New priorities for action

The main features of this new era are still emerging. But it is clear that there will be increasing importance to South–South economic relations and these new forms of interdependence will interact in complex and unpredictable ways with old North–South economic relations. There also must be an energy transition to a low carbon economy and sooner or later the point of peak oil supplies will be reached. Knowledge and technological learning is also becoming more and more important for international competition no matter what you produce. The role of the state will be reassessed in the coming era and there should be increasing policy diversity based on different local contexts. We know too that most of the world's population, including the LDC population, will be living in cities.

we should not *only* be thinking about how to cope with the impact of the crisis but also of the financial crisis as marking the end of a development era and as a turning point to a new development era.

A key challenge is going to be not simply to draw lessons from the past decade but also to respond to the urgent social needs which the financial crisis will create. We also must try to make the new priorities for action go with the grain of this new development era, and indeed to help to forge it. This is quite an abstract idea and to concretize it and also to conclude, one should ask, *"What might constitute important deliverables for LDCs in the context of the forthcoming UNLDC IV, which is likely to be held in 2011?"* What is meant by deliverables here is new international support mechanisms for LDCs. At UNLDC III, the deliverable which was the big new idea was the Everything But Arms (EBA)

What might constitute important deliverables for LDCs in the context of the forthcoming UNLDC IV, which is likely to be held in 2011?

Initiative which was pushed forward by the Government of Sweden and agreed by the European Union. But a second deliverable which was potentially more significant was the decision to untie all aid to LDCs except technical cooperation and food aid.

As to what might constitute important deliverables for UNLDC IV, analogous deliverables for the decade 2011–2020 might include two overarching priorities. The first is to improve the terms of development partnership in favour of poor countries by promoting country ownership in the sense of their genuine ability to lead in policy formulation and implementation. This is the surest way to move away from a one-size-fits-all approach to policy. The second is to devise international support mechanisms which promote the development of productive capacities in LDCs. Particularly important in this regard is the use of financial aid to support technological learning and innovation in LDCs, as well as to build up their domestic knowledge systems.

A critical feature of the new development era must be a widened new development partnership for LDCs.

Finally, it is clear that a critical feature of the new development era must be a widened new development partnership for LDCs which complements their relationship with the traditional donors of LDCs. An important outcome of the Accra Agenda for Action was the assertion of the increasing role of South–South cooperation and the recognition of its distinctive features. As stated there, "South–South cooperation on development aims to observe the principle of non-interference in internal affairs, equality among developing partners and respect for their independence, national sovereignty, cultural diversity and identity and local content". How such cooperation can play a role in supporting LDC development, as well as enabling enhanced country ownership of national development strategies by the LDCs themselves, must become a key priority for the coming decade.

LDCs continue to rely heavily on external sources of growth, especially ODA. According to UNCTAD the *Least Developed Countries Report 2008*, aid flows are mainly directed towards improving social services and social infrastructure rather than increasing their productive capacity, promoting structural change and diversification that could pave the way for sustainable growth and global integration.

5.2.3. A Turkish Perspective on the Impact of the Crisis on LDCs

Mr. Fatih Unlu, Head of Department,
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As indicated in UNCTAD's latest Global Outlook Report, the current global economic turmoil poses serious threats and challenges to developing countries, especially the least developed ones. The effect comes mainly from shrinking export markets and problems of liquidity. As most LDCs are net food importers, they have been strongly affected by the rise in commodity food prices, deteriorating terms of trade and widening current-account deficits. Despite the moderation in commodity prices, much of the damage has already been done, as the surge in food prices has led to double-digit levels of inflation and slowed progress towards the MDGs. The global economic downturn will also affect the LDCs through lower commodity prices, weaker investment and trade flows, and higher exchange-rate vulnerability. Aid may recede if traditional donors, severely hit by the financial crisis, fail to stick to their aid commitments, thus further hampering progress towards achieving the MDGs.

The themes of economic growth, sustainable development, capacity-building and good governance remain the essential elements of success. The improvement of the living conditions of over 600 million people in 49 LDCs depends on effective policies geared to this end. In this respect, the international community must fulfill the commitments and objectives with respect to ODA for the LDCs. Cancellation of bilateral and multilateral debts, the acceleration of WTO's Doha Work Programme and the fulfillment of already low levels of ODA commitments are also crucial.

The international community must fulfill the commitments and objectives with respect to ODA for the LDCs.

Turkey's role, as an emerging donor country, has been quite visible for some time. Initially, our contributions have focused in our immediate vicinity. But in time and in parallel with our efforts to further deepen our relations with the LDCs, the share of the African and Asian countries within Turkey's total assistance has been on a steady increase.

Turkey has experience in poverty alleviation and economic management:

- Turkey has made good progress in alleviating poverty in recent years through several programs. We have also introduced some innovative funds and tools especially for rural development, such as KÖYDES and BELDES. Two big funds composed of multi-billion dollars are allocated effectively under

Support to Villages and Support to Municipalities Funds. Now, most of the infrastructural problems in remote rural areas have been solved;

- On the other hand, the right approach to the economy and its management is essential for developmental success. In Turkey, and at the State Planning Organization in particular, we have much experience in economic management. Exports led the growth strategy Turkey adopted in the 1980s, which has contributed significantly to the success of the Turkish economy in recent decades.

The money used for saving a few banks in developed countries will suffice to finance a lot of projects for the LDCs.

We are ready to share our experiences in both poverty alleviation and economic management with brotherly LDC countries. TIKA is also eager to support expert visits and study tours in these types of areas. There is a serious crisis in most of the developed countries. But we hope that it should not be used as an excuse or a pretext for downsizing official development aid. To be frank, the money used for saving a few banks in developed countries will suffice to finance a lot of projects for the LDCs. Therefore, development aid is of paramount importance. However, development is rarely realized by external dynamics only. The real dynamics should come from inside. Therefore, there is a need to do something internally for best use of these limited resources:

Development is rarely realized by external dynamics only. The real dynamics should come from inside.

- Invest in agriculture. We know that LDCs face financial problems, but there are also some international organizations such as FAO and IFAD, and international funds which are eager to help LDCs. The major issue is to design good projects and knock on the doors of these institutions more frequently. Well-targeted FDI is also a good solution. For instance, medicinal crops should be focused on and could be a good alternative for LDCs;
- Design financial systems in a way to support real economic activity. Even the richest countries cannot shoulder speculative financial activities which do not correspond to an economic value. Consequently, how may an LDC do so? We should remember what happened to Iceland, a relatively prosperous country which collapsed in a very short time due to intensive speculative activities;
- Most of the LDCs have a high energy burden. Therefore, they may concentrate more on energy saving and energy efficiency. They should invest in renewable energy resources and innovation in these critical areas;
- A fair and efficient taxing system is important to generate public funds and to promote economic activity;

- Public procurement is a good tool in this respect but transparency and good governance is essential for effective performance;
- Innovative financing tools such as microcredit may be introduced commensurate with the local conditions and expectations.

we should focus on the methodology of development aid.

Finally, we should focus on the methodology of development aid. There is serious complaint coming from the recipient countries that most technical assistance goes to paperwork, consultancies, etc. Spending millions of dollars does not necessarily produce an output commensurate with that amount, which is unacceptable. Therefore, development aid should be improved both quantitatively and qualitatively. On the other hand, recipient countries' absorption capacity and transparency in the procedures are indicated as unavoidable factors.

5.3. *Session 3:* Emerging Relations of LDCs with New Development Partners: What difference can it make in the areas of trade, investment, technology?

What are LDCs needs and expectations and what are development partners able to provide?

This session focuses on practical and possible new approaches to development partnership with countries such as Turkey specifically related to trade, investment and transfer of technology. What are LDCs needs and expectations and what are development partners able to provide?

5.3.1 Introductory Remarks

H.E. Mr. Bozkurt Aran,
Permanent Representative of Turkey to WTO

Turkey, as a strong emerging development partner, is really interested in issues faced by LDCs. These discussions will provide us guidance and a roadmap to further improve cooperation and relations between developing countries. During the previous high-level workshop organized in March 2008, in Izmir, we already tried to identify a collaborative course of action to accelerate the pace of economic development and prosperity for the African LDCs. Investment, ODA, trade, commodities and migration issues were addressed. Today, we need to implement diversification with respect to development partners. New and emerging donors and partners have become vocal and showed their enthusiasm to deepen this cooperation especially with LDCs. The challenges which LDCs face and the goals they pursue hold a particular place in the agenda of Turkey's foreign policy. In line with this policy, Turkey tries to raise awareness of the international community to the development challenges of LDCs.

we need to implement diversification with respect to development partners. New and emerging donors and partners have become vocal and showed their enthusiasm to deepen this cooperation especially with LDCs.

Trade

International trade is vital for economic growth and development. In the 1980s, Turkey was a pioneer in pursuing this principle by increasing trade with developing countries, especially LDCs. We are committed to strengthening bilateral and multilateral ties with and among developing and the least developed countries as a principle tool to achieving the MDGs and eliminating poverty. In this vein, we should welcome the positive trend in the export performance of LDCs. The total LDC exports in 2007 tripled their 2000 value, which was $42.4 billion in 2000 and increased to $137.6 in 2007. Although this performance is mainly due to the increase in commodity prices, particularly oil and minerals, in 2007 LDCs as a group continued the trade surplus they reached in 2006.

International trade is vital for economic growth and development.

However, more than 70 per cent of the export revenues of most of the LDCs' exports depend on few products. This shows the vulnerability of these economies to the fluctuations in the international markets and necessitates the creation of a diversified export structure through development of productive capacities. Moreover, the geographical distribution of the markets for LDC products has to be diversified as well. In 2006, LDC exports to developing countries were 45 per cent of their total exports. Developing economies have become a major destination for LDC exports of mineral fuels, copper, wood products, cotton and some food products. Developed economies remain largely a dominant export destination for manufactured articles such as clothing, precious stones and some agricultural products.

Turkey is committed to multiplying its efforts to foster and broadening its trade relations with LDCs. In this respect, Turkey has been providing duty-free and quota-free market access for the industrial goods originating from all LDCs since 1 January 2006. The value of the Turkish imports from LDCs increased by 27 per cent between 2006 and 2007. Although the volume of trade with LDCs constitutes approximately 1 per cent of total Turkish trade volume, the upsurge in the imports is a positive development.

Investment

In the same manner, FDI has been increasingly seen as an important stimulus to the industrial growth and development for developing countries; the rise in trade and FDI has played an important role in boosting the productivity of firms in developing countries. Currently, the trend of FDI inflows to LDCs is towards the upward direction. However, most FDI still remains concentrated on the extraction

FDI has been increasingly seen as an important stimulus to the industrial growth and development for developing countries.

sector. If we want FDI to have a strong impact on development and poverty reduction, it should not be limited to one sector. Furthermore, LDCs need to implement a legal framework that is friendly to foreign investment. Apart from FDI, obviously, the domestic investment should be fostered. Turkey's total foreign investment was around $13 billion at the end of March 2008. Of this, $17 million was directly invested in four LDCs: Bangladesh, Liberia, Ethiopia and Sudan. The Turkish private sector has to be encouraged to invest even more in LDCs.

Technology

Technology has a crucial role in improving productivity and promoting export.

Technology has a crucial role in improving productivity and promoting export, with the final goal of enhancing development. Turkey is ready and willing to share its own experience in order to help LDCs. TIKA provides technical assistance to developing countries through 25 field offices, including the offices in LDCs.

5.3.2. Maldives' Perspective

H.E. Mr. Abdul Ghafoor MOHAMED,
Permanent Representative of the Republic of Maldives
to the United Nations

Brief overview of the Maldives

- 1,190 low-lying coral islands stretched over 90,000 sq. km of the Indian Ocean;
- 300 000 inhabitants – 41% of the population is under 15 years of age;
- Thanks to many efforts, the Maldives has been able to achieve significant advances in terms of human development. The Maldives hopes to graduate from LDC status in 2011. To reach this goal, it has to make even stronger efforts: the Maldives is very vulnerable and the 2004 tsunami showed that years of hard work and development can be washed away within minutes;
- The Maldives' economy is open, with a narrow export base entirely dependent upon imports. Like all small island economies, fisheries and tourism constitute the economic base of the country. The trade policies are also liberal. There is no exchange control legislation in Maldives. Furthermore, there is an open regime regarding FDI investment, with very few restrictions;
- Despite this openness, however, the capacity of the country to develop is limited because of the inherently structural economic vulnerabilities it faces. Moreover, the Maldives could be weakened by its graduation from LDC status. Indeed, as an LDC, it has benefited from preferential market access to the European Union. However, if it graduates from LDC status, the Maldives will no longer benefit from this preferential arrangement. This loss of preferences could have huge impact on the country's economy.

In a world of unequal players, how can we make globalization work for the LDCs and, in particular, for smaller economies such as the Maldives?

To meet the challenges that need to be addressed, we need to speed up the implementation of the commitments and meet the objectives of the Programme of Action for the LDCs for 2001–2010. LDC integration into the multilateral trade system and global economy is an objective shared by the entire international community. The reinforcement of LDCs' capacity to participate fully in trade negotiations in the WTO framework as well as in the decision-making process within international financial institutions is paramount to achieving this objective. With the recent G-20 meeting in Washington, we have seen growing recognition of the South in the global arena. Today, LDCs are facing unique opportunities and challenges.

Emerging countries and LDCs

> Unless the LDCs fully participate in the design and implementation of a global partnership for development in an equitable manner, they will find the current phase of globalization ever more challenging.

Emerging countries are the promise of new market opportunities and may represent new donors and new sources of FDI and technical know-how. New pledges of preferences such as from Turkey, Brazil and India are very welcome. However, the emergence of new players on the international scene may further tilt the already uneven playing field against LDCs. LDCs face the risk of increased marginalization, squeezed between the old powers and the new emerging powers. Consequently, unless the LDCs fully participate in the design and implementation of a global partnership for development in an equitable manner, they will find the current phase of globalization ever more challenging.

The launch of the Doha Round was based on the shared belief that trade can be an engine for development. A more transparent, equitable and fully rule-based global trading system that is more sensitive to its poorer members was envisaged. As the WTO Director-General expressed recently in Doha, “Concluding the Doha Development Round successfully will help to achieve the MDGs”. The Maldives believes that the world leaders should live up to their responsibility by pledging greater cooperation to address the economic challenges, trade being part of it.

What do LDCs have to do?

> Fully funding the Enhanced Integrated Framework Trust Fund and providing a broader Aid for Trade package are critical.

LDCs need to implement bold steps in accordance with the determinants of globalization. For instance, the Maldives changed its economic policies and strategies — particularly by creating the proper conditions to attract FDI and by diversifying its exports — in order to ensure a sustained and balanced economic development that would improve the population’s living conditions.

What does the rest of the world has to do?

However, because of limited resources and structural weaknesses, LDCs' efforts alone will not be sufficient to solve the manifold problems faced; developed countries have to meet their existing commitments on aid quantity and quality, and have to implement policies on trade, investment, debt sustainability and climate change — policies that would meaningfully operationalize the special and differential treatment. Regarding trade, for instance, fully funding the Enhanced Integrated Framework Trust Fund and providing a broader Aid for Trade package are critical. Such measures should support trade-related infrastructure, adjustment and other costs, and should complement (not substitute) the development promises of the Doha Round. Other policy measures such as providing duty-free and quota-free market access for all LDCs' goods should be implemented while promoting South–South cooperation between middle income and developing countries on one hand and the LDCs on the other hand.

5.3.3. Turkey's Perspective

Mr. Halit Akçağlayan,
Undersecretariat of Foreign Trade, Turkey

In this part, we will approach the development concerns of the LDCs, in particular the Asian LDCs, and especially from a trade perspective. Particularly, we are going to focus on the strategies adopted by Turkey to further enhance its trade relations with its LDC partners on a mutual basis. Despite the highly encouraging figures of growth recorded by LDCs in recent years and the significant share of trade in this positive trend, the analysis on the economic performance of this group of countries clearly indicates that "sustainability" for growth and "diversification" for trade still remain as key issues to be tackled. In the same vein, most of the LDCs are still vulnerable against the external shocks in terms of commodity prices or against fluctuations in the global markets. Having regard to the turmoil we are witnessing today in the world economy and its depressing effects on the growth patterns and real sectors of many countries, it is required more than ever, to review the development concerns of the LDCs with a view to effectuate new initiatives in collaboration.

> "sustainability" for growth and "diversification" for trade still remain as key issues to be tackled.

On the other hand, and apart from today's gloomy economic environment, the wide range of opportunities offered by the integrated world economies through globalization exist and need to be utilized effectively, without losing sight of the freer trade. Yet, the benefits are unevenly shared and the costs unevenly distributed among the players. Difficulties still exist for developing and least developed countries in responding to this central challenge. However, globalization can be made fully inclusive and equitable only through broad and sustained effort, that is, by spreading success. Thus, on our side, we believe that it is time for mutual development through trade and investment and not aid in and of itself. For this, there are many ways and means to utilize in both bilateral and multilateral contexts.

> Apart from today's gloomy economic environment, the wide range of opportunities offered by the integrated world economies through globalization exist.

Turkey, with its advanced economy and foreign trade, skilled labour force and experience in international markets, is committed to further increasing its existing economic and commercial relations with the LDCs in general. Turkey's geographical location between the two continents and its existing ties with many trade hubs in its neighboring and surrounding territories, as well as its increasing experience with the Trans-Atlantic and Pacific regions, are significant factors to realize this commitment. In line with this determination, Turkey has adopted strategies to enhance its trade relations with its LDC partners, through embarking on trade-creating mechanisms. As a concrete example of "aid through trade" it is worth mentioning here the "Strategy for Developing Economic Relations with Africa" initiated back in early 2003 and directed to all African LDCs. It has been producing remarkable outcomes in terms of trade creation and flourishing investment flows. As a result, Turkish investment for instance, which was virtually nonexistent a few years ago, has passed the level of $500 million, contributing to development of African countries through job creation.

> It is time for mutual development through trade and investment and not aid in and of itself.

The main target of this ongoing strategy is to utilize all the available means for trade and investment creation at bilateral levels and on a mutually beneficial basis by taking fully into account the complementarities of the Turkish economy and the African partners. At the same time, spillover effects are also expected to realize in production technologies of our African partners, in the course of increasing trade and investment flows. However, in contrast to steady increases in Turkey's trade volume with African LDCs, trade volume with Asian LDCs remains far below its potential. The latest trade figures indicate that the share of Asian LDCs in Turkey's aggregate trade volume is no more than 1 per cent.

In the light of this simple assessment and having in mind the success achieved in Africa, we are also prepared to put into effect similar initiatives for our Asian LDC partners, to effectuate the idea of mutual trade and investment creation, which we believe in turn will help our partners to overcome the challenge of product dependency and to increase the diversification of their exports. On the other hand, in the framework of our bilateral initiatives, it is worth mentioning the importance we attribute to start-up firms and small and medium-sized enterprises (SMEs) in fostering trade and investment relations. In our strategies and along with our national support programs we take fully into account their appetite for expansion in the external markets. In addition, Turkey has the necessary know-how and technology to contribute to the industrialization of the Asian LDCs, and is ready to share its expertise in the fields of agro-industry, food processing, textiles and clothing, construction materials, automotives, electronics, durable consumer goods and medical and pharmaceutical products.

At this point, we have to mention the non-reciprocal preferential market access regime of Turkey, in short the Generalized System of Preferences regime, which has long been implemented for a large variety of goods and especially targeting the LDC suppliers. Although, the current regime of Turkey is fully aligned with the European Union practices such as "Everything but Arms" and offers considerable opportunities for our LDC partners, we think that it is not the only tool for helping the diversification of exporting sectors and should be supported by additional efforts at bilateral levels to address the peculiar needs of the countries. Besides the bilateral efforts, we attach utmost importance to the rules-based multilateral framework of world trade. In this respect, Turkey actively takes part in Doha

Development Talks at WTO, which is to shape the future trading conditions for more than 150 countries, including a large group of LDCs. The modalities currently under discussion will constitute a more open trading environment for the members of the Organization, in the core areas of world trade such as agricultural and industrial products. Obviously, when finalized, the Doha Package is to be the framework of global trade for at least a decade period.

In our view, “duty-free and quota-free market access” commitment made by developed nations through the Doha process for industrial goods is an outstanding gain for LDCs. Turkey, as a developing country, has always been in support of this commitment and will in fact implement directly the respective modalities. In the Doha Negotiations, we also encourage all the LDCs to go further as much as possible in their binding commitments for tariffs, within the boundaries of their sectoral sensitivities and development needs. In this connection, the South–South benefits that could be achieved through the Doha Talks are another important aspect to mention, which should be kept in mind by not only the developing country negotiators but also the negotiators from the LDCs.

As it is closely connected to the sectoral concerns of many LDCs, we also need to refer to the issue of preference erosion, which is now among the critical topics of the Non-Agricultural Market Access negotiations. Turkey has been a consistent supporter of the solution mechanisms suggested by LDCs, namely the ACP and African Group of members, for this topic.

We are of the opinion that, setting the necessary modalities for preventing the fast erosion of non-reciprocal preferences, in particular applied by the European Union and the US, for many LDCs, is highly crucial to decrease the level of product specific vulnerabilities. When the product coverage of the solution that based on longer implementation periods is concerned, we see that it captures a wide range of textiles and clothing products, which is of course vital for the development of many Asian LDCs. In fact, after the phase-out of quantitative restrictions under WTO’s Agreement on Textiles and Clothing, the trade patterns in textiles and clothing products have become a serious source of concern for many developing countries and LDCs, including Turkey. In this respect, we have been offering and supporting initiatives to respond effectively to these concerns in the Doha framework.

Last but not least, we must mention the strong support and collaboration of many Asian and African LDCs in the course of the textiles and clothing-related negotiations. We think that this constitutes one of the best examples of development partnership at the multilateral level. To conclude, Turkey is ready to do its best to be able to contribute to the development of Asian LDCs and to place its partners on a path of sustainable growth and to help them integrate into the globalization process and enhance their full and beneficial integration into the global economy.

Chapter 6

Short Analytical Presentations

6.1. Achieving the MDGs through New Development Partnerships

Ms. Annet Blank, WTO, Geneva

The previous speakers already quite eloquently described the widespread concerns that the current financial crisis might adversely affect the attainment of the MDGs, including alleviation of poverty in the LDCs. The world economy is slowing and we are seeing trade exchanges decrease. Even without the imposition of protectionist measures, slackening consumer demand in the West is already hitting developing country exports. For instance, the majority of textiles and clothing companies in Cambodia that export to rich country markets do not have contracts from buyers beyond February 2009. This is an industry that currently employs 300,000 people. It is not hard to imagine what the impact on the Cambodian economy will be if these people lose their jobs. Moreover, on a global scale, a shortage of liquidity and disproportionate aversion to risk have led to a shortfall in available trade finance to the order of about $25 billion. I recently read that Mozambique's Maputo port is full, because a lack of trade finance is causing stockpiles to build up.

> The world economy is slowing and we are seeing trade exchanges decrease.

We all agree that drastic measures are needed to contain the adverse consequences from the current financial crisis. WTO Director-General Pascal Lamy recently said that the political message that WTO members should send both inside the multilateral trading system and outside is that the WTO is ready to take this challenge with a strong sense of collective responsibility and solidarity. Moreover, financial chaos should be opposed by further organized, regulated and balanced trade opening through the Doha Round. While countries struggle with the design of global financial rules, they could send a positive signal by better regulating international trade through the completion of the Doha Round.

> The WTO is ready to take this challenge with a strong sense of collective responsibility and solidarity.

In every economic crisis, it is the poor and weak who suffer most. It is the same for countries. As the world braces itself for the worst economic recession since the 1930s, anxiety is on the rise, particularly in the developing world — and in particular in the LDCs — where poverty alleviation programmes hinge on securing enhanced access to markets and development aid. These countries have every reason to worry. Deteriorating economic conditions often lead governments to embrace inward-looking policies that put domestic interests ahead of international cooperation, shutting foreign products or services out of their markets and slashing foreign aid budgets.

Such is the level of concern that leaders of 20 major economies recently pledged not to impose new barriers to trade in the coming 12 months. They also renewed their commitment to advance the Doha Development Round of global trade negotiations by reaching an understanding on two of its components, agriculture and industrial goods, before the end of the year. Leaders at the recent Asia–Pacific Economic Cooperation Forum in Peru, those at a meeting of the ministers of the world's LDCs in Cambodia, and at the United Nations Conference on Financing for Development in Qatar echoed the same and showed an urgency to deliver the results of the Doha Development Agenda (DDA).

Poverty alleviation programmes hinge on securing enhanced access to markets and development aid.

I hope you all agree with Director-General Lamy, who has often repeated that the successful conclusion of the DDA is the best insurance policy against protectionism. Members should resist calls for protectionist measures. In a globalized world, one's protection is another's lost opportunity. And everyone's protection – the kind of beggar neighbours that we saw in the 1930s – is a recipe for a severe contraction of international trade, depressed growth and rising unemployment, again the kind of situation we saw in the 1930s. This was evident during the Asian and Latin American financial crisis of the 1990s. Governments understood that keeping markets open was part of the solution, not part of the problem, and General Agreement on Tariffs and Trade/WTO disciplines at the time helped in resisting calls for closing trade.

Successful conclusions of the DDA will address the distortions in agricultural trade caused by agriculture subsidies. Let us not forget that over two thirds of the world's poor live in rural areas and reforms in agricultural systems could allow them a better income and livelihood. The DDA will also reduce tariffs and barriers to industry and services and thus create trade opportunities in particular sectors of interest to LDCs. The LDCs have already secured some early harvest from the round, both in the area of rule-making and market access. It will deliver on the promise of duty-free quota-free access for the exports of LDCs. It will facilitate trade by addressing customs red tape that imposes a huge burden on small and medium-sized traders. It will, for the first time, include disciplines on trade-distorting fisheries subsidies.

The successful conclusion of the DDA is the best insurance policy against protectionism. In a globalized world, one's protection is another's lost opportunity.

As part of the MDGs, governments pledged that they would develop further an open, rules-based, predictable, non-discriminatory global trading system. Achieving such a system lies at the very heart of the WTO Doha Round. Concluding these negotiations is therefore an integral part of the global effort to tackle poverty and foster development. In fact, the big prize lies in the success of the DDA. As we speak, important developments in the DDA negotiations are taking place. The Director-General has suggested that the chairs of the negotiating groups on Agriculture and on Non-Agricultural Market Access issue revised versions of the modalities texts. He also suggested receiving ministers in Geneva from 13–15 December. The revised modalities texts are the vehicles for ministers to close the remaining gaps. Agreeing on modalities for the negotiations in these two major areas before the end of this year will send the troubled world economy a much-needed positive signal of results being delivered in the DDA.

It is noteworthy that the developing world constitutes about one third of the world economy. According to the World Bank's latest projections, developing countries, in contrast to developed economies, will continue to grow next year, albeit at an estimated reduced rate of 4 per cent. Developing economies, in particular the more advanced among them, will thus represent important markets for developed and developing country exporters alike. But the growth levels forecast for next year will not be achieved if countries close their markets and turn off the flow of development funds. Turkey, as one of the locomotives of economic growth in the region, has an important part to play.

The Integrated Framework (IF) is the mechanism available to LDCs to use trade – in the wide sense of producing and selling abroad – as one of their policy instruments of national development.

While trade can fully contribute to sustainable development, growth and job creation, it has to be accompanied by an overall *national* strategic vision of the role of trade in development, and by financial resources to address infrastructure and supply-side constraints. How is it possible to make trade happen? The theme of this workshop clearly points to the *importance* of development partnerships for achieving the MDGs. The (Enhanced) Integrated Framework is such a partnership. The Integrated Framework (IF) is the mechanism available to LDCs to use trade — in the wide sense of producing and selling abroad — as one of their policy instruments of national development. As you know, it is an international partnership, through which the IMF, ITC, UNCTAD, the United Nations Development Programme (UNDP), the World Bank and WTO combine their efforts with those of LDCs, donors – traditional as well as the more recent ones, such as Turkey — and other development partners, to respond to the trade and development needs of LDCs. The LDCs have the lead in this process. Almost all LDCs are beneficiaries of the IF (45 so far). The mechanism was first created in 1997 at WTO and since then constantly approved, which has led to the current EIF. Please note that the EIF is not a new initiative but an improved version of the Integrated Framework as it has evolved since its inception. The EIF applies to all IF beneficiaries. The objectives of the EIF are:

- To mainstream trade into LDCs' national development plans such as PRSPs;
- To assist in the coordinated delivery of trade-related technical assistance in response to needs identified by LDCs; and
- To develop the capacity of LDCs to trade, including through capacity building and addressing supply constraints.

The EIF is designed to be the overarching mechanism available to LDCs to map out the totality of their trade priorities (upstream and down stream) and approach their donor community to seek collaboration and necessary financing. Funding for these identified trade priorities will come out of (a) the EIF Trust Fund itself; and (b) local/regional/multilateral donors active in the respective EIF beneficiary LDC. As such, the EIF is the mechanism available to LDCs to mobilize additional Aid for Trade funds over and above those in the EIF Trust Fund.

Turkey is part of the EIF donor community. I recall that at last year's meeting, in Istanbul, Turkey announced its contribution of $ 1 million to the Trust Fund of the EIF. Since then, it pledged this amount at the High-level EIF Pledging Conference in Stockholm, in September 2007. We understand and very much welcome that the Turkish authorities are finalizing the technical arrangements with the United Nations Office for Project Services (UNOPS) – the EIF Trust Fund manager – for the imminent transfer of those funds.

Indeed, transfer of funds from the donors to the EIF Trust Fund manager is an important *conditio sine qua non* for the EIF to become fully operational. At last year's pledging conference, donors pledged a total of around $170 million for the full five years. They over scribed by about $10 million the target set for the first two years of $100 million. The promises and expectations created by the enhancement of the IF, including at last year's pledging conference, must be honoured. This high-level workshop and before it, the Follow-up International Conference on Financing for Development in Doha, come at the right time to remind us that, despite the dire economic situation, we must keep our focus on our global solidarity endeavour.

We hope to have the EIF completely up and running in the new year. In addition to the transfer of funds, the last administrative technical issues are being finalized. Importantly, a new EIF executive secretariat has been created, which is administratively housed at WTO and has operational since October of last year. A number of EIF beneficiaries are already working with the EIF Secretariat to prepare project proposals for approval by the EIF Board and subsequent disbursement of funds by UNOPS. We now have all the necessary institutional elements — policies, people and funds — to benefit from a fully operational enhanced IF.

Let's conclude with two positive notes: a second try later this month to make a big step forward in completing the DDA negotiations; and the operationalization of the EIF.

6.2. Selected Issues for LDCs in Current Trade and Climate Change Talks

Mr. Ricardo Melendez-Ortiz, Chief Executive, International Centre for Trade and Sustainable Development (ICTSD)

"Integration of LDCs to global economy and global market cannot be seen in other ways than as a global public good."

> "Integration of LDCs to global economy and global market cannot be seen in other ways than as a global public good."

ICTSD is an independent non-profit organization which contributes to a better understanding of development and environment concerns in the context of international trade. It promotes a more equitable delivery of essential goods by focusing on trade policies and institutional arrangements on international trade and economic integration. Its goal is to influence the international trade system such that it advances the objective of sustainable development.

Natural resources management has an impact on development as it directly affects provision of nutrition, health and education. In this context, ICTSD is engaged in trade policymaking at the multilateral and national level to foster effective responses to the social and developmental aspirations set by societies. ICTSD's concerns are sustainable development and equity with a focus on countries which are marginalized in international negotiations. LDCs and developing countries' food security and access to essential goods and services are affected by international regulatory framework and trade policy decisions. ICTSD believes that if these groups of countries had the opportunity to voice their concerns and to participate in and influence trade policy making, it would enable them to enhance development, to raise the level of quality of life and to generate wealth.

> if these groups of countries had the opportunity to voice their concerns and to participate in and influence trade policy making, it would enable them to enhance development, to raise the level of quality of life and to generate wealth.

In the context of the Doha Round, developed and developing countries should provide duty-free and quota-free market access for all products originated from LDCs by 2008. However, in Hong Kong, China, developed countries admitted that members had difficulties providing duty-free market access for at least 97 per cent of products originating from LDCs as 3 per cent of tariff lines covered between 90 and 98 per cent of exports from LDCs. By excluding 3 per cent of the tariff lines, the six big importers including Canada and the United

States could potentially exclude from duty-free market access between 90 and 98 per cent of LDCs exports. However, even if the 100 per cent duty-free market access was granted, non-tariff barriers (sanitary and phytosanitary measures) could make the system ineffective.

Another challenge is the persistent subsidies from developed countries that affect the competitiveness of developing countries. Example: United States cotton subsidies continues to harm cotton farmers in LDCs. Eliminating these subsidies would make the price of cotton increase by about 10 per cent and would increase the incomes of millions of poor farmers in Africa. The supply capacities of LDCs need to be enhanced for these countries to fully benefit from trade liberalization, generate productive diversification and reach sustainable development goals. Therefore, more attention needs to be paid to economic diversification and growth.

LDCs are facing increasing climate change-related threats such as floods, hurricanes, droughts which could harm their future competitiveness. The major sectors which are concerned are agriculture and tourism, which constitute very important sectors of exports for some LDCs. Infrastructures such as ports and roads would possibly also be threatened, which once again will have strong impact on the country competitiveness. Implementing competitiveness policies, climate change adaptation and promotion of diversification, addressing supply side limitation, fostering national capacities to innovate, and deciding local solutions to local problems are necessary.

Implementing competitiveness policies, climate change adaptation and promotion of diversification, addressing supply side limitation, fostering national capacities to innovate, and deciding local solutions to local problems are necessary.

Furthermore, trade should be part of the solution: the multilateral trading system should ensure that climate change challenges are tackled. Climate change is a global, multilateral issue that requires a strong response at multilateral, regional and national level.

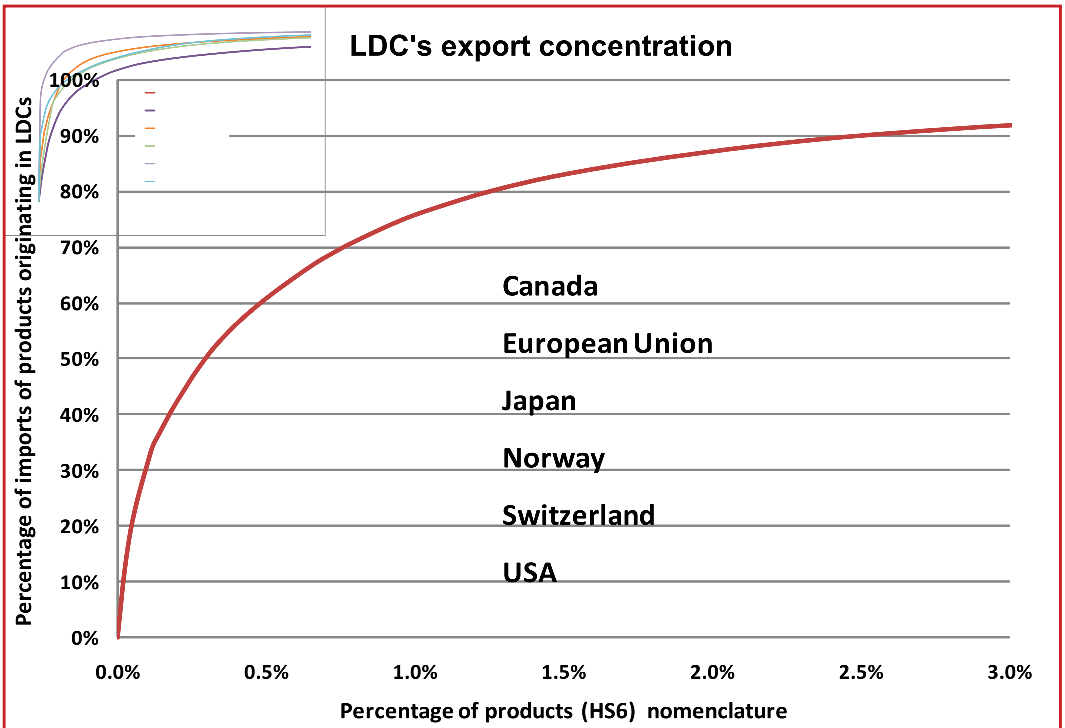
Selected Issues for LDCs in Current Trade and Climate Change Talks

ICTSD

INTERNATIONAL CENTRE FOR TRADE AND SUSTAINABLE DEVELOPMENT

Ricardo Meléndez-Ortiz

Ankara, 4 December 2008



Source: Laborde, David (2008). Looking for a meaningful Duty Free Quota Free Market Access Initiative in the Doha Development Agenda, Issue Paper no.4 International Centre for Trade and Sustainable Development, Geneva, Switzerland.

Dutiable LDC's exports on a MFN basis (% of Tariff Lines)

	Non dutiable – MFN	Non dutiable – Preferential	Dutiable
Canada	16.30%	83.64%	0.06%
Japan	54.21%	44.54%	1.25%
Norway	27.26%	63.02%	9.72%
Switzerland	66.88%	32.17%	0.95%
USA	6.11%	48.84%	45.04%
Brazil	16.55%	0.00%	83.45%
China	85.92%	5.86%	8.22%
India	0.44%	29.50%	70.06%
Korea	17.54%	18.07%	64.39%
Mexico	6.89%	0.00%	93.11%
Total (with EU)	30.38%	51.50%	18.12%
Total (without EU)	*27.0%*	*38.3%*	*34.8%*

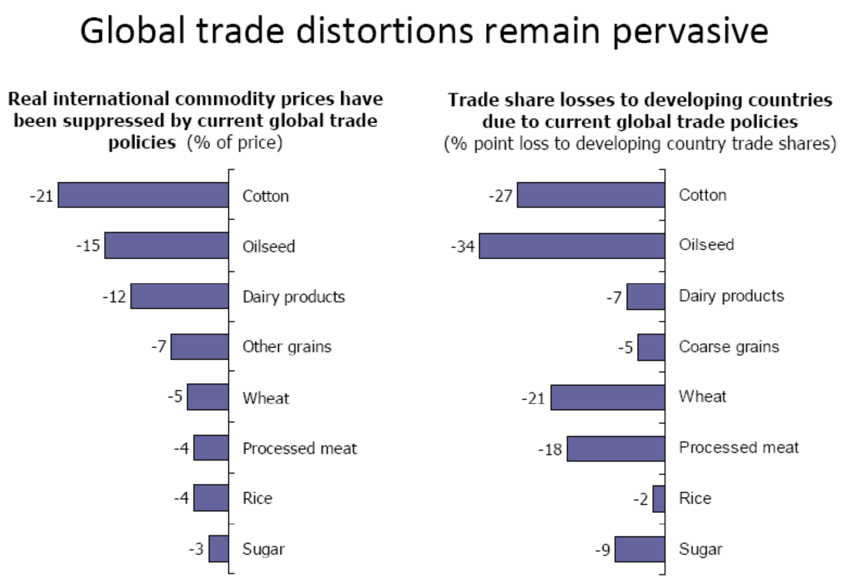
Source: Laborde, David (2008). Looking for a meaningful Duty Free Quota Free Market Access Initiative in the Doha Development Agenda, Issue Paper no.4 International Centre for Trade and Sustainable Development, Geneva, Switzerland.

LDC's Gains from DFQF in Key Exporting Markets under Different Scenarios

	Reference exports (Mios USD)	Base applied tariffs	Post DDA applied tariffs	Post DFQF 97% applied tariffs	Exports variation from the DDA (Mios USD)	Gains from the DFQF 97% (Mios USD)	Gains from moving from 97% to 100% (Mios USD)
Canada	472.0	0.0%	0.0%	0.0%	- 126.5	0.0	77.2
Japan	1035.2	0.3%	0.2%	0.2%	34.7	0.0	7.1
Norway	79.9	1.7%	0.8%	0.6%	-5.5	0.0	5.1
Switzerland	841.6	0.6%	0.5%	0.4%	1.1	0.0	51.5
USA	9992.8	5.4%	2.3%	2.1%	640.6	72.7	1967.4
Total 5 developed countries	**12422**				**544.2**	**72.7**	**2108.2**
Brazil	69.5	4.09%	3.7%	1.7%	0.9	0.9	42.8
China	3187.5	2.1%	1.6%	0.7%	13.4	20.6	164.8
India	1081.1	18.6%	17.1%	10.3%	7.1	64.4	4964.6
Korea	589.4	7.8%	5.0%	3.2%	1.1	4.0	253.9
Mexico	78.6	15.4%	13.2%	3.8%	30.6	14.1	196.2
Total 5 developing countries	**5006**				**53.0**	**104.0**	**5622.4**
Total 10 countries	**17427.6**	**5.2%**	**3.4%**	**2.2%**	**597.3**	**176.7**	**7730.6**

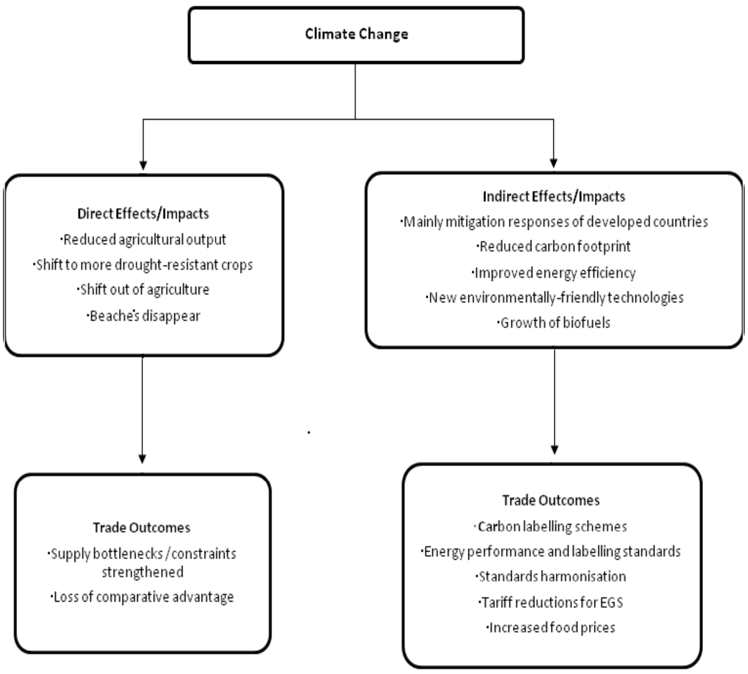
Source: Laborde, David (2008). Looking for a meaningful Duty Free Quota Free Market Access Initiative in the Doha Development Agenda, Issue Paper no.4 International Centre for Trade and Sustainable Development, Geneva, Switzerland.

Importance of Removing Trade Distorting Policies in the WTO



Source: World Bank

Direct and Indirect Impacts of Climate Change on LDCs Trade



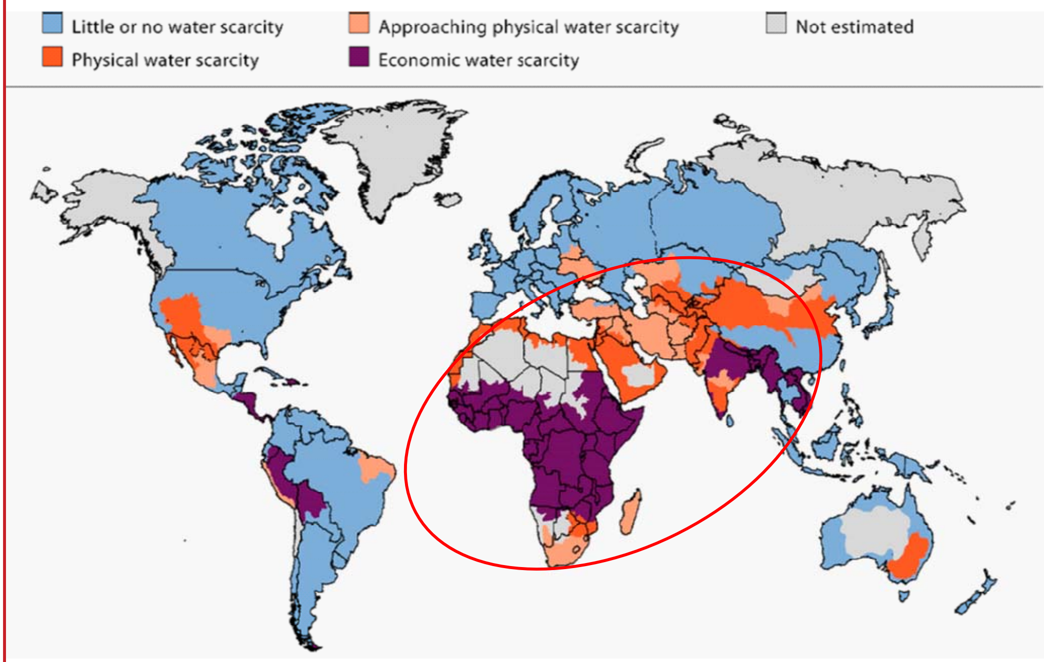
Source: ICTSD Policy Paper on Trade, Climate Change and Small Developing countries (forthcoming)

Trade-Related Climate Challenges to Development and Adaptation for LDCs

Key Characteristics of current trade profile	Some project major climate risks
• Low global trade share (1% in 2005) • High level of commodity export dependence, high levels of export concentration (mineral fuels and oil; commodity agriculture such as coffee, cotton, bananas, sugar, fish; textiles and clothing); low economic diversification and resilience • Supply-side constraints (infrastructure, trade logistics, finance, information) • Low levels of preference utilization due to supply-side constraints, and demand-side NTMs • Still highly reliant on EU + US markets	• Water stress (drought in Africa; excessive precipitation in Asia) • Sea level rise (especially affecting low coastal areas in Africa and small island LDCs) • Overall warming (land and water) resulting in changes in crop growth cycles and crops that can be grown; fish stocks in rivers, lakes and seas • Increased human health hazards due to changing disease patterns and vectors
Some potential climate change impacts on trade competitiveness, prospects and development	
• Water stress impacts on agricultural productivity (especially small farmer production) may affect current commodity agricultural export performance • Flooding and desertification may adversely affect production and export activities due to damage to productive and transport infrastructure • Sea level rise may result in damage or loss of coastal infrastructure, including ports and roads (especially in many island LDCs), hampering trade transport logistics and increasing transport costs • Climate pressure may spur diversification to other crops, products or services for export that are more appropriate to new climate conditions	

Source: ICTSD Policy Paper on Trade, Climate Change and Small Developing countries (forthcoming)

A Water Scarce World



Number of undernourished, incorporating climate change effects (in millions)

	1990	2020	2050	2080	2080/1990 Ratio
Developing countries	885	772	579	554	0.6
Asia, Developing	659	390	123	73	0.1
Sub-Saharan Developing	138	273	359	410	3.0
Latin Amercia	54	53	40	23	0.4
Middle East & North Africa	33	55	56	48	1.5

Source, Joachim von Braun, IFPRI. Impact of Climate Change on Food Security in Times of High Energy Prices, Background Paper prepared for the International Centre for Trade and Sustainable Development (ICTSD)

Comparison of Requirements for and Availability of Financial Resources

Funding Area	Current Estimates of Financial Resources Needed in Developing Countries by 2030	What is Currently Estimated to be Available under the GEF as an Operating Entity for the UNFCCC's Financial Mechanism
Mitigation	**US$86 billion a year by 2015** (0.2% of OECD GDP = 1/10 of OECD military expenditures) (UNDP, HDR 2007/08, p. 194)	**US$ 990 million** from the GEF 4th Replenishment for the period 2006-2010, with **co-financing to amount to US$ 1.6518 billion** (see FCCC/SBI/2007/21, Table 1)
Adaptation	**US$ 28-67 billion** (FCCC/SBI/2007/21, Table 3 and para. 51)	**US$ 20.4 million** – GEF Trust Fund: Strategic Priority for on Adaptation **US$ 23.5 million** – Special Climate Change Fund (GEF administered) **US$ 147.0 million** – Least Developed Countries Fund (GEF administered) **US$ 80–300 million per year for the period 2008-2012** from the 2% share of the proceeds of annual sales of certified emissions reductions from CDM projects – Adaptation Fund (see FCCC/SBI/2007/21, Table 2 and para. 62)
Technology transfer Emissions reduction-related technology deployment Deployment of renewables, biofuels, and nuclear energy technologies Public energy R&D	**US$720 billion** (an average of US$24-26 billion per year) – (FCCC/SBI/2007/21, para. 93 – no breakdown for developing countries; figures based on IEA estimates) **US$33 billion per year** (FCCC/SBI/2007/21, para. 94 – no breakdown for developing countries; figures based on Stern Review) **US$20 billion** (FCCC/SBI/2007/21, para. 94 – no breakdown for developing countries; figures based on Stern Review)	The GEF estimates that **80-100 per cent of GEF climate change mitigation funding** fits the technology transfer definitions used by the Convention (see FCCC/SBI/2007/21, Table 2 and para. 62) As at April 2007, **US$ 10.7 million** were available from the SCCF for the programme for transfer of technology (FCCC/SBI/2007/21, para. 90)

Source: South Centre, Financing the Global Climate Change Response: Suggestions for a Climate Change Fund (CCF), SC/GGDP/AN/ENV/3, May 2008,

6.3. Current Economic Situation and Implications for LDCs

Ms. Hatice Kökten, Undersecretariat of Treasury, Turkey

It is important to have a short overview of the recent economic performance and the sources of growth in LDCs to shed some light into the possible impacts of global economic crisis.

LDCs have shown a remarkable economic performance since 2004 by growing around 7.5 per cent a year. African LDCs gained substantial benefit from soaring fuel and non-fuel commodity prices and grew around 8.2 per cent during 2004–2007. Asian LDCs recorded a growth rate around 7 per cent throughout the 2003–2007 period, thanks to the better performing manufacturing sector. Island LDCs fell behind the others until 2006, but performed well in 2006 and 2007 due to the better performance of tourism sector. Growth performance within groups showed high variations depending upon the factors such as the availability of natural resources, magnitude of foreign aid and FDI inflows.

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The positive economic outlook of LDCs can mainly be attributable to the strong global growth between 2004 and 2007. This buoyant global economic growth shaped the LDCs economic performance via different channels: (a) the demand for LDC exports was strong and especially commodity prices went up; and (b) there was ample liquidity in the global financial markets, which helped the LDCs in financing the growth through more FDI, more international credits, more remittances and more ODA. As we can see on the following table, oil and non-oil commodity prices went up substantially and that supported the exports of LDCs. ODA disbursement to LDCs reached to $30 billion in 2007, from its level of $19.6 billion in 2001. On the other hand, FDI inflows to LDCs experienced a level shift up in 2006 and 2007.

While LDCs benefit from extremely benign external environment, the production structure in LDCs continues to make them vulnerable to external shocks:

> While LDCs benefit from extremely benign external environment, the production structure in LDCs continues to make them vulnerable to external shocks.

- Most LDCs have quite specialized and inflexible production patterns, which amplify the wavelength when an external shock occurs;

- Strong dependence on commodity goods and agricultural production can cause high volatility in growth;
- LDCs mostly have low productivity in agriculture, manufacturing and mining, which makes these economies unable to compete when an external demand shock occurs;
- The savings gap is almost a common case for all LDCs. Thus, sustaining economic growth and investment is quite difficult in the absence of foreign financing of any sort.

After going through the recent economic performance of least developed economies, let's turn to global economic outlook and its possible effects on least developed economies.

The global economy has been going through a difficult time.

The global economy has been going through a difficult time. Financial stress originating from the developed part of the world has been yielding important economic implications not only in that part of the world but also for the developing and less developed part of the world. The problem started as a sub-prime mortgage problem in the United States, followed by the United Kingdom, and has been spreading globally. The problem is now translated into lower liquidity, lower business and consumer confidence, and finally less global demand and growth.

This global economic outlook indicates that all factors affected LDC economies positively in the last couple are turning to negative.

The global economic outlook indicates that all factors affected LDC economies positively in the last couple are turning to negative.

- Indeed, as seen from the latest IMF World Economic Outlook forecasts, world growth is projected to slow down from 5 per cent in 2007 to 3.75 per cent in 2008, and to just over 2 per cent in 2009, with the downturn led by advanced economies. Activity in the advanced economies is expected to contract by 0.25 per cent on an annual basis in 2009 after a slowdown to 1.4 per cent in 2008. Recovery in developed economies is projected to begin late in 2009. Growth in emerging and developing countries were expected to decelerate in 2008 and further in 2009, but at a lower rate;
- The risk for contamination of the global financial crisis to LDCs' financial systems is relatively low due to the fact that they are not really heavily integrated into global financial markets. However, banks operating in LDCs owned by developed countries may lower their operations in LDCs, since these banks are under stress in their home countries;
- The main effect of global financial crisis on least developed economies is expected through the indirect effects of the global economic slowdown. The global economic slowdown will decrease the demand for LDC exports. Both

the lower financing available and weaker demand outlook will translate into less investment and consumption;

- Weakening global demand has a depressing effect on commodity prices. Oil prices have declined by over 50 per cent since their peak, returning to levels not seen since early 2007. In line with market developments, the IMF baseline petroleum price projection for 2009 has been revised down to $68 a barrel. Similarly, metals and food prices have fallen from their recent peaks. While this eases the burden on households in advanced economies and emerging economies, it lowers growth prospects for many other emerging economies and LDC economies;
- Lastly, capital account pressures may mount in the current juncture through weaker FDI and some curtailment of credit lines from foreign banks. As access to international markets is scaled back, it is likely to disrupt the pace of economic activity. FDI inflows will be negatively affected by the same factors, but additional effect may come from better investment opportunities elsewhere on the globe. Moreover, profit transfers may go up as the reinvestment in the same country may not look so profitable, or the firm can have financial difficulty in the home country. On the other hand, the costs associated with the rescue packages of banks and the costs associated with countercyclical economic policies may encourage major donors to decrease their ODA. Lastly, weak growth, especially in advanced economies, may also lead to a decline in workers' remittances, as guest workers in developed countries become unemployed and transfer less money back home, or migrate back home.

According to the October IMF forecasts for 2008 and 2009, growth in LDCs as a group is expected to slow down from 7.3 per cent in 2007 to 5.4 per cent in 2008 and 5.7 per cent in 2009. The actual picture may turn out worse than presented here, since the global economic outlook further deteriorated from October to the present, and the decline in commodity prices is now expected to be bolder than previously anticipated.

Current Economic Situation and Implications for LDCs

Hatice KÖKDEN
Undersecretariat of Treasury, TURKEY

4 December 2008

Current Economic Situation and Implications for LDCs

- Recent growth performance of LDCs has been promising..

	2003	2004	2005	2006	2007
African LDCs	4.5	7.6	7.9	8.1	8.6
Asian LDCs	7.2	6.9	7.9	6.4	6.2
Island LDCs	3.9	5.8	1.1	8.2	5.0
Average	5.5	7.3	7.9	7.4	7.6

- Commodity prices supported LDC growth..

	2003	2004	2005	2006	2007
Oil	15.8	30.7	41.3	20.5	10.7
Nonfuel Prim. Commod.	5.9	15.2	6.1	23.2	14.1
Metals	11.8	34.6	22.4	56.2	17.4

Source: UNCTAD, IMF World Economic Outlook, October 2008

2

Current Economic Situation and Implications for LDCs

- ODA disbursements went up..

Billion dollars	2001	2002	2003	2004	2005	2006	2007
ODAs, net total	**19.6**	**24.3**	**27.7**	**26.7**	**26.7**	**28.2**	**30.0**

- FDI flows into the LDCs increased substantially..

Billion dollars	2001	2002	2003	2004	2005	2006	2007
FDI Inflows	**7.1**	**6.8**	**10.9**	**9.6**	**7.1**	**12.7**	**13.2**

Source: OECD and UNCTAD

3

Current Economic Situation and Implications for LDCs

- Growth structure in LDCs makes them vulnerable to external shocks..
  - undiversified production pattern
    - strong dependence on commodity goods exports
  - low productivity in agriculture, manufacturing and mining
  - low levels of domestic saving and investment
    - strong dependence on foreign financial resources (ODAs, FDIs, foreign credits, remittances)

4

Current Economic Situation and Implications for LDCs

- A major global slowdown is underway..

Growth rates (%)	2006	2007	2008*	2009*
World	5.1	5.0	3.7	2.2
Advanced Economies	3.0	2.6	1.4	-0.3
Emerging and Developing Eco.	6.6	6.8	5.5	5.1

- Commodity prices are on decline..

% increase yoy basis	2006	2007	2008*	2009*
Oil	20.5	10.7	40.2	-31.8
Non-fuel Prim.Com.	23.2	14.1	9.4	-18.7

* November 2009 IMF World Economic Outlook Projections

5

Current Economic Situation and Implications for LDCs

- Global economic slowdown has some implications for LDCs..
  - Low financial integration with rest of the world is a safeguard, but..
    - Less benign global environment means..
      - Less demand for LDC exports and commodity goods
      - Less foreign finances
      - Less workers remittances
      - more profit transfers out of the country
    - Protectionism and inward looking policies may emerge

6

Current Economic Situation and Implications for LDCs

- All groups of LDCs will be affected..

Growth rates (%)	2005	2006	2007	2008	2009
African LDCs	7.9	8.1	8.6	5.8	6.4
Asian LDCs	7.9	6.4	6.2	5.7	6.5
Island LDCs	1.1	8.2	5.0	4.8	4.1
Average	7.9	7.4	7.6	5.4	5.7

Source: UNCTAD, IMF World Economic Outlook, October 2008

7

Annexes

Annex I:
Agenda of the Workshop

Annex II:
List of Participants

Annex I

Agenda of the Workshop

4 December 2008 Thursday

Thursday morning

09:30-09:45	Opening Statement by H.E. Mr. Celaleddin Kart, Director General for Economic Relations, MFA, Turkey
09:45-10:00	Welcome Statement by H.E. Mr. Said Yazıcıoğlu Minister of State, Turkey
10:00-10:15	Keynote Address: UNCTAD Secretary General
10:15-10:30	Coffee Break

Session 1: "Current Economic Situation and implicationsfor LDCs"

Chairperson: H.E. Mr. Kenan Tepedelen

10:30-10:45	Brief Introduction by the Chairperson

Perspectives:

10:45-10:55	H.E. Mr. Nanguyalai TARZI , Permanent Representative of the Islamic Republic of Afghanistan to the United Nations
10:55-11:05	H.E. Mr. Dinesh BHATTARAI, Permanent Representative of Nepal to the United Nations
11:05-11:15	Ms Harriet SCHMIDT, Director, United Nations Office of the High Representative for LDCs, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS)
11:15-11:25	Ms. Annet BLANK, Counsellor, Development Division, WTO
11:25-11:35	Mr. Ricardo MELENDEZ-ORTIZ, Chief Executive, ICTSD
11:35-11:45	Ms. Hatice Kökten, Undersecretariat of Treasury, Turkey
11:45-12.30	Interactive Discussion
12:30-14:00	Lunch

Session 2: "Status and Trends for Asian, Caribbean and Pacific LDCs"

"Financing and managing development"

14:00-14:30	Presentation on the Doha Meeting of Financing for Development Review Conference of Monterrey Consensus, by H.E. Dr. Debapriya BHATTACHARYA, Permanent Representative of Bangladesh to the United Nations, Chair of the LDC Coordination Council and President of the UNCTAD Trade and Development Board

Perspectives:

14:30-14:40	Mr. Fatih Ünlü, State Planning Organization, Turkey
14:40-14:50	Mr. Charles GORE, Special Coordinator for Cross-Sectoral Issues, Division of Africa, LDCs and Special Programmes, UNCTAD
14:50-15:30	Interactive Discussion
15:30-15:50	Coffee Break

Session 3: "Emerging Relations of LDCs with new development partners. What difference it can make in the areas of trade, investment, technology?"

Perspectives:

15:50-15:55	Introductory Remarks by H.E. Mr. Bozkurt ARAN, Permanent Representative of Turkey to WTO
15:55-16:10	Mr. Mehmet ARDA, Retired Head, Commodities Branch, UNCTAD, Galatasaray University, Istanbul
16:10-16:20	H.E. Mr. Abdul Ghafoor MOHAMED, Permanent Representative of the Republic of Maldives to the United Nations
16:20-16:30	Mr. Halit Akçağlayan, Undersecretariat of Foreign Trade, Turkey
16:30-17:15	Interactive Discussion

Session 4: “Wrap-up and Concluding Statements”

17:15-18:00	Outcome will be a Chairperson’s Summary and will be circulated to United Nations Group Coordinators
19:30	Dinner (Çengel Han)

5 December 2008 Friday

10:00-10:15	Departure for and arrival at Turkish International Cooperation and Development Agency
10:15-10:30	Visit to the Vice-President of the Turkish International Cooperation and Development Agency
10:30-11:15	Briefing by the Turkish International Cooperation and Development Agency
13:00- 14:05	Departure for and arrival in Istanbul

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Annex II

List of Participants

High-level Workshop on Status and Trends for Asian, Caribbean and Pacific Least Developed Countries

Ankara, 4–7 December 2008

Afghanistan

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Ms. Harriet Schmidt
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UNCTAD

H.E. Dr. Supachai PANITCHPAKDI
Secretary-General

Mr. Kobsak CHUTIKUL
Special Advisor to the Secretary-General

Mr. Charles GORE
Special Coordinator for Cross-Sectoral Issues
Division of Africa, LDCs and Special Programmes

Ms. Masoumeh SAHAMI
Chief of the Office of the Director

Division of Africa, LDCs and Special Programmes

Mr. Mohamed ELKEIY, Associate Economic Affairs Officer

WTO

Ms. Annet BLANK
Counsellor, Development Division

Non-governmental organizations

ICTSD

Mr. Ricardo MELENDEZ-ORTIZ
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Turkey

H.E. Mr. Said Yazıcıoğlu
Minister of State

H.E. Mr. Ertugrul APAKAN
Ambassador, Undersecretary
Ministry of Foreign Affairs of Turkey

H.E. Mr. Bozkurt ARAN
Ambassador, Permanent Representative
Turkish Permanent Mission to WTO

H.E. Mr. Celalettin KART
Ambassador, Director General of Economic Relations
Ministry of Foreign Affairs of Turkey

H.E. Mr. Çetiner KARAHAN
Ambassador, Coordinator for Turkish-African Summit
Ministry of Foreign Affairs of Turkey

H.E. Mr. Kenan TEPEDELEN
Ambassador, Coordinator for LDCs
Ministry of Foreign Affairs of Turkey

Mr. Musa KULAKLIKAYA
President of Turkish International Cooperation and Development Agency

Mr. Mehmet ARDA
Galatasaray University, Istanbul

Ms. Serap OZCOSKUN
Minister Plenipotentiary and Extraordinary
Deputy Director-General of Multilateral Economic Relations
Ministry of Foreign Affairs of Turkey

Ms. Sibel MÜDERRİSOĞLU
Head of Department
Deputy General Directorate of Multilateral Economic Relations
Ministry of Foreign Affairs of Turkey

Ms. Hatice KÖKTEN
Head of Department
Undersecretariat of Treasury of Turkey

Mr. Fatih ÜNLÜ
Head of Department
State Planning Organization of Turkey

Mr. Halit AKCAGLAYAN
Head of Department
Undersecretariat of Foreign Trade of Turkey

Ms. Zehra Cagnur ÜNLÜ
First Secretary
Turkish Permanent Mission to WTO

Ms. Feriba HOKKACI
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Mr. Mehmet Akif HAKAN
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Deputy General Directorate of Multilateral Economic Relations
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