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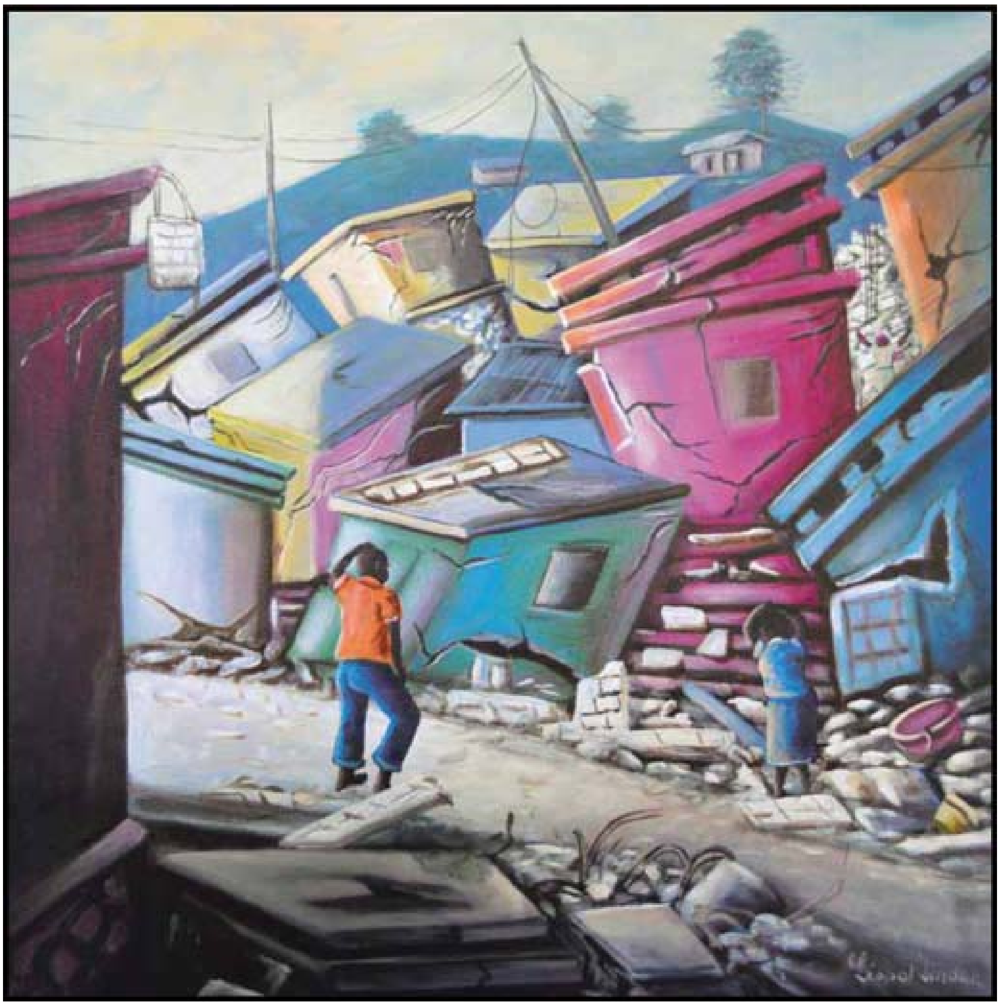
Towards a New International Development Architecture for LDCs

Chapter 3

The Contours of a New International Development Architecture for LDCs



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The Contours of a New International Development Architecture for LDCs

Chapter 3

A. Introduction

This chapter presents a conceptual framework for the design of a New International Development Architecture (NIDA) for LDCs. NIDA is defined as a new architecture of formal and informal institutions, rules and norms, including incentives, standards and processes, which would shape international economic relations in a way that is conducive to sustained and inclusive development in the LDCs. The objectives of such a NIDA are: (a) to reverse the marginalization of LDCs in the global economy and to help them catch up; (b) to support a pattern of accelerated and sustained economic growth which would improve the general welfare and well-being of all people in the LDCs; and (c) to help LDCs graduate from LDC status. These objectives could be achieved through a greater emphasis on the development of productive capacities of LDCs and through a renewed role of the State in promoting development. The new architecture is intended to influence and shape the economic behaviour of all agents within the domains of finance, trade, commodities, technology, and climate change adaptation and mitigation. The NIDA for LDCs should be part of a broader set of systemic reforms which need to be taken in the wake of the financial crisis and global recession, and which would be beneficial for all countries, both developed and developing.

NIDA is defined as a new architecture of formal and informal institutions, rules and norms, including incentives, standards and processes, which would shape international economic relations in a way that is conducive to sustained and inclusive development in the LDCs.

Part of this new international development architecture must involve the design of a new generation of international support mechanisms (ISMs) for the LDCs. It is necessary to strengthen these measures by introducing institutional mechanisms for their implementation and by ensuring adequate financing. It is also important to move beyond a focus on trade, and in particular market access, to special measures which help build up the productive base of LDC economies. New ISMs should also seek to address emerging international challenges of the coming decade, and associated new structural weaknesses and vulnerabilities (see chapter 4 of this Report).

The objectives of such a NIDA are: (a) to reverse the marginalization of LDCs in the global economy and to help them catch up; (b) to support a pattern of accelerated and sustained economic growth which would improve the general welfare and well-being of all people in the LDCs; and (c) to help LDCs graduate from LDC status.

However, although a new generation of special ISMs targeted at LDCs is essential, it is not enough. This is because, as argued in chapter 2 of this Report, the existing international economic architecture which facilitates or constrains development and poverty reduction in the LDCs does not simply consist of special international support mechanisms specifically targeted at LDCs. These special mechanisms work within a more general framework of rules, norms, practices and understandings which guide the international economic relations of all developing countries, including the LDCs, as well as sub-categories of developing countries — such as “low-income countries”, “heavily-indebted poor countries” and “fragile States” — which imperfectly overlap with the category of LDC. This general framework includes, for example, a strictly defined aid architecture and debt relief regime, currently accepted practices in the provision of agricultural subsidies in rich countries, and an increasingly stringent intellectual property rights (IPR) regime for developing countries. At the same time, there is neither an effective international commodity policy nor a regime encouraging technology transfer. All these add up to conditions that are not conducive to sustained, inclusive development. Given the weaknesses in the design and implementation of special international support measures for LDCs, these general regimes actually now play a greater role in affecting development and poverty reduction in the LDCs than the special measures.

Part of this new international development architecture must involve the design of a new generation of international support mechanisms (ISMs) for the LDCs. These should move beyond a focus on trade, and in particular market access, to special measures which help build up the productive base of LDC economies.

This implies that even if it were possible to design, agree and implement a new generation of more effective international support mechanisms for LDCs, this in itself would be insufficient to promote more sustained and inclusive development within the LDCs. For this development to occur, the global economic regimes that are currently enabling or constraining development and poverty reduction in all developing countries, including the LDCs, would also have to support the same outcomes. To the extent that the general development architecture works in a way that does not support the special needs and interests of the LDCs, the overall results would be neutral or even negative. In effect, the right hand (the general framework) would take away what was given by the left hand (the special ISMs). A necessary condition to make the special international support mechanisms for LDCs effective is therefore not simply to improve them, but also to ensure that the global economic regimes affecting developing countries in general, including LDCs, and sub-categories within them which overlap with the LDCs, are also reformed so that they work to support development and poverty reduction in the LDCs.

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The term "international support mechanism" is used in this Report, rather than "international support measure", to convey the idea that special international support for LDCs is not simply a matter of designing new policy measures. The Report calls for a new generation of LDC-specific international support mechanisms that should be accompanied by resources, including financial resources, institutions, policy frameworks and organizational entities, to make them implementable. Only then can the ISMs effectively address the specific structural weaknesses and vulnerabilities that confront LDC economies. Moreover, the ISMs will only be effective if they are embedded within a more general policy framework of reform.

Although a new generation of special ISMs targeted at LDCs is essential, it is not enough.

The chapter thus contends that the new generation of special ISMs for LDCs should be part of a larger agenda aimed at reforming and enhancing the effectiveness of the international development architecture and global governance for all developing countries. Combining ISMs for LDCs with a new international policy and cooperation framework that can deliver a more stable, equitable and inclusive global governance regime for all countries is one of the most pressing challenges facing the international community today. Doing so will not only contribute to the greater development effectiveness of special international support for LDCs but also to mainstreaming LDC issues into a wider development agenda.

It is also necessary to reform global economic regimes which strongly affect development in LDCs.

The chapter is organized in five sections. Section B summarizes some key weaknesses of the global economic regimes which impinge on development and poverty reduction efforts in the LDCs. Section C presents the design of a NIDA for LDCs, focusing on its pillars, the underlying principles and the processes involved in its creation. The last two sections focus on two fundamental issues in the design of a NIDA. Section D discusses the nature of the paradigm shift in policy which is envisaged to promote new, more sustainable and inclusive national development paths in LDCs, discussing in particular the crucial need to incorporate the development of productive capacities in national development strategies and the role of the State in promoting development. The design of the international architecture follows closely from these core ideas to facilitate these national development processes. Section E re-examines the role of ISMs specifically targeted at LDCs, as these ISMs are a key part of the NIDA.

The rationale for a new international development architecture for the LDCs stems from the weaknesses of the current international economic architecture.

The conceptual framework developed in this chapter is applied in the rest of this Report. Chapter 4 proposes elements of an agenda for action to create a NIDA for LDCs that is attuned to some possible trends in the global economy over the coming decade, while the last three chapters of the Report discuss this positive agenda in more detail.

B. Weaknesses of the global economic regimes from an LDC perspective

The major weaknesses of current global economic regimes are: (1) certain policy issues are missing; (2) the regimes are founded on models inappropriate for the LDCs...

The rationale for a new international development architecture for the LDCs stems from the weaknesses of the current international economic architecture. Chapter 2 of this Report shows how existing LDC-specific international support measures are failing to have any significant developmental impact in LDCs. This section briefly examines the weaknesses of the global economic regimes from an LDC perspective as a basis for presenting a positive agenda that includes both systemic reforms as well as a new generation of ISMs for LDCs. In doing so it draws on analyses of previous *LDC Reports* since 2000.

Four major weaknesses in the existing global economic regimes cause them to constrain rather than enable development and poverty reduction in the LDCs.

... (3) conditionalities have undermined country ownership and limited policy space; (4) there is a lack of coherence between different components of the economic architecture.

- First, there are certain policy issues that are missing from the international economic architecture even though they are very important to LDCs because of their stage of development and their form of integration into the global economy.
- Second, the global economic regimes are founded on models of trade, finance and technology that are inappropriate for the LDCs, given their initial conditions, structural weaknesses and vulnerabilities.
- Third, these models have been propagated through conditionalities and micro-incentives for encouraging compliance which have undermined country ownership of national development strategies and limited policy space. Rather than encouraging policy diversity and learning tailored to local conditions, a one-size-fits-all policy approach has been applied.
- Fourth, there is a lack of policy coherence between different components of the global regimes and between the global regimes and special international support measures for the LDCs.

For LDCs, the major missing element is the lack of an international commodity policy.

1. Missing elements

From an LDC perspective, the major element missing from the global economic regimes is the lack of an international commodity policy of any kind. This is important because many LDC economies are still commodity-dependent, and the way in which commodity markets behave and the increasing interdependence between these markets and financial markets, is integrally associated with the boom-bust nature of the growth experience of the LDCs and their structural constraints. It also has a bearing on the interrelationship between the food, financial and climate crises and their effects on the LDCs.

The poor long-term growth performance of the LDCs and pervasive extreme poverty are closely related to the commodity dependence of the LDCs.

The poor long-term growth performance of the LDCs, as well as the persistence and all-pervasiveness of extreme poverty is closely related to the commodity dependence of the LDCs. Most of them were very badly affected by the collapse of commodity prices in the early 1980s. This price collapse amounted to a loss of real purchasing power of 40–60 per cent for many of the countries that were dependent on commodity exports. As noted by Maizels (1992), it was a deeper crisis than that caused by the Great Depression of the 1930s and was closely related to the emergence of the debt crisis in very poor countries. As a result, the commodity-dependent LDCs were caught in an international poverty trap in which an interrelated complex web of external trade and finance relationships reinforced domestic vicious circles of underdevelopment resulting in economic stagnation and persistent mass poverty (UNCTAD, 2002). By the end of the 1990s, 85 per cent of the LDCs dependent on non-oil primary commodity exports had an unsustainable external debt (ibid.: table 36). External indebtedness in turn was associated with the emergence of an aid-debt-service system which undermined the effectiveness of aid.

People in LDCs were unable to fully reap the benefits of the price boom.

In agriculture, there are considerable asymmetries between TNCs and local entrepreneurs, farmers and traders in developing countries.

Economic growth in LDCs picked up again with the commodity price boom of the 2000s, driven by rising demand from large, rapidly growing developing economies, and by the overall buoyancy of the global economy. But people in LDCs were unable to fully reap the benefits of the price boom due to various changes in international commodity markets, some of which were associated with the implementation of structural adjustment programmes and the dismantling of international commodity regulations. In agricultural commodity production and marketing, in particular, there are considerable asymmetries in market power and access to information, technology and marketing know-how between transnational corporations (TNCs), on the one hand, and local entrepreneurs, farmers and traders in developing countries, on the other. Thus, under the prevailing market structures, the potential benefits of productivity improvements tend to be appropriated largely by TNCs and global supermarket chains, instead of accruing to fragmented producers and farmers. Moreover, the governance structures of primary commodity value chains have become increasingly buyer-driven with a shift in the distribution of value skewed in favour of consuming countries. In the mineral sector, many State-owned enterprises were privatized in the 1990s (often as part of structural adjustment programmes), and, depending on how privatization was negotiated and implemented, a large share of the mineral rents from the recent commodity boom was not guaranteed to be used for economic development of the producer countries.

The heightened price volatility following the dissolution of international commodity agreements led to a rapid expansion of derivatives markets for many commodities, as demand for risk-hedging instruments intensified. The rapid growth of derivatives markets subsequently attracted new players who are not engaged in trading physical commodities and whose activities have led to a radical change in the structure of trading on commodity markets. This has led to a loosening of the relationship between derivatives markets and physical markets. But also, the "financialization" of commodity markets has further accentuated price volatility.

In the long term, a gradual transformation into more diversified economic structures of the LDCs is the key to more resilient, inclusive and sustained development and poverty reduction. But in the short and medium term, there is a vital need for some kind of international commodity policy that recognizes the increasing links between the commodity problem, development finance and debt issues. The persistent reluctance to recognize commodity-related development issues, and to act on them, has been extremely costly in terms of foregone development opportunities for commodity-dependent developing countries, and in particular LDCs. This is not a matter of going back to the old international commodity agreements. Elements of a new positive agenda for LDCs in the area of commodities are taken up in chapter 6 of this Report.

Some kind of international commodity policy that recognizes the increasing links between the commodity problem, development finance and debt issues is required.

2. Inappropriate models of finance, trade and technology

The structural weaknesses of the LDCs mean that the global economic regimes which constrain or enable development and poverty reduction in all developing countries (including the LDCs) do not work as expected in an LDC context. The evidence used to justify the national and international policies and practices associated with these regimes is usually drawn from more advanced developing countries, where data is more readily available. These frameworks are, by definition, not designed in a way that specifically addresses the structural weaknesses of LDCs. Policies and practices that could work in one context are often inappropriate in the LDC context. They do not produce the expected outcomes, and indeed they can often hinder the achievement of desired development and poverty reduction objectives. In short, failures have arisen from the application of models for finance, trade and technology that are not appropriate to address the structural weaknesses and vulnerabilities of the LDCs.

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(a) Finance

At the heart of the development problem in LDCs are the low investment levels that prevent these countries from achieving sustained growth, structural transformation and poverty reduction. The scarcity of domestic resources available for financing not simply investment but also governance is due to their very low per capita incomes, a weak domestic formal sector and mass poverty. Yet LDCs do have latent resources, associated with the high levels of unemployment and underemployment of the population, which could be mobilized. Indeed, mobilizing domestic resources was one of the central aims of the development policies enacted by Governments before the current models were prescribed and came into prominence. However, the thrust of economic reforms which LDCs have been implementing has not been domestic resource mobilization but rather the attraction of foreign direct investment (FDI) and integration into global private capital markets. These reforms have actually curtailed the efforts of development banks, often parastatal, to promote domestic resource mobilization, and have thus perpetuated LDCs' heavy dependence on external finance.

Economic reforms have curtailed the efforts of development banks to promote domestic resource mobilization, and have thus helped perpetuate LDCs' heavy dependence on external finance.

The thrust of the continuing reforms in LDCs has been to diminish the role of the State in promoting development while encouraging a greater reliance on the creative power of market forces. However, in spite of financial liberalization, financial systems have not been able to mobilize and efficiently channel savings into investment and technical change. Growth of the domestic private sector has been hampered by the thinness of the domestic entrepreneurial class, small or missing markets and low technological

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capabilities. In addition, firms in LDCs generally face a permanent credit crunch. Most LDCs have thus found it difficult to generate adequate levels of private investment and sufficient jobs as they have not succeeded in expanding formal employment activities. The economic reform process has certainly resulted in some micro-level entrepreneurial success stories. Indeed, the commodity boom during 2002–2008 resulted in a real estate boom in many LDCs and the associated expansion of service sectors. However, in the absence of any sectoral development policies and coordination of linkages between sectors, this has not added up to structural transformation.

The key role of fiscal policy and public investment for crowding in private investment has been underutilized.

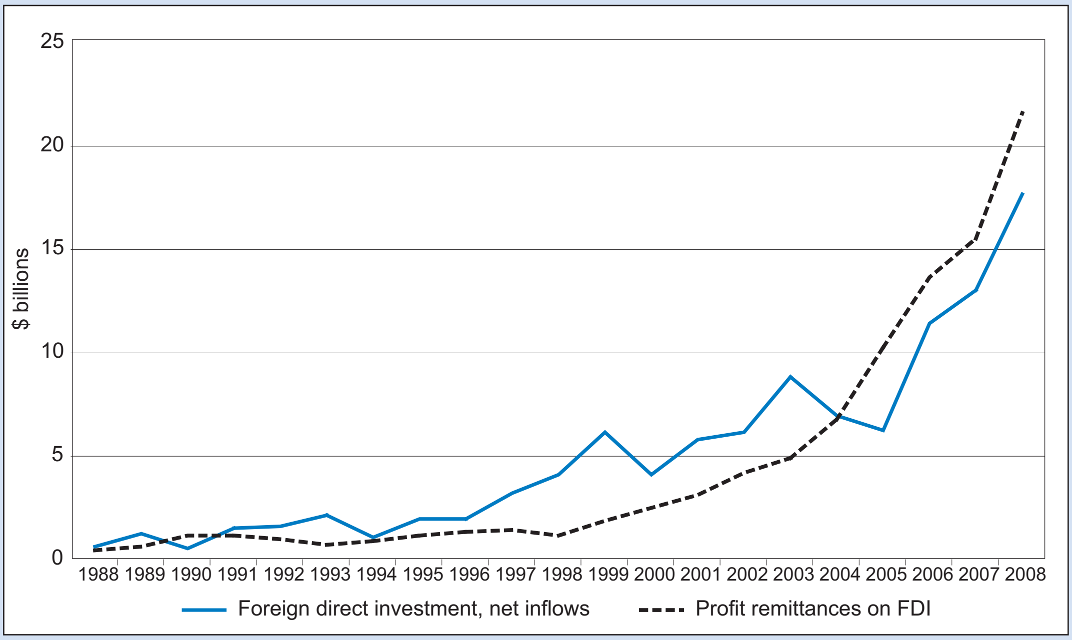
A further problem is that the economic reforms implemented by LDCs have included macroeconomic policies that have successfully controlled inflation but have not been oriented towards promoting economic growth and the creation of employment opportunities. The key role of fiscal policy and public investment for crowding in private investment has been underutilized (UNCTAD, 2009).

In spite of extensive reforms, LDC Governments and enterprises still generally lack access to long-term international bank finance, and portfolio equity flows remain scarce.

In spite of extensive reforms and the increasing globalization of production and finance since the 1980s, LDC Governments and enterprises still generally lack access to long-term international bank finance, and portfolio equity flows to most LDCs remain scarce. In general, foreign investors and lenders are still reluctant to place their money in most LDCs owing to the small scale of the majority of projects, the costs of asset development, high levels of risk that are rooted in the vulnerability of LDCs to shocks, lack of business support services, and weak physical infrastructure and governance problems (UNCTAD, 2000). It is true that net FDI inflows have increased significantly for LDCs as a group, but they remain concentrated in a few countries, have tended to focus on resource extraction and have generally involved increased profit remittances to the extent that the net transfers associated with FDI have been negative since 2005 (chart 18).

Chart 18

FDI inflows and profit remittances on FDI in LDCs, 1988–2008 ($ billions)



Source: UNCTAD secretariat calculations, based on World Bank, *World Development Indicators* (online) (accessed June 2010).

Owing to the weakness of domestic resource mobilization and their limited integration into global private capital markets, LDCs have remained highly dependent on aid. Thus the major accumulation and budgetary processes in most LDCs are highly affected by the quantity and timing of aid, its composition and the effectiveness of its delivery. It is clear that aid has not been sufficient, given the scale of the development challenges that LDCs face. On top of this, there have also been major problems in the delivery of aid which have undermined its effectiveness in financing development.

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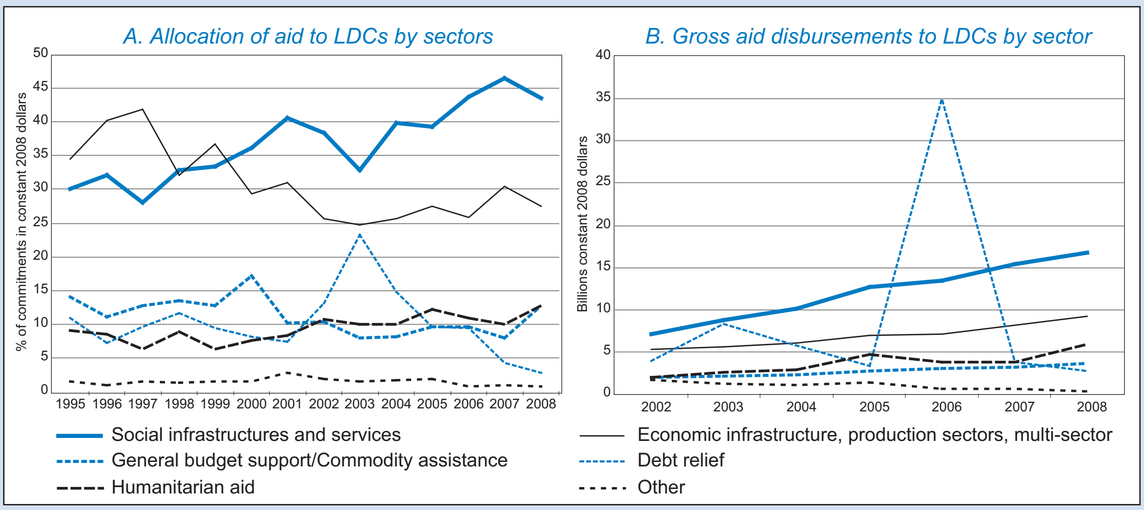
The dismantling of central planning institutions in LDCs during the economic reforms of the 1980s and 1990s meant that aid became highly fragmented. Government finances were distorted by the effects of uncoordinated project aid (often outside central budgetary processes) on the one hand, and policy conditionalities to reduce the government deficit on the other. One objective of the Poverty Reduction Strategy Papers (PRSPs) was to provide a policy framework around which aid could be coordinated, and the Paris process[1] has sought to increase harmonization and alignment of aid with national development objectives. However, donors still deliver part of their aid in ways that are off-plan, off-budget or simply unknown to national Governments (UNCTAD, 2008).

A second, key issue is the composition of aid. The evidence shows that an increasing proportion of aid to LDCs has been allocated to social infrastructure and services, and there is a concomitant decline in aid to production sectors and economic infrastructure. In 2006–2008 social infrastructure and services absorbed approximately 45 per cent of total aid commitments to LDCs, up from the 30 per cent of the mid-1990s (chart 19A). In real terms, they accounted for more than half of the scaling up of aid flows to LDCs between 2002 and 2008 (chart 19B). The increasing share of aid going to the social sectors mainly reflects donors' approach to poverty reduction. It has occurred at the same time as the PRSPs for LDCs have shifted to a greater stress on the importance of bolstering their production sectors. The focus of donors on social sectors, such as improving and extending public services in health and

Major problems in the delivery of aid have undermined its effectiveness in financing development.

Chart 19

Aid commitments and disbursements to LDCs, 1995–2008



Source: UNCTAD secretariat calculations, based on OECD, *International Development Statistics*, online (accessed August 2010) .

education, is certainly important. However, sustainable poverty reduction also requires the expansion of employment and income-earning opportunities, and for this reason, aid to the production sectors of an economy and for developing the economic infrastructure is vital.

Sustainable poverty reduction requires the expansion of employment and income-earning opportunities, thus aid to the production sectors and economic infrastructure is vital.

A third issue is the extreme instability of disbursements of official development assistance (ODA) to LDC in the 2000s. During the period 2000–2008, the coefficient of variation of ODA allocations across LDCs was 43 per cent (Weeks, 2010). This was almost three times the variability of the net barter terms of trade of these countries, and for only 5 of 39 LDCs were the fluctuations in the terms of trade greater than ODA instability. Such strong instability, which donors could dramatically reduce, causes considerable difficulty for budget planning in recipient countries. A particularly serious problem is the unpredictability of disbursements in relation to commitments. Another problem is the timing of aid flows, which in the past has often been procyclical.

(b) Trade

A central aspect of the economic reform process has been the implementation of deep and extensive trade liberalization. The implicit development strategy underlying trade liberalization was to increase the efficiency of domestic resource allocation by aligning domestic with international prices, and to promote export-led growth by removing the anti-export bias implicit in the previous import substitution policies. But the impact of trade liberalization on a particular country depends on the circumstances in which it takes place and on the complementary policies. In LDCs, trade liberalization has been undertaken at a much lower level of development than it was in the now developed countries and also in other developing countries. In the LDCs, few domestic enterprises have the ability to compete either internationally or even in their own domestic markets, and lack the necessary complementary industrial and technological policies to build up local capabilities. The overall productivity gap in terms of output per worker between developed countries and LDCs is 30 to 1 in the favour of the former. Agricultural productivity is particularly low in the LDCs. All of this has raised major issues of timing, sequencing and speed of trade liberalization.

In the LDCs, few domestic enterprises have the ability to compete either internationally or even in their own domestic markets.

Most LDCs have undertaken rapid and comprehensive trade liberalization to the extent that they now have open economies. Most undertook sweeping trade liberalization in the late 1980s and the 1990s, through a rapid succession of measures taken unilaterally, especially in the context of structural adjustment programmes (UNCTAD, 2004: 179–187). Subsequently this policy direction has been maintained and reinforced through several mechanisms, especially:

Most LDCs have undertaken rapid and comprehensive trade liberalization to the extent that they now have open economies.

(i) The continued use of trade-related conditionalities by international financial institutions and bilateral donors;

(ii) Membership of the World Trade Organization (WTO). Although all WTO agreements provide for special and differential treatment for LDCs, and the conditions for their initial membership were not very demanding, membership imposed some additional obligations on these countries. This was especially the case for those LDCs that acceded to the WTO after 1995. They were subject to much more demanding entry conditions, which required further liberalization (UNCTAD, 2004: 49–64);

(iii) Bilateral trade and investment agreements which LDCs have increasingly participated in, or are negotiating, especially with developed countries (e.g. Economic Partnership Agreements with the European Union). Many of these agreements require greater trade liberalization than the

WTO agreements, for example with regard to the trade in goods and services, investment and public procurement, as well as more stringent IPR protection than is required by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Therefore, even today, LDCs are continuing their drive towards greater trade liberalization and stronger IPR protection.

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The extent of trade liberalization in the LDCs is evidenced by the fact that LDCs' average most-favoured-nation (MFN) tariff on agricultural products is at a similar level to that in other developing countries, and it is somewhat higher than in the transition economies and developed countries. Tariffs on industrial goods and on total trade are somewhat higher in LDCs than in other country groups (chart 20). The difference, however, is in single digits, which means that tariffs, on average, do not provide any substantial protection to LDCs' domestic firms.

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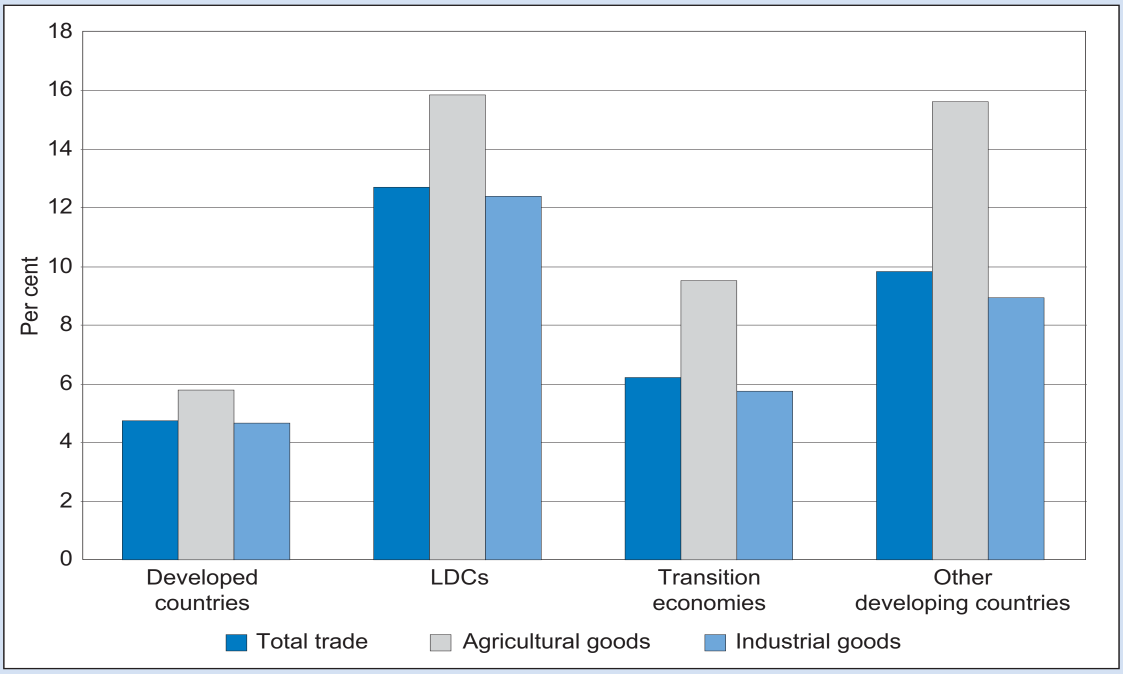
Chart 21 shows the distribution of MFN tariff rates on all goods for different country groups. The data suggest that most developed countries have a lower average tariff than other groups of countries. However, some of them also have higher average tariffs (chart 21D). This means that in the majority of developed countries trade liberalization has been somewhat deeper than in LDCs, but also that the average tariffs in some developed countries are at a similar level to or even higher than those in LDCs. The data for weighted average tariffs are even more conclusive in this regard, since it shows that there is a group of eight developed countries that have average tariffs in the 26–28 per cent range. Hence, some developed countries protect their economies much more than LDCs.

Chart 20

Average MFN tariffs for country groups

(Unweighted average of countries' simple average tariff)

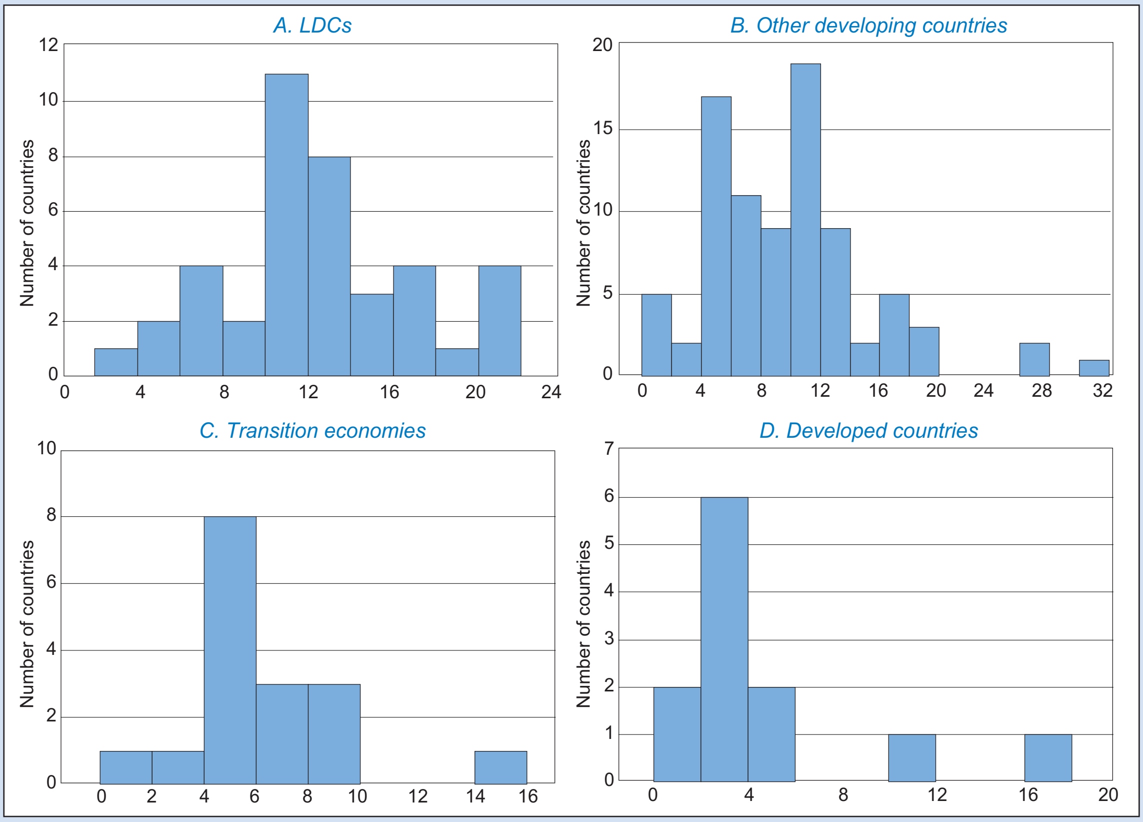


Source: UNCTAD secretariat calculations, based on *WITS* (accessed August, 2010).
Note: The goods classification is that of the WTO.

Chart 21

Frequency distribution of MFN tariffs, by country groups

(Simple average, per cent)



Source: UNCTAD secretariat calculations, based on *WITS*.
Note: Data are the latest available as of August 2010.

Some developed countries protect their economies much more than LDCs.

There has been a "lock-in effect", whereby LDCs (as a group) have become more commodity-dependent or have focused on low-skill manufactures.

Trade liberalization has been associated with an increase in LDCs' trade integration into the global economy. The share of total exports and imports in gross domestic product (GDP) for LDCs increased, on average, from 36 per cent in 1985 to 62 per cent in 2008. Exports have also boomed following trade liberalization. But the share of LDCs in world trade has been a constant at close to 0.33 per cent during the last 10 years if oil is excluded. Moreover, the composition of exports from the LDCs has become more concentrated. The process of liberalization is intended to change the incentive structure towards one where exported goods are more aligned with static comparative advantages. For LDCs, their comparative advantages have meant a concentration on commodities and labour-intensive, low-skill and low-value-added manufactures in their exports. As a result, there has been a "lock-in effect", whereby LDCs (as a group) have become more commodity-dependent or have focused on low-skill manufactures.

In addition, trade liberalization has failed to improve the balance-of-payments situation of many LDCs since they have tended to increase their imports more than their exports. The exceptions to this pattern are oil-exporting LDCs, which have benefited from the continuous increase in prices of their main export product over products over the past 10 years. Moreover, trade liberalization has adversely affected LDC's fiscal revenue earnings. Although their imports as a share of GDP have increased significantly, trade taxes have declined, from 39 per cent of all tax revenue in the early 1990s to 31 per cent during the 2000–2006 period.

Trade liberalization has also had the effect of weakening linkages among domestic firms. Those linkages had been established during the previous period, which was characterized by higher protection. Large-scale trade liberalization exposed domestic industries in LDCs to competition for which they were ill-equipped. As a result, large segments of the manufacturing sector have been wiped out in the past 20 years. This process of deindustrialization has been more severe in countries at lower levels of development.[2] It has intensified the problem associated with an enclave economy, where some sectors or firms are very closely integrated with the global economy, while having few links with the rest of the national economy. Coupled with the discouraging effect that agricultural subsidies in developed countries have on agricultural production in LDCs, trade liberalization has also been associated with LDCs' increased dependence on food imports and the delinking of rural-urban growth linkages.

Trade liberalization has also had the effect of weakening linkages among domestic firms.

On balance, the score card of the positive and negative effects of trade liberalization is very mixed (UNCTAD, 2004: 188–212). Instead of economic diversification, LDCs today have, on average, a less diversified economy and more concentrated exports. Instead of reducing their structural vulnerabilities, trade liberalization has accentuated them. In short, trade liberalization in LDCs was premature, given their level of development.

Deindustrialization has been more severe in countries at lower levels of development and has intensified the problem associated with an enclave economy.

(c) Technology

In the area of technology, the global economic regimes have failed to devise mechanisms for technology transfer, while leading to the increasing application of an IPR regime that militates against learning and the development of a sound technological base in LDC economies.

Trade liberalization in LDCs was premature, given their level of development.

Reconciling universal standards of protection of IPRs with the weak technological base of LDCs has been difficult for a variety of reasons. It was expected that the extension of IPRs would entail costs of various kinds for LDCs due to the considerable policy changes that would be required from these countries to conform to the TRIPS Agreement (Maskus, 2000: 6).[3] However, three types of benefits were also envisaged. As opposed to a direct increase of investments in research and development (R&D), these benefits were primarily supposed to have the following indirect effects in promoting innovation through: (a) an increase in FDI, technology transfer, licensing and technology sourcing of value-added goods through foreign subsidiaries, with potentially positive implications for domestic learning; (b) more innovative activities resulting from access to patent disclosures and technologies; and (c) competitive returns for innovative firms in developing countries from stronger IPRs and less legal uncertainty (Edwin, Lai and Qiu, 2003).

The global economic regimes have failed to devise mechanisms for technology transfer, while leading to an IPR regime that militates against learning and the development of a sound technological base in LDC economies.

After over a decade of studies on the relationship between IPRs, FDI and technological flows, some interesting results emerge. A global IPR regime appears to skew R&D systematically away from technologies that offer the greatest societal benefits, to those that offer the highest market returns. While there are some safeguards in the global IPR regime (notably parallel imports and compulsory licensing), these are limited in scope; and many countries have, in varying degrees, forgone these flexibilities by subscribing to "TRIPs-plus" bilateral agreements with major technology exporters. Ways and means to address these deficits and financing innovation of relevance to the poorer countries remain much-debated issues internationally, especially in areas of public interest such as health, agriculture and access to knowledge.

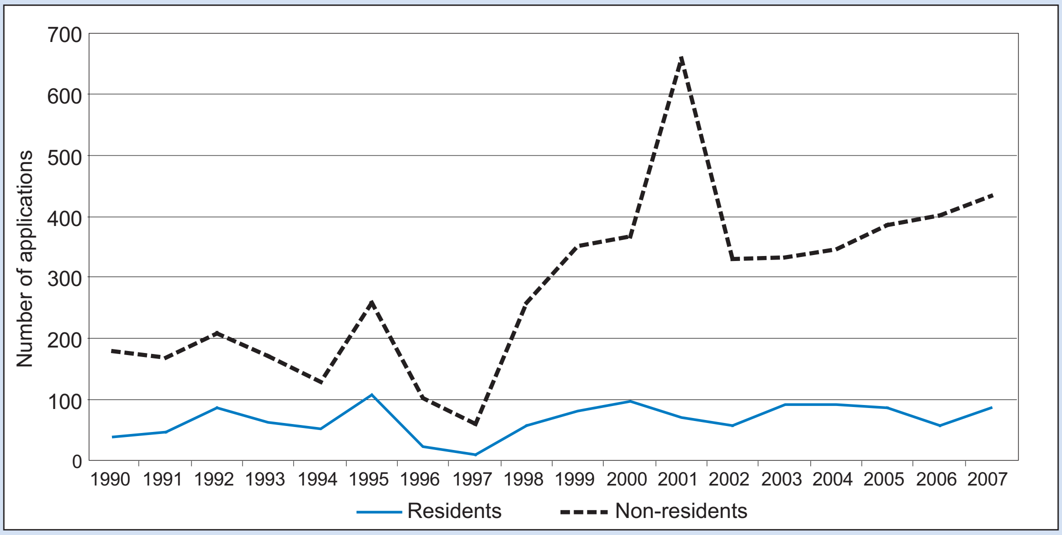
Strengthening IPR protection may not help attract technological knowledge when the level of local skills is low.

In a few countries where a positive relationship between IPRs and technology flows has been observed, some capacity to engage in technological learning has served as the mediating factor. Coined in the literature as absorptive capacity (Cohen and Levinthal, 1990), the presence of an appropriate physical and scientific infrastructure within countries and sectors, along with the requisite human skills to engage in technical change, are prerequisites for investment and innovation (Kanwar and Evenson, 2001; Chen and Puttitanun, 2005). Ho (1997) rightly notes in this context that technologies can rarely be transferred and introduced without adaptation, and therefore depend entirely on the degree of absorptive capacities at the local level. In LDCs such capacities barely exist, if at all (box 6). In such a context, empirical evidence reinforces earlier findings that strengthening IPR protection may not help attract technological knowledge when the level of local skills is low (Parello, 2008).

Present trends in patenting in LDCs support the conclusions above (chart 22). There have been more patent applications by non-residents than residents, but they have not been accompanied by FDI aimed at building productive capacity or by other channels of knowledge circulation between international firms and local actors through linkages such as joint ventures, partnerships and mobility of labour (UNCTAD, 2007: 91–138).

Chart 22

Patent applications in LDCs by residents and non-residents, 1990–2007



Source: UNCTAD Secretariat calculations, based on *WIPO Statistics Database* (online) (accessed December 2009).

Box 6. Technological capabilities and physical infrastructure in LDCs

Studies reiterating the complexity of knowledge accumulation and technological change in latecomers highlight the main binding constraints in such contexts. These include not only financial constraints, but also the lack of physical infrastructure and inadequate knowledge resources such as limited access to advanced education, serious problems in the retention of highly skilled scientists and technicians, and limited opportunities for the acquisition of key skills domestically. LDCs are particulary poorly endowed in these areas.

Comparing countries based on conventional knowledge indicators, such as private sector spending on research and development (R&D), exports of high-technology goods as a percentage of total exports, and the number of people (per million) engaged in R&D, shows the weaknesses of the current environment for technological learning and innovation in LDCs (box chart 3).

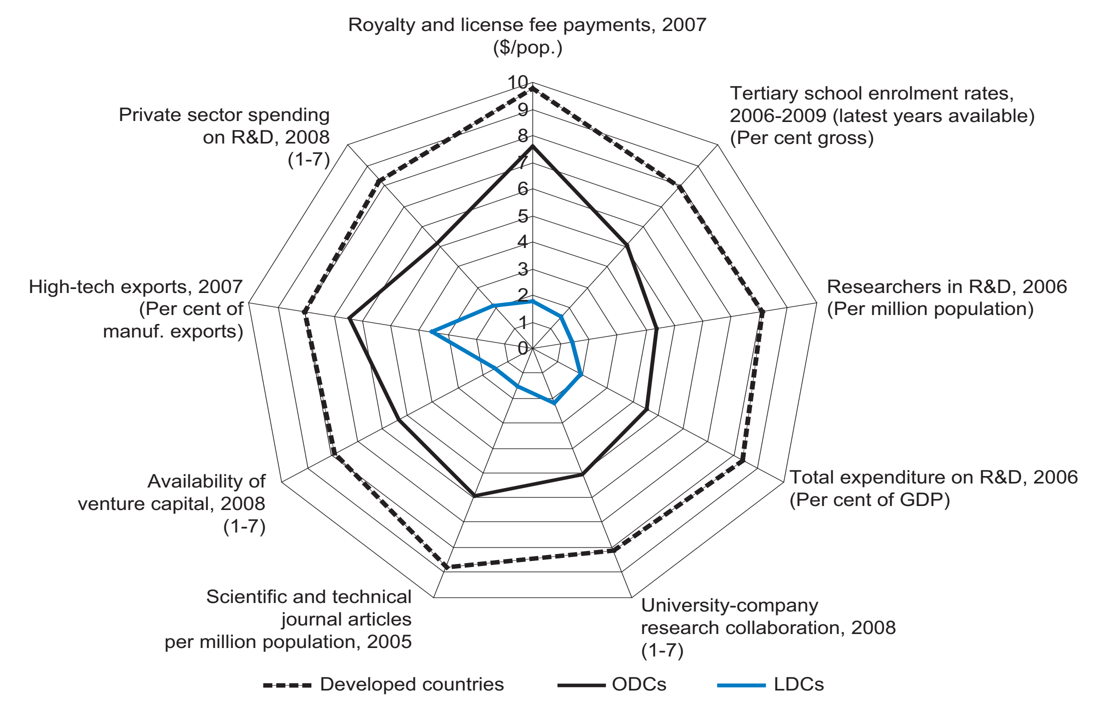
Human skills are also very underdeveloped (box chart 4). While the primary enrolment rate increased from 52.8 per cent in 2000 to 83.1 per cent in 2008, the enrolment rate in secondary education fell from 27.4 per cent to 26.8 per cent, and in tertiary education it increased slightly from 3.6 per cent to 5.6 per cent. It should be pointed out that secondary and tertiary education plays a major role in moving a society from using traditional domains of knowledge to employing incremental innovations and applications based on external sources of knowledge.

Box 6 (contd.)

Finally, physical infrastructure in LDCs is also very weak (box chart 5). There is a particularly strong "electricity divide" between the LDCs and both developed and developing countries, and, as argued in the *LDC Report 2006*, this is as important as the digital divide.

Box chart 3

Selected knowledge indicators for LDCs, ODCs and developed countries, 2005–2009

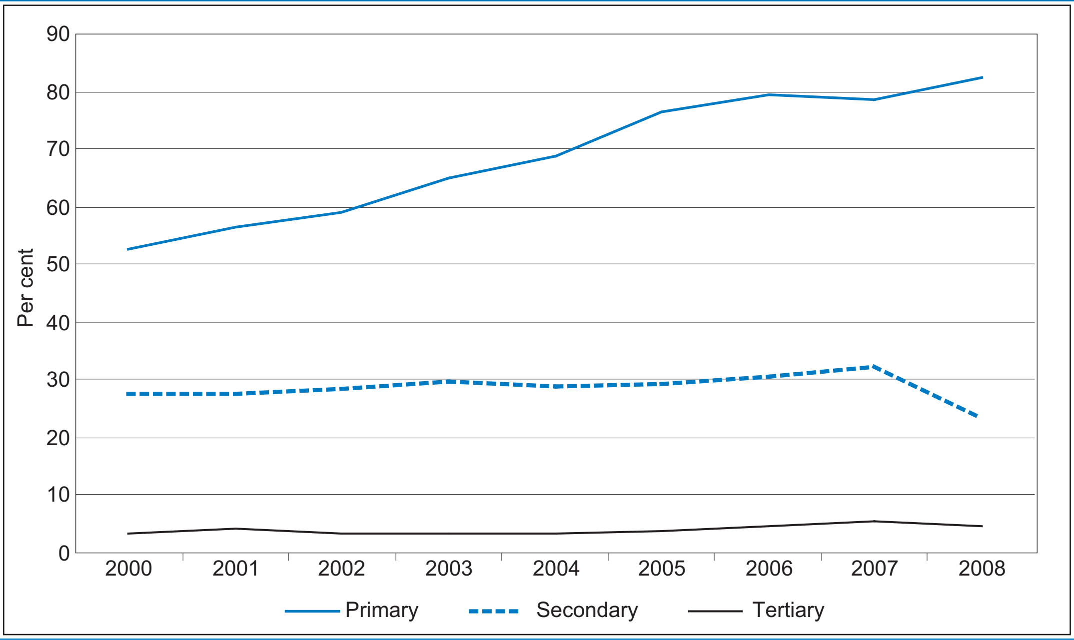


Source: UNCTAD secretariat calculations, based on World Bank, *Knowledge Assessment Methodology* database, 2010.
Note: Indicators are normalized to range from 0 to 10 (top performers).

Box chart 4

LDC net enrolment rates in primary, secondary and tertiary education, 2000–2008

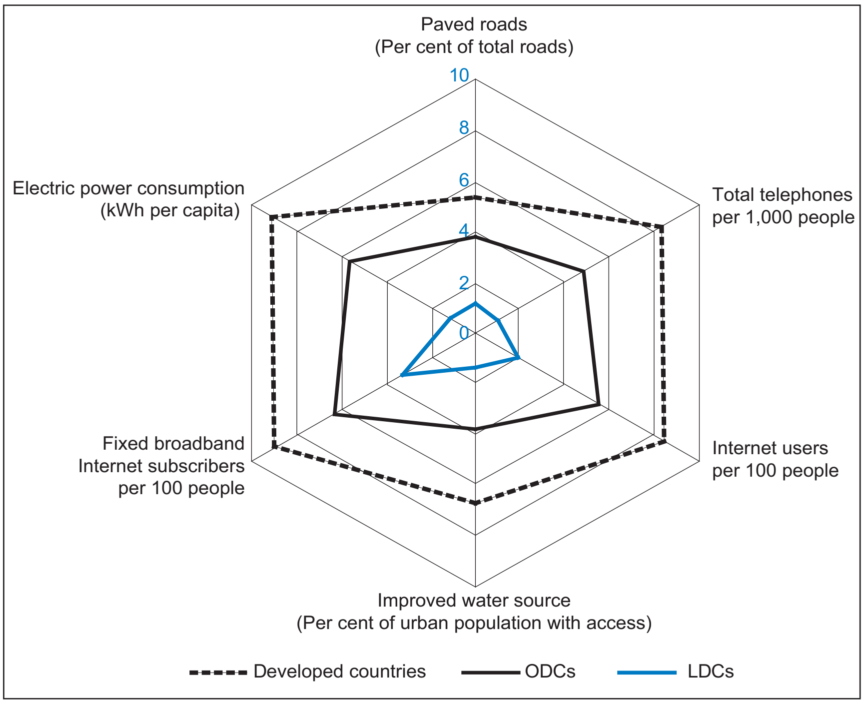
(Per cent of children of primary school age – primary – and total population – secondary and tertiary)



Source: UNCTAD secretariat calculations, based on World Bank, *World Development Indicators, 2009.*

Box 6 (contd.)

Box chart 5
Selected physical infrastructure indicators in LDCs, ODCs and developed countries



Source: UNCTAD secretariat calculations, based on World Bank, *Knowledge Assessment Methodology* database, 2010.
Note: Indicators are normalized to range from 0 to 10 (best performers).

A second, very important impact of the greater proliferation of IPRs worldwide has been the shrinking policy space available to LDCs to develop their own catch-up policies. Innovation is continuously encouraged by the wide accessibility of society to already produced knowledge at low costs (Nelson, 1990; Foray, 1995), but IPRs limit the ways and means by which countries and firms can access knowledge locally to generate newer knowledge. Yet this has played a key role in economic development since the eighteenth century (Mokyr, 2003). It is also clear that in the short or medium term, universal IPR enforcement will reduce the freedom to design and implement technology acquisition and to use policies that are central to catch-up processes (Amsden and Chu, 2003). While the TRIPS Agreement contains flexibilities for the LDCs, most LDCs have, to varying degrees, forgone these flexibilities through "TRIPs-plus" regimes negotiated with major technology exporters or included in bilateral trade and investment treaties.

Very important impact of the greater proliferation of IPRs worldwide has been the shrinking policy space available to LDCs to develop their own catch-up policies.

An urgent shift in focus is needed to ensure that the global knowledge framework addresses intellectual property, technology transfer and the growing knowledge divide between countries in a balanced way which addresses the complexity of process of technological acquisition in developing countries, and in particular LDCs, instead of focusing exclusively on the granting of private IPRs. Technology and its transfer are largely an annexure to provisions governing the granting of IPRs within the TRIPS Agreement. While some headway has been made, and the initiation of the WIPO Development Agenda is a big step (UNCTAD, 2007: 100–101), the current global technology framework relegates to secondary importance the issues of technology transfer, technical assistance and knowledge accumulation, all of which are extremely important for the creation of productive capacities in LDCs.[4] Elements of a positive agenda for LDCs in these areas are taken up in chapter 6 of this Report.

The current global technology framework relegates to secondary importance technology transfer, technical assistance and knowledge accumulation, which are extremely important for the creation of productive capacities in LDCs.

3. Weak country ownership and lack of policy space

There is broad agreement that country ownership of development strategies and policies is essential for their effective implementation. It is also necessary to have strong development partnerships. Country ownership is understood in different ways, but at its core is the notion that Governments should be able to exercise leadership in the design and implementation of national development strategies. This is a prerequisite for devising solutions that are tailored to their specific circumstances. However, since the early 1980s, access to official aid has been conditional, in one way or another, on the implementation by LDC Governments of economic reform programmes designed to promote stabilization, liberalization and privatization, or on their implementation of poverty reduction strategies.

Ownership of development strategies and policies is essential for their effective implementation.

Few, if any, LDCs were in the vanguard of the trend towards liberalization, but they pursued it at an accelerated pace from the late 1980s and have further deepened liberalization over the past 10 years. Between 1988 and the end of the 1999, 33 out of 48 LDCs undertook policy reforms under the Structural Adjustment Facilities (SAFs) and Enhanced Structural Adjustment Facilities (ESAFs) financed by the International Monetary Fund (IMF), and 27 of these countries were engaged in implementing the agreed policies for three or more years (UNCTAD, 2000). After 1999, the ESAF was replaced by the Poverty Reduction and Growth Facility (PRGF), and borrowers from that facility had to prepare Poverty Reduction Strategy Papers (PRSPs). As a result, the economic reform process was deepened and reforms also sought to achieve poverty reduction objectives, particularly through the allocation of aid and government funding to priority social sectors. During the 2000s, 38 LDCs prepared PRSPs (three of which were interim PRSPs) and 16 have finalized two documents, while 29 LDCs have undertaken economic reforms under the PRGF (table 18).

Access to official aid has been conditional on stabilization, liberalization and privatization, or on the implementation of poverty reduction strategies.

The inadequacy of the one-size-fits-all approach to development has been increasingly recognized, resulting in the advocacy of a more context-specific approach to development based on country ownership. Theoretically, this should allow greater recognition of the specific structural weaknesses and vulnerabilities of the LDCs. However, although there have been major changes in the practice of policy conditionality, with an increasing tendency to encourage recipient-country Governments to draw up their own policies, macroeconomic stabilization, privatization and liberalization were still important types of policy conditionalities in LDCs even in the late 2000s. One aim of the PRSP process was to give countries greater leadership in the design and implementation of their programmes. But the evidence shows that the way in which PRSPs are designed and implemented is still strongly influenced by donors' policy conditionality, monitoring benchmarks and financing choices (UNCTAD, 2008: 93–134). It is also proving very difficult to realize the potential of national leadership in the design and implementation of national development strategies in most LDCs because of weak technical capabilities and a reluctance on the part of the LDC Governments themselves to experiment. They fear that the adoption of policies deemed inappropriate by donors could adversely affect their access to external finance. Thus, the potential for learning and experimentation in policymaking and greater domestic ownership of policies is being realized only very slowly.

The way in which PRSPs are designed and implemented is still strongly influenced by donors' policy conditionality, monitoring benchmarks and financing choices.

Table 18

IMF programmes in LDCs, 2000–2010

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Afghanistan							PRGF	PRGF	PRGF	PRGF	PRGF
Angola										SBA	SBA
Bangladesh				PRGF	PRGF	PRGF	PRGF	PRGF			
Benin						PRGF	PRGF	PRGF	PRGF	PRGF	
Burkina Faso				PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF and ECF
Burundi					PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF
Central African Republic							PRGF	PRGF	PRGF	PRGF	PRGF
Chad						PRGF	PRGF	PRGF	PRGF		
Comoros										PRGF	PRGF
Dem. Rep. of the Congo										PRGF	PRGF
Djibouti									PRGF	PRGF	PRGF
Ethiopia										ESF	ESF
Gambia			PRGF	PRGF	PRGF	PRGF		PRGF	PRGF	PRGF	PRGF
Guinea								PRGF	PRGF	PRGF	PRGF
Guinea-Bissau											ECF
Haiti							PRGF	PRGF	PRGF	PRGF	PRGF
Liberia									PRGF	PRGF	PRGF
Madagascar							PRGF	PRGF	PRGF	PRGF	PRGF
Malawi						PRGF	PRGF	PRGF			ECF
Maldives										SBA	SBA
Mali					PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF
Mauritania				PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	ECF
Mozambique					PRGF	PRGF	PRGF	PRGF and PSI	PSI	PSI	PSI
Nepal				PRGF	PRGF	PRGF	PRGF	PRGF			
Niger						PRGF	PRGF	PRGF	PRGF	PRGF	PRGF
Rwanda			PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	
Sao Tome and Principe						PRGF	PRGF	PRGF	PRGF	PRGF	PRGF
Senegal				PRGF	PRGF	PRGF	PRGF				
Sierra Leone		PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF
Solomon Islands											SCF
Togo									PRGF	PRGF	PRGF
Uganda			PRGF	PRGF	PRGF	PRGF	PRGF and PSI	PSI	PSI	PSI	PSI
United Rep. of Tanzania	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF and PSI	PSI	PSI	PSI
Zambia					PRGF	PRGF	PRGF	PRGF	PRGF	PRGF	PRGF

Source: IMF, *Monitoring of Fund Arrangements (MONA)* database (online) (accessed July 2010).

Notes: The MONA database does not include a PRGF programme for the Democratic Republic of the Congo approved on 13 June 2002.
PRGF: Poverty Reduction and Growth Facility; SBA: Stand-By Arrangement; ESF: Exogenous Shock Facility
PSI: Policy Support Instrument; SCF: Standby Credit Facility; ECF: Extended Credit Facility

PRGF SBA ESF PRGF and PSI
PSI SCF ECF PRGF and ECF

4. Lack of policy coherence

There is a major lack of coherence between the global economic regimes and the international support mechanisms specifically designed for LDCs.

The final weakness of the global economic regimes from an LDC perspective is policy incoherence. As noted by Sakbani (2005), the prevailing global economic regimes are an amalgam of facts, rules and modalities created at different times and by different institutions, rather than a holistic system with a cohesive design. For that reason, their effects are contradictory and the systems are incoherent. As a result, the effects of one set of policies can be annulled by other policies, or they create instability in the real economy. In addition, there is a major lack of coherence between the global economic regimes and the international support mechanisms which have been specifically designed for LDCs. The stated objectives of the special measures include the development of the technological base of LDCs and greater market access. Yet the global economic regimes are undermining the achievement of technological development, while trade liberalization has often adversely affected local industries and, consequently, the necessary supply capacities to take advantage of market access simply do not exist. The right hand has therefore been taking away the possibility to realize what the left hand was meant to be giving.

C. A new international development architecture for LDCs: Pillars, principles and processes

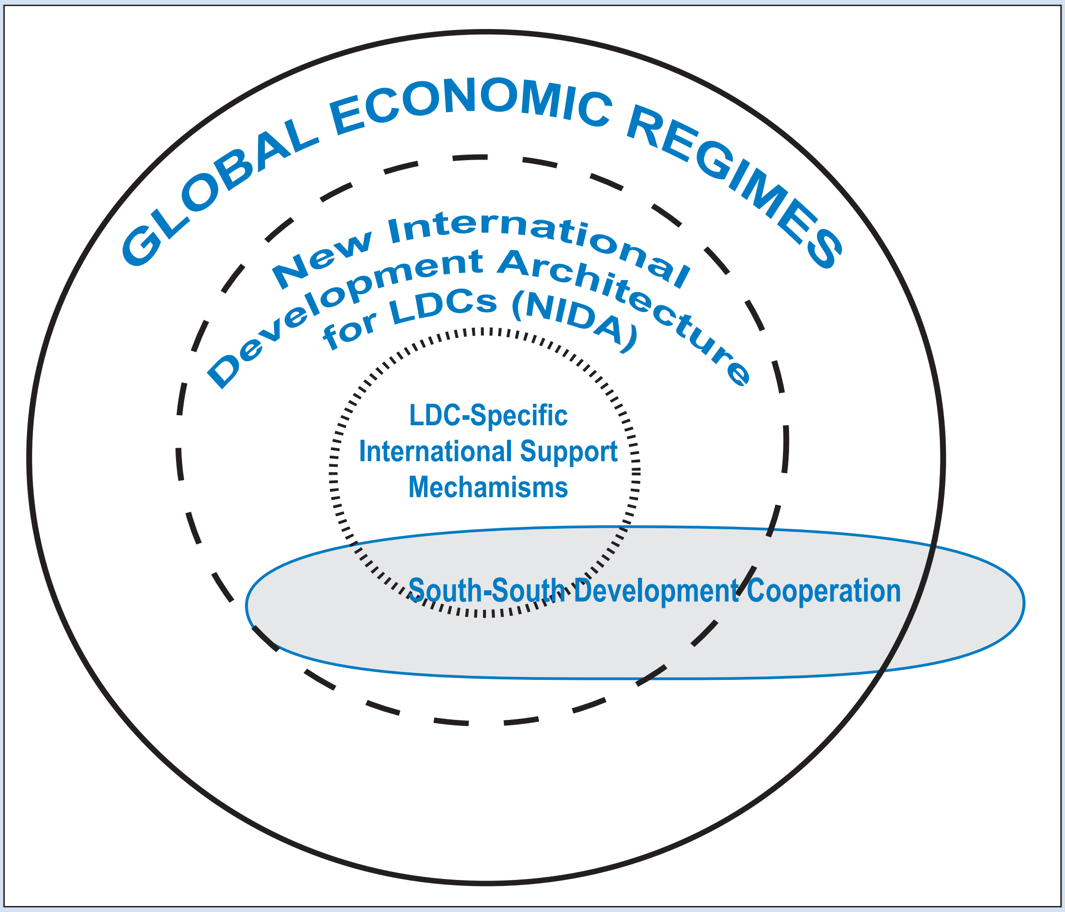
The right hand has therefore been taking away the possibility to realize what the left hand was meant to be giving.

1. The overall architecture

A NIDA for LDCs would be constituted through reforms of the global economic regimes in areas which are directly relevant for development and poverty reduction in LDCs, as well as the design of a new generation of special international support mechanisms (ISMs) for the LDCs which address their specific structural constraints and vulnerabilities. In addition, with the increasing importance of South-South flows of trade, FDI, official finance, and knowledge, South-South development cooperation, both within regions and between LDCs and large, fast-growing developing countries, should play an important role in a NIDA for LDCs. And such cooperation should also include some ISMs for LDCs.

Chart 23

The New International Development Architecture for LDCs and the global economic regimes



Source: UNCTAD secretariat.

Chart 23 illustrates the relationships between these different elements of a NIDA for LDCs. It shows that the NIDA would not involve reform of all global economic regimes but only those that directly affects development and poverty reduction in LDCs. Similarly, the NIDA would involve some aspects of South-South development cooperation – not its totality. The chart also shows that the special ISMs for the LDCs are not stand-alone policies and institutions; they are embedded within the global economic regimes or within South-South development cooperation frameworks. Thus the ISMs would be a concrete application of the principle of special and differential treatment or the principle of common and differentiated responsibility within these broader cooperation frameworks to the development problems of LDCs.

A NIDA for LDCs would be constituted through reforms of the global economic regimes in areas which are directly relevant for development and poverty reduction in LDCs, as well as the design of a new generation of special international support mechanisms (ISMs) for the LDCs.

Reforms to the global economic regimes that are relevant for the LDCs and the ISMs for the LDCs are important not just for the LDCs themselves; they can also contribute to the provision of global public goods, such as commodity price stability, and the prevention of global public bads, such as pervasive extreme poverty, complex humanitarian emergencies, political insecurity and reservoirs of communicable diseases.

South-South development cooperation is understood here to refer to the processes, institutions and arrangements that are designed to increase trade, investment, financial flows and technology transfer, as well as the exchange of knowledge and skills between developing countries — including LDCs — in order to achieve common development goals. Geographically, it covers bilateral, intraregional and interregional cooperation, as well as collaboration among developing countries on multilateral issues, designed to enhance their participation and integration into the world economy. South-South development cooperation offers new sources of ideas, models and practices for LDCs and thus provides major additional opportunities because of the alternative approaches it embodies. In addition, South-South economic relations provide new markets, new sources of technology and new sources of external capital to LDCs.

South-South development cooperation offers new sources of ideas, models and practices for LDCs and provides major additional opportunities because of the alternative approaches it embodies.

In chart 23, South-South development cooperation is seen to overlap with the global economic regimes but is not embedded within them. Moreover, some ISMs are specific to the global economic regimes, whereas others are specific to South-South development cooperation, and yet others (for example, duty-free and quota-free market access) are common to both cooperation frameworks. There is a need to increase policy coherence between the global economic regime and South-South cooperation. However, the NIDA for LDCs does not envisage immediate total alignment, as this could significantly reduce the creative potential of South-South development cooperation. There may be aspects of South-South development cooperation, such as modalities of infrastructure financing, which could provide powerful new ways to finance development in LDCs. Thus, a more realistic approach to achieving policy coherence would be through LDCs' national policies, which could mainstream both North-South and South-South official financial flows into national development strategies through strengthened country ownership.

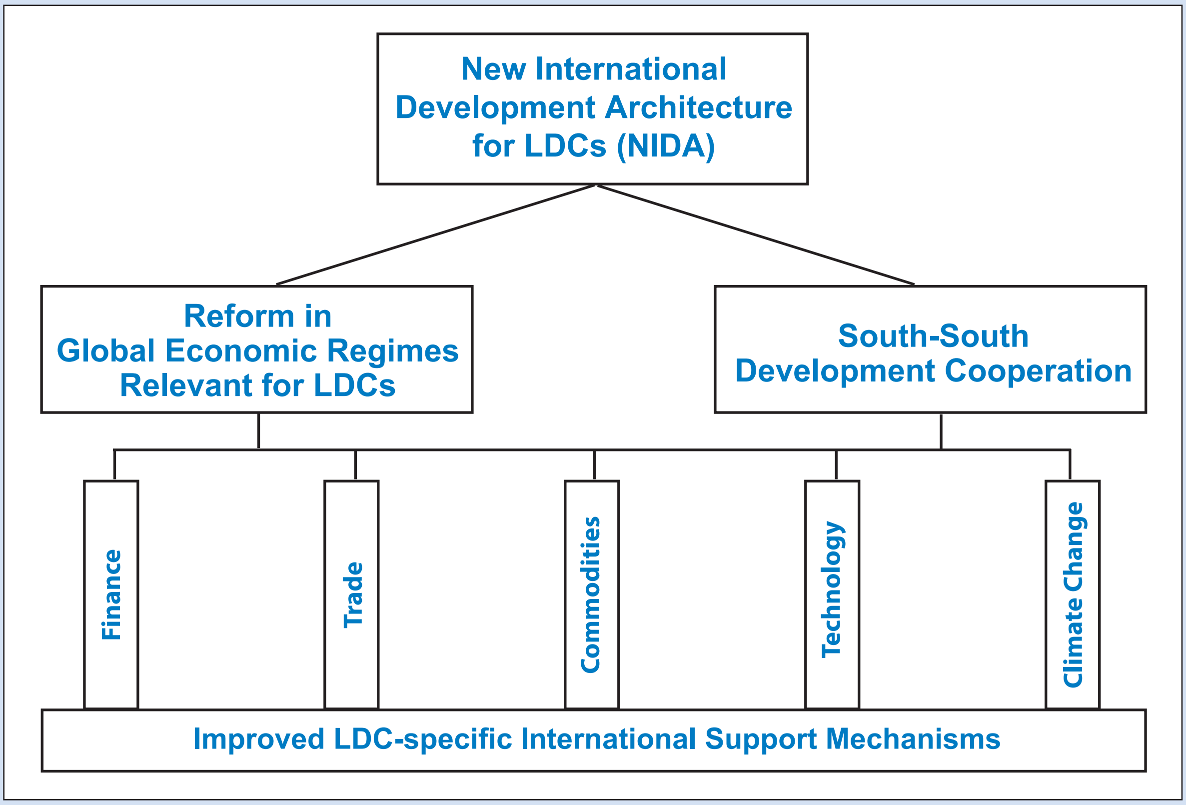
Some ISMs are specific to the global economic regimes, others are specific to South-South development cooperation, and yet others are common to both cooperation frameworks.

2. The pillars of a NIDA

The proposed NIDA for LDCs would have five major pillars, which relate to both the global economic regimes and South-South development cooperation, as well as some new policies and regimes. The pillars are: finance, trade,

Chart 24

The New International Development Architecture for LDCs



Source: UNCTAD secretariat.

technology, commodities and climate change. Chart 24 provides a view of the architecture of NIDA. The main features of the pillars of the NIDA are:

(i) Reform of the international financial architecture, including the aid and debt relief regime, as well as measures related to fostering domestic financial resource mobilization and private capital flows;

(ii) Reform of the multilateral trade regime;

(iii) An international commodity policy;

(iv) An international knowledge architecture that enables access to knowledge, its use and generation, including technology transfer and acquisition; and

(v) A regime for climate change adaptation and mitigation.

The proposed NIDA for LDCs would have five major pillars, which relate to both the global economic regimes and South-South development cooperation: finance, trade, commodities, technology and climate change.

A new generation of special ISMs for the LDCs would need to be elaborated within each of the pillars.

A new generation of special ISMs for the LDCs would need to be elaborated within each of the pillars.

A regime for international migration could also be considered as an additional pillar of the NIDA. However, this Report does not consider migration as a separate pillar, but instead treats migration issues to the extent that they are aspects of the finance, trade and technology pillars, focusing, for example, on the possibility of mobilizing the skills of the LDC diaspora for technological development in their countries of origin, or on the provision of special treatment in rules governing trade in services. IOM (2010) provides a recent overview of international migration issues for LDCs.

3. Principles of the NIDA for LDCs

The design of the NIDA for LDCs should: (i) Enable new, more inclusive development paths in LDCs; (ii) Foster and support country ownership of national development strategies; ....

The overall design of the NIDA for LDCs should:

(i) Enable new, more inclusive development paths in LDCs based on the development of productive capacities, the associated expansion of productive employment and improvement in the well-being of all their people;

(ii) Foster and support country ownership of national development strategies and enhance policy space for development policies;

(iii) Facilitate strategic integration into the global economy in line with the development needs and capacities of the LDCs, including through a better balance between external and domestic sources of demand;

(iv) Redress the balance between markets and the State so that the State plays a more significant role in guiding, coordinating and stimulating the private sector towards the achievement of national development objectives;

... (iii) Facilitate strategic integration into the global economy; (iv) Redress the balance between markets and the State...

(v) Promote greater domestic resource mobilization in LDCs with a view to reducing their dependence on aid;

(vi) Promote greater policy coherence between the different domains of trade, finance, technology, commodities, and climate change mitigation and adaptation, and also between the global economic regimes and the ISMs;

(vii) Support South-South development cooperation as a strong complement to North-South development cooperation; and

(viii) Foster more democratic and universal participation in the global system of governance with a view to giving LDCs a greater voice and representation.

... (v) Promote greater domestic resource mobilization; (vi) Promote greater policy coherence between trade, finance, technology, commodities, and climate change mitigation...

The contents of the NIDA should follow from these eight fundamental principles.

4. Processes for the design of the NIDA

... (vii) Support South-South development cooperation; (viii) Foster more democratic participation in the global system of governance.

The system of global governance needs to be reformed in order to advance LDC interests in the design of global economic regimes and also for the creation of more effective special ISMs for LDCs. While LDCs as a category have a high profile within the United Nations system, they do not have the same recognition and voice in other international institutions. In international financial institutions, they are disadvantaged by voting systems that are weighted according to a country's economic strength. This is most evident in the IMF, where LDCs together have just 2.9 per cent of the votes — the same as Canada and less than Italy (with 3.2 per cent) — despite constituting 25 per cent of the membership and 10 per cent of the total population. Addressing the democratic deficit in global governance should therefore be an important part of the process of creating a NIDA for the LDCs. However, this issue does not fall within the scope of this Report and therefore it is not further discussed.

D. A paradigm shift towards new development paths

The core of the design of a NIDA is that it should enable a shift to new, more inclusive development paths in LDCs, based on the development of productive capacities, the associated expansion of productive employment and an improvement in the well-being of all their people. This will be best achieved by giving the State a stronger developmental role, which entails a rebalancing of the respective roles of the State and markets in national policy frameworks for economic development. This section explains what this entails, as the content of the NIDA would be strongly influenced by such a paradigm shift.

The development of productive capacities refers to the expansion of the productive resources, acquisition of technological capabilities and creation of production linkages which permit a country to produce a growing array of goods and services.

1. Development of productive capacities

The term "development of productive capacities" is understood by different people in different ways. From the perspective of this Report, it does not refer to the expansion of export supply capacities or to technical assistance that is oriented to improving entrepreneurial capabilities, though both these elements are usually part of the process. Rather, here the development of productive capacities refers to the expansion of the productive resources, acquisition of technological capabilities and creation of production linkages which permit a country to produce a growing array of goods and services and enable the country's beneficial integration into the global economy on the basis of an internal momentum of development (UNCTAD, 2006).

The development of productive capacities occurs through capital accumulation, technological progress and structural change.

From this perspective, the development of productive capacities occurs through three interrelated processes: capital accumulation, technological progress and structural change. This is based on an understanding of how economic growth occurs, following the broad analytical lines of classical development economics, and thus places capital accumulation (i.e. investment in new plant and equipment, land, infrastructure and human capital) at the centre of the process. However, unlike the neoclassical approach, the accumulation process is understood as a dynamic one of social relations and economic linkages, and interactions built around the creation and reinvestment of profits. In a market-based economy, the process involves increasing productive capacity as a source of future profits. Moreover, technological progress — the process of introducing new goods and services, and new and improved methods of production and forms of organizing production — is considered integral to the capital accumulation process. Technological progress occurs through innovation, which, in an LDC context, can be defined as the commercial application — by firms and farms — of knowledge that is new to them or to the country. Innovation usually occurs in conjunction with investment, and therefore the two are difficult to disentangle in reality. Investment in new equipment and machinery embodies technical change, while technological learning, which is the key to technological progress in latecomer countries, occurs through investment in physical and human capital.

Capital accumulation — investment in new plant and equipment, land, infrastructure and human capital — is at the centre of the process.

Technological progress occurs through innovation, which, in an LDC context, is the commercial application — by firms and farms — of knowledge that is new to them or to the country.

Capital accumulation and technological progress do not only lead to the expansion of existing productive capacity; taken together they are also associated with qualitative changes in the economy through a process of creative destruction whereby new products and processes are introduced while others decline and disappear. Capital accumulation and technological progress thus drive the process of structural change, in which there is a change in the intersectoral and intrasectoral composition of production and in the pattern of linkages between sectors and segments of the economy. Structural change, in turn, increases the potential of an economy to accelerate capital accumulation and technological progress. This is because there are dynamic products or leading sectors which can induce greater investment and innovation thanks to their productivity growth potential, market demand potential or potential to engender dynamic production linkage effects with other activities and sectors, owing to production complementarities. Historically, the expansion of the scale of manufacturing activities within a national economy has been empirically associated with increased productivity both within the sector itself and in the wider economy. However, in general terms the most important basic feature which distinguishes more dynamic activities is that they are subject to increasing returns to scale rather than decreasing returns to scale.

Capital accumulation and technological progress thus drive the process of structural change.

From the UNCTAD perspective, demand also matters. The sustained development of productive capacities occurs when there is a virtuous circle of cumulative causation in which the development of productive capacities and the growth of demand mutually reinforce each other. Demand growth stems from three sources: domestic consumption, domestic investment and net exports. Exports are particularly important, as both consumer demand and investment demand depend on national income, whereas exports are autonomously determined. Moreover, both investment and consumer demand have an import component, which, without export earnings, would be constrained by the need to ensure balance-of-payments equilibrium. But the importance of exports does not mean that domestic sources of demand should be neglected. A classic study identifying recurrent patterns of economic development found that even in small economies at early stages of development, domestic demand growth was typically the source of over 75 per cent of economic growth (Chenery, Robinson and Syrquin, 1986).

When the development of productive capacities and the growth of demand mutually reinforce each other, there is a virtuous circle of cumulative causation.

In virtuous cases, a long-term process of economic growth based on the development of productive capacities occurs as a series of cumulative steps whereby a given expansion of output creates the conditions for the further expansion of output. Furthermore, technical progress and growth of new innovations will lead to increases in productivity and creation of new economic activities, which in turn will influence economic growth through increases in incomes of the population and through growth of productivity and employment. As incomes rise, patterns of consumption also change, with a lower demand for food (as a proportion of income) and a higher demand for investment goods. This in turn will stimulate the development of new types of consumer goods, raw materials and machinery. In the course of successive stages of economic transformation of the economy, a change in one direction will make possible complementary developments in another. The application of new techniques of production will in turn lead to a widening market and growing external economies, thereby further fuelling the process of economic transformation. Hence economic transformation is induced by the long-term growth of the economy through a chain of cause and effect movements in the economy.

Technical progress and growth of new innovations will lead to increases in productivity and creation of new economic activities.

Such a long-term process of economic growth is the foundation for substantial poverty reduction. This is because, first, the development of the productive base of the economy increases employment opportunities, though the relationship is quite complex owing to the simultaneous creation and destruction of economic activities as well as the trade-off between labour

The development of the productive base of the economy increases employment opportunities.

productivity growth and employment expansion. Second, the development of productive capacities helps to widen the fiscal base of the State, enabling the provision of public services that underpin human development and also better governance. Human development is an integral part of this process: as public services improve, falling levels of poverty enable more household expenditure on education and health and all kinds of human capacities are improved through the workplace.

Developing productive capacities helps to widen the fiscal base of the State, enabling the provision of public services that underpin human development and better governance.

2. The importance of a developmental State

Some low-income developing countries have managed to achieve the type of virtuous circle associated with the development of productive capacities described above. They provide important examples of what is possible and how to achieve it. But the development of productive capacities, with the associated expansion of productive employment opportunities and reduction in poverty, is not automatic. Indeed, just as economic transformation is induced through a chain of cause and effect movements in the economy, so also an opposite vicious circle of economic stagnation and mass poverty can occur. They key policy challenge for the LDCs is to find their way out of this vicious circle and the problem of being locked in to commodity dependence and low-skill manufactures, and to promote a virtuous circle of the development of productive capacities.

The sustained development of productive capacities requires a developmental State and an international environment which bolsters the developmental role of the State.

This Report, as with earlier *LDC Reports*, adopts the view that meeting this policy challenge requires a reassessment of the current policy framework adopted by the LDCs. There is a need for a strengthened role for the State, involving a rebalancing of the respective roles of the market and the State in the process of economic development. In short, the sustained development of productive capacities through a process of cumulative causation requires a developmental State and an international environment which bolsters the developmental role of the State.

A developmental State may be defined as one which gives top priority to economic development in Government policy and seeks to design policies and institutions that promote this goal.

A developmental State may be broadly defined as one which gives top priority to economic development in Government policy and seeks to design policies and institutions that promote this goal with a view to improving the living standards and well-being of the population. In order to develop productive capacities with a view to transforming the economy, accelerated interventions in key areas are necessary. These interventions should be implemented within the broader framework of national development strategies aimed at long-term, equitable and sustainable growth and structural change (UNCTAD, 2009). The immediate priority would be to ensure the sustainability of economic recovery, rising rural productivity and the creation of decent work during a period in which economic growth is likely to be slower than it was before the current crisis.

Promoting the fiscal space for delivery of key public services and long-term public investments in infrastructure, agriculture and human skills is required.

National Governments, with the full involvement of civil society organizations, and supported by the international community, need to take urgent measures to implement national development strategies that enable accelerated reduction of poverty, inequality and marginalization. This means promoting the fiscal space for delivery of key public services and long-term public investments in infrastructure, agriculture and human skills. It also means re-examining existing macroeconomic frameworks. Macroeconomic policies should not just focus narrowly on stabilizing the economy and curbing inflation; they should also ultimately be supportive of growth of real output and employment. This requires a relaxation of unnecessarily stringent fiscal

A proactive fiscal policy is a major instrument for the development of productive capacities, for accelerated poverty reduction and for the achievement of the MDGs.

The industrial policy should include selective investment financing guided by the State, while a strategic trade policy should complement the industrial policy.

Successful developmental States have pursued a development-led approach to trade rather than a trade-led approach to development.

An important element of the approach of successful developmental States is that they have combined some social policies with structural transformation.

and monetary restrictions, and use of countercyclical fiscal and monetary policies to boost employment and incomes in order to reduce poverty and minimizing the impact of external and other shocks. A proactive fiscal policy is a major instrument for the development of productive capacities, for accelerated poverty reduction and for the achievement of the Millennium Development Goals (MDGs). The key fiscal measures that foster growth include maintaining the economy near its potential in the short term and using public sector investment to foster growth by "crowding in" private sector investment. This would require countries to strengthen domestic resource mobilization and adopt mechanisms for countercyclical policy responses.

The development of productive capacities cannot take place in a vacuum; it requires an enabling environment that can create the necessary conditions for the process of structural transformation. In any market-oriented system this requires a process of financial deepening involving the development of an appropriate or suitable financial environment, including a financial infrastructure that enables investments in plants and equipment, new imported technologies, human capital accumulation and the development of productive capacities. In addition, an important objective of public financing for productive development should be to channel resources to productive sectors without compromising financial and macroeconomic stability.

In creating a dynamic business environment, micro-macro interactions have been widely recognized to be the most complex and important of all economic interactions in the areas of investment, production and distribution. While macro influences on microeconomic decision-making are critical, the inverse is just as important. For example, under conditions of persistent macroeconomic instability, there is an aversion to invest in fixed capital. While this underscores the need to ensure that aggregate demand grows steadily over a period of time, it does not guarantee investment or the development of productive capacities. For the latter to occur, the Government should undertake a proactive agricultural policy to boost agricultural productivity and also a proactive industrial policy to channel resources towards industrial development, as part of the larger imperative to create jobs and reduce poverty. The industrial policy should include selective investment financing guided by the State, while a strategic trade policy should complement the industrial policy (UNCTAD 2009: 141–179). A proactive stance by the Government is needed to channel the effects of macro over micro factors in order to strengthen the economy's productive base. Given that most LDCs have small open economic regimes, this can be a daunting task.

Successful developmental States have also pursued policies of strategic integration with the global economy. That is to say, the timing, speed and sequencing of opening up to the rest of the world have been decided on the basis of how they support national interests in terms of promoting development and poverty reduction. This implies a development-led approach to trade rather than a trade-led approach to development, as well as a gradual approach to trade liberalization and capital-account liberalization. At present, applying the principle of strategic integration in a context where LDCs have already undertaken deep trade liberalization is a complex policy task.

Finally, an important element of the approach of successful developmental States is that they have combined some social policies with structural transformation. In this regard, some developing countries have tried a number of important policy innovations, such as conditional cash transfers, which have proved quite effective in alleviating real misery. Such innovations could also be part of LDCs' new development strategies for LDCs.

All of this does not imply a return to old-style development planning. A basic feature of development governance in successful developmental States has been the adoption of the mixed-economy model which sought to develop policies and institutions that could harness the pursuit of private profit to the achievement of national development objectives. Competent bureaucracies were constructed in a few key strategic agencies, such as planning ministries, and developmental capabilities were built up through a continuous process of learning about which policies worked and which did not. Also, Governments did not devise policies in a top-down fashion, but in close cooperation with the business sector. The whole process was driven by a development-oriented leadership comprising both politicians and bureaucrats, committed to achieving a development vision for society. The power and political legitimacy of this visionary group was rooted in a social contract, in the sense that the aims of the development project were broadly shared within society, thus ensuring social mobilization behind the goals of the project. The risks, costs and benefits of structural transformation were shared amongst the different groups of society, and the pay-off was the opportunity of much higher living standards for future generations.

A basic feature of development governance in successful developmental States has been the adoption of the mixed-economy model which sought to develop policies and institutions that could harness the pursuit of private profit to the achievement of national development objectives.

E. The role of special international support mechanisms for LDCs

1. The original role

The role of special international support measures for the least developed amongst the developing countries was originally set out by Raúl Prebisch in the Report of the Secretary-General to UNCTAD I, entitled Towards a New Trade Policy for Development (United Nations, 1964). That report identified a set of international trade and development policies to support the achievement of the international development goal of the first United Nations Development Decade: that the developing countries should attain a minimum annual growth rate of 5 per cent. It also highlighted the importance of recognizing “the different situations of developing countries, depending on their degree of development, and to adapt and coordinate the measures adopted so that the advantages derived therefrom accrue in particular to the less advanced amongst the developing countries in order to give strong impetus to their growth” (United Nations, 1964: 62). The idea that special measures be adopted to encourage the exports of the “least developed amongst the developing countries” was discussed in particular as an issue within the design of a general system of preferences for developing countries, which was advocated to help those countries promote exports of manufactures and overcome the limitations of inward-oriented industrialization.

The original case for special international support measures for the LDCs involved two steps. There was a case, first, for a concerted implementation of a set of international policies to encourage development in developing countries, and, second, for special treatment in the design of those policies.

The original case for special international support measures for the LDCs thus involved two steps. There was a case, first, for a concerted implementation of a set of international policies to encourage development in developing countries, and, second, for special treatment in the design of those policies. Such a design could encompass, for example, the allocation of financial assistance, the content of technical assistance, and the coverage and time period of preferences so that the “least developed amongst the developing countries” could derive practical benefits from them. These special measures were thus basically justified on the grounds of fairness and inclusiveness to ensure that all developing countries could benefit from opportunities created

The role of the special measures for LDCs was to address the specific problems which these countries faced, which were related to their very early stages of economic and social development.

The basic role of special international support mechanisms in favour of the LDCs at present is the same as originally advocated...

... However, the nature and importance of particular structural weaknesses has been changing with globalization, and there are also new structural vulnerabilities associated with emerging international issues such as climate change.

by international policies adopted to support them in their development efforts. It was also stated that "it should not be the objective of any special measures taken in favour of the least advanced developing countries to create discrimination among the developing countries but to ensure due benefits for the least developed among them so that all developing countries can gain equitable benefits" (Resolution 24 II).

Therefore the role of the special measures for LDCs was to address the specific problems which these countries faced. As the report of the first expert group charged to examine special measures for the least developed amongst the developing countries stated, "to be meaningful any special measures to be recommended should be related to one or more of the specific problems confronted by these countries" (UNCTAD, 1969: 5). In general terms, these problems were initially identified as being related to the very early stages of economic and social development of these countries. They suggested a number of structural weaknesses, along with low per capita income and low domestic savings, namely:

- Low labour productivity, especially in agriculture;
- Scarcity of skilled manpower and technical and managerial cadres to carry out the essential tasks in promoting development;
- Lack of knowledge of national natural resource potentials;
- Low level of economic infrastructure;
- Dependence on a narrow range of primary commodities;
- Lack of industrialization; and
- Weak financial systems.

The expert group recommended that "[T]he special measures to be recommended in favour of the least developed countries should be designed to eliminate or at least to attenuate these basic characteristics or weaknesses" (UNCTAD, 1969: 6).

2. Reaffirming the role of international support mechanisms

The basic role of special international support mechanisms in favour of the LDCs at present is the same as originally advocated. LDCs continue to have structural weaknesses which cause slower development and poverty reduction than in other developing countries, including other low-income developing countries. Thus the role of the special mechanisms would be to address these structural weaknesses. However, the nature and importance of particular structural weaknesses has been changing with globalization, and there are also new structural vulnerabilities associated with emerging international issues such as climate change. Also, there are now new agreed international development goals, in particular focusing on poverty reduction and the achievement of human development in the context of the MDGs. The role of ISMs has been shifting in line with these new goals.

(a) Structural weaknesses and vulnerabilities of LDCs

The problem of the marginalization of LDCs in the global economy remains acute, though its sources are shifting. As shown in chapter 1 of this Report, the average GDP per capita of LDCs as a group declined from 1970 until 1994, but it stabilized in the second half of the 1990s and has been increasing since 2000. The overall result of these trends is that there has been no income convergence of LDCs with other developing countries or with advanced economies over the whole period between 1970 and 2008. Moreover, despite the positive trend since 2000, other developing countries also grew more rapidly during this period, and thus LDCs still continued to diverge from other developing countries. The productivity gap widened during the boom years.

The weak long-term economic performance of the LDCs and their overall lack of convergence with the more advanced developing countries can be attributed to some form of underdevelopment trap.

The weak long-term economic performance of the LDCs and overall lack of convergence of these countries with the more advanced developing countries can be attributed to some form of underdevelopment trap. The nature of this trap has been specified in different ways by different analysts (for example, UNCTAD, 2002; Collier, 2007; and Guillaumont, 2010), but both UNCTAD (2002) and Guillaumont (2010) emphasize the significance of structural constraints. According to UNCTAD, these are related to the form of integration into the global economy, particularly associated with the interaction between commodity dependence and mass poverty, but also with the lack of structural transformation. Weak governance is associated with the very low per capita incomes of LDCs but has been accentuated by past policies. Guillaumont (2010) sees the divergence of LDCs as being related to their low human resource assets and also to their structural vulnerability and weak resilience to shocks.

Structural constraints are related to the form of integration into the global economy, particularly associated with the interaction between commodity dependence, mass poverty, and lack of structural transformation.

The originally identified structural weaknesses of LDCs and the related role of ISMs were defined before the surge in the globalization of production and finance since the 1980s. While these weaknesses are still related to internal conditions (such as the lack of infrastructure and low levels of human capital), they have been reinforced by the closer integration of LDCs into the global economy. Low-productivity agriculture still remains the main source of livelihood for most people in LDCs, just as it was 30 years ago. Still, there is an accelerating process of urbanization, with more and more people seeking work in sectors other than agriculture. Rapid rates of population growth and a very youthful population structure means that the LDCs will be confronted with a massive employment challenge in the coming years, which will need to be addressed in the context of LDCs' generally open economies and greater competition with other countries. Costs of production may be low, but labour productivity is also pitifully low, as most workers earn their living in informal economic activities using their raw labour, with rudimentary tools and equipment, little education and training and poor infrastructure. Meeting the employment challenge should therefore be seen as a major priority for the coming decade.

The LDCs' rapid insertion into the global economy since the 1980s has become a major source of instability for these economies, especially in the areas of finance and trade.

The LDCs' rapid insertion into the global economy since the 1980s has become a major source of instability for these economies, especially in the areas of finance and trade. This has locked them into a vicious cycle or a low-equilibrium poverty trap characterized by low productive capacities, low domestic resource mobilization and low technological capacity to respond. The incentive structure in these countries is oriented towards short-term profits, closely associated with the boom-bust nature of their growth experiences. Additionally, their increasing dependence on aid for growth continues to pose major challenges to their ability to autonomously devised policy responses to the latest economic and financial crisis and for their long-term development. The combination of internal and external impediments prevents most LDCs from responding appropriately to various development challenges, and thus they remain vulnerable to major external shocks.

(b) New international development goals

The case for special international support for the LDCs must be seen within the context of achieving recently agreed international development goals, in particular the MDGs.

Special ISMs for the LDCs should not be seen as acts of charity. Rather, accelerating development and poverty reduction in the LDCs should be seen as being in the mutual interests of the LDCs, other developing countries and developed countries. This mutual interest partly arises from the economic interdependence of countries, but it is also related to the common purpose of achieving new international development goals, in particular the MDGs.

Accelerating development and poverty reduction in the LDCs should be seen as being in the mutual interests of the LDCs, other developing countries and developed countries.

The three main ways in which development in the LDCs can benefit other developing countries and developed countries are the availability of untapped natural resources, domestic markets which could grow significantly and the creative potential of LDCs' youthful populations. The abundant natural resources in the LDCs are already being exploited, but one feature of their LDC status is the lack of knowledge of their available natural assets. With regard to their markets, accelerated development and exports of the LDCs increases their import capacity and thus enables other countries to boost their own exports in a global expansion of international trade. Finally, a key resource of the LDCs is the creativity of their populations. At present, 60 per cent of their population is under 25 years old. Productive employment of this segment of their populations would provide a massive demographic dividend. Conversely, their lack of employment presents a huge burden, not to mention the waste of the creative potential of these people if they are forced to live from hand to mouth to survive. The rapidly growing population of the LDCs, which is expected to exceed one billion people in 2017, means that together they will have an increasing impact on international economic interdependence in spite of their very low per capita incomes.

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The economic development of the LDCs can be understood as a global public good because it contributes to the elimination of certain global public bads. If improvements to public health continue to progress only very slowly, the LDCs could become reservoirs for internationally communicable diseases owing to their continued economic underdevelopment. During the past decade, LDCs have had to cope with various complex humanitarian emergencies, associated with social conflicts and natural disasters. These emergencies are both a product and a cause of persistent underdevelopment, and they will recur in the coming decade unless these countries can accelerate their development. The governance challenge which LDCs face is also an important issue. This is intimately linked to the problem of preserving peace and security in the world. Governance failures are usually seen as an internal issue related to the wrong choice of policies, weak institutions and poor leadership. But in practice, as argued in the *LDC Report 2009*, the GDP per capita of LDCs is so low that it is difficult for them to mobilize sufficient government revenues in absolute terms to provide the necessary basic services of a modern State. The national governance problem in LDCs is thus real, but it is very difficult to resolve without economic development and without increasing the fiscal resource base of their Governments.

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Finally, the case for special international support for the LDCs must be seen within the context of achieving recently agreed international development goals, in particular the MDGs. As indicated in chapter 1 of this Report, despite some progress, most LDCs are off-track to achieve many MDGs by 2015, and can only hope to achieve these goals through major concerted international support efforts. If the relatively slow rates of poverty reduction are allowed to continue, and other developing countries continue to do well, the LDCs will at some point in the future become the major locus of extreme poverty in the world.

3. Avoiding the substitution of ISMs for global economic reforms

A key feature of the new architecture being proposed for LDCs is an integrated policy approach which embeds ISMs targeted at LDCs within both global economic regimes and South-South cooperation. Some might argue that with the increasing differentiation of the world economy, the development dimension of global economic regimes should be focused exclusively on the poorest countries, particularly the LDCs. Collier (2007), for example, argues that the core development challenge of the new millennium is the failure of the growth process in the poorest countries in the world, and that if nothing is done to rectify this, these countries "will gradually diverge from the rest of the world economy over the next couple of decades, forming a ghetto of misery and discontent" (Collier, 2007: xi). He believes the solution to this problem is that the geographical scope of international development assistance, more broadly conceived than ODA, should be focused on the poorest countries. But this approach seems analytically flawed (Gore, 2010) and is rejected here, as there are major dangers in treating international support mechanisms for LDCs as a substitute for systemic reforms.

There are major dangers in treating international support mechanisms for LDCs as a substitute for systemic reforms.

Treating ISMs as substitutes would have unintended effects. First, it is clear from the experience of the past 30 years that the problem is not simply the weak growth performance of the poorest countries, but also the fact that some developing countries that are a little more advanced than the LDCs have experienced growth failures and collapses which have pushed them down into the LDC group. Second, it is necessary to see the global development process in dynamic terms. If the more advanced developing countries find it difficult to deepen their industrialization and move up the technological ladder, shifting away from the production of the simple products that are also being exported by the poorer countries, it will be difficult for the poorest countries to develop. As noted in the *LDC Report 2002*: "To the extent that the more advanced developing countries meet a glass ceiling which blocks their development, there will be increasing competition between the LDCs and other developing countries" (p.162). In this situation, special ISMs for the LDCs could accelerate the graduation of some of these countries out of the LDC category. But at the same time, one might expect some of the other developing countries that are just above the LDC threshold to experience weak economic performance or growth and possibly enter the LDC category or reach structural economic conditions similar to those of LDCs. Thus some countries would get richer and others poorer. This means that, although the special measures could provide benefits for some LDCs, globally the exercise would be fruitless.

If the more advanced developing countries find it difficult to deepen their industrialization and move up the technological ladder, it will be difficult for the poorest countries to develop.

What is needed is a mix of more developmental and coherent global economic regimes for all developing countries, including LDCs, along with special measures targeted to address the specific handicaps and vulnerabilities of the LDCs. As more advanced developing countries move up the development ladder, LDCs could move into producing products which formerly were, but which can no longer be, competitively produced by these more advanced developing countries. Moreover, the whole process should be facilitated by South-South development cooperation, which reinforces the mutually supportive economic relationships between the more advanced and the least developed developing countries. A good example is China's plan to build special processing zones in Zambia and Ethiopia and move labour-intensive manufacturing activities into these countries. This could potentially generate productive employment, transfer skills and technology and also generate broader technological learning and export opportunities.

What is needed is a mix of more developmental and coherent global economic regimes for all developing countries, including LDCs, along with special measures targeted to address the specific handicaps and vulnerabilities of the LDCs.

F. Conclusions

Accelerating development and poverty reduction in the LDCs will require not simply better LDC-specific ISMs, but rather a new international development architecture (NIDA).

The basic message of this chapter is that accelerating development and poverty reduction in the LDCs will require not simply better LDC-specific ISMs, but rather a new international development architecture (NIDA) for the LDCs. Existing LDC-specific support measures work within a more general framework of rules, norms, understandings and practices which guides the international economic relations of all developing countries, including LDCs and sub-categories of countries that largely overlap with the LDCs, such as low-income countries. Given the weaknesses in the design and implementation of current LDC-specific international support measures, these general regimes actually have a greater impact on development and poverty reduction in the LDCs than the special measures. A NIDA for the LDCs should be constituted through reforms of those aspects of the global economic regimes that are directly relevant for the LDCs, as well as through the design of a new generation of special ISMs for the LDCs that would aim at developing their productive capacities. With the increasing importance of South-South flows of trade, FDI, official finance and knowledge, South-South development cooperation — both within regions and between LDCs and large, fast-growing developing countries — should play an important role in a NIDA for LDCs. Such cooperation should also include some LDC-specific support mechanisms.

A NIDA for the LDCs should be constituted through reforms of those aspects of the global economic regimes that are directly relevant for the LDCs and through the design of a new generation of special ISMs for the LDCs.

The term “mechanism” is used here, rather than “measure”, to convey the idea that effective LDC-specific affirmative action is not only a matter of designing policy measures; it also implies the deployment of resources, institutions and organizational entities to ensure maximum effectiveness in the implementation of those measures. The chapter rejects the idea that LDC-specific ISMs can be considered a substitute for systemic reforms in areas relevant to LDCs. It also rejects the idea that all development cooperation should be focused on the LDCs or the poorest countries in the global economy. Such an approach would be counterproductive, because while some LDCs are likely to graduate from the LDC category, other developing countries, in the absence of development assistance, could fall into that category. In addition, the potential dynamic complementarities between LDCs and the more advanced developing countries would not be exploited. Thus, a new generation of ISMs for the LDCs will be effective only if they are embedded within a more general set of systemic reforms.

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The current approach to international support for LDCs focuses mainly on international trade, whereas this chapter identifies five major pillars for the proposed NIDA: finance (including domestic resource mobilization, private capital flows, aid and debt relief), trade, technology, commodities and climate change adaptation and mitigation. Systemic reforms, LDC-specific ISMs and South-South development cooperation are necessary in each of these pillars.

The chapter sets out eight principles which should inform the design of the NIDA: (i) promoting new development paths, (ii) fostering country ownership, (iii) facilitating strategic integration into the global economy, (iv) increasing the developmental role of the State, (v) reducing aid dependence, (vi) promoting policy coherence between the different pillars of the NIDA, and between systemic reforms and LDC-specific ISMs, (vii) supporting South-South cooperation as a complement to North-South cooperation, and (viii) giving greater voice and representation to LDCs in the global system of governance.

Most fundamentally, the content of the NIDA should enable a shift to new, more inclusive development paths in LDCs, based on the development of their productive capacities, an associated expansion of productive employment and an improvement in the well-being of all their people. This will be best achieved by giving the State a stronger developmental role, which entails a rebalancing of the respective roles of the State and markets in national policy frameworks for economic development. The NIDA should facilitate this paradigm shift. Finally, the NIDA for LDCs should be part of a broader set of systemic reforms, away from business as usual, which need to be taken in response to the financial crisis and global recession, and which would be beneficial for all countries, both developed and developing.

The NIDA for LDCs should be part of a broader set of systemic reforms, which need to be taken in response to the financial crisis and global recession, and which would be beneficial for all countries, both developed and developing.

Notes

1 The Paris process was launched with the adoption of the Paris Declaration on Aid Effectiveness in March 2005 and brings together aid donor and recipient countries.

2 See, for example, Shafaeddin, 2005; Ocampo and Vos, 2008; Sundaram and von Arnim, 2008.

3 Prior to the inception of the TRIPS Agreement, in 1994, a large number of developing and least developed countries did not provide the same standards of IPR protection as required by the Agreement. The patent protection terms were much shorter than the 20 years mandated by the Agreement. National patent laws also contained several provisions that were subsequently disallowed under the TRIPS Agreement, such as the "working" requirement, which mandated that inventions be produced domestically in order to qualify for the granting of a patent.

4 The lack of technical assistance to help for countries implement pro-development IPR strategies has been discussed at length in the literature. See, for example, Kostecki, 2006; and Roffe et al., 2007.

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