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HIGH-LEVEL PANEL ON TRADE AND DEVELOPMENT STRATEGIES FOR LEAST DEVELOPED COUNTRIES

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Trade, growth and poverty in the least developed countries

1. The challenge of poverty reduction in LDCs is immense and will require special efforts by the LDCs and their development partners to address the depth and persistence of underdevelopment and poverty in these countries.

2. In the current global context, the probability that LDCs will reduce extreme poverty by half by 2015 is low. On the contrary, if current trends persist, there is a great danger that LDCs will become the major locus of extreme poverty by 2015. In a number of LDCs, the current situation is particularly grave owing to structural deficiencies as well as interaction between national and international factors, including civil conflict, HIV/AIDS, lack of domestic financial resources and trained personnel, under-investment, declining terms of trade, continuing indebtedness and the inability to overcome supply constraints. All these factors prevent the LDCs from benefiting adequately from the opportunities arising from a globalizing world economy.

3. While trade is important for economic growth, there is a danger of excessive emphasis on trade for poverty reduction. Commodity-dependent economies face major problems of falling and volatile world prices. Experience also shows that export-led growth, in situations where the majority still earn their living in subsistence-oriented agriculture and where local transport and communications infrastructure and domestic markets are underdeveloped, tends to be geographically concentrated in enclaves rather than triggering social inclusion.

4. There have been international commitments to a new way of supporting development in the Monterrey Consensus. However, there is a need for a paradigm shift in practice, not just in rhetoric. At the international level, this has various dimensions: (a) the scaling up of development assistance and removal of the external debt burden; (b) improvement in the quality of development assistance; (c) greater policy coherence between aid, trade, debt relief and investment; (d) increased policy autonomy for national governments; and (e) greater attention by international institutions to what the LDCs themselves identify as their real problems. At the national level, there is a need for new development strategies. Such strategies go beyond Poverty Reduction Strategy Papers. The critical

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challenge is to accelerate economic growth and promote inclusive development rather than simply mainstream trade within poverty reduction strategies. There must be more coherence between national strategies and global processes.

National policies

5. Trade liberalization has not been a panacea for poverty reduction. Indeed, cases exist where it has been associated with deindustrialization and increased unemployment. The best trade-poverty relationship is found in countries that opened up moderately in the 1990s. For trade liberalization to assist poverty reduction, it has to be gradual and linked to the development of supply capacities, and it should not be equated with a laissez-faire approach but rather should entail a reassessment of the state's role in domestic policy.

6. In the situations of mass poverty prevailing in most LDCs, poverty reduction will require development strategies that promote accelerated economic growth that is socially inclusive, environmentally sustainable and sustained. To achieve inclusive development, national development strategies should not simply promote the modernizing core of the economy; they should also include (a) technological change in subsistence activities; (b) universal social services; and (c) meaningful employment through development of non-tradable goods and services, as well as a new approach to rural development based on all possible uses of biomass (e.g. food, medicines, raw materials). Women should not be left out of employment opportunities.

7. National development strategies need to be tailored to specific countries. Attention needs to be given to diversity of initial conditions, resource endowments and export structures among LDCs.

International policies

8. Too few LDCs have benefited from the preferential market access schemes of developed and other developing countries. Such trade preferences still have a role to play and should be strengthened through such measures as improvements in rules of origin to reflect existing production structures and the creation of triangular relationships between trade preferences, official development assistance (ODA) and foreign direct investment. Improvement in supply capacities is at the heart of the problem of making trade work more effectively for poverty reduction.

9. There is a need for increased aid to develop supply capacities. In commodity-dependent economies, international assistance is needed to help diversification and increase local capacities for value-added processing. International development partners should meet the targets for ODA of 0.15%–0.2% of gross national income to the LDCs. Very few donor countries have met these commitments thus far. Policy conditionalities must not restrict policy choices. In the current situation, access to aid is sometimes predicated on the pursuit of macroeconomic policies that constrain private-sector development and domestic capital accumulation.

10. Despite various initiatives to eliminate the debt burden of LDCs, external debt remains a major problem for most of them. Further debt reduction is essential for poverty reduction. The sustainable financing of the development of supply-side capacities is still a problem in highly indebted poor countries (HIPCs), whose access to loans is limited. This problem urgently needs to be addressed.

11. LDCs need to be at the heart of the new trade geography. They should become actively involved in the new round of negotiations of the Global System of Trade Preferences among Developing Countries (GSTP).

12. Finally, appreciation was expressed by many discussants for the excellent quality of UNCTAD's *Least Developed Countries Report 2004.*