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Mainstreaming Trade in the Development of Least Developed Countries

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Distinguished Chairperson, Distinguished Delegates,

International trade can play a powerful role in reducing poverty in the Least Developed Countries. But the national and international policies to do this must be rooted in a development-driven approach to trade rather than a trade-driven approach to development. What do mean by this.? First, it is not right to limit the analysis of trade and poverty to the analysis of the effects of trade liberalization on poverty. The current approach is likely to exaggerate the role of trade policy in trade development and to exaggerate the role of trade liberalization within trade policy. Second, the field of trade and poverty should be drawn so that it encompasses all issues which are relevant to a proper understanding of the relationship between trade and poverty. Third, we in UNCTAD advocate a development approach. The essence of a development approach to trade and poverty is that it begins with an analysis of how development occurs, rather than an analysis of how trade occurs, examining the role of trade within processes of development and assessing the effects of trade on poverty from this perspective.

In the least develop countries, the reduction of extreme poverty is one of the key development challenges, and revenues derived from international trade should be one of the most important sources for development financing. The relation between trade and poverty reduction, is the theme of UNCTAD's *Least Developed Countries 2004*, which will be released by the end of this month. In my introductory remarks I intend to share

with you some reflections on mainstreaming trade in the development of LDCs with a special reference to poverty reduction.

As discussed in *The Least Developed Countries Report 2000* and *The Least Developed Countries Report 2002*, the first generation of Poverty Reduction Strategy Papers have sought to complement and integrate structural economic reforms with pro-poor expenditure patterns. This is not surprising as the preparation of Poverty Reduction Strategies was essentially a policy response to aid conditionality for debt relief, provided through the Highly-Indebted Poor Country Initiative by the International Financial Institutions. The aim was to ensure that the resources made available through debt reduction are used to combat poverty. It is in this context that the strong emphasis on social-sector expenditures within the poverty reduction strategies arose.

But, as highlighted in our forthcoming *Least Developed Countries Report 2004*, the more recent poverty reduction strategy papers completed by the LDCs now combine the emphasis on social-sector expenditures with an emphasis on economic factors such as the productive capacities, including investment in basic infrastructure, private sector development, export promotion and the creation of a better investment climate. The new emphasis on sources of economic growth is a welcome development since it is only through economic growth that sustained poverty reduction will be achieved.

There is a general impression that trade is not integrated within the Poverty Reduction Strategies. This view has been put forward by non-governmental organizations and it also underpins the first evaluation of the Integrated Framework for Trade-Related Technical Assistance for LDCs which was carried out in 2000. This evaluation came to the conclusion that poverty reduction strategies do not give sufficient importance to trade issues and it was recommended that the Integrated Framework be reoriented to ensure that trade issues are mainstreamed within the poverty reduction strategies.

A systematic analysis of poverty reduction strategies shows that as poverty reduction strategies have evolved and have begun to emphasize economic growth, trade

issues have become much more prominent in the poverty reduction strategies. There are two ways in which trade issues are being dealt with in the current poverty reduction strategies: first, projections of export growth and import growth are part of the macroeconomic framework that underlies poverty reduction strategies; second, trade policies and trade objectives are also an integral part of other segments of poverty reduction strategies.

The problem today is not so much whether trade is integrated in poverty reduction strategies, but how it is integrated. The projections of export and import growth presented in the macroeconomic segment of poverty reduction strategies are typically disassociated from the analysis of trade policies and trade objectives in other segments of the poverty reduction strategies. Relatively high projected growth rates for trade go hand in hand with the identification of major hurdles to trade, including especially weak infrastructures and weak productive capacities. Furthermore, projected growth rates of trade typically differ significantly from past performance in trade. The poverty reduction strategies do not in general give an explanation as to why future growth performance is expected to be significantly higher than past growth performance.

In short, today trade issues are having an increasingly significant position in poverty reduction strategies. This is because the predictions of future growth strongly hinge upon the assumption of very strong export growth. What appears to be emerging in many current poverty reduction strategies is an emphasis on strong export-led growth combined with pro-poor social expenditures. This is indeed a positive sign for the emergence of a virtuous circle between economic growth and the development of human capital.

As regards mainstreaming trade into poverty reduction strategies in the LDCs, UNCTAD's recent research questions the current approach for two reasons: first, in many least developed countries there is no reason to assume that exports will automatically make a significant contribution to economic growth; and second, even in the least developed countries where exports contribute to economic growth, growth may not

necessarily be associated with poverty reduction. This is because economic growth often takes place in enclaves that have only little or no connection with the rest of the economy. UNCTAD's *Least Developed Countries Report 2004* shows that in many cases strong export performance is associated with stagnant or even falling private consumption, thus having a limited poverty reduction impact.

The contribution of export growth to economic growth is particularly weak or fragile in those least developed countries that have a strong export specialization in non-oil primary commodities; and the danger of economic growth to be concentrated in enclaves is particularly strong in those least developed countries that have a strong export specialization in basic manufactures, tourism, and oil. My colleague Günter Fischer will present a brief analysis of the current trade performance of LDCs, which will shed further light on the issue of export specialization.

Whether LDCs manage to raise the level of exports in order to stimulate economic growth, and whether they promote a form of economic growth that is broad-based and inclusive, depends particularly on the behaviour of their development partners, their domestic policies, and the dynamics of the forces at play within the international economy.

Distinguished Delegates,

It is important to mainstream trade into development strategies. But in order to achieve this, it is essential to design appropriate development strategies for the least developed countries.

In *the Least Developed Countries Report 2004*, we in UNCTAD have identified several options regarding development strategies for least developed countries. These strategies do not aim to turn the clock back. They build on the current economic situation. Their common feature is that they acknowledge the fact that the majority of least developed countries have significantly opened up their economies. In fact the trade

regimes of the LDCs as a group are as open as those of high-income OECD countries and the whole process has been undertaken very rapidly in quite a number of LDCs.

The promotion of exports is an important element of all post-liberal development strategies. However, rather than seeking export-led growth as an end in itself, the development strategies highlights an export growth that is adequate for the country's development objectives and needs. To make post-liberal development strategies work in least developed countries, it is essential to achieve policy coherence between the three pillars of the post-liberal development strategies:

- The first pillar implies that least developed countries should develop comprehensive national development strategies with trade as a central component. The three-pillar proposal is not based on turning the clock back. It takes as its starting-point the fact that many LDCs have open trade regimes. The central policy challenge now for most LDCs is how to move on and how to promote inclusive development and reduce poverty substantially in a newly liberalized small, open, subsistence-level national economy situated in a very asymmetrically liberalized international economy. An important policy issue which requires innovative thinking is the choice of post-liberal development strategy. This choice is a crucial determinant of the course of poverty reduction during development. Where countries are preparing Poverty Reduction Strategy Papers (PRSPs) – which cover priority policy actions over a three-year period – these should be embedded within a development strategy. In such cases the problem is not simply to mainstream trade into a poverty reduction strategy, but to achieve the two-way mainstreaming of both trade and development within the poverty reduction strategy.
- The second pillar implies that the international community should develop a supportive international trade regime to reduce international constraints on development in the LDCs. Without improvements in the international trade regime to reduce these constraints, the positive effects of better national

development strategies in LDCs will not be realized. This requires not simply attention to WTO rules but also multilateral norms, rules and practices that go beyond WTO issues. Improvements to the international trade regime should encompass (i) measures at the global level which are generally applicable to all developing countries; (ii) special international support measures targeted at the LDCs; and (iii) enhanced South-South cooperation. In this context, it is essential that problems associated with commodity dependence be addressed, particularly commodity price instability and decline in world markets, agricultural support measures by developed countries (rice, sugar, maize, beef etc.), and the need for a better management of mineral revenues and rents by all relevant stakeholders. In fact the LDCs are in the complex position that they need the multilateral trading system the most – but at the same time find it most difficult to derive benefits from the application of its two central principles: trade liberalization and equal treatment for all members.

- The third pillar requires that the development partners of least developed countries should provide increased international financial and technical assistance for developing productive trade capacities in the least developed countries. In this context, it is particularly regrettable that over the past years, there was a compositional shift away from commitments of official development assistance to the development of the productive sectors in LDCs towards social infrastructure. In the early 1980s, 45 per cent of total bilateral ODA commitments to the LDCs went to the development of the productive sector and improving economic infrastructures. By 2000–2002, this had fallen to 23 per cent. Aid to improve the capacity of LDC governments to make national trade policies and negotiate international trade agreements and to improve the capacity of LDC entrepreneurs to trade internationally has been particularly neglected. The recently established WTO/OECD database on aid for trade-related technical assistance and capacity-building indicates that in 2002, aid commitments for trade policy and regulation and for trade development were only 0.5 per cent and 1.5 per cent, respectively, of total aid commitments. Increased international financial and technical assistance

for building production and trade capacities also needs to be complemented with increased effectiveness of international assistance. Three particular problems for the development partners of the LDCs need to be addressed here. Firstly, the development objectives of developed countries as donors overlap with their commercial interests as trading powers. It is important that this does not bias assistance for trade development. The untying of aid to LDCs provides a major opportunity for a culture shift in this regard. Secondly, there is an urgent need to strengthen donors' own capacities for trade-related assistance. Mainstreaming trade in aid programmes is as important and urgent as mainstreaming trade in national poverty reduction strategies. Thirdly, the LDCs' development partners need to elaborate innovative approaches to private sector development in the LDCs as part of a broad-based approach to trade capacity-building. Post-liberal aid policies need to complement post-liberal development strategies.

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