

Retreat of Ambassadors of Landlocked Developing Countries

The Mid-Term Review of the Vienna Programme of Action and the Way
Forward – An UNCTAD perspective

Remarks by Paul Akiwumi, Director

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Your Excellency, Ambassador Julio César Peralta Rodas,

Excellencies,

Ladies and Gentlemen,

- It is a great pleasure for me to address this Brainstorming meeting in preparation of the forthcoming mid-term review of the Vienna Programme of Action. As you may be aware, we had a similar retreat for LLDC Ambassadors in New York last month, and it was very well received.
- The purpose of this gathering is an in-depth discussion of the issues to prepare for the review. It aims to assist the group of LLDCs in identifying their priorities, and in ensuring that their concerns are fully reflected in the outcome of the MTR. Key questions to be addressed in the retreat include:
 - Where do LLDCs stand now in relation with the key goals and objectives of the VPoA, especially on key priority areas within UNCTAD's mandates?

- What are the most pressing trade and development challenges facing LLDCs?
 - How can LLDCs achieve export diversification for inclusive growth and sustainable development?
 - What policies and strategies are needed for LLDCs to foster productive capacities and structural economic transformation?
 - Where should policies and strategies, as well as international partnerships focus in addressing domestic gaps and limitation in LLDCs?
- As you are aware, in the first five years of its implementation, progress towards the goals of the Vienna Programme of Action (VPoA) has fallen short of expectations.
 - After growing at an average annual rate of 7% between 2000 and 2013, the LLDCs have experienced a sharp slowdown in growth to 2.8% in 2016, or 0.4% in per capita terms.
 - Despite the Programme's goal to substantially increase the participation of LLDCs in global trade, their share of global exports has since decreased by 30%, from 1.1% in 2014 to 0.8% in 2016.
 - Similarly, foreign direct investment (FDI) flows to LLDCs have fallen sharply (from US\$ 36bn in 2011 to US\$ 24bn in 2016).

- While growth, exports and FDI have started to recover from their 2016 lows, in 2017 they remain far below the target levels of the VPoA.
- Against this background, the mid-term review (MTR) provides an occasion to identify the measures needed to correct course, and to provide new momentum to efforts to achieve the goals of the VPoA.
- In order to support your deliberations, we in UNCTAD have prepared several issues for your consideration. Allow me to briefly highlight them:

1.) Structural Transformation:

- The first is the importance of structural transformation for achieving the goals of the VPoA. While this is fully recognized in the VPoA, progress towards structural transformation has been slow.
 - 26 of the 32 LLDC are commodities-dependent, meaning that commodities account for more than 60% of their exports.
 - The share of the manufacturing sector in GDP (a common measure of structural transformation) has remained constant in LLDCs at around 13-14% of GDP since the year 2000.
 - Similarly, there has been no improvement in the diversification index.

- In UNCTAD's view, for LLDCs to successfully achieve structural transformation, they need to focus their development policies on building productive capacities.
- Productive capacities are defined as the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop.
- To support LLDCs in their effort to build these capacities, UNCTAD has developed a measurable Productive Capacities Index (PCI), which allows LLDCs to assess their levels of productive capacities over time, and to compare it across countries.
- The PCI is constructed from 58 indicators in 8 categories, defined to capture the essence of the three broad components. An initial assessment of the performance of LLDCs in the PCI shows that they lag behind other developing countries in almost all categories.
- We hope that this index can be a useful tool in identifying concrete policies and measures needed for LLDCs to achieve structural transformation.

We are also planning on publishing a manual to assist governments in identifying and designing policies to build productive capacities.

- In addition, greater efforts are also needed to support specific sectors and sub-sectors with export potential and implement targeted policies to promote their development.

2.) Trade and Transport Facilitation:

- A second issue relates to trade and transport facilitation.
- Given the disadvantages faced by many landlocked countries in terms of distance and geographical position, LLDCs should make all efforts to minimize all other costs related to transport and trade facilitation.
- Yet, in many cases, the quality of transport and trade facilitation in LLDCs lags behind that of other countries.
 - To date, LLDCs still demand an average of more than 10 documents for the exportation of goods, and 8 or 9 documents for their importation.
 - These obstacles also result in additional trade costs for storage, insurance, and the payment of penalties for delayed delivery.

- More efforts are needed to ensure that LLDCs have the most efficient transport and trade logistics systems.

3.) Infrastructure Financing:

- The third issue for your consideration relates to the significant infrastructure financing needs of LLDCs.
- According to a recent OHRLLS study, the investment needed for LLDCs to meet the global averages in road and rail transport infrastructure alone are US\$ 0.5 trillion.
- In this context, the Chinese Belt and Road Initiative, launched in 2013, presents an important opportunity for LLDCs to gain access to much-needed financing. By making available resources exceeding those of the Marshall Plan, the initiative can help address some of the urgent infrastructure needs.
- However, in order to maximize the benefits of this initiative, it is important to address some of the challenges, including the potential risk of indebtedness, the need to build host-country capacities to manage large-scale infrastructure projects and align them with national priorities, as well as the need to ensure national ownership.

- Another infrastructure sector that has received comparatively little attention in many LLDCs is the ICT sector. LLDCs continue to face high costs for broadband access, partly due to their remoteness from broadband cables on the seabed. Here, further efforts are required to lower prices.

4.) Regional Integration:

- Fourth, you may wish to think about recent trends in regional integration, and how this tool can be used more effectively.
- Regional trade and cooperation agreements hold significant potential for LLDCs to gain access to markets, achieve economies of scale, strengthen trade and transit facilitation, harmonize standards, and promote joint infrastructure projects.
- Against this background, it is not surprising that the 32 members of the group of LLDCs are currently members of no less than 31 regional agreements. The recent conclusion of the African Continental Free Trade Area will add a further agreement to the list, once it has been ratified by 22 African Union member States.

- However, not all regional trade agreements have fully achieved their intended result of increased intra-regional trade. Often, the reason for this was that the agreements were not fully implemented, because their ambition exceeded the capacities or political will of their member countries.
- LLDCs may therefore wish to consider greater focus on the quality, rather than the quantity, of regional integration agreements.

5.) Development Finance:

- Fifth, achieving the goals of the VPoA requires the availability of development finance.
- And while ODA flows to LLDCs as a group have seen moderate increases, from US\$ 23.6 bn in 2014 to US\$ 25.9 bn in 2016, they remain highly concentrated, with only five countries accounting for more than half of ODA receipts. (The largest aid recipients among the LLDCs were Ethiopia, Afghanistan, South Sudan, Uganda and Mali).
- Aid-for-trade disbursements to LLDCs actually decreased in 2016, and account for roughly 15.5% of the total Aid-for-trade.

- And FDI – another key source of development finance, has fallen by more than 40% between 2011 and 2016, despite a recent recovery. FDI flows are more concentrated than ODA, with the top five recipients accounting for more than 66% of FDI inflows. (Azerbaijan, Ethiopia, Kazakhstan, Mongolia, and Turkmenistan)
- The composition of the flows also requires closer attention. The majority of ODA flows, for example, are focused on the social sectors, and assistance to infrastructure and the productive sectors only account for a smaller proportion of the ODA. In fact, the proportion of aid allocated to infrastructure is less for LLDCs than for other developing countries. This should be rebalanced – not by reducing much-needed support in the social sectors, but by increasing aid for infrastructure and the productive sectors.
- Similarly, most FDI to LLDCs goes into extractive sectors—mining, quarrying and petroleum. Yet LLDCs can benefit from increased FDI directed to national development objectives.
- Against this background, LLDCs could consider trying find ways of securing greater international assistance – especially on Aid for Trade.

6.) Strengthening Implementation Capacities:

- But LLDCs should also look inwards – and this is our sixth suggestion – at their own processes.
- Many of you already have very elaborate policies in place to foster economic development and structural transformation. And yet, the outcomes remain below expectations. Here, consideration should be given to what can be done to increase LLDCs’ capacity to implement these policies.

7.) Improving Technical Assistance and Capacity-Building Programmes:

- Seventh, we should take a good look at how the international community delivers its capacity-building assistance.
- Today, a large proportion of our capacity-building comes in the form of several separate projects.
- Yet, this may not be wholly suited to addressing a comprehensive challenge such as structural transformation. Instead of pointed interventions, promoting structural transformation requires a holistic approach that identifies problems at different stages of the value chain, and addresses them simultaneously.

- Recognizing this, UNCTAD has recently piloted a comprehensive multi-year capacity-building programme in Angola, which includes multiple components. LLDCs could consider calling on development-partners to support the delivery of more integrated capacity-building programmes for LLDCs, rather than isolated and fragmented projects, so as to strengthen synergies and ensure coordination.

8.) Monitoring Mechanism for the VPoA:

- Finally, LLDCs could give consideration to strengthening the monitoring mechanism of the VPoA. In particular, the lack of agreed, measurable indicators to trace progress has undermined the analytical assessment of implementation.
- We hope that these initial suggestions will prove useful in stimulating a lively discussion, and we look forward to hearing your views.

Thank you very much.