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Regional Economic Integration, Food Security and Climate Change Agenda for the Decade 2011-2020

LDC Issues for UN LDC IV

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Background

- ❑ Special **UN conferences on LDCs** (Paris-1981 and 1991; Brussels 2001; Istanbul 2011)
 - ❑ LDCs are a **diverse group** of countries
 - ❖ Large versus small; Landlocked vs island states; natural resource rich vs weak resource base; mfg vs primary producing countries;
 - ❑ Implemented serious **policy reforms**
 - ❖ But, weak supply response could not be tackled
 - ❑ A significant **shift in development thinking**
 - ❖ quest for a post-Washington consensus regime
 - ❑ **Renewed commitments** to development support
 - ❑ A greater role of developing countries – **rise of BRICS**
 - ❑ The world facing the threats of **climate change**
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Key Issues for UN LDC IV

- The central theme – developing productive capacities
 - ❖ Trade issues
 - ❖ Financing development
 - ❖ Managing commodities
 - ❖ Transfer of technology
 - ❖ South-South cooperation
 - ❖ Climate change
 - ❖ Monitoring mechanism
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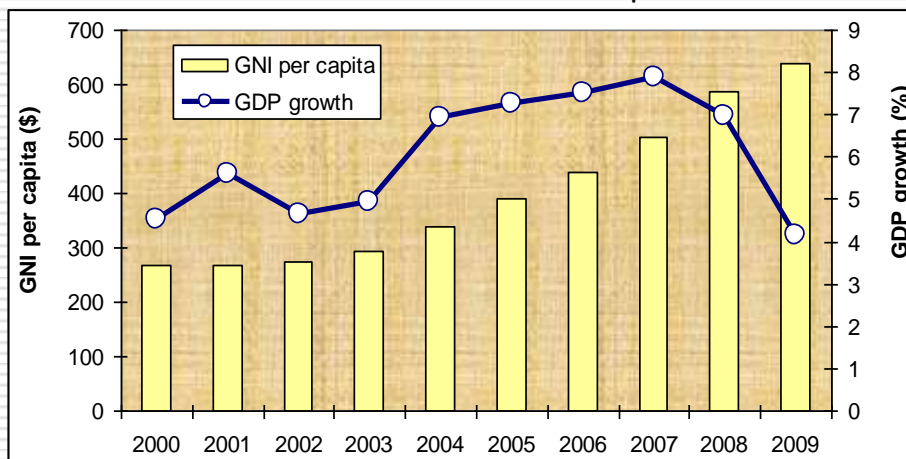
Productive capacity

- Difficult to define but linked to supply response
 - Promoting [static comparative advantage](#)
 - [Enabling environment](#) with infrastructures
 - [Encompasses all sectors](#) – agri, mfg and services
 - Productive capacity for [structural transformation](#)

 - Generally greater recognition of the role of state
 - Greater ownership over policy and projects
 - Public-private partnerships
 - Use of policy space in promoting certain sectors
 - Use of ODA in domestic efforts
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Productive capacity and Structural Transformation

2001-10 → Performance of LDCs - impressive



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Productive capacity and Structural Transformation

	2000	2003	2005	2007	2008	2009
AFG		13.1	15.7	15.8	16.2	16.5
BGD	15.2	15.8	16.5	17.8	17.8	17.9
BHU	8.53	7.56	7.47	6.78	6.49	6.4
CAM	16.9	19.1	18.8	18.6	16.4	15.3
NEP	9.44	8.43	8.18	7.72	7.39	7
MAL					6.1	
LDCs	10.4	10.9	11.5	12.5	12.5	12



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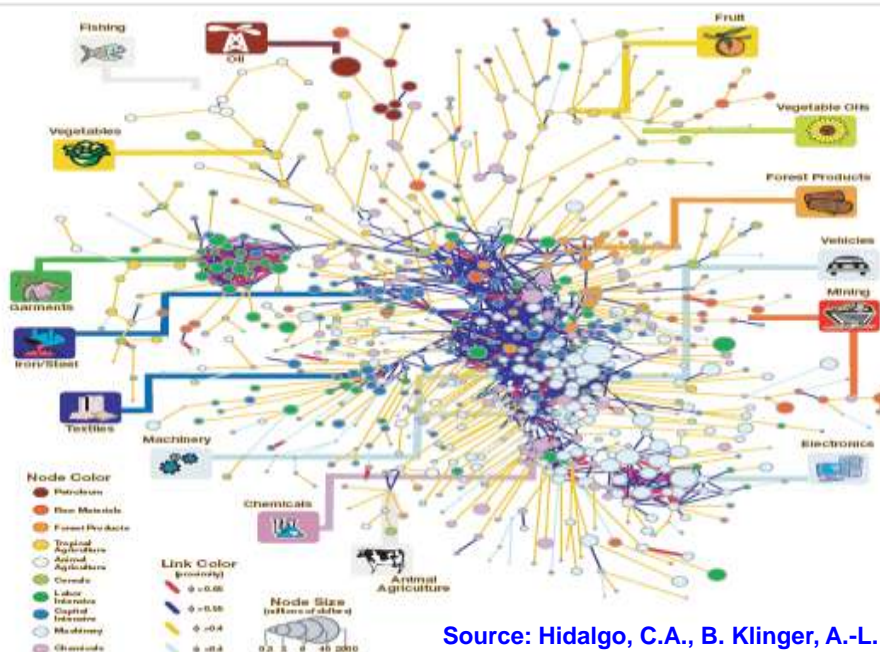
Structural transformation

- What countries export/how they specialise matter for their future growth
 - **Initial specialisation** affects structural transformation
 - Some products are **well connected** (strong linkages)
 - Overall connectedness of the export basket determines **the speed of export upgrading** & growth acceleration

Serious implications: Minerals and natural resource based products are shown to have **low interconnectedness with dynamic products**



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Source: Hidalgo, C.A., B. Klinger, A.-L. Barabási, and R. Hausmann (2007); Hidalgo and Hausman (2008)

Structural transformation

- Moving from natural resource-based/traditional exports to sectors with dynamic comparative advantage
 - In many LDCs, commodity booms reinforce export concentration on sectors with limited linkages

- Therefore, for structural transformation, promoting investment into the **right sectors** is crucial.



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Trade Issues

- **Market Access remains the main focus**
 - **All LDC products** should be under DFQF commitment
 - 97% of product lines should be **commercially meaningful**
 - Meaningful **market access to BRICs** and alike

 - **Early harvest** of the Doha Round
 - Address the problem of **preference erosion**
 - **Flexible rules of origin**

 - Address **NTMs** affecting LDC exports
 - **Preference for services exports** of special interest to LDCs
 - Address the adverse **consequences arising from the FTAs**
 - Support LDC **capacity in standards and SPS** measures

 - Simplifying and **fast tracking LDC accession** to the WTO
 - Support for **export diversification**
 - Support for **trade facilitation and capacity building**



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Financing Development - ODA

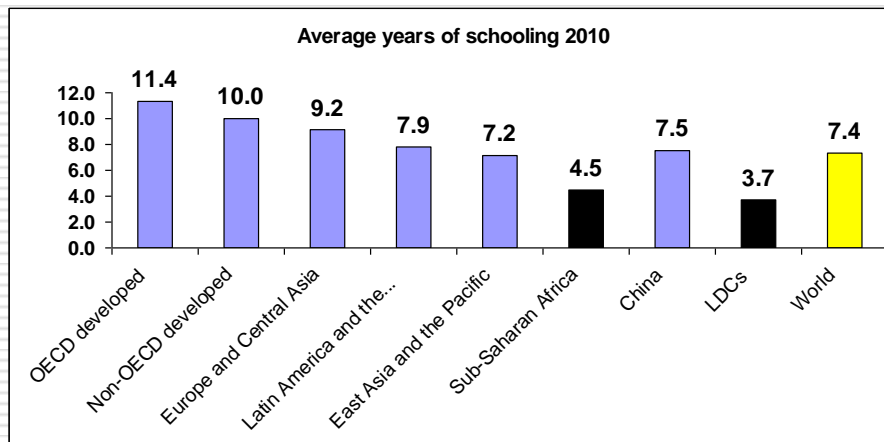
- ❑ LDC objectives – robust growth and poverty reduction
- ❑ Investment is the key -
- ❑ Can ODA be used for structural transformation?
 - ❖ Aid – traditional role – initial boost to capital formation; The new approach to devt cooperation (partnership) – emphasis on locally-owned strategy; Second round of PRSPs are diverse (UNCTAD);
 - ❖ Country ownership and donors' perception of credible strategies



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ODA for Social or Physical infrastructures?

- ❑ Social aid rose significantly and was 58% of all ODA from DAC countries.



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ODA: Aid for Trade

- ❑ **Trade development** (building productive capacity, Investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking etc.) (40%)
- ❑ **Trade related infrastructure** (power, telecom, transport, etc.) (52%)
- ❑ **Trade policy and regulations** (Training of trade officials, support to customs, analysis of proposals and positions and their impact) – (7%)
- ❑ **Trade related adjustment** (e.g. costs of multilateral liberalisation) – (1%)

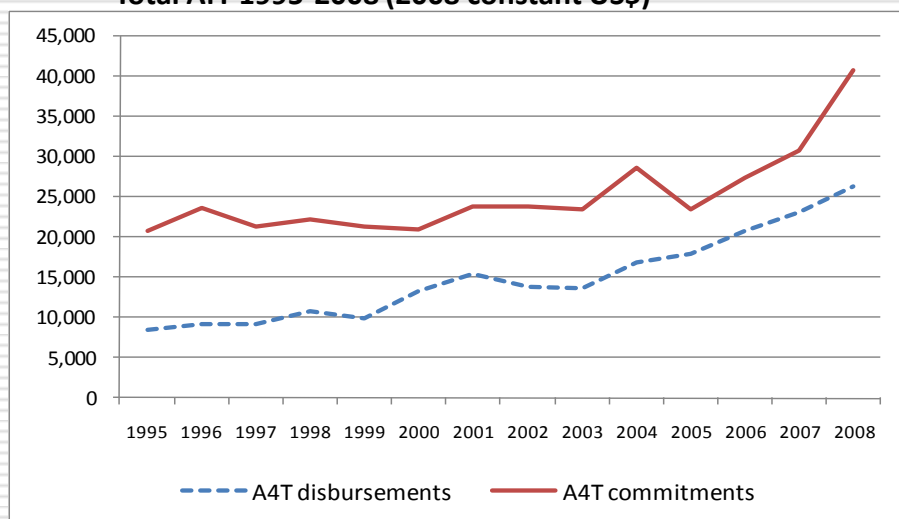


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AfT: Trends

Total AfT 1995-2008 (2008 constant US\$)

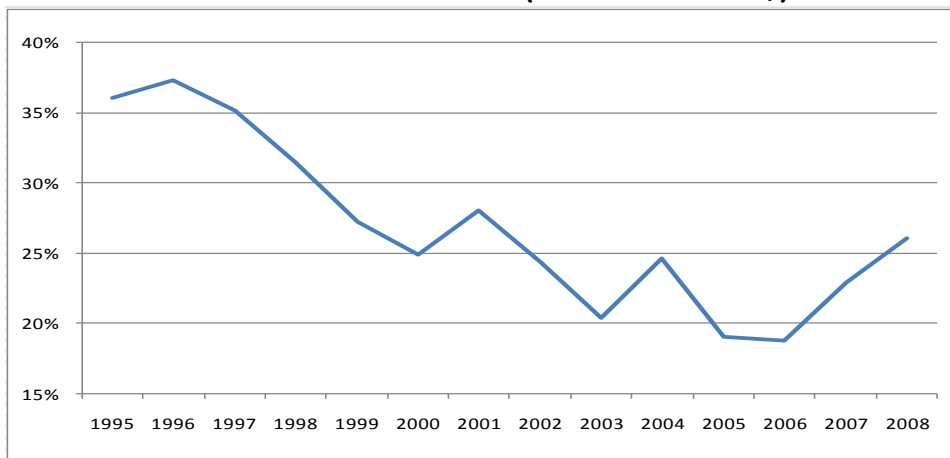


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Significance of AfT in ODA

AfT as a share of total ODA 1995-2008 (2008 constant US\$)

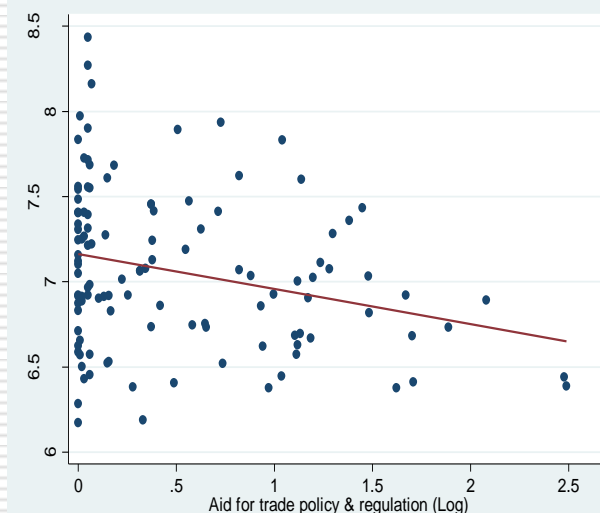


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Effectiveness of AfT

- Commonwealth studies find AfT facilitation to have a -ve impact on the cost of trading ($\xi = -0.13$)
- Aid for trade policy and regulation has more pronounced effects for SSA



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AfT Effectiveness

- ❑ +ve effects of **aid to infrastructure** on **export performance** are also found (in SSA as well).
- ❑ For developing countries, a robust and +ve effect of aid to productive capacities on exports is found.

Strikingly aid to productive capacity does not have favourable effects for SSA exports.



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ODA/Financing Development: Issues

- ❑ **ODA** for productive capacity that would also contribute to **structural transformation**
- ❑ **Policy ownership** particularly with respect of the choice of ODA-funded projects is critical
- ❑ Reduce and reform **conditionalities**
- ❑ Help mobilise **domestic resources**
- ❑ **Fulfill aid commitments** and timely disbursements
- ❑ **Innovative** sources of **additional funding**

Managing Commodities

- UNCTAD has been championing the idea of a **global policy regime on commodities**
 - Interlinked commodity and financial markets has led to increased price volatility
 - 'Innovative' commodity price stabilisation schemes, with physical and virtual reserves
 - UNCTAD also suggest tax measures to reduce speculative dd in commodity markets
 - International policy regime to promote food security
- Also important is LDC capacity in managing commodity booms
- But, **the long-term goal is structural transformation**

Climate Change

- Climate change
 - A major concern. LDCs have the least capacity to identify climate risks and adapt
 - It's not an environmental problem, but a *development* challenge
 - For LDCs, the critical issues are **adaptation and loss of competitiveness**
 - Climate change support should include both finance and transfer of technology
 - Any adaptation fund for LDCs must be **stable, transparent, predictable** and **additional**.
 - LDC-specific exceptions in mitigation measures
- Assessment of the risks posed by climate change - it should inform and form the basis for instituting a **meaningful climate fund**.



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Technology transfer

- ❑ **Important** for **productive capacity** development and **climate change adaptation**
- ❑ Implementation of **TRIPS Article 66.2**
- ❑ **Extension of the LDC waiver** under Doha Declaration TRIPS and public health provisions
- ❑ UNCTAD calls for the LDC Talents Abroad initiative to pool in the diaspora
- ❑ **Absorptive capacity** in LDCs is also important



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South-South Cooperation

- ❑ Emerging developing countries should play important role in all aspects mentioned above.
- ❑ Concerns are there about LDC's potential gains
 - Genuine concerns about **weaker economies in South-South** RTAs, trade and investment flows
 - **BRIC's trade and investment** has been **concentrated** in few countries and sectors
 - LDC's trade with BRICS is still **commodity centred**



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South-South Trade

Table 1: Major SSA exporters to China and India (% exports)

	China			India	
	2000	2005	2009	2000	2008
Angola	34.53	34.25	39.54	0.00	6.17
Congo	6.07	11.85	4.68	0.32	2.39
DR Congo	0.02	0.91	3.06	0.01	0.55
Equatorial Guinea	5.99	7.48	2.84	0.00	0.40
Nigeria	5.75	2.74	2.42	27.61	48.48
South Africa	19.44	17.91	23.42	50.85	26.58
Sudan	13.71	13.60	12.62	0.27	2.61
Zambia	1.30	1.31	3.43	0.49	0.67
Total (top 8)	86.81	90.07	92.01	79.56	87.85

LDC issues in South-South Cooperation

- ❑ **More generous DFQF** from rising Southern economies
- ❑ **Increased financial flows** and technical assistance
- ❑ **Relocation of production/activities** in weaker countries
- ❑ Develop **coordinated investment strategy** in collaboration with LDC govts
- ❑ Offer **debt relief** to LDCs
- ❑ **Help LDCs diversify** their production and export structures

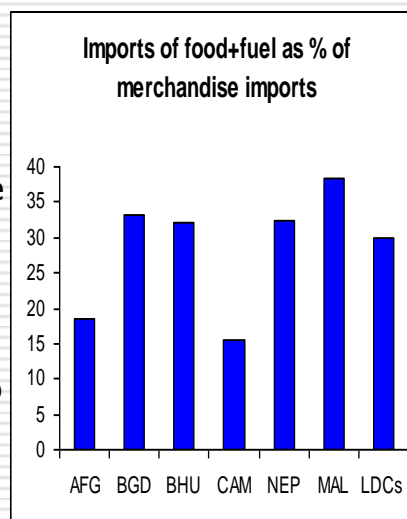


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A contingency support system

- **Food and fuel price hikes, global economic shocks**
 - **Some kind of contingency support system** for LDCs might be useful
 - Part of the trade related adjustment support can also be covered under Aft (but problems arise due to unpredictability in donors' disbursement and prompt delivery).



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Points to consider

- The post-Istanbul international support regime must be a **different development paradigm**
- **Productive capacity devt** should be linked to structural transformation, and require looking **beyond static comparative advantage**
- **Proactive** policy initiatives and **country Ownership** are important



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Points to consider...

A coherent and comprehensive int'l support regime is needed

- ❑ Trade restrictions still **undermine supply capacity**
 - Market access constraints including rules of origin; **Trade distortions** in sensitive products (e.g. agri subsidies)
- ❑ **Lack of consistency and adequacy** in international development support regimes
 - MDG-8 and the impasse of DDR
- ❑ **Targets on increased ODA flows not yet fulfilled:**
 - BPoA called for 0.15% – 0.20% DAC GNI as ODA to LDCs by 2010. Actual delivery in 2008 is \$36 bill.



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Points to consider...

- ❑ **Predictability of Aid is important for country ownership**, implementation, and effectiveness.
- ❑ **Stability of aid flows** is very important. Hence despite fiscal pressure, OECD countries should strive for fulfilling their ODA commitments.
- ❑ Take **AfT out of ODA target** of 0.20% of DAC GNI target.
- ❑ **Climate fund** should be **outside of the existing target of 0.20%** of DAC GNI ODA Commitment.
- ❑ Carefully consider **the role of social aid** – productive capacity support should be additional.



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Points to consider...

- **South-South cooperation** with rising developing countries need to be carefully evaluated and monitored
- **An independent monitoring** of the Istanbul Declaration and progress achieved
- Challenges for LDC governments
 - Proactive policy initiatives require technical capacity
 - Identifying wrong sectors or poor execution of support measures – political economy factors
 - Governance and other domestic issues



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Thank you



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