Emerging Challenges and Elements of a New Policy Framework for Development in LDCs

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GDP growth rates for LDCs in the “noughties” (2000s) were higher than in the nineties BUT…

• At least one-quarter of LDCs generally still performed poorly (GDP per capita growth below 1%)

• The sustainability of growth was questionable as it was highly dependent on high commodity prices, increased external finance and market preferences for manufactures exports.

• BUT the type of growth was not effective in reducing poverty

• Great slowdown in 2009 in many countries with global financial crisis, though impact very heterogeneous.
Progress Towards MDGs in LDCs: 1990-2004
$1/day poverty and child mortality
(UNCTAD LDC Report 2008)

Chart 17. Poverty and child mortality in LDCs: Actual and MDG-compatible incidence, 1980–2005

A. Absolute poverty
(People living on less than $1 a day as a share of the total population)

B. Child mortality
(Deaths of under-5 children per 1,000 live births)

Source: UNCTAD secretariat estimations and projections based on data from Karshenas (2008) and United Nations/DESA Statistics Division. Poverty data are based on the sample of LDCs mentioned in table 4. Child mortality data are the unweighted average for all the LDCs.

Note: The MDG-compatible incidence is the hypothetical path that poverty and child mortality incidence would need to follow if the LDCs were to achieve the respective MDG targets by 2015.
The central development challenge facing LDCs is to create productive jobs and livelihoods for a rapidly growing labour force

- In Mali, the new entrants to the labour force were 171,800 in 2005 and they will increase to a peak of 447,800 per annum in 2045, when the annual additional labour force will start to decline.

- In Madagascar, the new entrants to the labour force in 2005 are estimated as 286,200 and their number will increase to 473,400 per annum by 2035, when the additional labour force will begin to decline.
Not only are the new entrants to the labour force increasing each year but there is also a transition in where they are looking for work.

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<td>Increase of labor force (million)</td>
<td>51</td>
<td>71</td>
<td>88</td>
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<td>in agriculture (million)</td>
<td>32</td>
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<td>39</td>
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<td>in non-agriculture (million)</td>
<td>19</td>
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The present decade is different – for the first time the increase in the non-agricultural labour force is greater than the increase in agricultural labour force.
MOST LDCs ARE EXPERIENCING A BLOCKED STRUCTURAL TRANSITION

• In the past, the major way in which the growing labour force was absorbed was in agriculture (mainly on new land)
• With population growth, agricultural farm sizes are declining and farms are more located on marginal land.
• Mass poverty means that many cannot afford the means for sustainable intensification of agricultural production.
• More and more people are seeking work outside agriculture and urbanization is accelerating.
• Most LDCs have not been able to generate sufficient productive off-farm jobs to absorb the growing labour force seeking work outside agriculture.
• Most find work in survival urban informal activities
Moreover, there is a new context for development…

- Most LDCs have now undertaken deep trade liberalization and they are highly integrated with the global economy.
- However, both agriculture and non-agricultural enterprises find it very difficult to compete in this new environment. LDC food imports=$28 billion in 2008.
- Breakdown of key rural-urban growth linkages.
As well as new challenges in the coming decade…

• Increasing importance of knowledge in global competition and also a new technological revolution in ICT and energy

• The effects of climate change
  – Impact on agricultural productivity
  – Adaptation costs

• Increasing South-South flows which are both an opportunity and a challenge
All of which must be dealt with on top of the effects of the global financial crisis

• Real GDP growth for LDCs fell from 8.5 per cent in 2007 to 3.3 per cent in 2009 (UNDESA WESP 2010)
• About one-third of the LDCs (17 out of 49) had negative per capita growth in 2009 (UNDESA WESP 2010)
• Total export revenues from OECD fell from US$66 billion in Q1-Q3 2008 to US$40 billion in Q1-Q3 2009 (ITC Trademap mirror statistics).
• Excluding petroleum, total export revenues from OECD fell from US$25 billion in Q1-Q3 2008 to US$22 billion in Q1-Q3 2009 (ITC Trademap).
• Private capital flows also down. No LDC-specific number yet but net FDI inflows to SSA down 67 per cent Q1 2008 to Q1 2009 (UNCTAD).
• Migrant remittances to LDCs continued to increase in 2009 but the percentage increase was only 7 per cent (compared with 30 per cent in 2008) and the continued increase is mainly due to the two main recipients, Bangladesh and Nepal. Excluding these two countries, remittances to LDCs are expected to fall by 1 per cent in 2009 (US$500M) (World Bank Migration and Development Brief)
• Key issue: What will happen to volume of official aid to LDCs and current aid targets with donor fiscal deficits???
The crisis is a complex phenomenon
NEW APPROACHES AND POLICY FRAMEWORKS ARE NOW NECESSARY
NOT Business as Usual

• Peter Mandelson (3/12/08) sketches for UK “a new doctrine of industrial activism”, a model that would see the government, in partnership with the private sector, supporting growth sectors

• Larry Summers (11/7/09) advocates for US an economic paradigm shift in which the new American economy will be more export-oriented and less consumption oriented, more environmentally oriented and less energy production oriented, more bio and software and civil engineering oriented and less financial engineering oriented and more middle class oriented and less oriented to income growth that is disproportionate towards a very small share of the population.

• Martin Wolf (4/12/09): “Gone must be the assumption that governments should merely get out of the way of markets…The solution must be found in a growth-oriented policy which encourages the emergence of a more diversified economy”.
Central Importance of Developing Productive Capacities

- Productive capacities should not be narrowly equated with export supply capacities
  - Capital accumulation, technological progress and structural transformation and reduction of commodity dependence
- Productive capacities include developing human resources
- Employment is the key link between development of productive capacities and poverty reduction
- Developing productive capacities is the basis for increased domestic resource mobilization, reduced aid dependence and expansion of fiscal space for achievement of human development MDGs
National Policies:
The key issue of the role of the state

- A shift from ideology to pragmatism ("it does not matter if the cat is black or white as long as it catches the mice")
- Not a return to old-style development planning but the introduction of development governance
- Good development governance not current "good governance" agenda
- New developmental state
- Critical importance of country ownership and policy space (the terms of development partnership)
Good Development Governance is about procedures AND outcomes

• ‘Development governance is about the processes, policies and institutions that are associated with purposefully promoting national development and ensuring socially legitimate and inclusive distribution of costs and benefits’ (LDCR 2009: 15).
• ‘Development governance is about creating a better future for members of a society by using the authority of the State to promote economic development, and in particular to catalyze structural transformation, create productive opportunities and raise living standards for present and future generations’ (LDCR 2009: 15)
• The procedures of good development governance follows core principles of participation, fairness, decency, accountability, transparency, efficiency
Features of Successful Developmental States in the Past

• Mixed economy model in which the State does not replace the private sector but designs policies and institutions that harness private ownership, and the drive for profits for national development objectives.

• Key functions of the state: (i) providing a vision, (ii) supporting the development of institutional and organizational capabilities, (iii) coordinating activities to ensure co-evolution of different sectors and parts of the economic system, (iv) managing conflicts – ensure costs/benefits of growth and crises are socially acceptable.

• Sectoral agricultural development policies and industrial development policies within growth-oriented macro-economic policy.
The most successful developing countries (AND LDCs) have pursued catch-up growth

- Agricultural productivity growth
- Demand linkages to local industries and services (key to formalization of informal sector)
- Adequate export growth through labour-intensive manufactures or natural resource-based exports
- With technological upgrading and linkage effects
- The overall result is structural transformation/reduced commodity dependence
Adapting the Development State to the Twenty-first Century

- Increasing importance of knowledge in processes of growth and development
- Not simply manufacturing but also services characterized by increasing returns
- Increase developmental impact of FDI and integration into global value-chains
- Regionalism
- Democratic developmental states by strengthening bottom-up citizens’ participation in governance and development processes
Yes LDCs Can!!

- Commitment of national leadership to a national development vision is a *sine qua non*
- Build growth coalitions between government and business and farmers’ associations
- Policy Learning: Malawi fertilizer subsidies as an example.
- Focus on building centres of policy excellence and strategic incrementalism rather than sweeping reforms.
Yes LDCs can!!

• BUT LDC government budgets remain highly reliant on aid. Thus country ownership and policy space is the second key *sine qua non*.

• Importance of aid management policies at recipient country level as a tool to increase aid effectiveness. Examples of Tanzania and Uganda.

• 20 per cent of ODA commitments to LDCs is to improve governance. This needs to be re-oriented to build developmental state capabilities.

• Also need a re-balancing in the composition of aid towards production sectors and economic infrastructure: 25 per cent of total ODA commitments to LDCs in 2006 (48 per cent in the early 1990s) (Ill-effect of MDGs?)
Action at Regional Level

• Neglected in Brussels POA
• Increased cooperation within regions
  – Development of regional markets PLUS
  – Regional cooperation as a tool to develop productive capacities – e.g. infrastructure
• New development partners
  – This will be particularly important
  – Exchange of experience on what works
  – New markets
  – Technology transfer/FDI/official finance for infrastructure investment
Make Old International Support Mechanisms More Effective

• Market access. More than DFQF.
  – Rules of origin, NTBs, NTMs, etc.
• Effectiveness of other aspects of special and differential treatment in WTO
• Aid. Quantity and quality
  – Increased aid effectiveness – conditionality and ownership problems still relevant. Role of aid management policies at recipient country level
  – Short-term funds to deal with external shocks
  – Composition of aid
  – New uses of aid e.g. for enterprise innovation
• Debt relief
• Commodity price volatility
The Scale of the Infrastructure Challenge: LDCs have the worst infrastructure in the world
There is a major electricity divide

Chart 39. Ranking of developing countries according to their infrastructure provisions
The Infrastructure Financing Challenge

• Increased public investment and ODA in physical infrastructure.
• Major financing gap: ODA commitments for economic infrastructure and private capital inflows for energy, telecommunication and transport to LDCs amounted to 0.7 per cent of GDP in 2004; but annual infrastructure investment needs (including water and sanitation) equivalent to 7.5 – 9 per cent of GDP (LDC Report 2006)
New International Support Mechanisms to Address New Challenges

• Increasing importance of knowledge in global competition and also a new technological revolution in ICT and energy
  – TRIPS Article 66.2 (incentives by developed countries to enterprises and institutions in their territories to encourage transfer of technology to LDCs)

• Adaptation to and mitigation of climate change
  – Climate change mitigation as a development opportunity
  – Addressing the financing challenge

• Increasing the development impact of FDI and links to global value chains
Strategic Perspectives on International Support Mechanisms

• Current focus of international support measures for LDCs is trade. Need a more comprehensive international development architecture for LDCs.

• What are the key elements of this? What measures?
  – Trade + Finance + Technology

• Systemic improvements in areas relevant to LDCs matter even if they are not LDC specific.

• LDCs do have special needs. But important not to polarize LDCs versus other developing countries. LDCs cannot get on the development ladder if other developing countries cannot move up it.
“Business as usual” is not an option

EACH SLUMP GETS DEEPER...
Sources

- LDC Report 2002: Escaping the Poverty Trap
- LDC Report 2006: Developing Productive Capacities
- LDC Report 2007: Knowledge, Technological Learning and Innovation
- LDC Report 2008: Growth, Poverty and the Terms of Development Partnership
- LDC Report 2009: The State and Development Governance

These Reports are a coherent set of policy analysis and research on LDCs providing a basis for policy dialogue.
Thank you

For more information on UNCTAD’s LDC Reports, see www.unctad.org/ldcr