United Nations

TD/B/C.I/MEM.6/5

United Nations Conference on Trade and Development

Distr.: General
10 March 2014

Original: English

Trade and Development Board
Trade and Development Commission
Multi-Year Expert Meeting on Promoting Economic Integration and Cooperation
Second session
Geneva, 19–20 May 2014
Item 3 of the provisional agenda

Taking stock of the contribution of effective forms of cooperation to the Millennium Development Goals and their evolution in the area of trade and development

Note by the UNCTAD secretariat

Executive summary

This background note reviews the different forms of international cooperation undertaken since the beginning of the decade in support of the Millennium Development Goals (MDGs). It assesses the areas in which international cooperation has been most successful and what factors have underpinned this success.

The note first proposes a general discussion on the progresses made on the MDGs, with particular attention to Goal 8. It later discusses various forms of international cooperation. It examines the role of development banks, innovative sources of finance and debt relief initiatives as a source of finance to help meet the MDGs. It discusses to what extent the existing multilateral trading system offers a facilitating and supportive international framework for developing economies. And it tackles the issue of raising productive capacities and providing a greater participation in production processes to achieve sustainable growth. The note also devotes attention to the role played by South–South cooperation in providing innovative forms of development assistance.

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Introduction

1. To date effective forms of cooperation have taken place in support of the MDGs. In the areas of trade and development, the MDGs, in particular Goal 8, contain relevant targets and indicators. The main targets include a non-discriminatory international trading and financial system, market access for the least developed countries (LDCs), enhanced debt relief for the heavily indebted poor countries (HIPCs), scaling up of official development assistance (ODA) for poverty reduction and development, access to new technology and development, and strategies for decent and productive work for women and young people. To achieve these targets, and moving beyond the MDGs towards the post-2015 development agenda, effective cooperation may be further strengthened in various areas, including through ODA addressing the specific needs of LDCs, further promotion of a fairer multilateral trading system, support for an enabling international economic environment and provision of greater access to new technologies in the developing world.

2. The objective of this background paper is to take stock of the contribution of the different forms of cooperation to the MDGs, with particular attention paid to Goal 8. It will discuss different forms of cooperation in the trade and development arenas, including the specific contribution that UNCTAD has made to the achievement of the MDGs. In analysing international cooperation and partnerships for development, the paper will show that, in the past 10–15 years, South–South cooperation has grown to address important gaps, for example by providing new forms of financial assistance for development.

3. Section I will assess the MDGs, discussing in particular how much has been achieved and what remains to be addressed; it will assess the contributions of international cooperation to the MDGs, including that of South–South cooperation. Section II will discuss the role of multilateral and regional development banks in channelling multilateral aid to support the MDGs and of debt relief in freeing up resources for poverty reduction; in addition, it will assess to what extent innovative sources of finance have helped fill the funding gap. Section III will shed some light on the nexus between trade and the MDGs and address some of the key issues that are necessary to harness trade for economic and social development. It will start by discussing the link between trade and poverty; next, it will provide an assessment of, and the case for, a fairer trading system and, finally, it will discuss Aid for Trade. Section IV will address developing productive capacities in terms of human capital to ensure social and economic progress in developing economies. It will first discuss decent job creation and technological transfer and diffusion in low-income countries, and later revisit the ODA theme, exploring how its role can be enhanced towards supporting productive capacity. In this regard, it will also look at the growing role of new financial assistance from emerging economies.

I. The Millennium Development Goals and international partnerships for development

A. Assessing the Goals: How much has been achieved; what remains to be addressed

4. The Millennium Declaration was unanimously adopted by the United Nations in September 2000, committing to reach eight goals by 2015. Known as the MDGs, these objectives have become the yardstick by which current international development efforts are to be measured. Together, they represent the world's targets for dramatically reducing extreme poverty by 2015, while promoting gender equality, education, health and environmental sustainability.

5. There is widespread agreement that the MDGs have placed broad-based poverty reduction at the centre of the development agenda. With regard to the actual achievement of the different goals, however, the evidence is uneven across goals and countries alike.

6. Data support some concrete optimism for Goal 1 on poverty reduction. According to the World Bank *Global Monitoring Report 2011*, the incidence of income poverty at $1.25 worldwide fell from 42 per cent in 1990 to 25 per cent in 2005 and is projected to fall to 14 per cent in 2015. These figures represent a decline from 1.8 billion poor people in 1990 to 1.4 billion in 2005 and a projected 0.9 billion in 2015. The goal of poverty reduction, though, is being met in large part due to the strong performance of China (UNCTAD, 2013). At current rates of global progress, it should be possible to meet the goals for access to improved water sources and gender equality in basic education. The prognosis for the remaining MDGs is not as optimistic. The world will not reach universal primary education completion by 2015 and will miss the mortality and undernourishment goals. At the country level, Leo and Barmeier (2010) suggest that only around half of all countries are on track for the MDG on poverty reduction, gender equality in schooling, universal primary education and access to drinking water.

7. Serious doubts have also been raised about the specific formulation of the goals and the strategy adopted to pursue their achievement. First, the formulation of targets in absolute terms at the country level does not highlight the issue of inequality of outcomes within countries. Such disparities are large and are rising as an effect of the triple crises that characterized the end of the last decade. Second, since the end of the 1980s, donor agencies have generally advocated a targeted rather than a universal approach to social policies, usually both on efficiency grounds and as a response to binding resource constraints, on the assumption that poverty can be alleviated with fewer resources and a more limited State role. Poverty reduction strategy papers have been particularly important in promoting a more targeted response to meeting social objectives, and public–private partnerships have often been the institutional vehicle of choice for advancing the social agenda (UNCTAD, 2002). However, evidence is far from conclusive that such partnerships, which often amount to an expensive subsidy for private sector service providers, bring real gains in the cost and quality of social services.

B. Assessing the contributions of international cooperation to the Millennium Development Goals

8. Despite the fact that there was no explicit target for aid flows enumerated in the MDGs, the period since the Millennium Declaration has been characterized by the increasing importance of international development cooperation; also, diversification of sources has accelerated, with rapidly growing cooperation from non-members of the Development Assistance Committee, global funds and private philanthropy. Notwithstanding this growth and diversification, available resources have fallen far short of the projected financing needs required to achieve the MDGs.

9. In terms of distribution, moreover, development cooperation continues to be misallocated among developing country groups, regions, individual countries, and regions within countries (Department of Economic and Social Affairs (DESA), 2010). The most vulnerable countries are receiving reduced shares, with dramatic variations in individual donor performance in targeting the weakest. There are continuing shortfalls in aid to Africa. Allocation bears little relation to need and continues to reflect donor interests, with some countries becoming donor orphans. A global agreement is needed on aid allocation, setting targets based on need and vulnerability. This should include a higher share of ODA to fragile and conflict-affected States, rising to 50 per cent by 2015 and beyond; and a reiteration of earlier promises for ODA proportions to be allocated to LDCs, small island developing States and landlocked countries.

10. Development cooperation is also being misallocated in terms of channels, types and sectors. Given its high levels of demonstrated effectiveness, the share of multilateral aid remains too low at 29 per cent, though United Nations funding has been rising. Growing earmarked resources for particular initiatives also undermine results. Bilateral providers allocate almost half of bilateral ODA from the Development Assistance Committee to expenditure for scholarships, costs of hosting refugees in countries of the Organization for Economic Cooperation and Development, unpredictable humanitarian aid, debt relief and administration. Budget support is one of the most effective, efficient and sustainable type of aid, especially in fragile States – but is growing far too slowly. At the sectoral level, there has been a substantial rise in flows to infrastructure, and a smaller one for agriculture, both of which are sectors essential to combating poverty and promoting growth. However, these, as well as the MDGs relating to education and health, still face major financing gaps, and water and sanitation shares are falling.

11. International cooperation goes well beyond ODA in its conventional form and includes other sources of finance, mechanisms and initiatives, such as financing provided by regional development banks, debt relief and trade integration initiatives.

12. Regional development banks can play a pivotal role in catalysing the expansion of social and economic infrastructure needed to make tangible progress in achieving MDGs. In addition to the traditional North–South regional development banks, such as the Inter-American Development Bank, the African Development Bank and the Asian Development Bank, several financial institutions have been created at the subregional level, with a membership composed almost exclusively of developing countries. Subregional development banks have been created in Africa, Latin America and the Caribbean, as well as in West Asia and the Arab world, where, since the 1970s, they have channelled surpluses resulting from surges in oil export earnings into development financing.

13. Debt relief is also of crucial importance to sustain the MDGs. Unproductive debt repayments are pernicious because they divert resources from spending on the key areas needed to meet the MDGs. The evidence of the link between indebtedness and poor human development is clear; the poorest countries on earth, often with appalling human development indicators, are also those that are the most indebted. In other words, countries with the least to spare are those facing the heftiest debt service bill.

14. Finally, another reason why so many low-income countries are still lagging in the global effort to reach the MDGs is lack of integration into the global economy and access to the markets of more advanced economies. From this perspective, the poorest countries could benefit from a more secure and fairer global trade environment, and better trade preferences from both the advanced and emerging economies.

C. Contribution of South–South cooperation

15. A particularly relevant form of international cooperation is represented by South–South interactions. As mentioned above, emerging economies are playing an increasingly important role as providers of aid and financial resources to achieve the MDGs. The distinctiveness of this type of cooperation lies in the principle of developmental solidarity. This principle is grounded in the close economic proximity of economies within the South, and the direct familiarity of donors with the challenges facing other developing countries. Proximity, familiarity and shared development challenges suggest that South–South cooperation can include more balanced relationships between donors and recipient countries and reinforce complementarities and mutual benefits (UNCTAD, 2010; Fortunato, 2013).

16. This alternative vision of development cooperation is reflected in both the financing modalities chosen and the characteristics of the projects financed by the BRICS countries – Brazil, the Russian Federation, India, China and South Africa. More than 90 per cent of

South–South Cooperation is "country programmed", and three quarters is project finance. Most importantly, this form of cooperation has little or no policy conditionality and few procedural conditions. In terms of country allocation, much South–South Cooperation is focused on regional neighbours, and it also specializes in funding regional programmes and institutions. Some South–South cooperation providers, however, have made major efforts towards global cooperation outside their own regions. At a sectoral level, South–South cooperation focuses mainly on infrastructure, but new initiatives have been recently launched in health and agriculture as well.

17. South–South interactions have also involved efforts towards monetary integration and the set-up of financial and monetary institutions and arrangements to help countries deal with shocks and finance long-term development projects. A recent initiative is the agreement reached among the BRICS countries to set up an interregional development bank, which is expected to mobilize resources for infrastructure and sustainable development projects in developing economies.

18. South–South cooperation, moreover, has a strong trade component, as demonstrated by the Generalized System of Trade Preferences (UNCTAD, 2004). It includes, in addition to the exchange of trade preferences and other related initiatives, the establishment of trade-supporting institutions such as bilateral, subregional and regional payment systems. In terms of trade trends and patterns, the last two decades have witnessed a sharp increase in trade and commercial linkages among developing economies. This represents a positive novelty from a development perspective. Research by UNCTAD (2007) suggests that South–South trade is tilted towards manufacturing goods, including relatively more sophisticated products, holding the possibility of greater learning effects and technology spillovers linked to such trade. In Latin American countries, regional markets are the leading destinations for their manufactured exports, especially for skill- and technology-intensive manufactures. In the African regions, while manufactured exports from the Common Market for Eastern and Southern Africa (COMESA), for example, represent only a small fraction of its total exports, it is nevertheless notable that manufactures account for more than 40 per cent of exports within COMESA and almost 50 per cent of its exports to other African countries; half of these are high- and medium-technology intensive and skill intensive. Finally, the trade pattern of the East and South-East Asian region reflects a high share of intraregional trade in manufactures and the way its production structure is organized.

II. Mobilization of financial resources for the Millennium Development Goals

19. When the United Nations Millennium Summit in 2000 created the MDGs and set a number of targets to be achieved by 2015, it was clear from the outset that a substantial increase in aid would be necessary to meet the targets. A number of analyses pointed to the need to double aid from $50 billion in the early 2000s to $100 billion over the following years to bridge the financing gap (see, for example, A/55/1000, commonly known as the Zedillo Report). In the mid-2000s, the United Nations Millennium Project report recommended an increase in ODA from developed countries from 0.25 per cent of their combined gross national product (GNP) in 2003 to 0.54 per cent in 2015 (United Nations Millennium Project, 2005). Nonetheless, total ODA has never attained even 0.30 per cent of their GNP – in 2012, net ODA from Development Assistance Committee donors reached 0.29 per cent (A/68/203)[1]. Since a scaling up of such a magnitude did not occur, alternative sources of financing and mechanisms were explored, including innovative sources of

[1] United Nations General Assembly document entitled "External debt sustainability and development", 26 July 2013.

finance and enhanced debt relief. A further issue was to ensure that additional financing made available to developing countries was used in areas directly related to the MDGs, which were mainly in the social sectors.

20. This section will initially discuss how multilateral and regional development banks have operated so that the multilateral aid they manage is used appropriately and effectively to help meet the MDGs. Next, it will examine to what extent innovative sources of finance have helped bridge the funding gap to meet the MDGs since their emergence in the early 2000s; finally, it will discuss the role of debt relief initiatives in freeing up resources for the MDGs.

A. The role of multilateral and regional development banks in supporting the Millennium Development Goals

21. As part of the international development architecture, multilateral and regional banks have a clear development mandate that includes the eradication of poverty and sustainable and equitable development. Within this mandate, contribution to the MDGs has been a main focus of work of these banks over the past decade or so. The Multilateral Debt Relief Initiative, which is supported by both the African Development Bank and the International Development Association, an arm of the World Bank, is a clear example of what these multilateral organizations can do for the MDGs. Taking the multilateral development banks as a whole, these institutions play a critical role in providing concessional loans to low-income countries. Regional development banks in particular, in addition to supporting social and economic infrastructure through direct loans and concerted action with other financial players, can provide flexible support and vital knowledge and expertise to countries and regions in their efforts to achieve the MDGs.

22. A case of clear commitment to the MDGs has been that of the Asian Development Bank, which committed itself to the MDGs in its 2002 annual report, and has since then supported the goals through its operations and in partnership with other organizations. The Asian Development Bank supports the MDGs through its mandate to promote economic growth and development in the region; concretely, it does so by allocating significant resources for the MDGs – this was the case between 2002 and 2011, when more than 37 per cent of its resources were allocated to supporting such goals (Asian Development Bank, 2013). More than a third of such resources have been directed towards Goal 1; and more than half have been directed towards environmental sustainability within Goal 7, reflecting the bank’s emphasis on promoting environmental sustainability in its infrastructure operations.

23. The overarching goal of the African Development Bank is to promote sustainable economic development and poverty reduction; the Bank is thus fully committed to the MDGs. To accomplish its goals, the Bank has amply drawn on a number of resources and tools, including mobilization of resources for investment, provision of policy advice and technical assistance, and support for capacity-building of member countries. The challenge for the Bank has been to help Africa translate its rapid economic growth into more tangible gains on the MDG front. The region has been affected by climate-related shocks, which exacerbated food insecurity and had direct impacts on a number of MDGs, such as those that are health related. The region is on track for Goals 2, 3, 6 and 8, but off-track for Goals 1, 4, 5 and 7 (African Development Bank et al., 2013). To ensure that Africa’s ongoing economic growth is sustainable and based on solid foundations, the Bank’s going-forward strategy is to have the following operational priorities: infrastructure development, regional integration, private sector development, governance and accountability, and skills and technology, with special emphasis on fragile States, agriculture and food security, and gender balance.

24. The African Development Bank is not the only development bank based in Africa. As noted earlier, the region has several subregional and national development banks that can further support Africa's development, and in particular the MDGs. However, their effectiveness has been limited because of lack of sufficient capital and other resources to promote development in the region. The Arab world and the Latin America and Caribbean region are hosts to successful subregional development banks, an experience that Africa could seek to emulate by working towards enhancing its own banks, so that their developmental role can be fully realized.

B. Innovative sources of finance: To what extent did they help bridge the funding gap for the Millennium Development Goals?

25. The past decade saw the emergence of new sources of development finance to support developing countries in their efforts towards achieving the MDGs. Although what is considered new sources of development finance varies widely, according to a study by the United Nations Development Programme (UNDP), new instruments and mechanisms can be grouped into four broad categories: taxation; voluntary solidarity contributions; front-loading and debt-based instruments; and State guarantees, public–private incentives, insurance and other market-based mechanisms (UNDP, 2012). Specific examples from these broad categories include environmental taxes; Product Red,[2] the financial transaction tax, also called the Tobin tax; and the International Finance Facility for Immunization. Other sources of finance considered new, but that are not exactly new mechanisms and thus fall outside these categories, include resource flows from South–South cooperation, workers' remittances and International Monetary Fund special drawing rights, the latter being proposed to be allocated for development purposes (Centre for Development Policy and Research, 2011).

26. Moreover, a number of the financing instruments and mechanisms recognized as innovative sources that have been created since the early 2000s have been channelled through the so-called global health and climate funds, considered to be new vehicles of development finance.

27. The first question is whether these new sources of finance have indeed generated additional resources for development. Although an accurate assessment is not feasible, it is possible to ascertain that only some of these new tools, such as the airline ticket tax, carbon trading schemes and Product Red, have indeed generated new resources. Moreover, with a few exceptions, new mechanisms generating resources have been computed as ODA. Therefore, although some of these mechanisms did help create new resources, it is difficult to know to what extent they were additional to traditional ODA or whether they simply replaced it (UNDP, 2012).

28. The second question is whether these new resources are being used for development and the MDGs in particular. An analysis of the levels and geographic distribution of the resources managed by health and climate funds shows that health funds are very clearly focused on the poorest countries, greatly concentrated in the African region. Analysis of allocation of health funds in Latin America shows that the smaller and poorer countries in the region have been more successful in attracting resources from health funds. The greatest beneficiaries of climate funds have been the larger middle-income countries (Gottschalk, 2012). However, even if resources managed by health and climate funds are directed toward the MDGs, the total amounts involved have been small, compared with the

[2] Product Red is a brand with the (PRODUCT)[RED] logo, which is licensed to partner companies to raise funds for the Global Fund to Fight Aids, Tuberculosis and Malaria, with the money coming from the profits on the sale of products bearing the logo (Gottschalk, 2012).

financing needs at the global level. According to DESA (2012), a mere $5.8 billion and $2.6 billion have been managed since 2002 by health and climate funds, respectively.

29. From the above, it is clear that the contribution of innovative mechanisms to the MDGs to date has been small and focused on specific sectors such as health, while largely missing the productive sectors. South–South cooperation, mentioned earlier and discussed again further below, has partially rectified this allocation bias by directing a significant portion of its resources towards infrastructure and industrial projects. Of course, workers' remittances have been very important for many developing countries around the world – in some cases vital – since these resources have been a source of macroeconomic stability by providing much-needed foreign exchange to finance host countries' balance of payments and by helping finance private consumption within such countries. However, their role in financing investment has been more limited – almost non-existent – in financing large developmental social and economic projects, which are essential for the achievement of the MDGs (UNCTAD, 2012a).

30. Over the years, UNCTAD has strongly supported new sources of finance that can raise significant resources for development. These include the special drawing rights of the International Monetary Fund for development purposes and the financial transaction tax.[3] According to estimates reported by DESA, over $100 billion worth of special drawing rights of rich countries could be converted into development finance, while an international financial transaction tax could generate over $50 billion (DESA, 2012). However, neither of these two potential sources has been implemented to date, although in the case of the financial transaction tax, successful domestic experiences such as in Brazil, which has its own financial transaction tax, have been observed over the past 15 years or so.

C. Debt relief initiatives in support of the Millennium Development Goals

31. Attention to the problems of highly indebted developing countries and identification of the need for debt relief initiatives and mechanisms can be traced back to the early 1970s. In 1972, the Third Quadrennial Meeting of UNCTAD stressed the need for debt relief to reduce the debt-servicing problems facing developing countries. It also recommended that a country's broader developmental goals should be borne in mind when tackling their debt problems. Since then, UNCTAD has played a prominent role in this area in at least two ways: by proposing how developing countries can benefit from debt relief (this was the case at UNCTAD IV in 1976, for example) and by participating actively in the Paris Club meetings, where it assisted developing countries in renegotiating their debts. In the late 1980s, the Toronto terms were a landmark achievement, since for the first time creditor countries agreed to an official debt stock reduction for poor countries. While the initial debt relief granted by the Toronto terms involved a debt reduction of 33 per cent to eligible countries, later in 1996 a more comprehensive framework – the HIPC Initiative – was launched, envisaging an 80 per cent reduction of the debt stock, including the stock of multilateral debt (in net present values). However, effective debt relief under the Initiative was painstakingly slowly due to its stringent rules, including strict eligibility criteria and conditions. As a response to these shortcomings, the Cologne debt initiative (1999) created the enhanced HIPC Initiative, which enabled the increase in the number of eligible countries.

32. Financing for developing countries, however, was clearly insufficiently available to help them in their efforts to meet the MDG targets. In acknowledgment thereof, the Multilateral Debt Relief Initiative was launched in 2005 to provide additional resources in support of the MDGs.

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[3] See UNCTAD (2011).

How far have resources freed up from debt relief gone in helping meet the Millennium Development Goals?

33. Between 2000 and 2012, the ratio of debt to gross domestic product (GDP) in sub-Saharan Africa, where most LDCs are located, declined from 62.5–24.3 per cent, and the debt service–exports ratio, from 10.5–3.5 per cent. Among LDCs, the ratio of debt to GDP in 2012 was 26.7 per cent, and that of debt service to exports, 4.7 per cent. These ratios and their sharp declines reflect substantial granting of debt relief in the 2000s, although these trends are also explained by strong growth witnessed by LDCs over the same period (A/68/203).). Of the 39 countries that are eligible for debt relief under the HIPC Initiative, 35 countries have reached the completion point and one country, the decision point (International Monetary Fund, 2013). If these 36 countries are taken together, it appears that the debt service-to-exports ratio declined from 14.5 per cent in 2001 to 3.1 per cent in 2011. The resources released by the debt relief initiatives were to a great extent used to finance poverty-reduction-related expenditures. Between 2001 and 2012, the latter increased from 6.3–9.8 per cent of GDP. Empirical research confirms that, indeed, debt relief has made more resources available to pro-poor expenditures.

34. Although debt relief has gone a long way towards helping LDCs achieve the MDGs, primarily by releasing resources to support poverty-reduction expenditures directly – as well as by supporting growth by reducing countries' debt overhang effects and alleviating foreign exchange constraints – little of these additional resources have been used to support capacity-building in these countries, an area that largely remains underfinanced. More generally, except for ODA and debt relief, LDCs have few alternative sources of financing to sustain current growth levels. Worryingly, recent trends in ODA to developing countries and LDCs in particular are not very positive. As regards LDCs, ODA contracted nearly 13 per cent in real terms in 2012, while the outlook on aid is that its level will stagnate over 2014–2016 as a result of the ongoing uncertainties about the global economy. Furthermore, concerns have been raised that ODA may shift away from the poorest countries towards the middle-income countries (A/68/203).

III. Trade and the Millennium Development Goals

35. International trade is recognized as a key component of strong and sustained economic growth and can significantly contribute to poverty reduction. Goal 8 was conceived specifically because a facilitating and supportive international context – in particular a stable, open multilateral trading system – is crucial if poorer countries are to attain other MDGs. However, the lack of calibrated integration in the global economy is a major stumbling block for the rapid development of the poorest countries. The reasons are manifold, but factors include obstacles faced by exporters both at home and abroad: access to foreign markets is frequently limited by import barriers, while poor infrastructure and weak domestic support policies often frustrate producers seeking to tap foreign markets. As a result, LDCs remain marginalized in the global trading system, and their economies struggle to produce and trade at levels that can effectively support development and poverty alleviation.

36. As seen in the following table, while developing countries – even without China – have increased their share of global exports from 27.9–37.8 per cent, the share of LDCs has been minimal – accounting for just 0.39 per cent in 2001, and rising to 1.13 per cent in 2012. When crude petroleum exports are removed, the share of global LDC exports shrinks even further, as shown in 2001 (0.26 per cent) and 2012 (0.61 per cent).

Share of global exports, 2001–2012
(Percentage)

	2001	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*
DMEs	32.3	33.0	34.1	35.3	38.6	39.70	40.10	42.9	42.6	46.2	47.9	49.1
DMEs minus China	27.9	28.0	28.2	28.8	31.2	31.7	31.3	34.0	32.9	35.7	37.4	37.8
LDCs	0.39	0.50	0.49	0.58	0.70	0.77	0.76	1.02	0.98	1.06	1.12	1.13
LDCs minus crude petroleum	0.26	0.35	0.34	0.35	0.37	0.38	0.36	0.41	0.51	0.56	0.59	0.61

Source: International Trade Centre, *Trade Gap* database.
Abbreviations: DME – developing market economy

37. To further examine the role that trade can have in development and poverty reduction, this section explores three topics: the relationship between trade and poverty reduction, the fairness of the trading system and Aid for Trade initiatives.

A. The links between trade and poverty

38. Since the late 1970s, trade liberalization has been advanced as a main driver of income convergence across countries and as the primary policy instrument of any development strategy. This advice is based on the expectation that the reallocation of resources according to comparative advantage will yield significant efficiency gains and welfare benefits. However, efficiency gains tend to be of a static one-off nature. More consequential, from a development perspective, is whether closer integration and faster expansion of trade flows allow developing countries to catch up with the industrialized countries, leading to a convergence in standards of living.

39. Notwithstanding the potential role of globalization in accelerating growth by means of greater integration into the world economy, its impact on poverty reduction has been uneven. Despite significant liberalization efforts, the failure of some developing countries – notably LDCs – to diversify production and exports and undergo structural transformation has led to serious doubts about the sustainability of growth among LDCs. Most empirical studies have neither established a systematic relationship between greater economic integration, growth, and poverty reduction, nor clarified the causal links that reveal the drivers that bring change to these key development indicators. While trade integration may cause growth and, in turn, poverty reduction, causality may equally go the other way, whereby increased growth can drive greater trade integration and poverty reduction.

40. An approach advocated by UNCTAD and others is to begin with an analysis of how development occurs, rather than an analysis of how trade expands. There is no compelling rationale to initially take trade liberalization as a given, and then to make poverty reduction strategies compatible with this orientation. Rather, the approach should be to emphasize poverty reduction and sustained growth and see how trade liberalization could contribute to these policy goals.

41. In the past, developing countries have adopted different approaches to trade liberalization within their development strategies. More cautious and strategic approaches seem to have led to better outcomes, in terms of growth, job creation and poverty reduction. Asia’s gradual approach to liberalization and its emphasis on actively building productive capacities helped ensure that higher-productivity employment opportunities expanded and structural change added to overall growth. The opposite has been true in Latin America and sub-Saharan Africa, where more rapid trade liberalization has led to improved productivity of surviving firms. However, the resulting labour that was displaced moved from more-productive to less-productive activities (most notably, the informal sector), and structural change actually reduced rather than increased growth during the 1990s. In explaining these different outcomes, some authors suggest the key determining factor is the second-best two-

track nature of Asian-style globalization, whereby many import-competing activities were continued alongside new export-oriented activities (McMillan and Rodrik, 2011).

B. Fairness of the trading system

42. Building a stable, open multilateral trading system is viewed as crucial in providing a more favourable and fair global environment for the world’s poorest countries. To this end, *The Millennium Development Goals Report 2013* shows that the overall share of developing country and LDC exports receiving duty-free market access in developed country markets had improved by 2011, reaching 80 per cent and 83 per cent, respectively. Moreover, the report posits that the average tariffs levied by developed countries on key products exported by developing countries and LDCs had declined slightly.

43. In light of the lack of global integration and transformative growth experienced by LDCs, however, it is debatable whether such tariff provisions are sufficient to deliver development in the poorest countries. Advanced countries have carved out a multilateral order that best suits their current developmental trajectory – one that diminishes space for promoting production capacity in industries that are pivotal to catch-up development, while increasing the scope for sponsoring technology-intensive innovation sectors (Weiss, 2005).

44. Going forward, there is a growing risk that the multilateral trading system will fragment into a series of preferential trade agreements, such as the Trans-Pacific Partnership, that are likely to further put developing countries, and LDCs in particular, at a strategic disadvantage in ensuring their developmental priorities are upheld during trade negotiations. At the same time, some analysts remark that in the wake of the global financial crisis, large emerging countries are more predisposed to focus on their domestic and regional markets (Milberg et al., 2013), possibly creating greater scope and potential for regional cooperation and trade agreements.

C. Aid for Trade

45. For more than four decades, UNCTAD has promoted an integrated approach to aid and trade in support of lasting developmental gains, especially for LDCs. Indeed, UNCTAD’s seminal efforts to establish the 0.7 per cent donor aid target grew out of an effort to address three policy objectives: a growth target in developing countries, a complementary investment push to spur structural transformation, and the alleviation of a persistent balance of payments constraint afflicting many of these countries.

46. Aid for Trade[4] is now viewed as the main multi-agency ODA apparatus for addressing supply-side and institutional constraints that do not allow developing countries to benefit from the gains of the trading system. Aid for Trade disbursements have grown steadily since its launch in 2005, starting at a level of $15 billion and rising to $25 billion in 2010. But overall, Aid for Trade for LDCs still represents on average less than 20 per cent of total ODA, and for non-LDC developing countries, Aid for Trade accounted for less than 30 per cent of total ODA.

47. Aid for Trade has certainly helped shift the aid debate towards building productive capacities; this is particularly the case with the Integrated Framework, a multi-donor programme in support of tailoring trade policy to local development circumstances and related technical assistance to LDCs. However, a key component of Aid for Trade – expenditure emanating from the Integrated Framework and the subsequent Enhanced

[4] This section was sourced from UNCTAD (2012b) and Laird (2007).

Integrated Framework – only accounts for a marginal share of aid inflow. Between 2002 and 2008, it never surpassed 0.13 per cent of Aid for Trade disbursements for LDCs.

48. In terms of evaluating Aid for Trade, the results of a recent global review reveal a mixed picture. On the one hand, recipients indicated that Aid for Trade had led to increased resource flows, as well as good results in the area of trade policy, governance and awareness, meaning that increased resources had led to a greater understanding of trade and its role in development strategy. On the other hand, they also indicated that Aid for Trade had only had moderate or insignificant results on actual trade and economic performance. For instance, not even half of the countries reported that trade or exports had increased either significantly or moderately, and even fewer reported that Aid for Trade had led to more diversified exports, increased economic growth or poverty reduction (UNCTAD, 2012b).

49. These results are worrying, both in terms of poverty reduction targets and maximizing the long-term gains from increased trade. Ultimately, the principal concern of development cooperation should be how to overcome the financial constraints to growth and encourage domestic resource mobilization. Aid for Trade can thus not be viewed solely as a trade issue, but as a development finance issue as well. For this reason, Aid for Trade to LDCs should not be hostage to a single undertaking of the Doha Round. Rather, it should continue to provide resources to expand LDC exports and build up their productive sectors by means of better infrastructure and an improved policy framework, with the ultimate goal of contributing to the structural transformation of their economies, poverty reduction and the constructive integration of LDCs into the global economy.

IV. Building productive capacities to achieve the Millennium Development Goals

50. The MDGs have galvanized efforts worldwide towards poverty reduction, placing great emphasis on social indicators and targets. However, to maintain an accelerated path of poverty reduction, it is crucial to develop productive capacities to achieve robust and sustainable growth. An essential component of such a growth model is attaining productive capacities that provide decent work. Greater participation in production processes are made possible by investments in physical and human capital and sustained by demand for output by means of rising productivity and incomes across the formal and informal sectors of the economy.

A. Decent job creation

51. Many developing countries, particularly LDCs, have acknowledged the need to embark on more inclusive development paths that are based on a broad-based expansion of productive capacities and the well-being of the population. Such efforts require investment in human capital from a very early age through access to health, education and other social services, as well as at least a minimum level of income security that empowers people to engage in productive employment and income-generating investments (International Labour Office, 2011). The United Nations initiative for a social protection floor, led by International Labour Organization and the World Health Organization, emphasizes the importance of such investments in productive capacities that would help achieve substantial progress in poverty reduction and the need to step up international efforts to make the human right to social security a reality for people in developing countries. Such investments will particularly help LDCs to develop the full productive potential of the population and contribute to the formalization of employment.

52. It is just as important that LDC's development strategies for the next decade focus on strengthening productive capacity through diversification, infrastructural development and building technological capacity.

B. Technology transfer and diffusion in poor countries

53. The South can benefit from transfer of technology from the North.[5] This transfer can take generally place in different ways, for instance by imports of Northern goods and activities of transnational corporations that may bring in advanced technology, which then might be spread to domestic firms. Technology, however, is not easily duplicated, and much technological knowledge is subsumed in the product so that, even when it can be transferred, Southern producers need to know how to adapt the technology to local conditions and overcome inevitable problems. More advanced technology requires a great deal of technological experience and education to learn.

54. South–South exchange may lead to more effective ways of technological sharing, due to a generally smaller technological gap. An important channel is the import of goods, which are used by importing countries to improve their production processes by means of copying and reverse engineering. Global production networks and Southern foreign direct investment (FDI) are other factors that can lead to more successful transfers of technology and technological development in developing countries. The rise in the percentage of capital goods within South–South trade shows potential. Not only have developing countries increased their share of capital goods imports, they are also the main source of high-technology capital goods for all other countries of the South.

55. Production structures that allow countries to accrue new technologies, innovate and enter global production networks, both in low-cost manufacturing and in high-technology sectors are, however, concentrated in a few countries. East Asia accounts for the largest share of FDI outflows among developing countries, and most services-related FDI is directed towards other East, South-East, and South Asian countries. The developments in South–South trade and technological exchange remain uneven, and the existing technological divide prevents many countries from participating in and benefiting from South–South exchange.

56. Currently, LDCs are unable to capitalize fully on the existing and emerging opportunities in trade and technology because of the low absorptive capabilities of their firms. More systemic challenges relating to technology transfer first have to do with monopoly power and the command of value-chain leaders over production with far fewer forward and backward linkages in developing countries. Protecting rents at the high end of the value chain prevents wider benefits along the chain. Second, such systemic challenges also have to do with intellectual property protection: Evidence of it contributing to innovation is ambiguous, and that of diffusion of technology, detrimental to developing countries. The challenge is to overcome these barriers and increase the benefits to countries that are largely left out of South–South exchange and effective technology transfer.

C. Official development assistance geared towards enhancing productive capacity and the role of emerging economies

57. Indeed, ODA can play an important role in long-run development by facilitating both social spending and productive capacity-building, but the composition and volatility of ODA continues to work against such goals. UNCTAD research has highlighted the need for its more effective use in supporting capital formation. The Commission of Experts of the

[5] UNCTAD (2012c).

President of the United Nations General Assembly on Reforms of the International Monetary and Financial System in 2008 called for advanced countries to increase aid by up to 20 per cent, including for infrastructure and long-term development and environmental projects. Long-term policies and measures are needed to diversify domestic productive capacities, enhance domestic resource mobilization and build domestic financial sectors.

58. Recent initiatives of South–South cooperation have to some extent countered the trend of traditional donors in providing aid, mainly for social sectors by focusing on the productive sectors instead. These initiatives have involved large developing countries, as seen earlier. China, India, Brazil, Turkey and Saudi Arabia have been among the driving forces in the re-emergence of South–South cooperation by launching bilateral, trilateral and interregional initiatives. Financial assistance has been a key component in most of the recent agreements between these countries and their Southern partners.

59. Most development financing from emerging economies is concentrated in the infrastructure sector: Chinese and Indian infrastructure financing to Africa alone is now of a similar magnitude of that from traditional donors. More recently, there has been a shift towards supporting investment in agricultural development, debt relief and the expansion of preferential access. For Chinese financing, “free assistance” (that is to say, grants) and interest-free loans are offered mostly for the construction of social infrastructure, while preferential loans and credit lines are provided for productive infrastructure, such as hydropower, water generation, and roads and railways. India’s development financing is mostly in the form of grants, loans, and credit lines allocated to the agricultural and infrastructure sectors (electricity, hydropower and railways).

60. In contrast, Brazil and the Russian Federation’s concessional financing has largely been provided through multilateral channels in the form of budget support (Russian Federation) and project assistance (Brazil). Brazil tends to focus on technical assistance in education, agriculture, and health, but research for development is a new element of its development assistance policy.

61. South–South financial assistance, moreover, is often used to leverage other forms of flows, such as trade and FDI. Their role in promoting trade and investment is very important to help Southern countries foster foreign trade with new partners and diversify their sources of FDI. This allows them to earn additional foreign exchange, diversify external markets and thus enhance growth. It is also a countertrend, in the sense that there have been efforts from traditional donors to de-link aid programmes from their own foreign trade and FDI policies.

Questions for the experts

- What are the main lessons learned almost 15 years after the Millennium Declaration?
- What types of partnerships have been successful, and why?
- What are the main differences between traditional development cooperation and South–South cooperation?
- What are the opportunities regarding triangular cooperation, and how to scale this up?
- How effective has debt relief been in supporting the MDGs?
- How effective has Aid for Trade been in reducing poverty in LDCs?
- How can the role of regional development banks be further enhanced in supporting the MDGs and beyond?
- How can ODA best support productive capacity-building?

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