A critical reflection on international support for least developed countries

July 2021

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Abstract

International support for the least developed countries (LDCs) falls in the areas of trade, development cooperation and help with participation in the inter-governmental process. Support is largely based on the premise that LDCs are artificially or temporarily excluded from the global marketplace. Preferential market access, temporary development assistance and help with participating into the international system are intended to address this shortcoming, in turn helping these countries 'catch up'.

Many of the development challenges faced by LDCs are believed to be a result of their insufficient exposure to correct market prices and conditions. When so-called market distortions in the form of tariff and non-tariff barriers to trade are removed, and after a period of additional development assistance, these countries' economies will, the theory suggests, be freed up to play a fuller role in the international economy. The resultant upturn in economic growth will drive development and reduce poverty.

The evidence does not support this theoretical proposition nor its practical manifestation. Until the pandemic the economies of some LDCs were performing well, and up to 12 could leave the category in coming years. However the Istanbul Programme of Action target that half of LDCs should meet the graduation criteria by 2020 was missed. The countries that have graduated so far have not all done so as a result of better international market access or global integration; rather, progress has mostly been commodity-driven or due to better government policy such as improved health and education.

The performance of the remaining LDCs has mostly been disappointing. GDP per capita has grown more slowly than in other developing countries over recent decades, and lags further behind both the rest of the world and developing countries in both real and nominal terms. In nine LDCs GDP per capita fell between 2013 and 2018. Most LDCs are not making progress on economic vulnerability and some are becoming more vulnerable.

LDC imports have grown considerably faster than exports in the last decade, and LDCs' collective share of global merchandise exports was no higher at the end of the IPOA than a decade earlier, at less than one percent. Trade per capita remains very low, at only US$458, compared with a world average of US$5,148. LDCs remain extremely exposed to commodity price volatility, which has been particularly high in the last two decades. The average rate of investment is low in absolute and per capita terms, a shortfall which acts as a particular drag on the development of productive capacity.

Many LDCs, particularly in Africa, are undergoing reverse transformation, with a premature shift of the labour force into services, often informal. Conventional structural transformation into higher value-adding activities – often driven by a move from agriculture into manufacturing — is not occurring, with a corresponding impact on productivity. Unemployment and semi-employment remain extremely high in some countries.

These shortcomings raise questions about the existing approach to ISMs, and, in advance of LDC-V, imply the need to re-examine the underlying assumptions and theory behind existing ISMs – and to propose a new framework.

Alternative perspectives exist, based on the developmentalist and structuralist traditions, the work of Kalecki, Hirshman, Chang and others, and revisited and revitalised by UNCTAD in the annual LDC reports and elsewhere. These perspectives emphasise the importance of global coordination, building productive capacity and directly promoting structural transformation, using a range of support options tailored to individual country circumstance. These perspectives on international support can be adapted for the contemporary era to take into account the ecological imperatives implied by the 2030 Agenda for Sustainable Development.

Using the broad insights of these traditions, it can be seen that it is not the lack of exposure to global markets or domestic liberalisation that are the critical challenges facing LDCs, it is the absence of global coordination; shortage of sustainable investment; limitations in public revenues and the deficiency of the capital stock. Exposure to an uncoordinated global economy can even make LDC economies more volatile. Even under conditions of full inward and outward openness to international investment and trade – ie. the conditions which the theory underlying the current composition of ISMs posits as optimal – sustainable economic development may not take place. With current ISMs, countries on the global periphery will always struggle to develop in a way that meets human and ecological needs unless active measures are put in place aimed at improving international coordination, stimulating investment, boosting demand and accumulating capital sustainably.

In a power-based global system developed countries and regions shape the system of support for LDCs in their own interests – a recognition which is all the more important when commitment to multilateralism is faltering. Dependency theorists stress the importance of power relations and the interdependent nature of the global economic core and periphery. Rather than individual *ad hoc* assistance or promises of more aid, there is a need for deep-

rooted, systemic improvement to the multilateral architecture relating to LDCs – driven by LDC governments themselves and differentiated according to context.

Acknowledging these ideas, the paper proposes six areas of support, relating to the UN system, finance, trade, commodities, technology, and the environment and climate change. Each is accompanied by specific, practical proposals – 30 in total – which might be considered at LDC-V.

1. Introduction

The least developed countries (LDCs) are a critical focus of Agenda 2030. Most of the Sustainable Development Goals (SDGs) include targets for LDCs and an underlying principle of the Agenda is that no country should be left behind. The devastating impact of the Covid-19 pandemic and the already pressing nature of the challenges facing LDCs imply the need for a new push for LDC development via revitalisation of the international system. A range of new possibilities have opened up as a result of the crisis, many of which beforehand would have seemed unlikely or unrealistic.

After the Istanbul Programme of Action (IPOA) 2011-20, and at the start of the final ten years of implementation of the 2030 Agenda and the SDGs, there is a need for critical reflection on current international support measures (ISMs). Despite some success, progress was already falling short of objectives before Covid-19, and much more can be done. This paper, focusing on trade and investment, attempts to cast as wide a net as possible in searching for alternatives to the current ISMs, offering a critical perspective on existing measures.

Section 2 outlines the current ISMs and provides some background on the theory underlying them, arguing that the acknowledgement of distinct theoretical perspectives helps with the development of new ideas for support. An explicit consideration of methodology can direct future proposals in a constructive and coherent direction.

Section 3 looks at the long-term record on economic growth, trade and investment, showing that even before the pandemic the performance of the LDCs had been mixed at best. Despite 12 additional countries having been identified as eligible for graduation and several likely to graduate in coming years, many remain firmly within the LDC group, and indeed on several important metrics LDCs on average increasingly lag other developing countries. Some LDCs are becoming poorer and most have failed to progress on the economic vulnerability criterion.

Section 4 offers some explanations for this underperformance and divergence, pointing to alternative perspectives within development economics which emphasise the interdependent nature of the global economic core and periphery, and the importance of sustainable productive transformation and economic transformation. Rather than individual *ad hoc* assistance or promises of more aid, there is a need for a deep-rooted, systemic change to the support architecture for LDCs, allowing for differentiation according to country context.

The final part of the paper, section 5, outlines six new areas of support, in the UN system, finance, trade, commodities, technology, and the environment and climate change. Each is accompanied by specific practical proposals that might be considered in the run-up to LDC-V and beyond.

2. Background and existing support measures

International support measures for least developed countries (LDCs) are largely based on the premise that LDCs are artificially or temporarily excluded from the global marketplace. Preferential market access, official development assistance and help participating in the inter-governmental system are intended to address this shortcoming, in turn helping these countries narrow the gap with developed and other developing countries.

The explicit and implicit promotion of global market integration is founded upon the belief that development will accelerate during the process of full assimilation into the world economy. Many of the development challenges faced by LDCs are believed to be a result of their insufficient exposure to 'correct' market prices and conditions. When so-called market distortions in the form of tariff and non-tariff barriers to trade in foreign markets are removed, and after a period of additional development assistance, these countries' economies will, the narrative runs, be freed up to play a fuller role in the international economy. The resultant upturn in economic growth will drive development and reduce poverty.

2.1 Trade

This perspective, informed by the same mainstream economic theory that is believed to apply in developed countries, partly underlies the design of current international support for LDCs (along with pragmatism, as in what developed nations felt able to offer). To this end, the main international support measure is duty-free, quota-free (DFQF) market access to developed and developing countries. Dedicated trade measures for LDCs date to 1979, with the Enabling Clause which permitted trading preferences targeted at developing and least developed countries which would otherwise run contrary to Article I of the General Agreement on Tariffs and Trade, on most favoured nation treatment.

The principal source of duty-free, quota-free market access for LDCs is the Everything But Arms (EBA) initiative of the European Union, which grants full duty free and quota free access to the European Union Single Market for all products except arms and armaments. An important milestone in assistance for LDCs, it entered into force in 2001. LDCs also benefit

from trade schemes in destinations including Australia, China, New Zealand, the United States and other developed and developing countries, although tariff coverage and demand in those markets are lower. Schemes such as those used by the United States are also less predictable than EBA because they are subject to regular product and country reviews. Under the 2012 regulation EBA has no expiry date, and LDCs do not lose EBA when concluding FTAs with the EU.

In 2011 WTO members adopted the services waiver, allowing members to grant LDC services or service suppliers preferential treatment that would otherwise be inconsistent with Article II of the General Agreement on Trade in Services, on most favoured nation treatment. After the waiver was operationalised at the 2013 Bali Ministerial Conference, the WTO received notifications from 24 members, including the EU, indicating sectors and modes of supply where they were providing or intended to provide preferential treatment to LDC services and service suppliers. The impact of the waiver has so far been limited, partly because supply is insufficient, preferential treatment does not go far enough and mode IV access, movement of natural persons, is low despite its high potential.

DFQF and the services waiver are seen as the removal of trade distortions which will bring about greater efficiency. A simple neoclassical trade model, drawn from microeconomics, sees taxes as market distortions, and their removal as bringing about an increase in consumer and producer surplus. Secondary effects are expected, including a realignment of production toward areas in line with the country's comparative advantage as companies shift into areas with higher potential returns. More sophisticated models take as a point of departure the notion that tariff reductions will, to varying degrees, bring about welfare improvements.

In addition to outward market access, emphasis has also long been placed on domestic measures such as capital and current account liberalisation, privatisation and corporatisation (Gore 2000). Mainstream theory goes as far as to assume that wages will equalize between countries over time and as barriers to commerce fall (Reinert 2009). This was the idea behind structural adjustment and the so-called Washington Consensus, whose heyday was in the 1980s and 1990s.

Although preferences for LDCs are not part of the Washington Consensus, they come from a similar theoretical tradition and can be seen as coterminous with the Washington Consensus project. The private sector in LDCs is supposed to respond to the removal of so-called trade distortions by diversifying, increasing production and/or improving efficiencies (a relative,

although declining, margin of tariff preference also gives them an advantage over non-LDC countries). An assumption of domestic factor mobility implies that capital and labour will move to areas of scarcity and in which marginal returns are therefore expected to be higher. The supposition is that exposure to undistorted global market prices would also see the emergence of new enterprises in LDCs aiming to take advantage of better global market conditions.

LDCs are also eligible for special and differential (S&D) treatment under the World Trade Organisation (WTO) agreements. LDCs did not need to comply fully with the Trade Related Intellectual Property Rights (TRIPS) agreement under a general transition period until 2021; the pharmaceutical sector currently benefits from LDC-specific exemptions extending to 2033; and under the TRIPS agreement LDCs are eligible for technology transfer. S&D treatment for LDCs also exists in the agreements on Agriculture, Subsidies and Countervailing Measures, Dispute Settlement, Trade Related Investment Measures and in other areas such as the Balance of Payments understanding; Trade Facilitation agreement; and Trade Policy Review mechanism. Broadly these measures allow certain deviations from the relevant WTO agreement, put in place longer transition periods (many of which have now expired) and allow for technical assistance to LDCs. The Trade Facilitation Agreement also allows countries to self-select and determine specific commitments with associated time frames, an important step in trade-related S&D.

2.2 Official Development Assistance

In addition to trade-related measures, the second major component of LDC membership is a commitment by developed nations to deliver certain levels of official development assistance (ODA) and climate financing. Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) members pledged to provide 0.15-0.20% gross national income (GNI) in ODA to LDCs, with the aim of setting a floor on development assistance to those countries. Official bilateral ODA to LDCs peaked at US$34 billion in 2013, having increased rapidly after 2000. By 2018 the level had fallen to US$26.9 billion, before rising again to $34 billion in 2020. Overall, ODA to LDCs accounted for 0.09 per cent of DAC members' GNI in 2018, including imputed multilateral flows, below the target of 0.15-0.20%. By 2018 five donors met or exceeded the target.[2]

[2] In 2020 total ODA to LDCs was approximately 21% of total ODA flows from DAC countries to all developing countries.

Seen as a temporary benefit which in theory should be reduced following graduation from the LDC category, official development assistance and Aid for Trade – explicitly aimed at global economic integration – can be viewed as correcting the hopefully short-lived position of LDCs while they undertake full domestic market development or assimilation into the world economy.

A further extension to international assistance for LDCs is the LDC work programme adopted by the Conference of the Parties of the UN Framework Convention on Climate Change, including strengthening national climate change secretariats, negotiations training, and support with national adaptation programmes of action (NAPAs). An LDC Expert Group provides technical guidance and support with national adaptation plans. The LDC Fund supports the LDC work programme, including the preparation and implementation of NAPAs. By 31 October 2019, 51 countries (LDCs and former LDCs) had accessed a total of $1.4 billion. In 2018, each LDC was eligible to access up to $50 million cumulatively from the LDCF. Since 2018, there was also an access cap under which each LDC could draw up to $10 million in LDCF resources toward the $50 million cumulative ceiling during the GEF-7 period.[3] Two global projects also existed at the time of writing.

2.3 Other international support measures

The remaining, secondary international support measures for LDCs are broadly orientated toward assistance for participation in the inter-governmental process. These measures include travel assistance to UN meetings and the General Assembly, reduced budgetary contributions to international organisations, as well as ad hoc bilateral measures such as discounted textbooks and scholarships.[4]

The combination of preferential trading arrangements, S&D treatment, ODA and support for participation in the international organisations and processes derives from the broad view that enhanced integration into the global economy will close the development gap. By reducing imperfections in world markets and temporarily offering help for LDCs to interface with these markets, LDCs will sooner or later become equal players in the world system or at least gradually move toward developed-world levels. ODA is considered a temporary necessity.

Clearly no single entity or institution acted as the architect behind the international support measures (and indeed multilateral coordination and leadership relating to LDC support needs

[3] Source: www.un.org/ldcportal/least-developed-countries-fund-ldcf
[4] A full list of ISMs is at www.un.org/ldcportal.

to improve). The existing measures are the result of sometimes ad hoc or unilateral actions, and may be based on self- or mutual interest. Yet they derive from a broadly accepted theoretical position, one that is distinct from but related to the Washington Consensus and which has become dominant in recent decades. This perspective considers not only market-led development and global economic integration to be paramount, but the removal of trade barriers and distortions to be the optimal route to market-led development and integration. An enhanced focus on national institutions, legal mechanisms and trade facilitation complement this picture, with aid largely for technical assistance and humanitarian support rather than for activities such as building productive capacity or infrastructure. Industrial policy is largely off the agenda. Importantly, under this broad perspective underlying current international support, trade and international economic integration – if not globalisation itself – is seen not as just one among many facets of development, but as a fundamental – perhaps *the* fundamental — driver of economic growth, and in turn of development more broadly.

However this mainstream position, deriving from the neoclassical tradition, is but one among many perspectives within development economics, some of which have been forgotten or sidelined but which are worth revisiting in the search for new ideas about international support. Most economic policy ideas derive in large part from a theoretical or methodological background, and in seeking to improve policies or support measures it helps to re-examine these premises. Whilst few would argue that existing support measures are harmful – and indeed eclecticism is to be valued – questions remain over whether support is currently directed to the correct areas or goes far enough, and over whether existing ISMs limit ambition by creating the impression that enough is being done.

3. Evidence

It is now nearly half a century after the launch of the LDC category and the creation of the first ISMs; two decades following the start of EBA, which broadened the scope of support; and four decades after the first programme of action for LDCs, which attempted to make ISMs more responsive to demand. Enough time has passed to judge the record so far. The evidence shows at best mixed support for both the theoretical propositions behind existing ISMs and their practical manifestation. Whilst structural changes in the global economy, international relations and national policies have a bigger impact than ISMs, the language behind the ISMs, programmes of action for LDCs and SDGs is ambitious, suggesting that international support can indeed help close the development gap. International support exists within a global economic and national political context and should be designed realistically,

in such a way as to interface with this reality. Agenda 2030 and the SDGs include ambitious goals for the LDCs. Whatever the impact so far, much more can be done.

On the positive side, by 2018 more than double the five countries that had left the LDC category in its history had become eligible for graduation. Up to 12 countries are eligible to leave in coming years. However graduation is only one of the metrics that should be taken as a measure of success – and even here, progress has fallen short of objectives. It took 23 years before any country graduated: Botswana in 1994. From 1971 to the early 2000s the category doubled in size, with many more countries joining than leaving. Only a third of LDCs met the graduation criteria between 2010 and 2020, well short of the Istanbul Programme of Action target of half. Kiribati and Tuvalu sought delays to graduation, citing extreme vulnerability. A final decision was delayed until 2021. Vanuatu also sought an extension then was hit by cyclone Pam in 2017, when it was given a further extension until 2020. The Covid-19 pandemic has meant a further delay in the graduation of Bangladesh, Lao PDR, Nepal and Timor Leste, on which a decision had not been made at the time of writing.

The performance of the small island states is broadly based on political stability, an upturn in tourism, strong human development policies and high levels of aid (see table below). International market access has largely not been the driver of economic growth. No Pacific island LDC relies on goods exports. Services, both domestic and export-orientated in the form of tourism, and not the subject of international support, have driven economic expansion, particularly during a rapid period of growth from around the mid-2000s until the mid-2010s (Gay 2021a). Pacific island services exporters, like in most other LDCs, have not yet benefited from the services waiver operationalized in 2013.

Selected indicators, Pacific island LDCs

Country	**Change in GNI per capita, 2000-2018**(i)	**Change in human assets index, 2000-2018**(ii)	**Change in economic vulnerability index, 2000-2018** (iii)	**Tourism growth, 2000-2018**(iv)	**ODA per capita, US$, 2018**(v)
Kiribati	227%	31%	1%	48%	640
Solomon Islands	75%	18%	-16%	437%	296

Tuvalu	97%	4.3%	-24%	145%	1,635
Vanuatu	100%	20%	-12%	100%	423
World average	54%	-	-	109%	22

(i) CDP Secretariat, based on United Nations Statistics Division National Accounts Main Aggregates Database (AMA) (http://unstats.un.org/unsd/snaama/) and the World Bank Atlas methodology for converting local currencies into US$. Data for world average based on World Bank World Development indicators, PPP (constant 2011 international US$).
(ii) CDP Secretariat. Human assets index used in LDC criteria. Data for Tuvalu only available from 2006.
(iii) CDP Secretariat. Economic vulnerability used in LDC criteria. A negative number represents lower vulnerability (ie. Kiribati has become 1% more vulnerable since 2000).
(iv) International tourism, number of arrivals. Source: World Tourism Organization, Yearbook of Tourism Statistics, Compendium of Tourism Statistics and data files.
(v) OECD Stat. Net ODA received per capita, current US$.

Bangladesh, one of the world's fastest-growing economies and an example of mass poverty reduction and strong human development, is the main example of a country where ISMs have helped underpin success. Innovative national industrial policies in the ready-made garment sector have helped the country take advantage of trade preferences – latterly EBA – alongside strong improvements in health and education and increased economic stability. For Bangladesh, Cambodia, Myanmar in recent years and some other countries, EBA and DFQF schemes have been an important foundation of trade and economic growth, helping facilitate garment exports. DFQF has in some cases attracted foreign direct investors seeking export access to new markets. The ability to source fabrics in a third country under AGOA has, for example, enabled Lesotho to attract Chinese investment in a garment industry aimed at export to the US.

But even in Bangladesh, the world's second-biggest garment exporter, exports collapsed during Covid-19. Inequality had already worsened in the last decade. The incomes of the bottom tenth of Bangladeshi households fell between 2010 and 2016. Over the same period the incomes of the lowest five percent fell by more than half, according to government figures. The same government data showed that until the pandemic about 40 million people remained below the national poverty line, a group large enough to make up one of the top five LDCs in its own right (Gay 2020). Bangladesh is not atypical globally, in that inter-country inequality may be falling but intra-quality is in many cases increasing as globalisation opens up gaps between winners and losers (Milanovic 2016). LDC graduation, therefore, whilst a great achievement, is not always a success shared by everyone and must be weighed against rising inequality and the reality that many millions of people are being left

behind – and that being left behind in an LDC represents a much more severe plight than in most other countries.

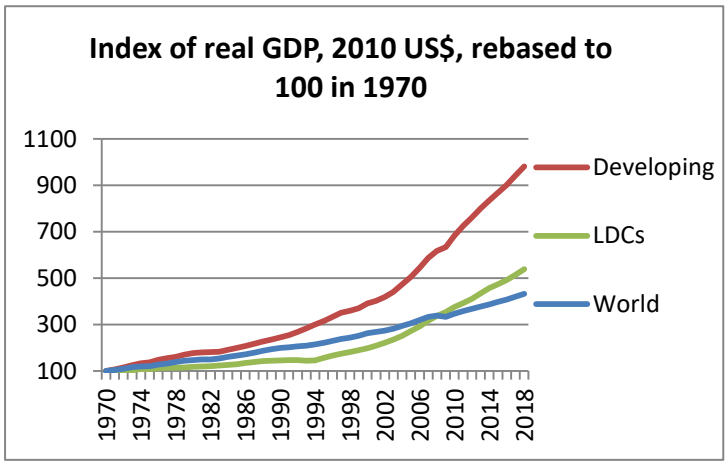
3.1 Economic performance

The economic performance of the LDC group as a whole has been mixed, although some signs of improvement and divergence have occurred in recent years. To gain a long-term perspective and to put in context the trends of the last decade it helps to look at data running back to the formation of the category in 1971 (due to likely measurement error the statistics should be read cautiously, particularly before around 2000). The following figure, showing total real GDP rebased to 100 in 1970, shows that the LDCs initially fared very badly, underperforming the rest of the world for over three decades, before finally converging in 2008 and on a relative basis surpassing cumulative world GDP performance thereafter.

Compared to other developing countries, however, economic output in LDCs grew much more slowly. Even during the last 15-20 years the trajectories of the two groups continued to diverge.[5] World GDP has grown over fourfold in real terms since 1970, LDC GDP over fivefold and developing country GDP nearly tenfold.

Based on GDP, while there is some evidence that LDCs are slightly narrowing the gap with the rest of the world – and it is encouraging that this progress occurred within the period of the IPOA – LDCs are falling further behind other developing economies. This trend is true even excluding China.

Figure 1.[6]

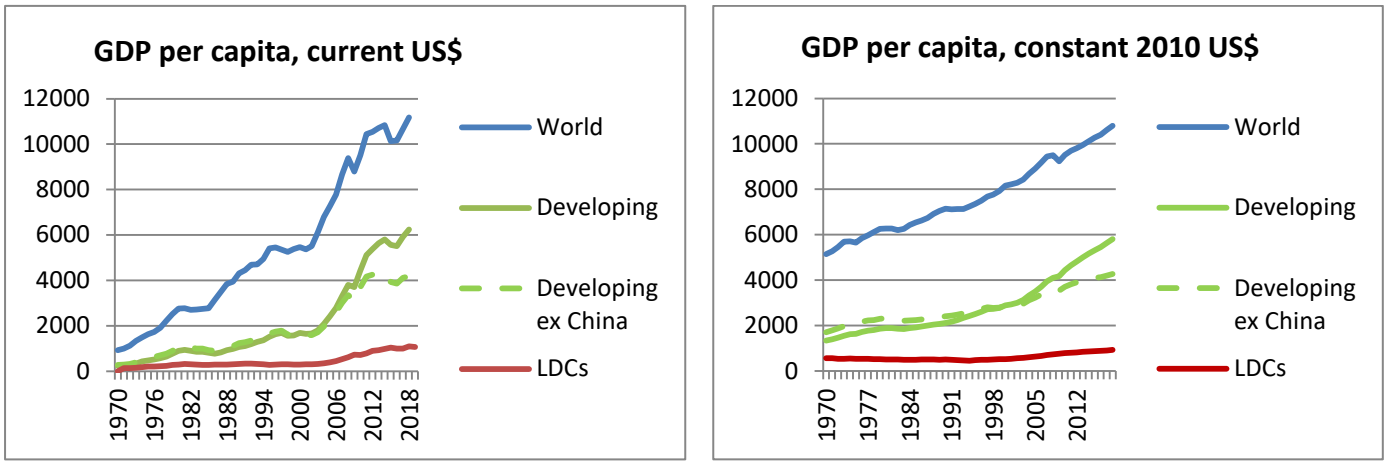


Per capita GDP, however, lags further behind both the rest of the world and developing countries in both real and nominal terms. After 2000, real GDP per capita growth in non-LDC developing countries more or less kept pace with the rest of the world. Average real per

[5] Data for 'developing countries' in all figures refers to developing countries excluding LDCs.
[6] Source: UNCTADStat

capita GDP in LDCs stagnated for over three decades, regaining its nominal 1970 level of US$556 in 2002, after which it grew quickly, to US$922 at the end of the period (US$1,060 in nominal terms). This compares with US$10,802 for world GDP in real terms (US$11,181 nominal) and US$5,019 (US$5,405 nominal) for developing countries. Whilst progress has finally occurred during the decades of the Brussels Programme of Action and IPOA, and China inflates the overall figures for developing countries, it is a source of concern that LDCs have continued to fall further behind other developing nations. As noted above, average progress has often obscured a rise in national inequalities.

Figure 2.



Source: UNCTAD Stat

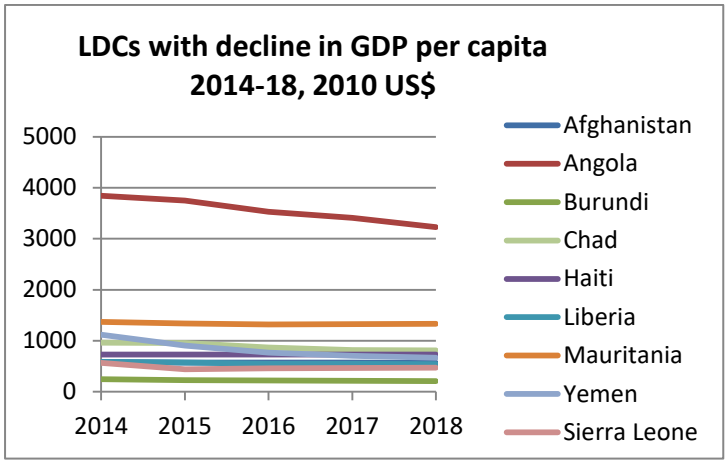
Finally, compared with the group of middle income countries (some of which are also LDCs), gross national income per capita in LDCs has consistently grown more slowly since 2000. There has also been significant divergence within the LDC group. Some, including the majority of graduating countries, have performed well. Others have suffered a decline in growth both in aggregate and per capita terms.

In almost a third of all LDCs real GNI per capita declined between the 2015 and 2018 Committee for Development Policy (CDP) triennial reviews.[7] In nine non-graduating LDCs, six in Africa plus Afghanistan, Haiti and Yemen, real GDP per capita fell between 2013 and 2018 (World Bank World Development Indicators). Data is unavailable for South Sudan. Even in some graduating countries, such as Timor Leste and Angola, GDP per capita has recently fallen. Gross domestic product for the LDC group shrank an expected 1.3 per cent in

[7] Three-year averages using CDP Secretariat data, based on United Nations Statistics Division National Accounts Main Aggregates Database (http://unstats.un.org/unsd/snaama/) and World Bank Atlas methodology for converting local currencies into US$.

2020, according to the CDP's comprehensive study on the impact of Covid-19 on the LDC category. Of 46 LDCs for which data are available, the economies of 37 contracted during the year – and the impact of the crisis will play out for many years.

Figure 3.



Source: World Bank World Development Indicators

On a PPP basis US$ GNI per capita has fallen or failed to increase in seven countries during the most recent five years for which data are available until 2020 – Central African Republic, Burundi, Liberia, Chad, Sierra Leone, Angola and the Gambia (Yemen and Afghanistan would fall within this group but data is unavailable). Most of these are conflict or post-conflict countries or have recently suffered regime instability. In five more – Haiti, the Comoros, Lesotho, Mauritania and Uganda – PPP US$ GNI per capita has risen by 5% or less in total over the last five years (World Bank World Development Indicators).

Whilst various measures of economic output yield different results, it is clear that the LDC group is diverging. Some economies are growing quickly, most at a steady rate by historical standards, whilst others decline in absolute terms. This divide between the economies of fast-growing LDCs, around half of which are graduating, and countries in which the economy has worsened, needs to be accommodated within the international support architecture.

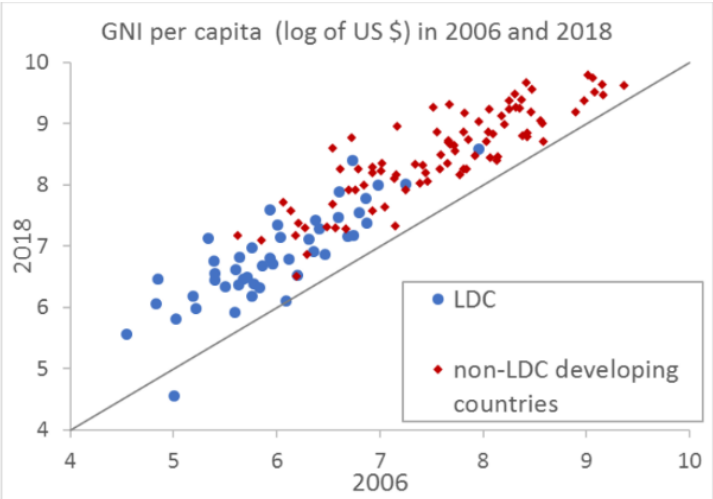
3.2 Performance on LDC criteria

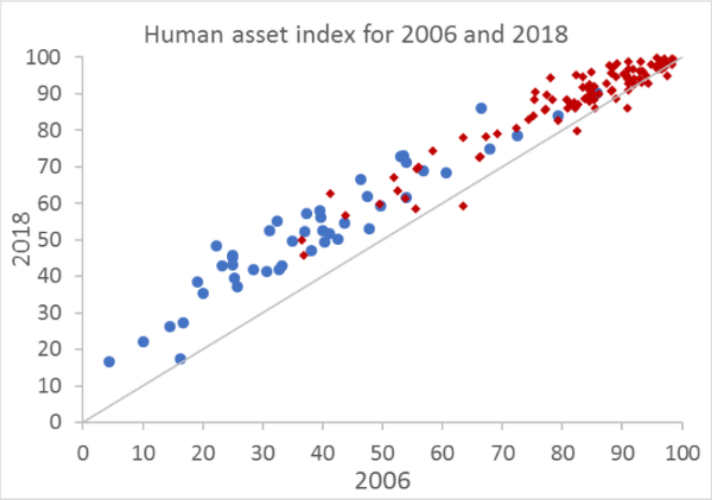
Analysis by the CDP Secretariat for the triennial review in 2018 shows that over the previous 12-year period, the GNI per capita and the human assets index (HAI) improved but not the economic vulnerability index (EVI). There has been significant variation in progress among both LDCs and non-LDCs.

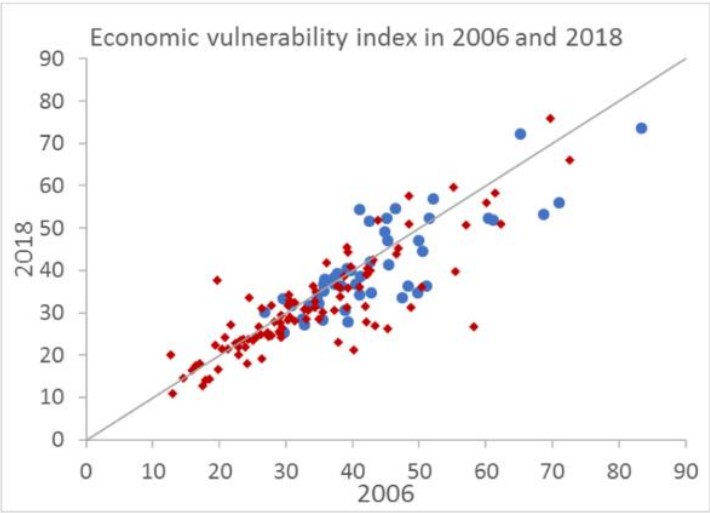
On average LDCs experienced an increase of 1.7 index points in their HAI scores between 2015 and 2018, with large variations. Correcting for data revisions and methodological changes, eight LDCs experienced a decline in HAI between 2015 and 2018 and two between 2012 and 2018. The HAI scores for a number of other LDCs fell because of the addition of new literacy data and the introduction of maternal mortality in the index.

Of more concern is that on average the EVI score of LDCs made marginal progress, only falling 0.15 index points (the lower the less vulnerable). The EVI scores of 20 countries (43% of the total) deteriorated between 2015 and 2018, driven by natural disasters and agricultural instability. 19 countries saw a decline between 2012 and 2018. To put this in perspective, however, even many non-LDCs remain vulnerable.

Figure 4.





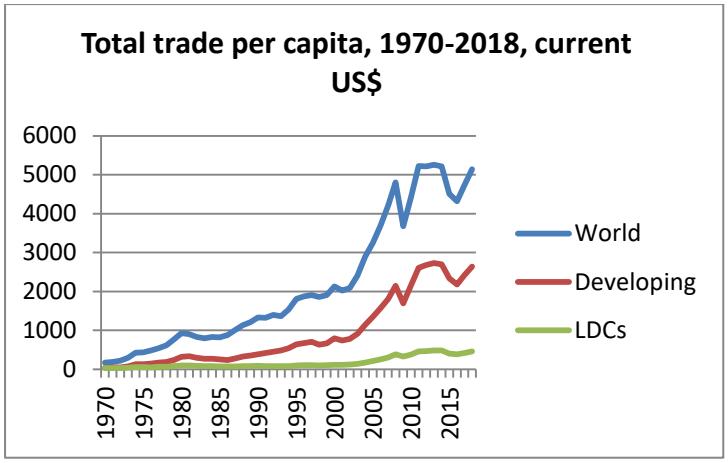


Source: CDP Secretariat

3.3 Trade

Given that ISMs are largely orientated toward trade, it might be expected that the trade performance of LDCs would have improved. However the evidence suggests otherwise for most countries. Calculations from UNCTAD Stat show that total trade per capita (exports + imports) remains very low in LDCs, at only US$458, compared with a world average of US$5,148. The 47 LDCs comprise approximately 13% of the world's population. Total trade per capita began to increase after around 2000, and LDCs now account for around 2% of total trade in goods and services. Growth, however, was at a slower rate than the world and other developing countries, even if the trend was less volatile. Noteworthy are the major collapses in world trade in 2009 and 2016, which appear to have had a lesser impact on aggregate figures in LDCs although which nevertheless had major national and sectoral effects. A similar collapse occurred in 2020, although it is not shown in the data in figure 5.

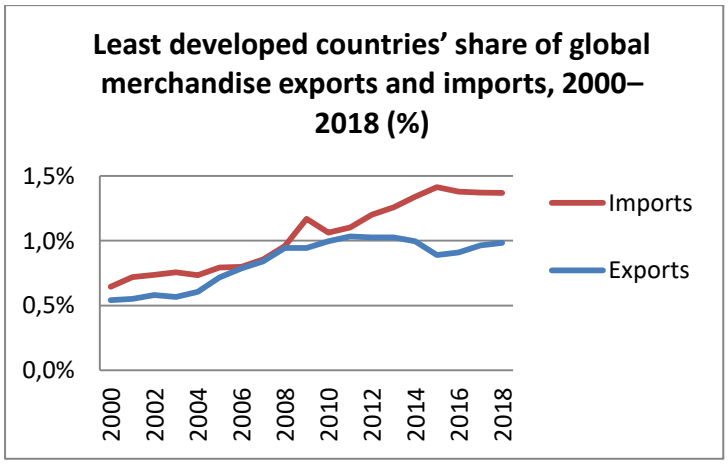
Figure 5.



Source: UNCTAD Stat

LDC imports have grown faster than exports in the last two decades, despite a narrowing during the commodities boom and just before the global financial crisis. There has been a significant divergence in recent years. LDCs' collective share of global merchandise exports is about the same at the end of the IPOA as a decade earlier, at just under one percent. This trend runs contrary to the expectation that DFQF would be effective in promoting broad-based export growth, and falls well short of the IPOA objective to double LDCs' share of world trade by 2020. As noted earlier, a select handful of countries have benefited, and their gains have not been enough to push the overall aggregate trend higher.

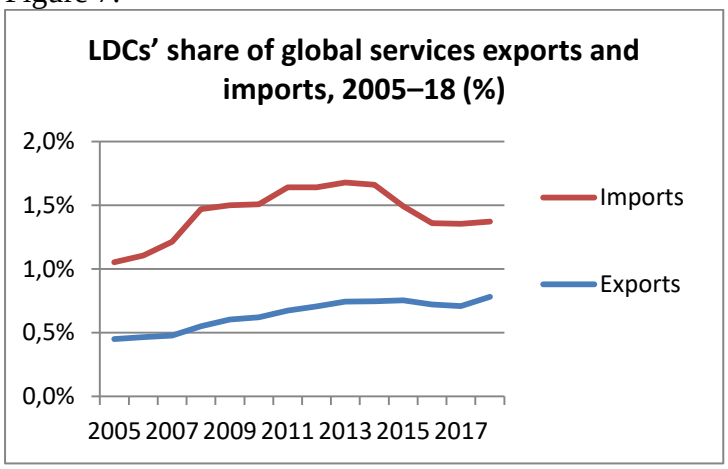
Figure 6.



Source: UNCTADStat

For services, to which no ISM was relevant until the operationalisation of the services waiver in 2013, the difference between imports and exports is even more stark. Although data goes back only to 2005, it can be seen that services imports have long exceeded exports as a proportion of the world total, the gap ending the period similarly to the start, with an upturn in the world share of imports during the intervening years.

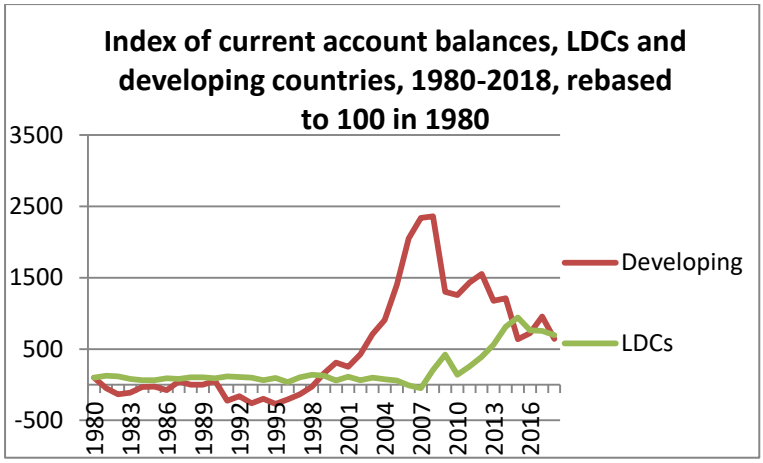
Figure 7.



Source: UNCTAD Stat

From the perspective of the current account, the main trend according to available data was a significant divergence between LDCs and other developing countries starting in 1999, largely linked to the commodity price boom of the subsequent 15 years, which had a disproportionate impact on developing country exports. In line with the long-term stagnation in LDC economies during the 1980s and 1990s, LDC current account balances remained largely in negative territory until 2007 when major deficits were recorded. A rapid upturn in LDC current account balances beginning in 2007 coincided with a collapse for developing countries. By 2018 the indexed values had almost re-converged, but at a higher level than before.

Figure 8.



Data source: UNCTAD Stat

The LDC group ranges from the commodity-dependent and sometimes prematurely deindustrialising sub-Saharan African nations, to the Asian countries, which tend toward manufacturing, to the tourism-orientated small island states of the Pacific. The diversity among LDCs is important to recognise and worthy of further attention. EBA and other market access arrangements are most relevant to the manufacturing-oriented countries and those that are diversifying into manufacturing. Commodity trade has its own dynamics, and global price and demand cycles, but no real direct ISM. Services are an increasingly important (but vulnerable) area and one in which it is also important to recognise diversity. Countries with large populations, for example, may benefit from mode IV-type support but countries with small populations will not.

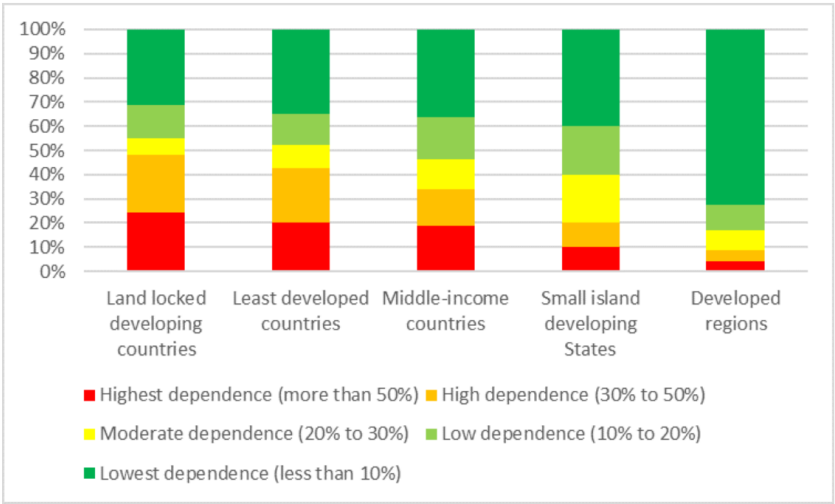
This diversity is reflected in trade figures, with Bangladesh, Angola and Myanmar together accounting for half of all LDC exports and the majority of EBA preference utilisation. Bangladeshi exports are worth the same as the bottom 28 LDC exporters combined, and Angola the bottom 40. The impending departure of these two countries from the group will dramatically reduce LDCs' share of world trade. For most LDCs, exports do not comprise a large share of the economy.

Most LDC economies tend to be undiversified and their exports dominated by a small number of products, many of which are unprocessed commodities. Yet despite the smaller trade share of GDP in most LDCs, the volatile nature of international commodity prices remains a major source of economic instability. The countries at the global periphery, to which the LDCs belong, remain defined to some extent by their reliance on commodity production and its unprocessed export to core countries. UNCTAD reports that 89% of sub-

Saharan African countries are commodity-dependent, much worse than any other region, with the situation having worsened over the past two decades. Including forthcoming graduates, more than 40 per cent of LDCs depend on commodities for over 30 per cent of their exports, and more than 20 per cent rely on commodities for over half of their exports. LDC graduation will make the LDC group even more commodity-dependent, given that most of the graduating countries are manufacturing or tourism-orientated. For landlocked developing countries, commodity dependence is even more stark, as shown in the following figure.

Figure 9.

Commodity dependency index, 2016 (Percentage of countries)

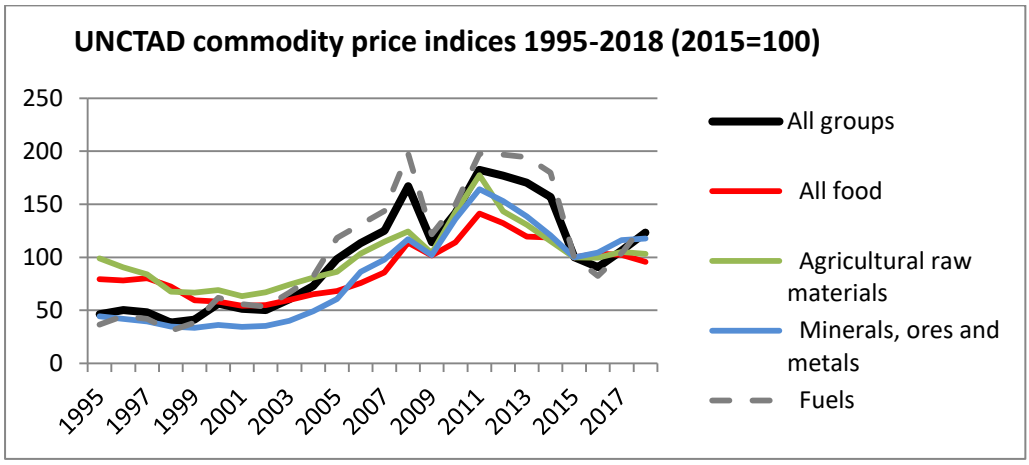


UN Comtrade (2018): https://comtrade.un.org/

Commodity prices have shown major volatility over the last two decades, more than tripling from 2000 to 2011 before collapsing over the subsequent four years. This has hindered LDCs' ability to generate consistent trade growth and to diversify, hampering financial planning and often worsening indebtedness, ultimately weakening fiscal and overall economic performance (UNCTAD 2019). On the import side, large swings in fuel and other prices have been a particular problem for the majority of LDCs that are fuel importers. The extreme volatility that characterises international commodity markets has long been identified as a critical concern for trade in LDCs. Although no ISM exists for commodities, the IMF and EU have provided facilities for countries facing external shocks, such as the STABEX scheme. The IMF, like the World Bank, does not base assistance or lending decisions on the LDC criteria, and indeed CDP research shows that the category is not as widely used as it should be by bilateral or multilateral entities (UN CDP 2017b). Ideally commodity instability

should be addressed within the international support architecture for LDCs, as discussed in the following section.

Figure 10.



Source: UNCTAD Stat

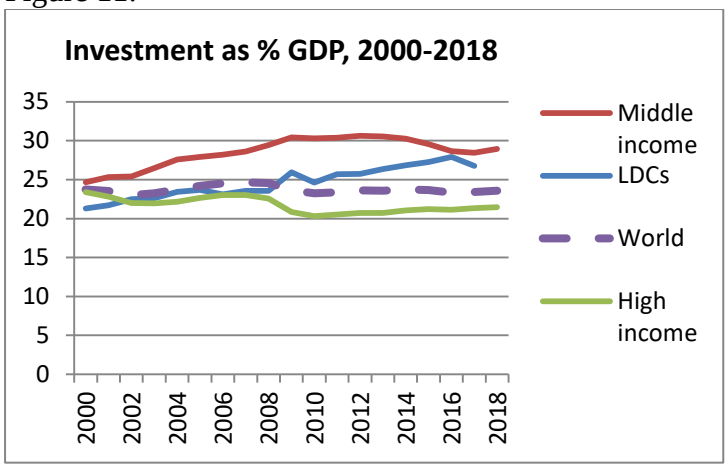
3.4 Investment

The most useful indicator of national investment is gross fixed capital formation as a proportion on economic output, which reflects the outcome of all sources of investment inflows as well as domestic public and private investment. Chang (2014) argues that the rate is one of the best predictors of structural change in developing economies, given that underinvestment and the insufficiency of domestic revenue generation are among the key challenges to development.

A quote from Nicholas Kaldor remains relevant: “It is shortage of resources, and not inadequate incentives, which limits the pace of economic development. Indeed the importance of public revenue from the point of view of accelerated economic development could hardly be exaggerated” (Kaldor 1963). Sheer capital accumulation is a major driver of early-stage development. Incentives, such as via exposure to the correct market prices, are secondary, although certainly not irrelevant. The ability to generate domestic revenues for redistribution is also the most important tool in addressing inequality. The most recent World Bank data show that in LDCs government revenue as a percentage of GDP has declined since 2010, to around 10.3%. This compares with 11.7% in middle income countries (with which there is some crossover) and 15.1% in high income countries.

The following figure gives cause for cautious optimism, showing a slightly more positive picture than for trade. Since 2000 the investment ratio has been increasing in LDCs, almost converging with the middle-income rate in 2016 before declining the following year (it is acknowledged that the two categories are not strictly comparable, and that some LDCs are also middle-income). The average rate was, however, on a downward trend in 2017, and is in many countries too low.

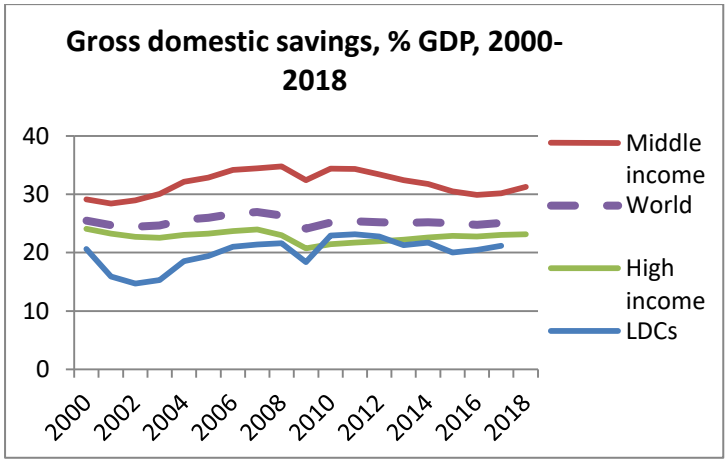
Figure 11.



Source: World Bank World Development Indicators; gross fixed capital formation

The savings ratio in LDCs also lags that of other country categories, recording a rate little higher in 2018 than in 2000 after considerable variation during the period. A large proportion of financing in LDCs comes from external sources such as ODA and FDI, or from borrowing.

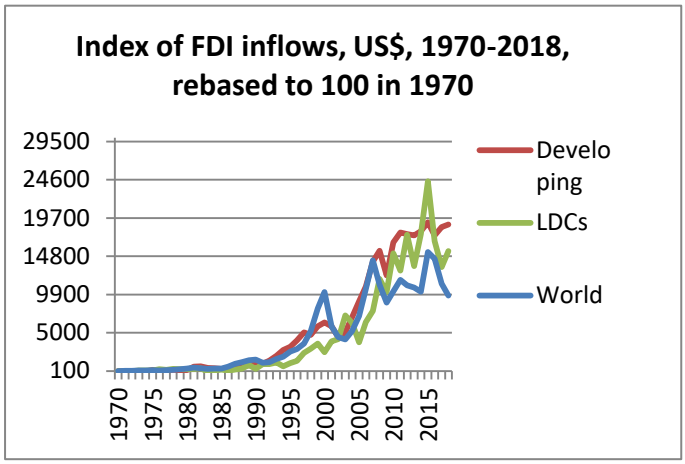
Figure 12.

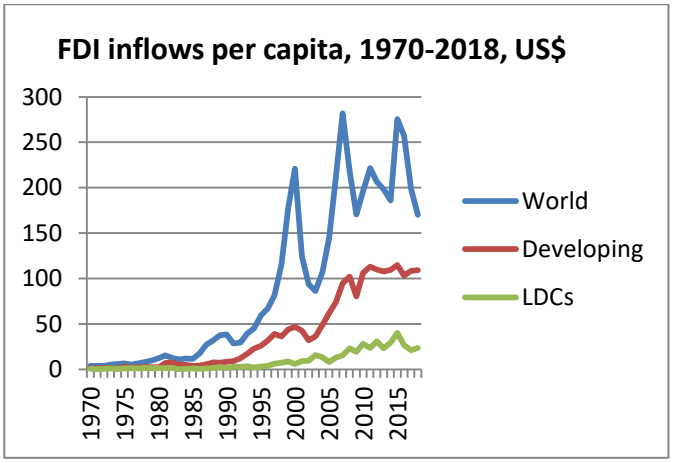


Source: UNCTAD Stat

Compared with other developing economies and to the rest of the world, however, LDCs have experienced higher relative growth in incoming foreign direct investment, especially since the early 2000s when there was a steep rise, followed by a sharp drop-off in 2015. The major volatility over the period is associated with commodity price instability. On a per capita basis, however, FDI inflows to LDCs are much lower than in developing countries and the rest of the world, and have grown more slowly (although with less volatility) over the period in question. In 2018 FDI inflows per capita in LDCs were worth US$23.60 in LDCs, compared with US$109.0 in developing countries and US$170.0 for the world.

Figure 13.





Source: UNCTAD Stat/ author's calculations

4. Explanations

The mixed and often disappointing performance of LDC economies in recent decades and during the most recent Programmes of Action raise questions about the existing approach to ISMs. In advance of LDC-V this implies the need to re-examine the underlying assumptions and theory behind existing ISMs – and to propose new ways of thinking about international support.

It is important to recognise that inasmuch as LDCs have been able to take advantage of trade, DFQF in general has helped raise economic growth and human development in some countries, providing a tariff preference advantage in certain export destinations and in some cases attracting FDI and stimulating secondary growth. Some countries took advantage with

strong national policies aimed at exploiting this relative tariff advantage. EBA was a step forward, prompting other developed and developing nations to follow suit with preference schemes. Few would argue that LDCs should somehow become further disconnected from the world economy. DFQF should undoubtedly remain an ISM.

DFQF and EBA, however, have disproportionately benefited a handful of countries. Bangladesh (61.8%), Cambodia (18.4%); and Myanmar (7.1%) together account for 87.3% of EBA imports to the EU. African countries account for less than 5% of total Generalised System of Preference (GSP) imports to the EU (European Commission 2020). Irrespective of preference erosion there has always been, and is now an increasing need for, new types of support differentiated according to country requirements. Market access is not enough, and existing trade ISMs have fallen short of objectives. The form, sequencing and type of trade engagement will have a major impact on the performance of LDCs, as will government and international policy priorities. On top of this, bilateral and regional trade deals are eroding preferences. Complementary support mechanisms and national policies are becoming even more important in helping beneficiaries capitalise on DFQF. S&D at the WTO has, with a few exceptions, been of mixed benefit to most LDCs.

One of the underlying explanations as to why most LDCs have not been able to leverage increased market access and associated trade-related ISMs has been the lack of development in productive capacities and the associated absence of structural transformation (UN CDP 2017a, 2018). Relatively little research focuses on this direction of causality (ie. productive capacity → trade), with most discussions, of various theoretical perspectives, analysing the opposite relationship (trade → productive capacity), be it positive or negative. Indeed it has been clear for some time that the IPOA targets in productive capacity will be missed (Commonwealth Secretariat 2016). Many LDCs, particularly in Africa, are undergoing reverse transformation, with a premature shift of the labour force into services, often informal. Conventional structural transformation into higher value-adding activities – driven by a move from agriculture into manufacturing — is not occurring, with a corresponding impact on productivity. Unemployment and semi-employment remain extremely high in some countries, while wage growth has been broadly disappointing.

Rodrik (2015) and others have pointed toward a new, emerging worldwide trend toward premature deindustrialisation, or growth without positive structural transformation. Manufacturing value-added and manufacturing employment have become progressively uncorrelated with economic growth since the 1960s, particularly in sub-Saharan Africa. In

other words growth has increasingly been jobless and non-manufacturing based. Large-scale, low-skill employment is less in demand; manufacturing prices are falling; and the rise of global value chains has facilitated entry to global manufacturing but diminished returns. The rise in services growth in LDCs cannot compensate for the stagnation of manufacturing because it features inherently lower productivity. Rodrik hypothesises that growth in developing countries will fall below its high rates of previous decades. Convergence with the developed world will continue, but more slowly, and in large part because of low growth in advanced economies. As domestic rather than global trends drive growth, significant heterogeneity in long-term performance across developing countries is likely, including within the LDC group.

These somewhat pessimistic findings conflict with the assumption that improved market access would cause export growth and the insertion of LDCs into global value chains; that is, that domestic supply would respond automatically to international demand, and the production structure be rearranged toward higher-productivity activities, given a reduction in trade taxes or domestic distortions. If Rodrik's arguments are accepted, the character of global production has now shifted too much for the full integration of LDCs through trade access to produce the benefits predicted by the implicit theory underlying ISMs. The mainstream theory was incorrect to assume that increased exposure to international market prices alongside domestic factor market liberalisation would spontaneously lead to positive structural transformation based on specialisation in comparative advantage (even sophisticated specifications of this theory start from assumptions too unrealistic to result in appropriate policy recommendations).

Quite apart from any emerging worldwide structural trends, domestic capital and labour markets in most LDCs (and in some emerging and developed countries and regions) are not characterised by what might be termed flexibility, and for linguistic and cultural reasons, and due to a lack of financial development, domestic factor mobility is usually extremely limited (as it is in even developed regions such as Europe). In an LDC, workers and capital often do not move readily from one part of a country to others. Large parts of many LDCs remain excluded from the cash economy and from formal employment. The concept of economic flexibility has proven largely inappropriate: attempts to achieve it have often fallen short of their objectives; and indeed flexible factor markets may not even promote structural transformation. Particularly in LDCs, trade growth is an issue of the active stimulation of domestic supply as much as it is a response to international demand. Moreover the

mainstream theory does not accommodate the large and persistent savings gap in LDCs, as well as major income inequalities, and the associated over-reliance on FDI as a means of expanding productive capacity.

These latter ideas are not new, and have a long heritage, deriving loosely from the developmentalist and structuralist traditions, the work of Kaldor (1981), Kalecki (1969,1971), Hirschman (1958), Chang (2002, 2014) and others, and revisited and revitalised by UNCTAD in the annual LDC reports and elsewhere. Amin (1976), Prebisch (1950), Singer (1950), Wallerstein (1974, 1980, 1989) and others also emphasise the systemic nature of the world economy alongside the importance of global coordination. One implication of their ideas is that the absence of structural transformation is not accidental or a result only of national policies, but has a global dimension.

For Amin, catch-up or convergence under capitalism is impossible. Countries such as LDCs are subject to unequal exchange, in which labour power was valued less in the periphery than in core countries. Without change in the global economic system, this process of unequal exchange will reproduce itself. The implication is that LDCs have an interest in transcending the current system of production and 'delinking' from the core. Whether or not one agrees with the analysis, the perspective is valuable in that it highlights global wage differentials and the persistent challenges to economic catch-up deriving from power imbalances. Simply improving LDCs' access to developed and other developing country markets is not enough.

The ideas of Wallerstein, another pioneer of dependency theory, emphasise the systemic nature of the world economy and the power-based inter-relationship between core, semi-periphery and periphery. Functionally, peripheral nations such as LDCs are locked into a system of production and exchange in which they effectively facilitate consumption and profit in the core. The extraction of value from primary commodities in LDCs is central to the fortunes of companies operating in the core, which create shareholder value in part by processing, often away from the zone of extraction. In manufacturing, it is often not in the interests of core multinationals to encourage value-addition, productivity improvements and associated wage growth in LDCs, which are useful insofar as they are sources of low-cost labour. In a contemporary extension of this line of thought into the sphere of financial markets, emerging market and commodity-price volatility can provide lucrative returns for developed-world financial institutions, which have major lobbying power. It is not in the interests of financial market traders to promote commodity price stability. Power and self-interest work against pro-LDC systemic change.

The Prebisch-Singer hypothesis (Prebisch 1950, Singer 1950) is an important finding within the dependency theory tradition, positing that over the long term the price of primary commodities falls relative to the price of manufactured goods, causing a deterioration in the terms of trade of economies relying on primary products. The gains from trade will be distributed unequally between primary product exporters and manufacturing exporters. The relevance of dependency theory has recently been revisited by Tausch (2010) and others to take account of new data, while some other studies find support for the Prebisch-Singer hypothesis. With the impending 'Africanisation' of the group, the hypothesis finds further relevance in LDCs.

For thinkers within the dependency framework, vulnerability is an inherent and functional feature of the global economy. Peripheral countries are always exposed to shocks or the expectation of shocks. Vulnerability is not a temporary affliction or an aberration which can be ameliorated by aid. It is the norm – and the inherent instability of LDCs may be why they perform so poorly on the UN vulnerability criterion. Without global systemic change these countries will always remain susceptible to volatility.

If these broad insights are accepted, it can be seen that it is not the lack of exposure to global markets or domestic liberalisation that are the key challenges facing LDCs, it is the absence of global coordination; wage inequality; shortage of sustainable investment; limitations in public revenues and the deficiency of technology and the capital stock. Exposure to an uncoordinated global economy can make LDC economies more volatile and vulnerable. Even under conditions of full inward and outward openness to international investment and trade – ie. the conditions which the theory underlying the current composition of ISMs posits as optimal – sustainable economic development may not take place. With current ISMs, countries on the global periphery will always struggle to develop in a way that meets both human and ecological needs unless active measures are put in place aimed at improving international coordination, stimulating investment, boosting production and demand and accumulating capital sustainably. These ideas imply the need to build productive capacity and directly promote structural transformation using a range of support options tailored to individual country circumstance.

Most thinkers within these traditions, particularly Kalecki and Hirschman, were at pains to point out that policy needs to be adapted to country context, and that one size does not fit all. The type of economics that is valid in the developed world (what Hirschman called

‘monoeconomics’) may not be appropriate in developing countries, which operate at permanently insufficient levels of aggregate demand and which are always short of capital.

Even among developing countries and LDCs, new differences are emerging. International support must accommodate this divergence. DFQF, for example, has more relevance to some manufacturing exporters than to commodity or services exporters. S&D treatment at the WTO neither extends far enough nor is useful to all LDCs, some of which have benefited more than others. Any new ISMs should be seen not as an overall prescription or blueprint, but as a range of mechanisms to be adopted by the international community and governments themselves, some of which may prove more relevant to one country than others.

5. A revitalised approach to international support

Reaffirming and revitalising proposals derived from these alternative traditions helps in the search for new ideas for international support, which should be based on national ownership and enhanced international coordination, acknowledging the right of governments to choose pathways appropriate to the national context and vision. One of the key features of the proposed revitalised approach is that international support should be systematic but differentiated, with measures in place for all countries but from which various countries may benefit differently. The notion of differentiation contrasts with the current approach to ISMs, under which one size is expected to fit all. A number of suggestions about differentiation are made below.

UNCTAD (2010) proposes a new international development architecture for LDCs, dividing it into five inter-related categories: finance, trade, commodities, technology and climate change. The suggestions below build on, amend, update and add to this list. International assistance for LDCs should not simply amount to a small set of options to be delivered ad hoc by bilaterals according to their domestic priorities – one of the shortcomings of the current ISMs. UNCTAD (2010) emphasises the need for a new *architecture*, or systematic set of measures ideally enacted alongside each other as part of multilateral commitments, with support from bilaterals where appropriate. The report also suggests the use of the word “mechanisms” rather than measures, based on the idea that LDCs should reveal their potential by becoming an active part of the global economic system rather than remain passive recipients of hand-outs. While a debate over words is not the first priority, semantics are important because they lay the foundations for discussion and can set the parameters for what

is possible. For this reason the suggestions below refer to ‘international support’ rather than to ISMs.

Amin, Prebisch and Wallerstein argue that the world economy is tightly inter-woven, with peripheral countries reliant on, and exposed to, the core. While the more functionalist or determinist versions of these theories go too far, and the world economy is not zero-sum, it is true that LDCs exist in a state of inter-relationship with the developed world and with semi-peripheral and emerging economies. Recent research has re-emphasised the systemic nature of the global economy. It is unrealistic to imagine significant commodity value-addition in LDCs, for instance, without addressing this functional inter-relationship via legal mechanisms as well as regional or multilateral agreements. Voluntary measures or ad hoc short-term aid only tend to perpetuate the problems of dependency. International rules or norms are required, such as innovative commodity agreements (recalling the arrangements which ended in the 1980s); joint financing of geological information in LDCs; or an enforceable common format for sale of the rights to extraction. Ambitious types of international rules relevant to other areas of concern to LDCs might even include commitments to coordinate wages, working standards, carbon emissions; measures to reduce macroeconomic volatility and curbs on international financial market and commodity speculation. Any new international support ecosystem is inevitably multilateral. In the forthcoming programme of action, accountability should be more firmly incorporated than it was during the IPoA. Developed world trading partners and donors should be obliged to commit systemic improvements over the long term (meaning the duration of the programme of action) – or quantified pledges of financial support to multilateral funding agencies. Verbal statements or gestures of non-binding support should be avoided.

To advocate for each LDC support measure separately would be to overlook the reality that many of the reasons for LDC marginalisation and underperformance derive from the (often unintentional) activities of large corporations; or can be considered unfortunate consequences of shortcomings in the international economic system (eg. Ocampo 2017). The impact on LDCs of systemic issues such as tax havens, carbon emissions, agricultural subsidies and immigration restrictions far outweigh existing international support or any measure of development cooperation. Systemic change is both necessary and extremely difficult. In a power-based global system little incentive exists for developed countries to provide concessions that are of no benefit to the home country or region – and this will be reflected in

an arena where the commitment to multilateralism is faltering. This unfortunate reality must be borne in mind when thinking about new measures.

A necessary qualification and update of the UNCTAD (2010) discussion over a decade later is that the recommendations did not allow for the possibility of backtracking or deterioration across or within countries. As shown in section 3, many LDCs have performed worse in absolute terms in recent years, while volatility remains an ever-present threat and many countries do not meet the vulnerability criterion. Covid-19 emphasises the extreme precariousness of most LDCs. More LDCs are at war or in post-conflict situations than before. Millions of people even in relatively successful LDCs appear likely to remain poor or vulnerable to sliding back in to poverty, as witnessed by the estimated 84 million people who were estimated to have moved back into extreme poverty in 2020 as a result of Covid-19 (UNCTAD 2020).

The following proposals can be read as recommendations for the forthcoming programme of action for LDCs based on the analyses in the preceding sections. If there is one over-arching theme, it is that productive capacity should be a main overarching theme of LDC-V, with concrete, actionable and time-bound actions underlying each proposal relating to each subordinate action. Policy space for industrial policy is essential. A new sustainable productive capacity facility, for example, could encompass many of the themes and proposals in this paper, acting as the lynchpin of a new architecture, with financing for sub-components of productive capacity including technology transfer, entrepreneurship, linkages development and human and physical capital accumulation.

5.1 UN system

(i) <u>Encourage use of the LDC category</u>

The lack of coordination in use of the LDC category should be recognised, and UN Development System entities should be required to acknowledge the category. The category should be universally recognised and adopted, including by the Bretton Woods organisations. Ideally such language should be reflected in the text of the new programme of action.

The LDC category is the only country category officially recognised in UN processes with recognition in legal texts such as the WTO agreements. Its importance derives from its quantitative, multi-dimensional nature, its legal recognition and its focus on the most vulnerable countries. A dedicated body, the UN CDP, monitors the group and reviews and updates the category, while organisations outside the system such as the LDC IV Monitor

review progress on programmes of action. The category is used often the intergovernmental process, as evidenced by the numerous references to LDCs in the 2030 Agenda. The LDC group at the UN and in trade and climate negotiations is effective and forms a forceful inter-governmental platform.

Yet neither the World Bank nor the International Monetary Fund use the LDC classification. The LDC category is also used less in attracting and delivering assistance elsewhere, including from the UN Development System. This partly reflects and explains the absence of coordination in international support, and universal adoption of the category would go some way to enhancing multilateral coordination. Although all UN Development System entities recognize the category, they do not all provide LDC-specific international support. Operational activities for development of the UN system in LDCs are attracting a diminishing share of funds. Most UN Development System entities do not have specific graduation support programmes or mechanisms for LDCs. In sum, the LDC category should be used more both by bilaterals and by UN Development System entities in establishing country priorities and in work programme delivery, as recommended in UN CDP (2017b).

(ii) Improve internal UN coordination on LDC matters: Merge the three main UN entities working on LDCs into a single organisation. Officially recognise the Inter-Agency Taskforce (IATF) on LDC graduation.

Coordination of LDC issues within the UN system should improve, ideally driven by LDCs themselves. At present, a variety of UN entities work on LDCs, greatly hindering the possibility of systemic change. The principal entities and agencies are the Committee for Development Policy, a subsidiary body of ECOSOC; the UN office of the High Representative for Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States (UNOHRLLS); the Africa and Least Developed Countries and Special Programmes division of the UN Conference on Trade and Development (UNCTAD) and the Enhanced Integrated Framework for Trade. In addition almost every development and humanitarian-orientated UN entity, including the regional commissions and the UN Development Programme, has a work programme or some type of focus on LDCs.

As their names suggest, each of these many offices and entities has a broad remit, not limited to LDCs. Each is faced with increasing budgetary pressures and staffing constraints. There has recently been some improvement in coordination on certain issues such as graduation, with the formation of the Inter-Agency Taskforce (IATF) on LDC graduation, which meets

several times a year. However more could be done to improve coordination and to delineate and prioritise work programmes on the full LDC group. Broadly UNOHRLLS has an organisational and advocacy role, the CDP Secretariat a capacity-building, advisory and expert guidance function, and UNCTAD performs all of these functions as well as having a greater research focus, including the annual LDC reports. Appetite exists for greater collaboration, and these areas of focus could well complement each other within a single LDC unit.

(iii) Directly target the worst-off and most vulnerable LDCs via a UN work programme or fund targeting the least-advantaged LDCs.

Related to the previous recommendation, a dedicated focus should be given to the least developed of the least developed. Approximately an equivalent number of LDCs are facing economic stagnation and increased vulnerability as the graduating countries. If so much recent attention has focused on graduation, to some effect, why not the worst-off? This group could be assessed by GNI per capita, vulnerability or human assets, or all three. A specific work programme or fund could be established, directing special attention toward countries left or pushed behind, with coordination driven by the UN. This would be particularly appropriate during the current reconfiguration, centralisation and harmonisation of the UN Development System. Such an initiative would not mean devoting less attention to other LDCs, or to the fragmentation of the category; rather, alongside a focus on the graduating countries it would allow and acknowledge the existence of the particular issues and problems affecting certain groups of countries.

Depending on the measure used this would include countries such as Afghanistan, Angola, Burundi, the Central African Republic, Chad, Comoros, the Gambia, Haiti, Lesotho, Liberia, Mauritania, Sierra Leone, Yemen, and others facing stagnation or severe instability. Clearly there is a strong argument here for collaboration with humanitarian and peacekeeping entities, given that most of these countries are at war, were previously in conflict or are emerging from regime instability. Humanitarian support is a higher priority than in most other LDCs, where a greater proportion of ODA should be disbursed on infrastructure and areas relating to productive capacity.

In many of these less-advantaged LDCs, conventional capacity-building and technical support have a smaller chance of success due to their lower levels of absorptive capacity. Technical support needs to be delineated from that which is relevant to the more dynamic

LDCs, and designed in a way that is appropriate to context. 'Best-case' technical assistance from developed nations is often inappropriate. For example the substantial expenditure on legal help delivered to South Sudan by developed-world bilaterals after independence resulted in a sophisticated, modern constitution with state-of-the-art gender and human rights provisions. Whilst these features are laudable, South Sudan had and has an embryonic and often non-functioning judiciary, so few of the provisions were enforced or enforceable. Basic humanitarian support and infrastructure should have been the main priorities, ideally delivered by south-south partners. Focus should be placed on building up capacities where they already exist, and enhancing the skills and specialisms that happen to have emerged, extending them to other areas where possible, rather than attempting to inculcate capacities across the board in a 'horizontal' manner.

(iv) Put in place a support programme or facility for graduating LDCs

As part of the attempt to differentiate within the LDC group, the UN should be requested to establish and operate a graduation support facility, fund or programme with a mandate to provide technical assistance for graduating LDCs to prepare and manage graduation from the category and facilitate south-south knowledge sharing on graduation. Such a proposal was tabled at the 2020 annual CDP plenary (UN CDP 2020) and developed and supported further at the 2021 Plenary. Plans are in place to continue developing the programme following a pilot project in Vanuatu following its LDC graduation in December 2020. The six main service lines aim to assist with loss of international support; the smooth transition strategy document; transition finance; access to existing support measures; South-South dialogue; and effective participation in the CDP monitoring process. The facility could exist remotely, requiring no physical office or facilities, but coordinated by the UN Secretariat and overseen by the existing Inter Agency Task Force (IATF) for graduating countries, though other arrangements may also be possible. It would bring together and build on existing programmes of UN and other interested entities working on graduation, and would be operated based on existing resources, voluntary contributions to a graduation support fund as well as in-kind contributions. It should be emphasised that a new UN institution or entity is not recommended.

5.2 Finance and investment

Finance and investment should be the most important part of the international support architecture given the centrality of capital accumulation to the development of productive capacities, which is in turn the central driver of structural transformation. The rise in fixed capital formation is one of the most encouraging features of LDC economic performance over recent years, but the average rate is still only 26%, lower than the roughly 30% probably required for structural transformation, and with significant variation between countries. The main aim of support should be the promotion of domestic resource mobilisation and reducing the need for foreign aid. The issuance of new Special Drawing Rights (SDRs) by the IMF would be an important step, and unused SDRs should be channelled toward LDCs in particular. Whilst some of the proposals fall outside the strict definition of international support for LDCs, the case is made for systemic reforms suited to the LDC context. Five suggestions are proposed:

(i) Official DAC donors should fulfil commitments to provide 0.15 to 0.20% of GNI to LDCs. This proposal has remained relevant for many years but as noted above, DAC donors do not meet the commitment. Development assistance only returned to its 2013 peak in 2020. Whilst this ISM remains relevant, and donors should be urged to continue meeting their targets, a realistic assessment suggests that government-led development assistance to LDCs is unlikely to rise significantly. Calls for more aid may fall on deaf ears, and traditional development assistance and blended finance may not even be the answer to LDCs' challenges. Despite commitments to untie aid, progress here has also been disappointing. One area in which development provision can improve at low cost is in enhancing synergies between southern and north-south official flows.

(ii) Adopt a measured and strategic approach to new forms of finance. The Financing for Sustainable Development and Addis Ababa Action Agenda (AAAA) herald a shift toward innovative and blended finance, which appears necessary in the absence of higher ODA but is not so far delivering for LDCs. Blended finance is unlikely to fill the SDG financing gap and countries will also have to rely on public funds. The promise of 'billions to trillions' under the SDGs is unlikely to materialise. The private money mobilised in LDCs is only a third of the global average. Only eight per cent of blended finance goes to LDCs, with most going to middle-income countries. Of the $52 billion directly mobilized by multilateral development banks in long-term private co-financing during 2017, only $2 billion went to LDCs and other low-income countries (UN 2019). Some trends, such as securitisation, will harm rather than help LDCs by increasing speculation and volatility, obliging governments to de-risk

investment for developed-country private investors. An excess concentration of liability in the hands of governments represents a long-term and potentially unknowable risk toward which a precautionary approach is required.

As suggested in the 2020 UN Financing for Sustainable Development Report, a measured and strategic focus is required. Countries and development partners should follow the principles of the AAAA, developing a country blending strategy linked to country needs, including through an integrated national financing framework. Governments should seek impact rather than bankability; measure the cost of blending versus other financing structures; assess complementary investment (such as for capacity development); and ensure transparency and impact reporting, participation, and monitoring throughout the life of a project.

(iii) Further increase assistance for domestic financing and acknowledge this priority in technical cooperation. Building public revenues is one of the main challenges for all LDCs given the stagnation in ODA and its shortcomings; the volatility and resource-seeking nature of most FDI in LDCs; weak or non-existent equity flows and their vulnerability to herd behaviour, coupled with low domestic LDC savings rates. Broadening the tax base is a fundamental part of developing countries' attempts to self-finance future development and to reducing reliance on external assistance. Redistribution via public financing also remains the most efficient way of tackling inequality, which is worsening in most countries. Dedicated capacity-development assistance in this area is as vital as it ever was; perhaps more so. A reorientation of multilateral policy advice toward a more expansionary, pro-growth fiscal stance is also critical. Ongoing multilateral efforts to stem tax revenue leakages, to ensure banking transparency and to reform tax havens would complement domestic measures to improve revenue collection. The recent G7/ OECD agreement to impose a global minimum tax represents progress in this regard although it is only a first step, and LDCs should be more closely involved in decision-making and receive a greater share of revenues.

(iv) ***Increase the share of aid for building productive capacity, including for infrastructure,*** which remains one of the biggest obstacles to LDC catch-up. Investment is particularly needed in sustainable energy, broadband and other infrastructure in which LDCs are lagging but where catch-up can yield major gains at relatively low cost. In the absence of higher overall ODA totals, the more prosperous LDCs would benefit from a shift toward more productive capacity-related activities and away from humanitarian assistance. These countries can afford to invest more of their total income in production-related activities than the lower-income LDCs, which must prioritise consumption. Aid for Trade to infrastructure

has increased in the last decade, but traditional and non-traditional donors can still play a greater role in the development of productive capacities and infrastructure. Social infrastructure and services accounted for an average of 45.9% of total ODA disbursed in LDCs from 2008-17. Economic infrastructure and services took a lower share, at 9.9%, and could be increased. It may even be worth considering a dedicated production transformation fund for all LDCs, with targeted assistance for graduating countries, learning from success stories. Productive capacity should include pharmaceuticals manufacturing, with vaccine-manufacturing facilities established in regional hubs, particularly in Africa, where countries are forced to rely on limited supplies of imports.

The Chinese Belt and Road has become a new and important source of funding for LDC infrastructure in participating countries. China is clearly an increasing player elsewhere, too, partly because of the country's desire to access mineral resources and commodities. Collier (2011) argues that LDC governments should encourage other countries to compete with China in trading resources for infrastructure; otherwise China's at times unrivalled presence risks becoming an even greater monopoly, and the current lack of backward and forward linkages may continue to limit the secondary benefits of such aid. Non-Chinese entities should compete to develop certain volumes of infrastructure. Quality assurance, however, would be an obvious challenge. Arguably in response to the Belt and Road, the G7 at its summit in June 2021 pledged a multibillion dollar 'Build Back Better for the World' initiative for green infrastructure in developing countries.

Collier (2011) also urges LDC governments to centralise revenues rather than to allow regions to appropriate the gains from local resource-based activities. Companies have an incentive to localise benefits so as to minimise opposition. But people often mistrust central government, so LDC governments have interest in international transparency mechanisms that build confidence among local populations that revenues are being used wisely. The centralisation of revenues and their transparent usage would help build political legitimacy, which is a key concern in many LDCs (Gay 2018a).

(v) Improve the international system of debt relief and encourage sustainable lending. LDC debt was again worsening from 2015 until the pandemic. Over a third of LDCs are considered to be under debt distress, and Zambia defaulted in 2020. Real public spending is falling in countries with the highest debt payments as servicing costs rise. For example falling oil prices prompted large cuts in public spending in Congo and Chad. Mozambique's debt crisis triggered a 21% fall in public spending between 2015 and 2018. Zambia's public expenditure

was lower than in 2015, with further cuts anticipated in coming years. In Sierra Leone, public spending in 2018 was 10% less per person than in 2015, and 17% lower than in 2016. Almost half of Sierra Leone's external debt is owed to the International Monetary Fund (Jubilee Debt Campaign, 2020).

The Debt Service Suspension Initiative (DSSI) is welcome but should be made permanent, monitoring international lending and warning of potential excesses, with a focus not only on countries but on the activities of international lenders. Whilst debt relief is important, it makes no sense to encourage LDCs to take on significant borrowings based on unrealistic time-series projections of commodities price growth if debt will periodically become unsustainable or impossible to service. Sustainable lending for strategic investments in the productive sectors with acceptable returns are clearly preferable to recurrent commodity- or resource-driven debt crises and regular forgiveness. Southern donors should also be encouraged to lend more sustainably under more transparent conditions, and to consider appropriate forms of debt forgiveness.

(vi) Directly address inequalities in LDCs. Whilst not strictly a matter of finance and investment, and according to some, contrary to the goal of building productive capacity, a system of cash transfers may be an imperfect but necessary way of reaching those sections of the population 'left behind', given the risk of backsliding and inequality even within graduating LDCs. Without direct support to the poorest and most vulnerable, it is clear that trade can worsen national inequalities. Integration into the cash economy is not a guarantee of stability or prosperity.

130 low and middle income countries implement at least one non-contributory unconditional cash transfer programme, either government or donor funded, or both. Research suggests that existing cash transfer schemes have been highly successful, reducing monetary poverty, raising school attendance, stimulating health service use and improving dietary diversity, reducing child labour and increasing women's decision-making power. They also target the marginalised and lead to more equitable and just outcomes, forming a valuable social safety net for the vulnerable, who tend to form a larger share of the population in graduating LDCs, which themselves remain disproportionately vulnerable compared with other developing countries. Cash transfer schemes operated by OECD donors such as the United Kingdom have achieved important successes with poor populations in developing countries such as Bangladesh and Kenya, and the United Kingdom has committed to doubling its use of cash transfers in humanitarian assistance to at least 29 percent by 2025. It may be broadly

appropriate for such schemes to form a larger component of assistance to graduating LDCs, or to be adopted in graduating LDCs where they do not already exist (DfID Bangladesh 2006, DfID 2011, ODI 2016).

5.3 Trade

Based on the earlier arguments in this paper, measures to improve productive capacity and structural transformation are themselves the most promising ways of expanding exports. Raising the domestic investment rate, particularly public investment, is one of the most important ways of building productive capacity for trade. Donors and development partners should prioritise the development of productive capacities in suitable LDCs, and should even consider a dedicated productive capacity fund for LDC governments, producers and exporters. A facility like the Enhanced Integrated Framework (EIF) could be given a more productive-capacity focused mandate aimed at supporting structural transformation, shifting its relative emphasis away from trade agreements (although not exclusively). If the overall pool of funds looks unlikely to increase, it may be worth redirecting funds in the more dynamic LDCs from humanitarian activities toward productive capacity. It is also important for multilaterals to permit LDCs the policy space to enact industrial policy, and to encourage it in technical advice.

(i) Strengthen special and differential (S&D) treatment for LDCs. Current S&D is too weak. Most transition periods have expired or will soon end, and at the very least need to be renewed or extended. The development of the Bangladeshi pharmaceutical industry, underpinned by the TRIPS and pharmaceuticals concession, is one notable exception (Gay 2018b). The TRIPS and pharmaceuticals extension, which among other things allows Bangladesh to copy medicines patented elsewhere, should be extended after graduation so as to allow Bangladesh the ability to continue to benefit, as well as potentially any other countries which may be sites of significant pharmaceutical manufacture. Covid-19 manufacture would in theory be possible, given appropriate technology transfer and support, as would the manufacture of future vaccines and more sophisticated pharmaceuticals which need to be produced at volume and low cost, near to disease outbreaks. In addition the General TRIPS waiver for LDCs should be extended. Progress on S&D will of course be difficult as outcomes are negotiated between often recalcitrant WTO members influenced by wider political and trade-related issues.

(ii) Improve preferential market access for goods, including 100% DFQF for all developed countries, as well as improved preferential schemes in developing nations. At present the US DFQF scheme does not provide full coverage and many developing countries fail to give DFQF for the main LDC exports. In several destination markets, DFQF ends abruptly upon graduation, with no smooth transition.

(iii) Relax rules of origin for LDCs. Collier (2011) argues that rules of origin for LDCs should be more liberal, pointing out that trade preferences, even if temporary, can help new entrants break into markets if rules of origin are relaxed and limited to countries that are still excluded from international markets, which particularly applies to African LDCs. Take-up of the non-LDC-specific African Growth and Opportunities Act (AGOA), for instance, was higher than EBA because rules of origin were more relaxed (Collier and Venables 2007). Not only are local content requirements arguably too high, but the EU double-transformation rule can be too onerous for many former LDCs. After graduation Bangladesh, for instance, will be unlikely to be able to supply the raw materials for ready-made garment manufacture and thus may be at a relative disadvantage in the EU GSP or GSP+ era.

(iv) Accommodate the e-commerce requirements of LDCs in trade agreements. Many LDC WTO members are unlikely to join any plurilateral agreement on e-commerce following the start of negotiations in 2019, either due to capacity limitations or the desire to adopt a wait-and-see stance. Yet e-commerce and digital commerce is more and more inseparable from all trade, which inevitably involves internet-driven transactions and communication. Globally, bilaterals and regionals increasingly include e-commerce provisions, which is included in 87 of the 303 agreements notified to the WTO. Many sub-Saharan LDCs risk being left behind in the digital economy. Trade agreements need to consider the needs of LDCs with regard to customs and digital trade facilitation and logistics; the facilitation of electronic transactions; and customs duties on electronic transactions. Openness, information flows, trust and transparency are also critical. Information communication technology also features heavily in services trade, and LDCs must leverage this trend if they are to expand their share in global trade and derive more benefit from it (Tralac 2019).

5.4 Commodities and resources

Commodity price fluctuations are among the most challenging and intractable of problems for LDCs, for reasons of food security, debt, financing and trade. Support measures for commodities therefore in effect benefit trade. After a prolonged period of stagnation since the

last commodities boom, prices have risen strongly again. Some reports suggest that the world is entering a new commodities supercycle, with copper prices in particular rising to record levels due to the need for carbon neutrality, particularly in China, alongside a slow supply response.[8] Volatility is the problem, not prices *per se*. Proposals include:

(i) A counter-cyclical financing facility to help LDCs deal with external shocks. The argument here is that LDCs do not have the ability to conduct national counter-cyclical demand management policies, and that an international facility should be established, disbursing aid quickly with few conditionalities during commodity price shocks (UNCTAD 2010: 193). Existing international mechanisms for smoothing commodities price fluctuations are inadequate. Countries such as Chile have been able to accumulate significant savings during upturns and subsequently cushioned the impact of downturns, although many LDCs are unable to do so due to policy conditionalities and limitations on fiscal space.

(ii) Innovative commodity price stabilisation schemes. Von Braun and Torero (2009) call for the establishment of a physical and a virtual reserve system to minimize speculative attacks on food markets. A small physical, public, globally managed grain reserve system would be supported by a fund financed by the main grain-producing countries. Alongside it, a virtual reserve facility, backed by funded promissory notes, would enable intervention in futures markets to reduce volatility and maintain prices near long-run fundamentals. The use of virtual reserves would thus reduce price spikes due to speculation.

The physical food reserves of each country would be maintained at about 5% of the current food aid flow, possibly managed by the World Food Programme (WFP) in developing regions alongside funds from emerging markets. Member countries participating in the scheme would operate the second system, backed by a virtual reserve with promissory notes. An intelligence unit and a high level technical commission would monitor price movements, designing and maintaining a dynamic price band system based on market fundamentals. These entities would help prevent noise traders from engaging aggressively in destabilizing speculation, while monitoring legitimate investments.

(iii) A transactions tax for commodity derivatives markets. Two tax tiers would be put in place, with the lower band at or near zero under normal market conditions, allowing markets to function efficiently with sufficient liquidity. If prices diverged significantly from the target price band, a higher, tier of tax would be levied on a proportion of derivatives transactions to

[8] Financial Times, 8 June 2021, 'Copper boom: how clean energy is driving a commodities supercycle,' https://www.ft.com/content/40907aa6-354e-42f8-8d51-8cc01f0e9687

curb the excess price volatility. Ideally the second tier (or higher tiers) would never need to be enacted, serving solely as an early-warning system or incentive to deter excessive speculation (UNCTAD 2010: 198).

(iv) A counter-cyclical loan facility indexed to debtors' ability to pay. The facility would involve two grace periods; one fixed and one floating. The proposal is to reduce the grace period of a typical concessional loan from ten to five years, and to keep the remaining grace period as an asset that the country could draw upon during an export shock, defined as one in which current exports fall below a moving average of the previous five years. This idea is based on the argument that in countries facing high vulnerability to external shocks such as natural resource price volatility, subsidized contingent loans are superior to outright grants in financing productive investment. Debt and debt cancellations are two complementary instruments, which, if properly managed, perform better than either loans or grants taken in isolation (UNCTAD 2010: 199).

These ideas acknowledge that it is unrealistic to advocate for the precise revival of past commodity agreements and that new, more sophisticated arrangements need to be put in place. It is worth remembering that commodity prices became more unstable after the move from coordination to non-coordination from the 1980s onward. Initiatives in the 1960s and 1970s to mitigate volatility included agreements on sugar, coffee, cocoa and rubber with the aim of stabilising prices through export quotas and buffer stock interventions. In 1976, the Integrated Programme for Commodities was adopted at the fourth session of UNCTAD, to support commodity price stabilization through international agreements and to establish a common fund for commodities. The Common Fund for Commodities, however, was poorly funded and unable to help commodity-dependent developing countries to stabilize prices as originally intended (UNCTAD 2019: 5).

Such agreements, however, have not been entirely abandoned and suggest that commodity arrangements can succeed if lessons are learnt from previous experience and adapted to modern market conditions. For instance in 2000 the seven main cocoa exporting countries, Cameroon, Ivory Coast, Gabon, Ghana, Malaysia, Nigeria and Togo, and the main importing countries including the EU, Russia and Switzerland agreed to promote the global consumption and production of cocoa as well as to stabilise prices, which had been falling steadily. The agreement has been extended until 2026.[9]

[9] https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XIX-47&chapter=19&lang=en

Natural resources

Most LDCs, particularly non-graduating countries in Africa, are resource dependent and do not benefit from processing or value-addition. Several island LDCs are also the site of deep sea mineral reserves in which some multinationals are conducting exploration. Collier (2011) supports international price stabilisation as well as making a number of innovative suggestions for the resources sector which could have multilateral or plurilateral-type implications.

(i) Donors should finance geological information in LDCs. A multi-donor or inter-governmental scheme may be set up in order to maximise economies of scale and minimise collective action problems between LDCs. It is too expensive for individual LDCs to pay for surveys themselves, and companies use this to their own advantage. The multilateral system is ideally placed to coordinate such activities, at relatively low cost.

(ii) Put in place a common format for selling the rights to extraction. International resource companies should be compelled to compete against one another in a transparent, open format presided over by the multilateral system. It is in the interest of resource companies, and against those of LDCs, to conduct negotiations in secret on a one-on-one basis with governments.

(iii) LDC governments should be assisted and encouraged to develop credible tax regimes, so that investors in resources and commodity infrastructure can be confident that at a later date governments will not expropriate their investments through tax increases. Resource companies are unlikely to make major national investments – especially in processing or value-addition – unless they are sure governments will not raise taxes by a large proportion, suddenly or arbitrarily on an individual operation, effectively nationalising or expropriating a large part of that investment. A lack of tax predictability is one reason why resource multinationals expropriate resources rather than add value in-country. The international system could be used to make national commitments credible.

(iv) Make companies liable for environmental damage incurred in resource extraction. On the separate but related issue of environmental damage due to mismanagement of resource extraction, companies should bear the entire cost of environmental damage, rather than governments. Such a rule should be enshrined in international law and be enforceable via legal mechanisms. For instance a UN deep sea mining law covering environmental harm was

under consideration at the time of writing. Independent and international adjudication should determine damages.

5.5 Technology

Technological progress is a critical component of productive capacity and structural transformation. Technology is perhaps more important than ever, given the advance of industry 4.0, the increasing 'technological' content of production and the digital divide, which threatens to further exclude LDCs. However as much as it is a seemingly modern concern, it has long been recognised. When thinkers within the developmentalist and structural tradition talk of the primacy of capital accumulation they are also implicitly (and often explicitly) advocating a higher technological input into production. Technology can be seen as an extension to capital, in that the line between each is difficult to draw (and in fact the relationship between each is one of the key starting points of an alternative (neoclassical) tradition, that of new growth theory). A machine encompasses both capital and technology. Thus measures under 5.2 above also support technological development.

As important as it is to leverage new technologies, simple 'leapfrogging' into industry 4.0 may be difficult without good foundational capabilities (Andreoni et al. 2021). The development of general and sector-specific production, technological, and organisational capabilities play a strong role in capturing digital industrialisation opportunities. These foundational capabilities have become even more important in the context of industry 4.0 because of technology fusion. New technologies will require strong innovation, technical, research and development skills. Technology fusion poses challenges because it is demanding, requiring the development and the cumulation of capabilities in more than one area of technology, as well as new opportunities as areas of value creation and capture open up. Governments should therefore gradually build up foundational capabilities and production systems rather than only trying to leapfrog.

In addition, international support should focus on innovation systems and their importance with trade within global value chains, which is critical to upgrading productive capacity. The OECD Productive Transformation Policy Reviews (PTPRs) are a good example of the integration of technology, innovation systems and productive capacity.[10] A study was launched in Bangladesh during 2021. PTPRs should be funded and launched, on demand, in a

[10] www.oecd.org/dev/ptprs.htm

select number of priority countries where productive capacity building is a major priority and which have the absorptive capacity to enact recommendations.

Existing ISMs, however, make little contribution to technological upgrading in LDCs. Current S&D at the WTO is restricted by TRIPS-plus obligations in many bilateral and regional trade and investment agreements, and by the low technological capabilities of LDCs. Article 66.2 of TRIPS has not fully been put into practice, under which developed countries are required to provide incentives for enterprises and institutions to promote technology transfer to LDCs. Much more should be done to operationalize article 66.2. Broadly there is a need to make the global intellectual property regime more development-friendly by improving the balance between public and private dimensions of knowledge, promoting knowledge intensive activities through mobilisation of domestic resources and supporting the emergence of the learning orientated developmental state that could facilitate knowledge-based activities. The following suggested measures apply more to middle- and upper-/ graduating LDCs than to the 'least developed of the least developed'.

(i) Operationalise the TRIPS vaccine waiver proposed by the US

In May 2021 the US announced that it would back the proposed vaccine waiver would suspend intellectual property (IP) rights on vaccines, potentially allowing other countries, not only LDCs, to copy the Covid-19 vaccine. However a text has not yet been circulated at the WTO and the EU has said that it would not back the waiver. At the time of writing, time was of the essence, and a formal decision needed to be reached as soon as possible. Even the IP waiver would not be enough. In line with article 66.2, technology transfer is required in order to help potential manufacturers produce the vaccine. Bangladeshi companies have said that they could potentially do so within months, given the correct know-how and support. This would address the shortage of the vaccine in Bangladesh and its many export partners, as well as broadening manufacturing capabilities, with subsequent learning-by-doing benefits. There is a link between the need for IP relaxation and productive capacity, in that LDCs or regional LDC partners should be assisted to learn more advanced, value-adding or technologically sophisticated manufacturing techniques so that they can deal with future outbreaks at source rather than being forced to rely on insufficient or unreliable imported product. This applies not just to the Covid-19 vaccine but to other drugs and manufacturing possibilities. It is also in the interests of the rest of the world because it would allow outbreaks of new variants to be dealt with quickly, closer to source.

(ii) Increase support and help operationalize the Technology Bank for LDCs. The Technology Bank for LDCs, established in Turkey in 2018 on a very small budget, should be better funded and helped to carry out its mandate. The Bank aims to strengthen the science, technology and innovation capacity of LDCs, giving them better access to intellectual property. The Bank aims to help attract outside technology and to generate homegrown research, innovation and marketing. It is intended to act as a conduit between intellectual property holders and LDCs to help them use desired technologies, particularly those no longer protected by intellectual property rights. The host country Turkey pledged US$ 1 million, and it was hoped that the private sector and foundations would contribute up to US$ 30-40 million over 3-5 years.

(iii) Improve knowledge and technology dissemination via the transfer of personnel. The tacit nature of production knowledge means there is also a need to send knowledgeable technicians from suitable countries to LDCs. Intellectual property, physical technology and capital equipment, although vital, cannot substitute for or exist independently from the know-how and expertise embodied in management personnel. Corporate or management transfer schemes may be explored, as well as south-south or north-south private-sector technical assistance embodied in corporate personnel for strategic industries. This type of knowledge transfer should prioritise existing, viable, businesses, but may be extended to new opportunities and even sustainable 'fourth industrial revolution' technologies such as 3D printing, complementary currencies and artificial intelligence.

5.6 Climate breakdown and environment

The LDC negotiating group has been at its most successful in climate negotiations, securing the LDC Fund and other multilateral concessions. Membership of the LDC group at the UN and WTO, and in climate talks, carries considerable collective bargaining power. This reflects the fact that any LDCs are among the most vulnerable to climate breakdown yet alone can do little to shield themselves from its effects. For instance all the small island developing state LDCs are vulnerable to sea level rise and hurricanes or cyclones but most cannot realistically build sea walls or comprehensive flood defences. These countries do not contribute much to carbon emissions, so should not prioritise climate change mitigation. Most climate financing should go to adaptation.

As noted earlier climate breakdown affects a large number of areas and can cause major economic damage. This is not just due to climate-driven events such as hurricanes or

cyclones, but to the burden of carbon-intensive investments. Investment in carbon energy sources should be discouraged and disincentivised, particularly by multilateral lenders. For instance LDCs building coal power stations, such as Zambia and Malawi is not only environmentally harmful but these countries will be left with stranded assets as the cost of renewables continues to decline.

Five proposals on climate and environment include:

(i) Encourage south-south collaboration on climate issues. Countries in the global South should be encouraged to share knowledge and experience in mitigation, and especially adaptation. Cooperation in renewable energy can be strengthened through technical cooperation, technology transfer, trade and investment. The international community should assist former LDCs in collaborating in negotiations. The provision of resources contingent on cross-collaboration among trade and climate negotiators would help break down the unintended barriers that often exist between these two groups.

(ii) Accommodate alternative economic paradigms. Any framework which questions the limits of economic growth or which advocates an oblique strategy toward growth is controversial in LDCs. For countries at the lowest income levels, and for many others, a direct emphasis on economic growth is essential in reducing poverty. For this reason GDP or GNI targets must remain.

But until now international support for LDCs has focused almost exclusively and directly on the conventional inputs to economic growth – net trade, investment and consumption – perhaps unrealistically so given the development trajectories of many LDCs (and with limited success). Even climate financing has often been couched in terms of mitigating the impact of environmental changes on economic output.

Some emerging theory and evidence suggests that multiple goals in addition to aggregate economic welfare are desirable, compatible and feasible (eg. Raworth 2017). An oblique or indirect focus on human development or quality of life goals are not only the ends of sustainable development but can themselves often contribute to sustainable economic growth. The national goals of many LDCs often do not centre around the purely economic. Vanuatu and Bhutan, both of which have experienced successful economic and human development trajectories, are examples of countries which have adopted the goal of life satisfaction and environmental sustainability rather than simple economic expansion. The government of Vanuatu prides itself on achieving high rankings in international happiness rankings. Bhutan

implements a policy of Gross National Happiness, under which all policies must contribute to a defined set of criteria measuring national wellbeing. There is a socially acceptable compromise between growth, life satisfaction and ecological sustainability. For these reasons it is recommended that the LDC-V text explicitly acknowledge alternative economic paradigms as legitimate targets and aspirations for countries at a certain level of development which wish to follow such objectives.

(iii) Replenish the LDC Fund. The replenishment of the LDC fund is a priority, given stated donor and multilateral aims in this area and the imperatives of climate breakdown in LDCs. Governments raise concerns about the administrative challenges of accessing pledged ODA, particularly to tackle climate change. SIDS and several others are particularly small and capacity-constrained. In a situation where global aid and ODA flows are restricted, other funding sources may need to be identified, such as revenues from the EU Carbon Border Adjustment Mechanism, which unless carefully designed may indirectly penalise LDC raw material exports (Gay 2021b).

(iv) Make climate financing more accessible. According to the 2016 UNCTAD LDC report: **"**The proliferation of separate institutions and financing windows, together with limited progress towards donor coordination and harmonization, has given rise to an increasingly complex development finance architecture for LDCs. To improve their access to development (and, for example, climate) finance, this Report proposes the establishment of an LDC finance facilitation mechanism (FFM). The FFM could serve as a "one-stop shop", identifying appropriate funding agencies for the investments identified as priorities in LDCs' national development strategies by matching them with the particular criteria, priorities and preferences of potential funding sources. This could considerably reduce the administrative burden of seeking development finance, while accelerating access to finance and reducing funding uncertainty. Such benefits could be further enhanced by providing support to the preparation of funding applications and fulfilment of reporting requirements; and an appropriately designed FFM could also contribute substantially to capacity-building in LDCs. An appropriate structure and adequate funding and staffing would be essential to the effectiveness of such a mechanism" (UNCTAD 2016).

(v) Make disaster resilience mechanisms for LDCs more pre-emptive. LDCs, including most graduating countries, tend to be under-served by existing disaster-risk reduction mechanisms yet suffer the most from natural disasters. Not only is climate financing often insufficient and difficult to access, but disaster-prone LDCs may be able to further pool risk

either regionally or globally via facilities simple enough to be easily accessed by capacity-constrained countries. Rather than dealing with disasters after the event, or only through insurance, which can be an imperfect solution, climate change resilience should be built in to projects during construction – and here, innovative financing mechanisms come into play. The importance of climate resilient infrastructure needs to be accommodated within attempts to build productive capacity. This is particularly relevant for the Pacific and several other island LDCs that are graduating and vulnerable to disasters.

Other innovative solutions may be explored, such as parametric insurance, where insurance providers, rather than waiting for disasters, pay out when parameters such as temperature or rainfall reach a certain level. This reduces costs because insurers are better able to model and predict outcomes. Climate data has moved so far away from historical averages that some insurers are raising premiums to unrealistic levels in order to cover the possibility of extreme events. In general climate data is poor in LDCs, and the monitoring and recording of statistics such as rainfall and wind speed need to be improved, in turn helping address risk. Insurers might also find it in their own interests to help finance mitigation measures such as flood defences, which reduce the costs of payout due to cyclones or hurricanes.

6. Summary of proposals

International support for LDCs has largely been founded upon the idea that increased exposure to market signals via reduced trade barriers will lead to the spontaneous integration of LDCs into the global system. This idea is based on certain theoretical predispositions within the mainstream economics literature which have increasingly been thrown into question in recent years. Irrespective of the theory, ISMs are also somewhat ad hoc and arbitrary, based on voluntary measures offered by trade and development partners in trade and development cooperation. In some ways the lack of predictability and consistency undermines support measures, which do not form part of an architecture or system. ODA pledges have mostly not been met. The long-term evidence also suggests that, even with consistent application of pledges, this approach would not have worked. Economic growth, trade, investment and other indicators have fallen short of expectations in recent years – and indeed the LDCs have slipped further behind developing and developed countries. A much more direct, coherent and systematic approach is needed, acknowledging the realities of global political economy. This approach is all the more urgent in light of the devastating

impact of Covid-19, which has unearthed many weaknesses in the global system beyond health. New possibilities have emerged as a result of the crisis, including the broad acceptance of industrial policy, debt relief and new sources of financing such as the use of IMF special drawing rights.

This paper has tried to propose some ideas for a revitalised, systemic approach in the areas of trade and investment, using insights from the developmentalist, structuralist and dependency traditions. Some of these ideas may be suitable for discussion at LDC-V and incorporated into the next programme of action. Whilst productive capacity was mentioned many times in the IPOA it was not incorporate into a coherent, actionable and time-bound set of priorities. In the next decade, sustainable productive capacity should form an overarching and integrated theme from which various actions derive. Actionable commitments are necessary, with specific time horizons and accountability. This emphasis on sustainable productive capacity is not to downplay other critical concerns like education, health or environmental vulnerability, nor to dismiss their input into productive capacity, but to highlight the links between such priorities and identify systematic ways of addressing them, acknowledging the reality that building the economic engine will generate the finances and economic activity for governments and the private sector to tackle these concerns. Financing for productive capacity and the acknowledgement of the systemic nature of the world economy should be the most important priorities for the next programme of action. It is time that the critical importance of directly promoting productive capacity is acknowledged, and that LDC governments and the international system have a role in promoting it, rather than continuing to assume that integration will naturally occur via the reduction of barriers to trade and investment.

The following table summarises the recommendations above, divided into six main categories: UN system; finance and investment; trade; commodities and resource extraction; technology; climate change and environment.

1. UN system
(i) Encourage use of the LDC category *(ii) Improve internal UN coordination on LDC matters* *(iii) Directly target the worst-off and most vulnerable LDCs*

(iv) Put in place a support programme for graduating LDCs
2. Finance and investment
(i) Official DAC donors should fulfil commitments to provide 0.15 to 0.20% of GNI to LDCs *(ii) Adopt a measured and strategic approach to new forms of finance* *(iii) Increase assistance for domestic financing and acknowledge this priority in technical cooperation* *(iv) Devote an increased share of aid to building productive capacity, including for infrastructure* *(v) Improve the international system of debt relief and encourage sustainable lending* *(vi) Directly address inequalities in LDCs*
3. Trade
(i) Strengthen special and differential (S&D) treatment for LDCs *(ii) Improve preferential market access for goods* *(iii) Relax rules of origin for LDCs* *(iv) Accommodate the e-commerce requirements of LDCs in trade agreements*
4. Commodities and resource extraction
(i) A counter-cyclical financing facility to help LDCs deal with external shocks *(ii) Innovative commodity price stabilisation schemes* *(iii) A transaction tax for commodity-derivatives markets* *(iv) A counter-cyclical loan facility indexed to debtors' ability to pay* **Natural resources** *(i) Donors should finance geological information in LDCs* *(ii) Put in place a common format for selling the rights to extraction* *(iii) LDC governments should be assisted and encouraged to develop credible tax regimes* *(iv) Make companies liable for environmental damage incurred in resource extraction*

5. Technology
(i) Operationalise the TRIPS vaccine waiver proposed by the US *(ii) Increase support and help operationalize the Technology Bank for LDCs* *(iii) Improve knowledge and technology dissemination via the transfer of personnel*
6. Climate breakdown and environment
(i) Encourage south-south collaboration on climate issues *(ii) Accommodate alternative economic paradigms* *(iii) Replenish the LDC Fund* *(iv) Make climate financing more accessible* *(v) Make disaster resilience mechanisms for LDCs more pre-emptive*

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