LDC ISTANBUL'07

July 9-11, 2007

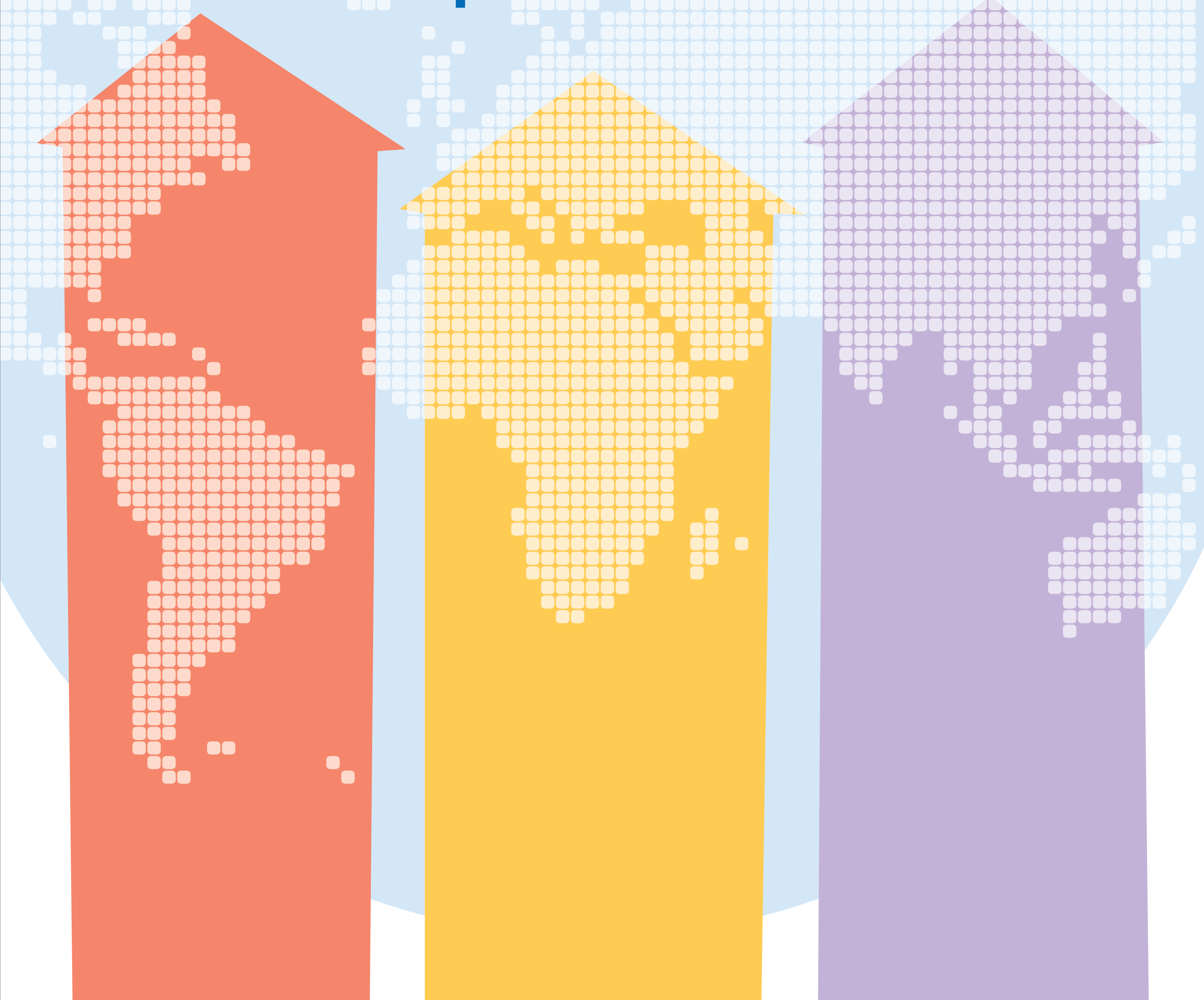
Republic of Turkey

UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States

United Nations Development Programme

UNDP

Making Globalization Work for the Least Developed Countries



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Making Globalization Work for the Least Developed Countries

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Preface

The United Nations Ministerial Conference of the Least Developed Countries, 'Making Globalization Work for the LDCs', hosted by the Government of Turkey and jointly organized by United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS), United Nations Development Programme (UNDP) and the Government of Turkey took place in Istanbul (Turkey) from 9 to 11 July 2007.

The conference sought to address questions of full and beneficial integration of the LDCs in the world economy, as there is widespread agreement that most such countries have not participated in the economic and financial benefits of the current phase of globalization. Senior policy makers and representatives of international organizations, including those from 47 LDCs, therefore gathered in Istanbul to discuss ways of harnessing globalization's potential for development, to draw attention to LDCs in the global economy and to promote South-South cooperation between LDCs and other developing countries as well as between the LDCs themselves.

The conference stimulated considerable discussion, sparked ideas of cooperation as well as yielded results that reaffirmed the commitment to the Brussels Programme of Action for the Least Developed Countries for the Decade 2001-2010. Indeed, the Istanbul Declaration on LDCs can be viewed as a 'Call for Action' for the Brussels Declaration. While recognizing that the process of globalization and interdependence is potentially a powerful and dynamic force that can contribute to growth, poverty reduction and sustainable development, the ministers of the LDCs recognized and affirmed the need for fair and equitable globalization. Conference participants also emphasized that if properly managed, additional trade and investment, increased transfer of technology, agricultural productivity and affordable, reliable, economically viable and socially acceptable forms of energy can help LDCs build a competitive environment in a truly inclusive and globalized world.

Yet, today's reality is different. While the economic reforms of the last few years in the LDCs have resulted in more open economies and greater integration of these countries into the global economy, they have often simultaneously imposed economic hardships on large parts of the population in many LDCs. Small businesses in these countries have lost out either to the big international players or to cheaper imports. There has been a shrinking of the public sector and withdrawal of state subsidies without any commensurate growth of strong market and other institutions, resulting in loss of jobs and reduced national capacity to deliver on many of the Millennium Development Goals. Moreover, without social safety nets, many people have seen their standards of living plummet. The benefits of what little economic growth has taken place, have, in most cases, failed to trickle down to the poor.

Structural constraints — ranging from weak institutional and technical capacities to a limited knowledge base — make it likely that without special measures, LDCs will not be able to take full advantage of the opportunities offered by globalization. Nor will they be in a position to minimize the hardships.

How to maximize the gain while minimizing the pain remains the central question and challenge. The UN Ministerial Conference of the LDCs offered some recommendations which could help in this respect. Foremost among them is that LDCs need to walk the road of globalization at their own pace and on their own terms. As stated in the Istanbul Declaration, 'It is for each Government to evaluate the trade-offs between the benefits of accepting international rules and commitments and the constraints posed by the loss of policy space'.

Moreover, policy space at home needs to be matched by a stronger voice at the international level, enabling the LDCs to influence the global economic architecture. In addition, progress is needed to ensure the effective access of the products of the LDCs to global markets on a duty-free and quota-free basis, and the elimination of trade-distorting subsidies in rich countries which continue to undermine the competitiveness of goods and services from LDCs.

In addition, LDCs will need external support both to cope with the downsides of globalization and to take advantage of the opportunities it offers. South-South cooperation and regional integration in the form of partnerships between middle-income countries and LDCs will be vital for this. Often the problems of middle-income countries are closer to the challenges that an LDC faces than the problems in a very advanced country. In such a context, appropriate partnership arrangements need to be institutionalized to ensure that the support and cooperation they engender are lasting, predictable and effective.

Ultimately, the current phase of globalization will be judged by whether it is able to transform itself into a vehicle for eradicating poverty, marginalization and inequality, and for promoting sustainable development. This is the moral imperative of our time. Putting LDCs in the driver's seat will be a prerequisite for this.

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The chapter 'Globalization and the Least Developed Countries' was prepared in the Inclusive Globalization Cluster of the Poverty Group of UNDP's Bureau for Development Policy by a team comprising Paul Ladd, Luciana Mermet, Sabrina Varma, Sukyung Park and Kathryn Glynn-Broderick under the overall guidance and supervision of Kamal Malhotra, Senior Adviser and Cluster Leader, Inclusive Globalization. This chapter benefited from peer review by Dr. Debapriya Bhattacharya, then Executive Director of the Centre for Policy Dialogue in Bangladesh (now Ambassador and Permanent Representative of Bangladesh to the WTO and UN Office in Geneva), and by Pedro Conceição and his colleagues in UNDP's Office of Development Studies and by the Executive Office of UNDP. Comments were also received from Mehmet Arda on behalf of the Government of Turkey, David Luke of UNDP's Geneva Trade and Human Development Unit and UN-OHRLLS.

The chapters 'Globalization and the Least Developed Countries: Issues in trade and investment' and 'Globalization and the Least Developed Countries: Issues in technology' were prepared by Charles Gore and Michael Herrmann from the Division for Africa, Least Developed Countries and Special Programmes (ALDC), in UNCTAD, with inputs from Kamal Malhotra and his colleagues in the Inclusive Globalization Cluster of the Poverty Group in UNDP's Bureau for Development Policy. Both chapters also benefited from comments by Pedro Conceição and his colleagues in UNDP's Office of Development Studies and the Executive Office of UNDP.

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The chapter ‘Energizing the Least Developed Countries to achieve the Millennium Development Goals: The challenges and opportunities of globalization’ was prepared by Minoru Takada, Kamal Rijal and Ellen Morris from the Environment and Energy Group, Bureau for Development Policy, UNDP. This chapter benefited from comments provided by Olav Kjørven, Philip Dobie, Abul Barkat, Abeeku Brew-Hammond and staff in the Inclusive Globalization Cluster of the Poverty Group in the Bureau for Development Policy. It also received comments from Pedro Conceição and his colleagues in UNDP’s Office of Development Studies. Additionally, the paper benefited from comments by Mehmet Arda on behalf of the Government of Turkey and by UN-OHRLLS.

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Abbreviations

ACP	African, Caribbean and Pacific
AGOA	African Growth and Opportunity Act
ALDC	Africa, Least Developed Countries and Special Programmes
AoA	Agreement on Agriculture
ATL	Air Transport Levy
BDP	Bureau for Development Policy
BIT	Bilateral Investment Treaty
BRICS	Brazil, Russia, India, China and South Africa
CBI	Caribbean Basin Initiative
CDP	Committee for Development Policy
CGIAR	Consultative Group on International Agricultural Research
DAC	Development Assistance Committee
DFQF	duty-free, quota-free
EBA	Everything But Arms
ECOSOC	United Nations Economic and Social Council
ECOWAS	Economic Community of West African States
EEG	Environment and Energy Group
EIF	Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries
EPA	Economic Partnership Agreement
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GDP	gross domestic product
GNI	gross national income

GNP	gross national product
GSP	Generalized System of Preferences
HIPC	heavily indebted poor countries
ICT	Information Communications Technology
IEA	International Energy Agency
IF	Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries
IFFIm	International Finance Facility for Immunization
ILO	International Labour Organization
IMF	International Monetary Fund
IPR	Intellectual Property Rights
LDCs	Least Developed Countries
LLDCs	Landlocked Developing Countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MFA	Multifibre Arrangement
NGO	non-governmental organization
NPV	net present value
NTB	non-tariffs barriers
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PG	Poverty Group
PPP	purchasing power parity
PRSP	Poverty Reduction Strategy Paper
R&D	research and development
REDP	Rural Energy Development Programme

RMG	ready-made garment
ROO	Rules of Origin
RTA	Regional Trade Agreement
S&DT	Special and Differential Treatment
SIDS	Small Island Developing States
SPS	Sanitary and Phytosanitary Measures
SP	Special Products
TBT	Technical Barriers to Trade
TRIPS	Trade Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
UN-OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Introduction

The 'Istanbul Declaration on Least Developed Countries: Time for Action', which was issued at the conclusion of the United Nations Ministerial Conference of the Least Developed Countries (LDCs) 'Making Globalization Work for the LDCs' in July 2007, reaffirmed the international community's commitment to the Programme of Action for the Least Developed Countries for the Decade 2001-2010 and highlighted the opportunities and challenges of the current phase of globalization for the poorest and most vulnerable countries. LDC ministers recognized and affirmed that the process of globalization and interdependence is potentially a powerful and dynamic force that can contribute to growth, poverty reduction and sustainable development, but emphasized the need for fair and equitable globalization. Additional trade and investment, transfer of technology and technological innovation and development, agricultural productivity and food security, and affordable, reliable, economically viable and socially acceptable forms of energy can potentially help LDCs build a competitive environment and foster a truly inclusive and globalized world. But none of this is automatic or inevitable.

The conference produced substantive papers on these four themes, and one background paper entitled 'Globalization and the Least Developed Countries'. The Inclusive Globalization Cluster of the Poverty Group of the Bureau for Development Policy of UNDP was responsible for the substantive preparation of the conference papers, with important inputs from UNCTAD ('Globalization and the LDCs: Issues in trade and investment' and 'Globalization and the Least Developed Countries: Issues in technology'), FAO ('Globalization, agriculture and the Least Developed Countries') and the Environment and Energy Group of UNDP ('Energizing the Least Developed Countries to achieve the Millennium Development Goals: The challenges and opportunities of globalization').

The gathering of many ministers, senior policy makers and other officials and delegates from a range of international organizations facilitated ample discussion and debate. The city of Istanbul was a perfect venue as the host of the conference. Located at the crossroads of historically commercial and cultural routes, the city has, for centuries, provided a crucial bridge between East and West, as well as South and North. The process of globalization has symbolized the flow of money, ideas, people, goods and services across borders between North, South, East and West over the last two centuries. While the technological aspects of the process might be irreversible, its policy aspects can and should be managed to effect a more inclusive and equitable outcome.

Indeed, while many posit that globalization has led to substantial gains in the well-being of millions of people around the globe, a darker side to globalization coexists, manifested in increasing, unprecedented inequalities both between and within the vast majority of countries. This income inequality is translating into staggering wealth inequality: according to the *Human Development Report 2005*, the poorest 40 percent of the world's population — 2.5 billion people, living on less than $2 a day — now accounts for just five percent of all global income. Such inequalities extend beyond income and wealth, and are underpinned by inequalities in opportunity, power and development outcomes. Partly as a result, the LDC share of world merchandise exports fell from nearly 3 percent in 1950 to below 1 percent in 2004. The evidence also suggests that most LDCs remain trapped in a vicious circle of extreme poverty and are actually diverging from developed countries in many other human development indicators. As a result, they are becoming further marginalized in the global economy.

While many posit that globalization has led to substantial gains in the well-being of millions of people around the globe, a darker side to globalization coexists, manifested in increasing, unprecedented inequalities both between and within the vast majority of countries.

The benefits of globalization have failed to reach LDCs for both domestic and international reasons. Internally, LDCs continue to face daunting structural constraints, some of which have been inherited from their colonial past. Extreme poverty, insufficient financial resources, inadequate physical and social infrastructure, lack of skilled human resources and weak institutional and other capacities, as well as the challenge of HIV/AIDS, malaria and tuberculosis, inhibit domestic growth and jeopardize sustainable development in many LDCs. Moreover, the basic building blocks for economic activity and growth have either yet to be put in place or have been severely damaged as a result of both internal and external shocks. LDCs must prioritize economic growth in their national development strategies and policies which build productive capacity. They will also need to enhance their fiscal space through domestic resource mobilization, promote agricultural and industrial diversification and energy security, and strengthen inclusive governance systems. Strengthening national institutions will also be critical to their regional and global integration.

Externally, the current phase of globalization has been driven by the industrial economies' need for market and investment opportunities abroad, facilitated by the modern technological revolution. This has led to a playing field which is very uneven. Ensuring a fair and inclusive globalization process and outcomes should therefore be both an urgent and common responsibility of the entire international community, and a major binding policy objective of the global partnership for development embodied in Goal 8 of the Millennium Development Goals. This responsibility should extend beyond providing financial resources and should seek to address the systemic inequities of the international economic system. To enable this, developed countries will not only need to meet their existing commitments on aid quantity and quality, but put in place trade, investment, debt sustainability, migration, climate change and intellectual property frameworks that systematically and genuinely operationalize special and differential treatment in favour of developing countries, especially low-income countries. This will require considerable political will on the part of OECD countries.

In terms of trade, fully funding the Enhanced Integrated Framework Trust Fund and providing a broader Aid for Trade package which supports trade-related infrastructure, adjustment and other costs will be important as a complement to (but not a substitute for) the development dimension of the Doha Round. Providing duty-free and quota-free market access for all LDC goods should be a specific objective, together with promoting genuine South-South cooperation between middle-income and developing countries and the LDCs. In this context, the rise of the newly industrializing developing countries such as Brazil, China, India, South Africa and Turkey presents new opportunities for the group of LDCs — especially in terms of markets for their exports. A new era of cooperation between such important emerging economies and the LDCs can help create a sustainable basis for economic growth, poverty reduction and human development if appropriately managed.

It is hoped that this publication, which comprises the papers and statements prepared and presented at the UN Ministerial Conference of the LDCs, 'Making Globalization Work for the LDCs', will draw attention to issues and challenges facing LDCs and will provide policy makers, practitioners and academics in LDCs with important policy guidance on the way forward.

Chapter 1

Globalization and the Least Developed Countries

Introduction

This paper analyses how LDCs are affected by the current process of globalization, and considers what policies LDCs and the international community can implement to increase the share of benefits they receive in this process, while minimizing the costs and risks they bear.[1] Globalization involves the increasing integration and interdependence of countries, their peoples, governments and private sectors. As such, globalization has economic, social, technological, cultural and political dimensions. In this paper, we focus on the consequences of globalization for sustainable human development in LDCs.[2]

Three criteria are used by the United Nations to assess whether a country is classified as an LDC: low income, weak human assets and economic vulnerability.[3] There are currently 50 countries classified as LDCs, of which 31 are landlocked LDCs and 12 are Small Island Developing States (SIDS).[4] LDCs contributed 0.69 percent of global output in 2005 even though they accounted for almost 12 percent of the world's population.[5] While it is difficult to construct an accurate picture of poverty and human development trends in the group of LDCs as a whole due to a lack of systematic and comparable data, United Nations Conference on Trade and

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1. Background paper for the July 2007 UN Ministerial Conference 'Making Globalization Work for the LDCs', organized by the Government of Turkey in cooperation with UNDP and the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States (UN-OHRLLS). The paper was prepared in the Inclusive Globalization Cluster of UNDP's Bureau for Development Policy by a team comprising Paul Ladd, Luciana Mermet, Sabrina Varma, Sukyung Park and Kathryn Glynn-Broderick, under the guidance and supervision of Kamal Malhotra, Senior Adviser and Cluster Leader, Inclusive Globalization, Poverty Group, Bureau for Development Policy. The paper is intended to stimulate discussion and debate both at and beyond the conference, and puts forward certain hypotheses for this purpose. The authors gratefully acknowledge the contributions of several UNDP country offices in LDCs, including Bangladesh, Malawi, Mauritania, Nepal, Rwanda and Senegal, as well as from David Luke of UNDP's Geneva Trade and Human Development Unit. The paper benefited from peer review by Debapriya Bhattacharya, then Executive Director of the Centre for Policy Dialogue, Bangladesh (now Ambassador and Permanent Representative of Bangladesh to the WTO and UN Office in Geneva) and by staff in the Office of Development Studies and Executive Office of UNDP. Comments were also received from UN-OHRLLS and these were incorporated as appropriate. Finally, the paper draws significantly on the UNCTAD series of reports on the LDCs: http://www.unctad.org/Templates/Page.asp?intItemID=3073&lang=1.
2. Since 1971, the United Nations has denominated LDCs as a category of states that are deemed highly disadvantaged in their development process, many of them for geographical reasons. These countries face greater development and poverty related challenges than other developing countries. Indeed, LDCs are considered to be in need of the highest degree of attention from the international community.
3. Low income is assessed as a three-year average estimate of the gross national income (GNI) per capita (under $750 for countries to be added to the list, above $900 for cases of graduation); weak human assets are proxied through a composite Human Assets Index: http://www.unctad.org/sections/ldc_dir/docs//ldc_highlight001hai_en.pdf; and economic vulnerability is measured through a composite Economic Vulnerability Index: http://www.unctad.org/sections/ldc_dir/docs//ldc_highlight001evi_en.pdf.
4. UN-OHRLLS: http://www.un.org/special-rep.
5. Key Development Data and Statistics, World Bank Database, 2005: http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20535285~menuPK:1390200~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html.

Development (UNCTAD) has estimated that the number of people living in poverty in the LDCs will increase from 334 million in 2000 to 470 million in 2010. While growth is increasing and poverty is falling in some LDCs — especially in Asia — the incidence of poverty is increasing in others, most notably in Africa.[6]

The picture of progress towards the achievement of the Millennium Development Goals (MDGs) is also mixed. These goals correspond to a large degree with the targets of the Programme of Action for the Least Developed Countries for the Decade 2001-2010,[7] which include 30 time bound and measurable international development goals, including those contained in the Millennium Declaration. In general, progress reports for many of the internationally agreed development goals are a mixed bag. For instance, one country, Cape Verde, has already achieved the target for primary education, and nine more are on track to meet it by 2015.[8] Ten LDCs have achieved the target for eliminating gender disparities in education, and nine others look set to reach it by 2015.[9] By contrast, progress on reducing child mortality has been 'very slow in over 80 percent of the cases for which data are available and several LDCs are experiencing setbacks'.[10] The infant mortality rate in LDCs is 99 per 1,000 live births, while life expectancy at birth is 49.[11] Between 1993 and 2004, over 4 in 10 people in LDCs lived on less than $1 a day.[12]

This background paper focuses on the impact of external development policies on the prospects for the integration and development of the LDCs. This is partly because its aim is to consider the inherent dynamics of globalization, and partly because domestic or 'within border' constraints to development are considered in more detail in the four complementary issues papers.[13] This paper therefore analyses how the LDCs are affected by the policies of the international community in areas such as Official Development Assistance (ODA), Foreign Direct Investment (FDI), trade, technology transfer, intellectual property, indigenous knowledge and migration. The paper recognizes that LDCs are a diverse group. Many LDCs in Asia (notably Bangladesh) are doing better than those in Africa. Nevertheless, it considers international constraints and domestic issues cross-cutting the LDCs as a group.

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6. UNCTAD, LDCs Report 2002.

7. Three United Nations conferences on the Least Developed Countries were held in 1981, 1990, and 2001 under the leadership of UNCTAD. The third conference (Brussels, 14-20 May 2001) agreed on the Programme of Action for the Least Developed Countries for the Decade 2001-2010, which was reviewed in 2006. By periodically reviewing the list of LDCs on the basis of established criteria and highlighting their structural problems in relevant UNCTAD publications, the UN gives a strong signal to the development partners of these countries, and points to the need for special international support measures and concessions in their favour: http://www.un.org/events/ldc3/conference/plan_action.htm.

8. UNCTAD, LDCs Report 2006, page 35.

9. Ibid.

10. UNCTAD, 2004.

11. UNICEF, 2004, page 113.

12. Ibid.

13. Chapters 2 to 5 of this book ('Globalization and the Least Developed Countries: Issues in trade and investment'; 'Globalization and the Least Developed Countries: Issues in technology'; 'Globalization, agriculture, and the Least Developed Countries'; and 'Energizing the Least Developed Countries to achieve the Millennium Development Goals: The challenges and opportunities of globalization').

The paper argues that due to their practical exclusion from economic and political processes — and other special constraints — many LDCs find themselves in a 'globalization and exclusion trap'. LDCs have underdeveloped institutions and less capacity to engage in policy discussions at the international level, as well as less capacity to compete internationally. Globalization increases the competitive environment for the LDCs, places pressure on them to adopt international rules and standards, and can also leave them more vulnerable to external shocks. This increasingly competitive environment often has negative impacts on LDCs: they may lose jobs and market share in the short run, the rules and standards adopted may be too stringent for their level of development, and the policy space they need to enhance their competitive capacity, invest in innovation and build institutions may be severely eroded. Overall —with a few exceptions since LDCs are not homogeneous — their capacity and ability to influence discussions that relate to the overall architecture of globalization is likely to remain insignificant. As a result of both domestic and external constraints, LDCs are unable to put in place and sustain national policies that would enable them to increase their productive assets. This increases inequality between LDCs and richer countries, and makes it more difficult for LDCs to achieve economic growth and sustainable human development.

Due to their practical exclusion from economic and political processes — and other special constraints — many LDCs find themselves in a 'globalization and exclusion trap'.

The paper also analyses the growing economic and political power of newly emerging Southern economies — especially the BRICS (Brazil, Russia, India, China and South Africa) — which affects the context of globalization for LDCs, presenting both new opportunities and challenges. The last section of the paper suggests some ways in which domestic and international policies could be reformed so that LDCs can break free from this 'globalization and exclusion trap', allowing them to bridge the growing divide between the more developed economies and themselves.

While the paper focuses primarily on the impact of the external policy environment on the group of LDCs, we first recognize that LDCs face a set of initial constraints that are independent of — or in some cases indirectly connected to — the policy actions of those outside their borders. These constraints relate to geography, climate, infrastructure, disease burden, human capital, institutions and other capacity challenges.

Adverse geography and climate make it more difficult to amass the physical, human or institutional capital — the productive capacities — required for development. Most of the poorest countries, with a per capita gross national product (GNP) approximately one third of the world average, are located in the tropics. Global production is highly concentrated in the temperate zone which consists of only 8.4 percent of the world's inhabited area. Landlocked developing countries (LLDCs) far from seaports also face higher costs of trade and transportation. For instance, the estimated ratio of freight costs, including transportation and insurance, to total exports averaged 0.74 in Asia-Pacific LLDCs, as compared to 0.42 in other landlocked countries. Moreover, the distance to the nearest port was 1,129 km in Asia-Pacific LLDCs, compared to 1,255 km in other land locked countries.[14] Small island LDCs are constrained by the size of their internal markets, often in addition to limited land or other natural resources.

LDCs face an acute challenge in their capacity to produce and deliver goods competitively to the international market, especially due to a lack of basic infrastructure and adequate levels of human capital. This basic infrastructure includes internal road and rail networks, power generation and distribution, water and sanitation services, ports, and communications technologies. Development assistance to support investment in infrastructure has declined in recent years, and yet the private sector has not stepped in to fill the financing gap. Functional literacy and numeracy rates are also often lower than the developing country average, and education gains can be undermined by vulnerability to poor public health and communicable diseases.

Overall —with a few exceptions since LDCs are not homogeneous — their capacity and ability to influence discussions that relate to the overall architecture of globalization is likely to remain insignificant.

In particular, many kinds of infectious diseases are endemic to the tropical zones and most LDCs face a heavy disease burden of HIV/AIDS, tuberculosis, diarrhoeal diseases and tropical diseases such as malaria. The economic and social impacts of ill health undermine growth and progress towards the MDGs. In addition to the common public health challenges faced by countries worldwide, LDCs face a particular burden with respect to communicable diseases. It has been estimated that malaria costs Africa more than $12 billion and slows growth by approximately 1.3 percent annually.[15] Of the 40 million people worldwide currently living with HIV/AIDS, approximately one quarter live in LDCs.[16]

While LDCs are least responsible for global carbon emissions, they are disproportionately affected by its negative consequences and have the least capacity to adapt to climate change.[17] In addition to the impact on their productive capacity, climate change in some LDCs will lead to an increased risk of droughts or floods. It may take years to replace or repair infrastructure damaged through natural disasters. LDCs have low 'adaptive capacity' to respond to climate change and its impacts. The Intergovernmental Panel on Climate Change, in its 2001 report, described the capacity necessary to adapt to these impacts, which includes a stable and prosperous economy, a high degree of access to technology at all levels, well-delineated roles and responsibilities for implementation of adaptation strategies, systems in place for the national, regional and local dissemination of climate change and adaptation

14. UNDP, 2005.

15. The Abuja Declaration, The African Summit on Roll Back Malaria, April 2000: http://www.rbm.who.int/docs/abuja_declaration.pdf.

16. UN General Assembly, 2006.

17. See, for example, the Intergovernmental Panel on Climate Change (2007) and Oxfam International (2007).

information, and an equitable distribution of access to resources.[18] All these capacities are in short supply in most, if not all, LDCs.

LDCs are currently at a crossroads in terms of their own energy access and use. It has been estimated that four out of five people without electricity live in rural areas in developing countries, mainly in South Asia and sub-Saharan Africa.[19] Many have traditionally been reliant on biomass fuels collected locally, especially wood fuels, which can have negative health impacts caused by indoor air pollution. The cost of importing fossil fuels is prohibitive for many LDCs, and the recent oil price increases have exacerbated this problem. At the same time, globalization offers an opportunity to access newer and more efficient technologies, including renewable energies.

The lack of capacity in government and supporting institutions constraints the ability of the LDCs to respond to the challenges of globalization through appropriate policy choices.

LDCs also face significant challenges in building state capacity. It is often more difficult to enforce laws or implement policies, institutions are sometimes not set up to facilitate participatory processes on policy-making, and accountability and transparency structures are weak, leading to a risk of corruption. Civil society actors — NGOs, faith based groups, unions and the private sector — can play an important role as partners in building more effective government, assisting with service delivery, monitoring state activities and influencing policy debates and formulation. However, the role of civil society is sometimes limited by legal, financial, human and infrastructural factors.

Partly because of weaker governance and accountability structures, and also because of tensions over natural resources, many LDCs have been prone to violent conflict. In addition to the vast human cost that conflict creates, it undermines any previous development progress, reduces employment and economic activity, and acts as a disincentive to both domestic and foreign investment.

The lack of capacity in government and supporting institutions constraints the ability of the LDCs to respond to the challenges of globalization through appropriate policy choices. For example, their inability to deal with the high adjustment costs of trade liberalization is a significant challenge. Tariff revenue losses, preference erosion, and the need for responsive social protection systems represent major adjustment related costs, and require significant capacity and resources to address. With regard to taxation, the structure of the economy can be important. The existence of large informal economies in the LDCs makes it difficult to switch to domestic income, value added or sales taxes.

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18. Accessed via: http://www.ipcc.ch/.

19. International Bioenergy Platform, 2006.

Development finance and LDCs

Official Development Assistance

ODA can play a vital role in supplementing domestic investment in economic and social goals in the LDCs. In the Programme of Action for the Least Developed Countries for the Decade 2001-2010, signatories committed to increasing ODA for the LDCs to 0.2 percent of gross national income (GNI).[20] Aid to LDCs has been increasing since 2000, growing to $24.9 billion by 2004. In nominal terms, aid to LDCs doubled between 1999 and 2004, a rate of increase four times that of other developing countries. In real terms, however, the increases have been less significant, with an actual decrease of 4.4 percent between 2003 and 2004. This followed a 14 percent increase between 2002 and 2003.[21]

This overall trend varies greatly by country, however, with more significant increases to conflict affected countries in the form of emergency assistance. Aid to Afghanistan and the Democratic Republic of Congo increased by 79 and 93 percent per annum respectively, between 1999 and 2004, and aid to Burundi, Lesotho, Sierra Leone and Sudan by over 20 percent. However, net ODA stayed flat or even declined in real terms for almost half the LDCs during the same period, including 9 of the 10 island LDCs. On average, real ODA to the island LDCs declined by 3 percent per annum in that five-year period.[22]

These aid figures include debt relief, technical assistance and food aid, which together constituted 46.5 percent of total net ODA disbursed to LDCs in 2004. Aid given as food or technical assistance can be very important for recipients, but it does not contribute directly to freeing up fiscal space for longer-term investments in economic infrastructure, health and education systems, or other country priorities.

Aid in the form of grants has become relatively more important than aid in the form of loans, especially for bilateral donors, with grants increasing from 62 percent of total net ODA commitments in 1992 to 76 percent in 2004. However, as loans have fallen, donors have allocated less aid for investment in infrastructure or the productive sector, as the rationale for financing these from grants is weaker.

In order for aid to play a more effective role in underpinning progress towards the MDGs, the commitments to increase aid made at Monterrey in 2002 at the Financing for Development Conference, and at the G8 Gleneagles Summit 2005, must be met. In 2005, G8 summit leaders agreed to increase aid to developing countries by $50 billion a year by 2010, with at least $25 billion a year going to Africa. A few months earlier, member states of the European Union (EU) resolved to reach the internationally agreed target of 0.7 percent of GNI in ODA by 2015, with an interim target of 0.51 percent by 2010

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20. UN Programme of Action for LDCs, page 51. As of 2004, contributions of ODA reached the following percentage of gross national product (GNP)/GNI for the OECD/DAC countries: Norway (0.33), Portugal (0.53), Luxembourg (0.31), Denmark (0.31), Netherlands (0.25), Sweden (0.22), Ireland (0.21), Belgium (0.18), France (0.15), United Kingdom (0.14), Switzerland (0.11), Finland (0.08), Germany (0.08), New Zealand (0.07), Canada (0.07), Austria (0.06), Australia (0.06), Italy (0.05), Japan (0.04), Spain (0.04), United States (0.04), Greece (0.03). Source: http://mdgs.un.org/unsd/mdg/SeriesDetail.aspx?srid=650&crid=.

21. UNCTAD, LDCs Report, 2006.

22. Ibid.

(0.33 and 0.17 percent respectively for the new member states). Donors have also been implementing mechanisms for innovative financing such as the International Finance Facility for Immunization (IFFIm), the solidarity Air Transport Levies (ATLs) for drugs facilities, and Advance Market Commitments for vaccine investments.

Efforts are also needed to further improve the effectiveness of aid. In early 2005, members of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) adopted the Paris Declaration on Aid Effectiveness, which sets concrete benchmarks for improving the quality and coherence of ODA. This includes aligning behind nationally set priorities (whether defined in a Poverty Reduction Strategy Paper (PRSP) which many LDCs have now adopted, or other national development strategy documents), untying aid, providing flexible aid to sectors or through the budget, and minimizing the transaction costs for the recipient of separate implementation units and donor missions. In addition, some donors have begun to recognize that economic policy conditions within aid programmes can not only be burdensome, they may be insensitively defined and undermine national democratic processes.[23]

Debt relief

Aid provided through the relief of old and unsustainable debts can also free up resources to invest in growth and sustainable human development. Of the 40 countries deemed eligible for the Heavily Indebted Poor Countries (HIPC) Initiative at the end of 2004, three quarters were LDCs. Three in five countries in the LDC group have benefited from multilateral debt relief under HIPC, and are also eligible for relief under the G8 initiated Multilateral Debt Relief Initiative (MDRI).

In respect of HIPC, half of the eligible LDCs have reached completion point and have thus received the full amount of debt relief committed to them under the initiative.[24] For these 15 LDCs, this amounts to $16.6 billion in assistance in end-2005 net present value terms (NPV).[25] Reaching HIPC completion point has in turn allowed them to access full relief on eligible multilateral debts under MDRI. For the 12 LDCs for which data are available, the MDRI freed up $297.1 million of debt service savings in 2006, with expected savings of $11.4 billion in end-2005 NPV terms for those same countries, over the lifetime of the initiative.

A further seven LDCs are between their HIPC decision and completion points, and are therefore receiving interim relief on their debt service.[26] Debt relief as a result of

23. For example, see the UK Government's 2005 paper on conditionality: http://www.dfid.gov.uk/pubs/files/conditionality.pdf.

24. Benin, Burkina Faso, Ethiopia, Madagascar, Malawi, Mali, Mauritania, Mozambique, the Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Uganda and Zambia.

25. Authors' own calculations drawing on the World Bank / IMF HIPC and MDRI Status Report, August 2006: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:21050877~menuPK:64166739~pagePK:64166689~piPK:64166646~theSitePK:469043,00.html. The net present value of debt is the nominal amount outstanding minus the sum of all future debt-service obligations (interest and principal) on existing debt discounted at an interest rate different from the contracted rate.

26. Burundi, Chad, Democratic Republic of the Congo, the Gambia, Guinea, Guinea-Bissau and Haiti.

the HIPC Initiative is expected to total over $9.3 billion in NPV terms for these seven countries. However, a further eight LDCs are 'pre-decision point' because of recent instability or conflict. In fact, eight of the nine countries that have yet to benefit from HIPC are LDCs.[27]

There is a need for the remaining eligible LDCs to participate in these debt relief initiatives as quickly as possible. The international community should also assist developing countries with debt sustainability issues in the future, providing aid in the form of grants to those that are not yet ready to borrow, as well as highly concessional loans for those that can take on additional borrowing.

Foreign direct investment and capital flows

Although foreign investment in the LDCs had risen to $10.4 billion by 2003, this represented only 1.6 percent of global FDI flows. LDCs as a group accounted for just 6 percent of all FDI to developing countries. In addition to traditional flows from OECD countries, foreign investment in LDCs by other developing countries is on the increase. The BRICS and Malaysia are amongst the leading investors in Africa, providing over 40 percent of greenfield projects in African LDCs.[28] This is an important and encouraging development.

The aggregate increase of FDI disguises a very mixed picture at the country level, where FDI inflows are dominated by LDCs endowed with natural resources. In 2004, almost half of the total FDI to the LDCs went to Angola, Equatorial Guinea and Sudan. In the same year, 10 LDCs received 83.6 percent of LDC FDI inflows,[29] while only four LDCs held stocks of more than $5 billion.[30]

LDCs have relatively liberalized investment regimes but have yet to reap the full benefits of increased capital and technology transfer. Portfolio investment flows also remain very low. This is partly due to the lack of an enabling national environment for both foreign and domestic investment, including adequate infrastructure, but also the narrow concentration of FDI. Positive linkages between FDI and the domestic private sector in the LDCs remain elusive, as growth has been taking place in enclaves in areas such as export processing zones and the natural resource extraction sectors.[31]

Many LDCs are increasingly pursuing bilateral investment treaties (BITs) with other countries. A total of 373 treaties were concluded by 44 LDCs in 2004, with 37 countries also entering into 170 double taxation treaties, mainly with developed countries.[32]

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27. Central African Republic, the Comoros, Côte d'Ivoire, Eritrea, Liberia, Nepal, Somalia, Sudan and Togo.

28. UNCTAD, World Investment Report 2006.

29. UNCTAD, LDC Report 2006, page 54.

30. Angola, Sudan, Equatorial Guinea and United Republic of Tanzania; UNCTAD, 'FDI in LDCs at a Glance', 2006, page 3.

31. UNCTAD, LDCs Report 2006.

32. UNCTAD, 'FDI in LDCs at a Glance 2006', page 10.

International trade

Global trade and LDCs

World trade stood at over $18 trillion in 2004, having grown at an average rate of 10.6 percent per annum between 1950 and 2000. Developing country trade has also risen rapidly in absolute terms, from $40 billion in 1950 to almost $6 trillion in 2004. Nevertheless, the developing country percentage share of total trade has remained almost unchanged during this period, at just under 32 percent. If China is excluded, the share of developing countries in global trade has actually fallen from 31 percent in 1950 to 25.7 percent in 2004, reflecting very uneven participation in the expansion of trade, and weak performance by many of the poorest countries.[33]

Within the group of developing countries, the share of trade in the emerging BRICS, as well as in other fast-growing developing country economies such as Chile, Indonesia, Turkey and Vietnam has grown significantly. The BRICS comprised 10 percent of global trade in 2004.[34] By contrast, the export performance of the LDCs has declined since the mid-1950s.[35] LDC share of world merchandise exports fell from 2.95 percent in 1950 to 0.67 percent in 2004, while the nominal value of merchandise exports declined in 23 LDCs between 2000 and 2002.[36]

Even within the LDC group, the picture is mixed. Between 2000 and 2002, 56 percent of total LDC merchandise exports originated in only five LDCs.[37] Those LDCs exporting oil saw merchandise exports rise by 134.4 percent, while exports from LDCs concentrating on manufacturing and mineral production rose by 43 percent. By contrast, for the period 1998-2002, merchandise exports decreased by 6 percent in LDCs exporting agricultural products.

Two and a half billion people in the world make their living through the production and trade of commodities, including agricultural goods, forestry products and minerals. As many as 38 developing countries are estimated to be dependent on a single commodity for more than 50 percent of their export income, while 48 countries, many of which are LDCs, depend on only two. Over the past 40 years, real prices for many of the agricultural commodities on which LDCs depend have fluctuated widely and fallen significantly overall. The most severely affected items have been raw materials, tropical beverages, oil crops and cereals. Between 1997 and 2001, coffee prices fell by almost 70 percent, plummeting below the cost of production in many developing countries. The prices for other commodities such as cotton, sugar and rice have also experienced a steep decline overall.

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33. UNCTAD Handbook of Statistics Online: http://www.unctad.org/Templates/Page.asp?intItemID=1890&lang=1.
34. WTO Trade Statistics Database and World Trade Developments in 2004 and Prospects for 2005.
35. UNCTAD and Commonwealth Secretariat, 2001.
36. According to the World Trade Report 2006, 'trade of LDCs has done better in the aggregate in recent years, but the increase in the LDC share of global trade is from a very small base and is still well below 1 percent'. (WTO, World Trade Report 2006, page 3).
37. Angola, Bangladesh, Equatorial Guinea, Sudan and Yemen.

In recent years, some commodity prices have rebounded, including for agricultural goods such as coffee, tea, cocoa, cotton and sugar.[38] Yet, the share paid to farmers who grow these basic agricultural commodities has fallen. For example, in Cameroon, cocoa farmers are paid between 8 and 25 percent of the average international price per kilogram of cocoa.[39] At the same time, oil-importing LDCs have faced significantly higher energy bills, as the price of oil has risen.

In 1999, average real gross domestic product (GDP) per capita, adjusted for purchasing power parity (PPP), was lower in non-oil-commodity-exporting LDCs than it had been in 1970. The percentage of people living on less than $1 a day in these countries rose from 63 percent in 1981-1983 to 69 percent in 1997-1999.[40] These trends have recently improved but greater efforts are needed to support production and export diversification in LDCs, as well as to stabilize fluctuations in commodity prices that lead them to face disproportionate costs.[41]

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The importance of agriculture

Agriculture, and trade in agricultural products, is particularly important for LDCs. Agriculture forms the basis of many LDC economies, underpinning their food security, export earnings and rural development. It contributes between 30 to 60 percent of GDP in LDCs, and between 25 and 95 percent of export earnings. Up to 90 percent of the labour force in many LDCs is employed in agriculture, mostly as smallholder farmers in rural areas. Strong forward and backward linkages within the rural sector and with other sectors of the economy are needed to provide a stimulus for growth and income generation.[42]

However, LDCs remain marginalized in global agricultural trade. Their share of world agricultural exports has dropped steadily, from 3.3 percent in 1970-1979 to 1.5 percent in 1990-1998. Their market share of many key agricultural commodities also fell significantly from the 1980s to the 1990s — by over 30 percent for such commodities as timber, coffee, tea and cocoa, and about 20 percent for cattle.[43]

Despite the dominance of agricultural products in the exports of LDCs, the overall picture is one where the majority of LDCs are net food importers, as total imports

38. FAO, 2002, page 11.

39. http://www.unctad.org/TEMPLATES/webflyer.asp?docid=8308&intItemID=1634&lang=1.

40. Sources: UNCTAD: http://www.unctad.org/templates/webflyer.asp?docid=2451&intItemID=2079&lang=1 and http://www.unctad.org/templates/webflyer.asp?docid=4815&intItemID=2807&lang=1.

41. Global Initiative on Commodities Event, Outcome Document, Brasilia, May 7-11, 2007.

42. FAO, 2002.

43. Ibid.

are much larger than total exports. The resulting trade deficits are largely financed by foreign aid. During the period 1996-2001, all except seven LDCs were net food importers, and for many LDCs food imports are now a significant component of total merchandise imports and exports.[44] As a result, LDCs are especially vulnerable to fluctuations in commodity prices. In 2002-2003 alone, food imports increased by over $1 billion and reached $7.6 billion the year after, whereas exports only amounted to $2.2 billion.[45]

Trade in manufacturing and services

The share of manufactured goods in LDC exports was 33 percent for 2000-2003 (22 percent excluding Bangladesh), mainly dominated by labour intensive products such as garments.[46] Some LDCs have a strong comparative advantage in textiles, as the sector requires simple technology and considerable (and largely unskilled) labour. Partly because of quotas under the Multifibre Arrangement (MFA) until 2005, the industry grew rapidly.[47] Since the expiration of the MFA, some LDCs are concerned that many of these industries have lost ground to larger and more competitive producers such as China, and as a result face job and export earning losses. By contrast, countries such as Bangladesh and Cambodia appear to be adapting to the current environment. While studies in 2004 concluded Cambodia was vulnerable to the MFA being lifted, Cambodia's share of apparel products has continued to increase in the US market from 2.2 percent in 2004 to 2.5 percent in 2005, but slightly decreased in the EU from 0.9 percent in 2004 to 0.7 percent in 2005.[48] The impact of the MFA expiration has been cushioned somewhat by safeguards on China's exports as part of its World Trade Organization (WTO) terms of accession. These will expire at the end of 2008, with potentially negative implications for Bangladesh and Cambodia, unless they have well-established niche markets by then.

The share of LDCs in global commercial services was just 0.4 percent of exports in 2002, and 1 percent of imports.[49] However, this hides the importance of the service sector in the economies of the LDCs themselves. On average, the service sector comprises 41 percent of GDP in LDCs and 18 percent of their total trade.[50] In terms of

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44. UNCTAD, LDCs Report 2004, page 140.

45. UNCTAD, LDCs Report 2006, page 12.

46. Ibid, page 47.

47. According to the ILO report 'Promoting fair globalization in textiles and clothing in a post-MFA environment' in 2005, 'Today, textiles and clothing represent about 7 percent of total world exports and are among the most dynamic product sectors worldwide. The more labour-intensive clothing industries now represent 57 percent of total textile and clothing trade. Clothing exports grew at an average rate of 5.9 percent between 1997 and 2004. The textiles industry registered an average growth rate of 3 percent in the same period. Developing countries now account for half of world textile exports and almost three-quarters of world clothing exports.' For instance, textiles comprise more than 80 percent of total merchandise exports from Bangladesh and Cambodia where large numbers of workers — especially women — are employed.

48. UNDP Regional Centre in Colombo, 2007.

49. South Centre, 2004, page 5.

50. World Development Indicators, 2002.

BANGLADESH: Liberalization of GATS Mode 4 and protecting the rights of workers

According to government figures, the number of temporary migrant workers from Bangladesh reached 367,988 in 2006, with an even greater number of undocumented migrant workers seeking employment overseas. Official remittance inflows reached $4.8 billion in fiscal year 2005-2006, approximately four times higher than net aid flows to Bangladesh and nine times higher than FDI. Contributions from migrant workers are vital for the economy of Bangladesh, and can result in significant poverty reduction gains in recipient households and communities. However, employment opportunities for migrant workers are highly susceptible to external shocks, and the rights of workers are vulnerable in unfamiliar conditions. Liberalization of Mode 4 Services would likely provide greater temporary employment opportunities overseas for Bangladeshi workers, which would expand the number of households and communities benefiting from remittances and 'brain gain' effects. Enhancing international efforts to protect the rights of temporary migrant workers is essential in a globalized labour market.

Source: *UNDP Country Office in Bangladesh*

GDP, it accounts for 65 percent in the Gambia, 45 percent in Benin, around 40 percent in Lesotho and Nepal and 38 percent in Rwanda. Because much of the service sector in the LDCs is in the informal sector it is also an important source of employment. In Bangladesh, Benin and the Niger, 30 percent of the labour force is employed in the service sector; in Djibouti, 50 percent; and in the Solomon Islands, 20 percent.[51] While the majority of the service sectors in the LDCs comprises of small-scale activities for the local market, export sectors of interest include tourism, construction, transport and health services.

Many LDCs are interested in greater services liberalization under Mode 4 of the WTO's General Agreement on Trade in Services (GATS). Mode 4 covers the temporary movement of workers, and greater liberalization would potentially allow LDCs to benefit more from 'brain circulation' and 'brain gain'. However, the liberalization of labour has not been given the same level of attention as the liberalization of goods and other services. Little progress has been made, despite the efforts of LDCs to operationalize the Modalities for the Special Treatment of LDCs in the Services Negotiations which would enable them to obtain special priority in market access for commitments under Mode 4. To date, talks have focused on liberalization in the higher skilled categories which could exacerbate concerns over 'brain drain'.

51. South Centre, Trade in Services Workshop Report, 2006.

Existing preferential schemes and special and differential treatment

A number of initiatives exist to integrate developing countries and LDCs into the global trading system. LDCs have traditionally benefited from trade preferences through the Generalized System of Preferences (GSP), more limited reciprocity in trade negotiations, and temporary exemptions from certain rules, conditional on their level of development.

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Recent years have witnessed the deepening of trade preferences for LDCs, and they have been given greater market access through various schemes such as the African Growth and Opportunity Act (AGOA) and the Everything but Arms (EBA) initiative. Nevertheless, the non-binding nature of these initiatives, their lack of comprehensive product coverage, onerous rules of origin (ROO) requirements and implementation procedures, together with existing supply-side constraints, have prevented effective and secure market access for LDCs.[52] Some preferential access schemes — such as Canada's Market Access Initiative for Least Developed Countries — have ROO requirements that are less demanding of the content that must originate in the exporting LDC.[53]

Special and differential treatment (S&DT) has provided the underlying principle for these development oriented initiatives. This S&DT can include financial and technical assistance, technology transfer to build capacity, flexibility in implementation of commitments, and proactive initiatives to help LDCs increase their participation in world trade. At the sixth WTO Ministerial Conference held in Hong Kong, December 2005, developed countries agreed to provide duty-free quota-free (DFQF) market access for at least 97 percent of products originating from LDCs. However, LDCs are concerned that products of export value to them will be excluded from the 97 percent provision and therefore the beneficial impacts on their exports will be limited.

In addition to an increasing number of South-South regional trade initiatives, LDCs are entering into more regional FTAs with developed countries. These can be quite comprehensive, covering investment, services, intellectual property, competition, environment and government procurement. The agreements sometimes go beyond commitments made multilaterally in terms of level and scope, hence further reducing national policy space.

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52. Hoekman, 2005.

53. Only 40 percent of the ex-factory value of the goods must originate in one or more LDCs or Canada itself. Memorandum D11-4-4, Canada Border Services Agency: http://www.cbsa-asfc.gc.ca/E/pub/cm/d11-4-4/d11-4-4-e.html#P168_26476.

NEPAL: Preferential market access

About three-quarters of Nepal's exports enjoy preferential market access to markets, including in India, the US and EU. Preference utilization is still low either because of the imposition of tariff rate quotas[54] or the strict 'rules of origin' requirements[55] associated with preferential access. Nepal is one of several LDCs to be deprived of the US DFQF treatment for garment exports after the expiration of the MFA. Nepalese garment exports to the EU still enjoy preferential access under the Generalized System of Preferences (GSP), for which the ROO requirements are less stringent. This highlights inconsistency and discriminatory practices between the preferential treatments accorded to LDC exports in developed country markets.

Source: UNDP Nepal Country Office

The EU is in the process of negotiating Economic Partnership Agreements (EPAs) with the 79-member African, Caribbean and Pacific (ACP) group of countries, of which 41 are LDCs. While negotiating groupings are at different stages in terms of negotiations and drafting of texts, two concerns have arisen. The first is that, in respect of intellectual property rights (IPR), the EU is pursuing a TRIPS-plus approach (Trade Related Aspects of Intellectual Property Rights). Specific concerns relate to geographical indications which would extend protection to all products beyond that required by TRIPS. With regard to enforcing existing provisions that cover the obligations associated with authorship or ownership, the EU again goes beyond TRIPS.[56] In one case, special treatment is envisaged for LDCs by relating the implementation and enforcement of IPR based on the level of development; but in another, the EU has nonetheless tied the implementation of the TRIPS-plus standards for EPAs to the same timeline as the implementation of the TRIPS Agreement.[57] The second concern involves negotiations surrounding investment provisions. While many EU countries want to include investment provisions in the agreements, arguing that this would create the necessary stability and predictability to support higher investment levels, a number of developing countries are concerned that such provisions would not only restrict domestic policy space but also tilt the balance of rights and responsibilities against them.

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54. A tariff rate quota is a two-tier tariff system. While the bound most-favoured-nation tariff on certain imports may be set at a relatively high rate, a certain amount of that import is allowed at a much lower rate. A few Nepalese export items to India are subject to tariff rate quotas. For example, the duty-free export of Nepalese ghee to India is limited to 100,000 metric ton, with the implication that imports into India beyond that amount would not be duty-free (UNDP Nepal Country Office).

55. For instance, Nepalese apparel is eligible for the EU GSP. However, the EU preferential rules of origin, which require two stages of production, do not allow Nepalese apparel to enjoy this preference that easily (UNDP Nepal Country Office).

56. CIEL, 2007.

57. South Centre, 2007.

Barriers to increasing trade benefits for LDCs

The LDCs face many barriers to increasing their share of trade, and ultimately for converting the potential benefits of trade into sustainable human development. Some relate to 'supply-side' constraints within countries — on infrastructure, institutions and capacity. But many barriers are due to the policy choices of the international community, in terms of limits to market access or domestic producer support that unfairly undermine developing country producers. LDCs face adverse trading conditions that are biased against the products in which they have — or potentially have — a comparative advantage.

The sections below describe how developing countries and LDCs face barriers to their increased participation in the global trading system — covering tariff and non-tariff barriers, OECD subsidies, and the ability to represent themselves effectively in rules-setting forums.

Tariff barriers

Average tariffs applied by the OECD to developing country products are often considerably higher than those applied to other developed countries. Although border protection, including tariff and non-tariff measures, has declined substantially over the past three decades, it remains significant particularly in areas of agriculture and labour-intensive industrial products where developing countries have a comparative advantage.[58] Average agricultural tariffs are close to 10 percent in Canada and the United States, rising to more than 20 percent in the EU and Japan — barriers which when taken together are estimated to cost the LDCs the equivalent of $2.5 billion in potential export earnings per year.[59]

LDCs also face significant tariff escalation. Despite the marked growth in output of processed agricultural products in the LDCs over the past 20 years, their global market share declined from 2.3 percent in 1981-1990 to 1.8 percent in 1991-2000.[60] Tariff escalation is particularly prevalent in tropical raw products of interest to LDCs such as coffee, tea, meat, hides and skins, fruits, cocoa and sugar.

Even after the removal of MFA quotas, tariffs on textile and clothing exports will remain as high as 12 percent (three times higher than the average tariff on industrial goods). Many LDCs such as Lesotho and Madagascar that lost preferential access to the US and EU markets face higher competition and are concerned about job losses in the sector and declining export revenue.

Non-tariff barriers

Forty percent of LDC exports face substantial non-tariff barriers (NTBs) including import quotas and licensing, domestic content requirements, sanitary and phytosan-

58. IMF and World Bank, 2001.

59. Oxfam, 2002, page 100.

60. http://www.fao.org/docrep/005/y4852e/y4852e02.htm.

BANGLADESH: Garment manufacturing

Bangladesh's ready-made garment (RMG) sector accounts for over 76 percent of total export earnings and employs approximately two million workers, many of whom are poor women. The United States (US) is the destination market for 42 percent of RMG exports from Bangladesh, yet clothing is excluded from the GSP. In 2006, the total duties paid by Bangladeshi exporters in the US market (nearly $500 million) were more than six times higher than total US bilateral aid to Bangladesh ($77 million). Similarly, due to rigid ROO rules in Europe, only about 16 percent of woven exports can avail DFQF preferences in the EU market. Complete DFQF market access for LDCs would help to stimulate RMG exports from Bangladesh, as well as provide opportunities for export diversification.

Source: UNDP Bangladesh Country Office

itary (SPS) requirements, customs procedures in developed country markets, and contingency measures.[61] According to UNCTAD, these NTBs doubled in the period 1994-2004, and there has been a sevenfold increase in testing and certification requirements since the conclusion of the Uruguay Round.[62] Some countries see the opportunity to gain greater market access by improving product standards. Rwanda is investing in improving its share of higher volume 'fully washed coffee' — for example, less than 7 percent of Rwandan coffee is 'fully washed' and such coffee can attract a higher market price of $3.18 per pound compared with the lower price for unwashed coffee of $1.96. However, the marked increase in the use of NTBs in recent years has often placed costly and unnecessary burdens on firms which struggle to meet technical, health or administrative requirements for their exports. Furthermore, LDCs are often not included or cannot participate effectively in the various international standard-setting processes.

OECD subsidies

Developing country and LDC products also compete with production and export support given to producers in rich countries. OECD agricultural subsidies increased in absolute terms from an average of $305 billion in 1986-1988 to $378 billion in 2004, exceeding the total income of 1.2 billion people living below the dollar-a-day poverty line.[63] The hidden cost of this agricultural support falls disproportionately on the LDCs, whose consumers spend more on agricultural produce as a proportion of their income, while the benefits go mostly to a small number of farmers in developed countries. For example, in 2004, seven of Britain's richest men collectively earned

61. For example, antidumping, countervailing and safeguard measures. For further information see UNCTAD, *Methodologies, Classifications, Quantifications and Development Impacts of Non-Tariff Barriers* (TD/B/COM.1/EM.27/2).

62. UNCTAD, LDCs Report 2004.

63. UNCTAD, Trade and Development Report 2006, page 77.

over $4 million[64] a year in farm payouts from the EU.[65] While most LDCs are net food importers and thus may not gain from further agricultural trade liberalization in the short term, because the removal of OECD subsidies would lead to higher world prices of basic foodstuffs, the WTO has already agreed to a revolving fund to assist affected countries. Moreover, such subsidies provide a disincentive for LDCs to invest in food production which could reduce their import dependency in the medium to long term.

Despite the efforts of the LDCs and their increasing coordination as a group, they continue to remain the most marginalized from WTO decision-making processes.

LDC representation in trade forums

While the share of developing country and LDC trade is largely determined by a country's ability to produce high quality goods and services and bring them competitively to international markets, market share is also affected by their ability to negotiate and represent themselves in arenas where the rules for international, regional or bilateral trade are set.

The WTO is the multilateral forum in which all member countries participate to maximize their share of trade, and the benefits they derive from trade. As of 27 July 2007, with Tonga's accession to the WTO, there were 151 members of the WTO. Thirty-two of the current fifty LDCs are WTO members. Eight LDCs are in the process of WTO accession and two are WTO Observers.[66] Nevertheless, despite the efforts of the LDCs and their increasing coordination as a group, they continue to remain the most marginalized from WTO decision-making processes. Decisions are made through consensus, which means that the LDCs are often the most vulnerable to pressures from larger trading partners. Moreover, decisions are also often made through non-transparent methods such as informal and unrecorded meetings involving only some members. LDCs also face difficulties in engaging properly in the WTO dispute settlement mechanism, often due to a lack of adequate litigation capacity. Acceding LDCs also often undertake commitments which exceed those of current WTO members, particularly in the area of market access, forfeiting their right to S&DT that is LDC-specific.[67]

The gradually expanding and overloaded agenda of the WTO also has serious implications for overstretched LDC missions in Geneva since they are unable to participate in all scheduled meetings. Nine LDC members of the WTO have no representation in Geneva.[68] Constraints on participation in the WTO decision-making process include weak institutional and human capacity and limited access to technical expertise and financial support.

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64. Subsidy calculations are based on average payments per hectare under arable crops, taking into account reductions under modulation.

65. Oxfam International, 2004.

66. www.wto.org.

67. UNCTAD, Trade and Development Report 2006.

68. www.aitic.org.

Technology, intellectual property and indigenous knowledge

The ability to absorb information and knowledge, together with acquiring and adapting technology, is essential for the integration of the LDCs in the global economy. The move towards knowledge-based economies fuelled by the Information Communications Technology (ICT) revolution is mostly concentrated in developed countries and a few emerging economies. This creates new risks for further exclusion and marginalization of LDCs and an exacerbated technology gap. A person in a developed country is 22 times more likely to have Internet access than someone in an LDC, secure servers are over 100 times more common in developed countries compared to LDCs, mobile phones are 29 times more common in developed countries and mainline telephone penetration is 21 times that of the LDCs. In relation to income, the cost of Internet access in an LDC is 150 times greater than the cost in developed countries.[69] Data relating to years of schooling, tertiary science enrolments, royalties received and registered patents in LDCs indicate gaps on several fronts including technology creation, domestic absorption capacity and the effective use of existing technologies.[70]

> … [G]lobalization offers the LDCs the potential to leapfrog old technologies and access newer and more efficient energy, including renewable sources …

The growth and application of research and development (R&D) constitutes a priority for many LDCs, especially those that are landlocked and energy dependent. R&D can help to diversify export markets and create sustainable sources of energy. For instance, these countries, especially landlocked and energy dependent economies, face enormous challenges in terms of both diversifying export markets and services and creating sustainable sources of energy. Access to sustainable energy is a prerequisite to meeting all the MDGs because of its links to poverty alleviation, education, gender equity, health and the protection of the environment. While many people in LDCs have traditionally depended on wood and other locally collected biomass fuels, this can have negative impacts on biodiversity, land degradation and erosion, and human health. The import of coal is expensive for LLDCs because of transportation costs, and rising oil prices over the past few years have exacerbated the energy crisis in many oil-importing LDCs. In this context, globalization offers the LDCs the potential to leapfrog old technologies and access newer and more efficient energy, including renewable sources, although this is far from automatic or easy.

Production related activities in LDCs are mainly based on indigenous and traditional knowledge. However, traditional and indigenous knowledge is not adequately protected in international frameworks of patent law. This is especially important for research activities relating to agriculture and pharmaceuticals. Developing countries provide over 90 percent of biological resources such as plant based drugs, which contribute, for example, to more than $40 billion worth of medicines for

69. UNCTAD, The Digital Divide Report: ICT Diffusion Index 2005, page 8.

70. UNCTAD, UN Commission on Science and Technology Development, 2005, page 12.

leukaemia or lymphatic cancer.[71] As LDCs are the cultivators and protectors of this indigenous knowledge, they rightfully have the claim to these assets in global production. Although there has been increasing recognition of indigenous knowledge and the need to protect it through instruments such as the Convention on Biological Diversity, there is no legally binding framework which requires pharmaceutical companies to seek informed consent prior to conducting research on indigenous knowledge.

Despite the spectacular development of technology around the world, the technology gap between developed countries and LDCs is widening. The current R&D model is one that largely precludes LDCs from defining or benefiting from the research agenda, and is instead dominated by international partnerships that do not interact effectively with indigenous knowledge systems. In LDCs themselves, due to capacity constraints and other priorities, as little as 0.01 percent of GDP is allocated to R&D activities. This has implications for both the promotion of international competitiveness and fostering the link between traditional knowledge and innovation. Moreover, some new technologies are often not suitable or affordable to LDCs who need them the most. Technology development agendas are driven by the needs of developed countries and those consumers who can afford to buy the technology. This has led to the stark contrast between the global research agenda and the needs of LDCs. For example, 90 percent of pharmaceutical research is focused on products for conditions prevalent in developed countries, while 90 percent of the disease burden worldwide is concentrated in developing countries.[72]

Despite the spectacular development of technology around the world, the technology gap between developed countries and LDCs is widening.

Despite having a transition period for implementation of the TRIPS Agreement until 2013,[73] LDCs are under pressure in some bilateral FTAs to dilute the flexibilities that exist under this multilateral undertaking. TRIPS provides monopoly rights over a significant duration to private patent holders who tend to be concentrated in developed countries. This consequently limits the access of developing countries and LDCs to knowledge and low-cost medicines. The TRIPS Agreement exacerbates the asymmetries between developed and developing countries and LDCs by enforcing a particular model of an IPR regime. This model provides few commitments relating to technology transfer and technical cooperation, and concentrates on patent enforcement. Moreover, it restricts imitative technological diffusion and the use of reverse engineering methodologies as a way of accumulating knowledge — these are of particular importance to LDCs who are attempting to bridge the technological divide.

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71. UNDP, HDR 1999, page 70.

72. http://www.cgdev.org/content/publications/detail/2792.

73. As per WTO TRIPS Agreement Article 65, the original transition period given to the LDCs was 11 years after the TRIPS Agreement came into force. In November 2005, the WTO's TRIPS Council extended the transition period for LDCs by seven and a half years and this is due to expire on 1 July 2013. This decision does not affect the transition period for pharmaceutical products, which is set to expire in 2016 for the LDCs.

Migration

The temporary movement of lower skilled labour can offer positive benefits for LDCs, specifically in relation to skills upgrading, brain circulation, and remittances. Remittances play a significant role as a source of relatively stable external funding, and are also of greater importance to many LDCs than to other developing countries.[74] It is estimated that remittances to all developing countries reached $167 billion in 2005.[75] While the share of LDCs represents only a small part of this total — some $10.4 billion in 2004 — remittances account for a greater share of GNI in LDCs compared with other sources of financing. Indeed, several LDCs including Bangladesh, Cambodia, Lesotho, Nepal, Sudan and Yemen have come to depend heavily on remittances as a source of foreign exchange. While remittances cannot substitute for ODA or for domestic social protection systems, they provide an important source of development finance for meeting immediate needs at the household level. However, the use of such remittances within a broader development framework, geared towards longer term productive activities, such as collateral for microcredit, remains a challenge. In addition, it will be necessary to continually monitor the negative incentive and dependency effects that remittances could create.

The temporary movement of lower skilled labour can offer positive benefits for LDCs, specifically in relation to skills upgrading, brain circulation, and remittances.

The importance of temporary worker schemes can be contrasted with the permanent migration of skilled workers — the so-called 'brain drain' — faced by many LDCs. Permanent migration can undermine the ability of a country to develop, leading to skills shortages in important sectors such as health, education, engineering and IT. While the severity of the brain drain effect varies significantly by occupation and country, it is notable that approximately 65,000 African-born physicians and 70,000 African-born professional nurses were working overseas in a developed country in the year 2000, representing about one-fifth of African-born physicians in the world, and about one-tenth of African-born professional nurses.[76]

Between 1990 and 2000, the number of foreign born, highly skilled persons residing in OECD countries increased by 70 percent, compared to 28 percent for the lower skilled categories. For LDCs, the depletion of human capital stock has been problematic, given the particularly strong push factors involved in the brain drain. The intensity of the brain drain has increased for most LDCs since 1990, and around one in five people born in an LDC with a tertiary education was working in an OECD

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74. Ratha, 2003.

75. Report of the Secretary-General on Migration and Development, 2006: http://www.un.int/iom/SG%20report%20A%2060%20871%20Migration%20and%20Development%20final%20EN.pdf.

76. By contrast, it is possible that reverse or temporary migration can lead to situations of 'brain gain' for the LDCs, and that the diaspora overseas can support development through investment and technical assistance. In addition to economic impacts there are social and institutional impacts that are much harder to assess — such as the impact on fertility and child development — and therefore it becomes more difficult to evaluate the net impact of migration on the development of countries.

country in 2000.[77] The emigration rate among the tertiary educated population has been conservatively estimated at 41 percent for the Caribbean region, 27 percent for Western Africa, 18.4 percent for Eastern Africa, and 16 percent for Central America.[78] For some LDCs, the level of intensity is especially high, such as 83.8 percent in Haiti, 76.4 percent in Samoa, 67.5 percent in Cape Verde, 63 percent in the Gambia and 52.5 percent in Sierra Leone. This situation is particularly problematic given that LDCs are well behind other developing countries in terms of achievement of higher education levels and this gap is widening.[79]

The global labour market is increasingly integrated for skilled workers who are more accepted by receiving countries, can command higher wages, and who can relocate more easily. Australia, Canada and the United States have programmes to attract skilled migrants, thereby exacerbating brain drain in developing countries. There are large recruitment campaigns in 'at risk countries' where the skill exodus is severe. Furthermore, the specifics of immigration laws and visa practices discourage brain circulation or temporary migration.

The changing global landscape

The rise of new powers

The tectonic plates of globalization are slowly shifting and a number of new powers are rising to the fore. A major change in this new global order is the growing economic and political influence of emerging economies, including but not limited to the BRICS. Their growing presence is partly based on their large land areas, populations, or abundant natural resources. This is leading to a situation where there is growing Southern power and leverage in the global arena. This represents a major challenge to the multilateral trade, monetary and financial system of the post-World War II era. Indeed, this system was created to organize economic relationships among a limited number of similar and mostly like-minded countries. Despite its expansion to absorb an increasing number of new and more diverse participants, the rise of the newly emerging industrialized economies is shifting the balance of global power and leading to calls for changes in global governance in terms of institutional architecture and the policies that govern globalization.

In addition to the role that emerging powers are starting to play as donors, the reform of global economic and financial institutions and the rebalancing of power it implies are required to ensure ownership and fairness in the multilateral system. Such a rebalancing may require that Europe and the United States abandon their current overrepresentation in the Bretton Woods institutions to make room for a governance structure that better represents the present and future world economy. In turn, this implies some greater form of pooled representation in global institutions, especially in the international financial institutions.

77. Docquier and Morfauk, 2004.

78. UNCTAD, Trade and Development Report, 2006.

79. Wickramasekara, 2003.

In this context, LDCs face the risk of increased marginalization, squeezed between the old existing powers and the new emerging powers. LDCs need further support to strengthen their representation and negotiating capacity, which in turn would improve the policy-making aspects of the multilateral institutions. One of the strongest reasons for this is that LDCs are now the main clients of these institutions. In the context of global governance of trade and finance, LDCs face growing challenges to formulate policies that both promote human development and encourage beneficial global partnerships.[80] Unless LDCs can fully participate in the design and implementation of a global partnership for development that reflects the diversity of needs in an equitable manner, they will find it only more difficult to benefit from the current phase of globalization.

While emerging economies could act as competitive threats to nascent industries in the LDCs, they could also offer vital support to aid their beneficial integration into the global economy.

The rise of the BRICS and other emerging economies also poses competitive threats to nascent industries in the LDCs. Indeed, those who have moved into the lower end of the manufacturing process, sheltered by quotas and preferential trading arrangements will, over the next decade, be increasingly exposed to competition from more advanced developing countries, as the trading system becomes more open. Unless such LDCs can upgrade their competitive capacity by product diversification, as well as by moving up the value chain and enhancing their productivity, their limited gains registered over the last 10 years may be at risk.[81] For instance, with the end of the MFA system of quotas, the apparel provisions of AGOA are under serious threat, given the fact that soaring imports from China have been concentrated in the same product categories where Africa has recently been successful. However, it is also worth highlighting that the low-income neighbors of these countries, particularly those close to China, India or South Africa, may benefit from FDI seeking market access in these countries or in regional FTAs in which they are involved.

While safeguard measures can countervail import surges, they are of uncertain duration and do not address the competitive threat from other newly freed competitive suppliers. Moreover, the removal of the liberal ROO that allows for the global sourcing of fabrics from least-cost locations could be a significant barrier unless modified. To enhance the benefits of schemes that grant preferences to LDCs, it is important that they be extended over longer periods, and that the liberal ROO for clothing products be extended for a considerable period.

While emerging economies could act as competitive threats to nascent industries in the LDCs, they could also offer vital support to aid their beneficial integration into the global economy. Participants in the WTO Hong Kong Ministerial Conference in December 2005 agreed that developed-country members shall, and developing-country members in a position to do so should provide duty-free and quota-free market access' to LDCs. Subsequently, Brazil announced that it would start granting DFQF access to

80. Sobhan, 2001.

81. Brenton and Ikezuki, 2004.

exports from 32 of the world's poorest countries in 2007. The move would make Brazil the first developing country to give unrestricted access to goods from the 32 LDC members of the WTO, in advance of several developed countries. Additional offers from other emerging economies could enable significant gains for the group of LDCs.

As aggregate demand in the emerging economies grows, so does the demand for commodity exports from LDCs. Increasing demand from China and India partly explains the recent resurgence in global commodity prices. These relatively favourable world market conditions have helped lift many commodity-dependent countries out of a prolonged period of economic stagnation. However, the price increases do not include all commodities and their magnitude is reduced by exchange rate movements and especially by the depreciation of the US dollar. While markets are likely to remain buoyant in the medium term, the secular trend of declining real commodity prices may eventually reassert itself. Price movements, moreover, are not the only disadvantage for countries specialized in commodities, since commodity production is not associated with the technological externalities and 'learning by doing' which characterize much of manufacturing and the technology-oriented service industries. The challenge for these countries is to sustain — or accelerate — the momentum of growth over the coming years by gaining ground in more knowledge based activities whilst simultaneously upgrading the quality of their commodity production.

LDC graduation

LDC 'graduation' refers to the point at which LDCs cease to qualify for special treatment. There is considerable variation in the trajectories of performance of LDCs. In particular, SIDS face a number of structural economic vulnerabilities such as high transportation costs and remoteness from major markets. Some have registered significant improvements in economic growth, human development and macroeconomic indicators. However, few if any countries amongst the LDCs have realized the degree of structural transformation in their economies necessary to put them on the path of sustainable development that will take them out of the ranks of the LDCs.[82]

While graduation is a healthy signal that implies increased economic independence and non-reliance on preferences, it remains of considerable concern to some LDCs who will inevitably face short-term costs.[83] For instance, the Maldives benefits from preferential market access to the EU under the EBA scheme, which, in total, accounts for a quarter of exports. However, on graduation from LDC status, scheduled for 2011, the Maldives will no longer benefit from this preferential arrangement. This could put an end to virtually all Maldivian exports of canned tuna to Europe.[84]

The Committee for Development Policy (CDP) of the United Nations evaluates a country on three criteria to determine its state of development and thus eligibility for graduation: income level, stock of human assets, and economic vulnerability. The General Assembly, through the United Nations Economic and Social Council (ECOSOC), recommends a three year transition period to complete the graduation process. The

82. Sobhan, 2001.

83. Hoekman, 2005.

84. Hess, 2005.

transition period is meant as a time of adjustment, to prepare a country for possible loss of benefits received as an LDC, while simultaneously maintaining the positive development prospects of that country.[85] At present, Botswana is the only country to have graduated from LDC status. Other countries at early stages of discussing graduation include Cape Verde, Equatorial Guinea, Kiribati, Samoa, Tuvalu and Vanuatu.

Implications for LDCs and policy responses

LDCs can in many ways be considered the Most Excluded Countries. This exclusion is partly the result of policy choices, and in many ways policy incoherence, of the industrialized world.

As the preceding analysis indicates, the engagement of LDCs with globalization is circumscribed by special constraints and exclusion. Special constraints relate to geography, climate, disease, and lack of institutional capacity, contributing to a situation whereby a critical mass of physical, human or institutional capital cannot be accumulated to support development. Over and above this, LDCs can in many ways be considered the Most Excluded Countries. This exclusion is partly the result of policy choices, and in many ways policy incoherence, of the industrialized world, including market access restrictions for goods, insufficient aid and investment, unhelpful migration policies, expensive and inappropriate technologies, and marginalization in political forums.

The ultimate result is that LDCs as a group receive proportionately fewer benefits of globalization, but are exposed to proportionately more of the costs and risks. This could exacerbate the current situation of poverty in the LDCs and inequality with the rest of the world.

During the present period of globalization, inequalities in the world have increased significantly. World income and wealth have greatly diverged as assets are increasingly concentrated in and controlled by rich countries. The income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 60 to 1 in 1990 and 30 to 1 in 1960.[86] These inequalities extend beyond income and wealth, and remain underpinned by inequalities in opportunity, power, development and poverty outcomes. If they continue to be stuck in this globalization and exclusion trap, most LDCs will fail to meet the MDGs.

Since 1980s, many 'East Asian tigers' have seized the opportunities presented by globalization, albeit with carefully constructed national policies that have allowed for selective, strategic and gradual integration. In East Asia, per capita income has grown more than seven times since the 1960s, while countries in sub-Saharan Africa and other LDCs have lower income levels compared to 1970. A strategy to prevent such a globalization and exclusion trap must therefore have two elements: policies that can be put in place by LDCs themselves, and support from the international community.

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85. UN Economic and Social Council, 2001.

86. UNDP, HDR, 1999.

Either on its own will be insufficient — action on both fronts will be required to break free. In this context, Commitment 1 of the Programme of Action for the Least Developed Countries 2001-2010 is noteworthy. This prioritizes a people-centred policy framework which seeks to create an enabling environment for national and international actions to eradicate poverty and overcome the structural bottlenecks in the LDCs. Its objective is to put the LDCs on a path of accelerated growth and sustainable development that provides opportunities for all. Global policy frameworks should disproportionately benefit the LDCs and stem the tide of rising inequality between countries. Domestic reforms will also be necessary so that the fruits of market access and greater investment can be more equitably distributed within LDCs, including through strengthening participatory democracy and accountability mechanisms, as indicated in Commitment 2 of the Programme of Action.

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At the national level, policy responses could include:

- Prioritizing national policies to build productive capacity in national development plans, for infrastructure as well as vocational and entrepreneurial skills;
- Implementing growth-oriented macroeconomic policies that are not excessively deflationary and do not prevent investment in the long-term capacity necessary for growth;
- Improving the efficiency of tax systems and collection to maximize the contribution of domestic resources to public investment;
- Utilizing the policy space and concessions available under existing multilateral agreements, such as public health provisions under TRIPS;
- Putting in place and enforcing intellectual property measures to protect indigenous resources and knowledge;
- Promoting greater transparency and measures for managing natural resource rents, including through the Extractive Industries Transparency Initiative;
- Further investigating migration and development issues, including their impact on local capacities, and identifying the incentives necessary to attract return migrants.

At the international level, policy support could be provided through the following measures, among others:

- Meeting existing commitments to scale up development assistance for poverty reduction and the MDGs, hand in hand with efforts to increase aid and development effectiveness, including through the implementation of the Paris Declaration;

- Expanding sustainable capacity-building programmes in public and private sectors, through the provision of technical assistance in line with LDC priorities;

- Reforming the governance of existing multilateral cooperation institutions so as not only to reflect the increasing power of Southern emerging economies, but also the perspectives of LDC and low-income-country aid recipients;

- Considering the development of new South-South cooperation frameworks, including grants and concessional finance facilities capitalized by excess reserves. These could also pool risk to deal with systemic shocks in the LDCs that are climate, trade or disease related;

- Maintaining efforts to bring those countries eligible for HIPC and MDRI debt relief through these initiatives, with consideration given to broadening debt relief to those LDCs that are not eligible;

- Ensuring that there is institutionalized asymmetry in trade agreements involving the LDC members, in their favour. This should include increased market access by enhancing DFQF treatment by developed countries and developing countries in a position to do so, and could also be through the use of new and revised S&DT provisions as a form of 'infant economy protection';

- Renewing and implementing the international commitment to address systemic issues relating to the commodity problem for LDCs;

- Increasing and improving Aid for Trade to help tackle supply-side constraints to trade. Enhancing the Integrated Framework so it becomes a larger and more effective mechanism to deliver trade related assistance to LDCs will be an important element, but on its own will not be sufficient;[87]

- Ensuring that bilateral and regional FTAs are no more onerous or constraining of national policy space than multilateral agreements in relation to IPRs, investment and other provisions;

- Considering the expansion in the number and coverage of temporary worker programmes, especially for lower-skilled workers, coupled with expanded Codes of Conduct in OECD countries to prevent brain drain.

87. Integrated Framework for Trade-Related Technical Assistance to LDCs (IF) as recognized in the WTO Plan of Action for the LDCs adopted in 1996 at the first WTO Ministerial Conference.

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Chapter 2

Globalization and the Least Developed Countries:

Issues in trade and investment

Introduction

Globalization has been associated with rising world income. Many countries and people have benefited from this, but some have been left out. Amongst the latter are many LDCs, and a relatively large share of their population. Many LDCs have been marginalized in the world economy although they have undertaken far-reaching economic reforms.[1]

> … [M]any LDCs have pursued extensive trade liberalization and today have relatively open trade regimes … [T]oday, the central question for LDCs is not so much how they may achieve a further liberalization of trade; rather, it is how they can effectively promote development with a relatively open trade regime.

In the past decades, many LDCs have pursued extensive liberalization and today have relatively open trade regimes. The considerable trade liberalization of LDCs is sometimes overlooked, as LDCs have typically pursued trade liberalization under structural adjustment programmes rather than through multilateral trade negotiations. Today, the central question for LDCs is not so much how they may achieve a further liberalization of trade; rather, it is how they can effectively promote development with a relatively open trade regime.

This paper argues that while each country will need to identify a 'post-liberal development strategy' that is most suitable to its particular circumstances, the various 'post-liberal development strategies' are likely to have common features regardless of the specific context.[2] In particular, regardless of country context, they should include a shift in focus from trade-led development to development-led trade, with a complementary broadening focus from supply-side capacities to productive and economic growth capacities at the national level. At the international level, it is important to look beyond further trade liberalization to strengthening the export capacity and performance of LDCs in a sustainable manner and ensuring effective market access.

The impact of past reforms and the challenges ahead

The majority of the LDCs have participated extensively and intensively in structural adjustment reform programmes. According to a recent World Bank study, many low-

1. This issues paper was prepared for the UN Ministerial Conference 'Making Globalization Work for the LDCs', Istanbul (Turkey) 9-11 July 2007, by the Division for Africa, Least Developed Countries and Special Programmes (ALDC), UNCTAD, Geneva (Switzerland). The paper is based on UNCTAD (2004 and 2006) and includes significant inputs from the Inclusive Globalization Cluster of the Poverty Group in UNDP's Bureau for Development Policy. Comments were provided by staff in the Office of Development Studies of UNDP and by the Executive Office of UNDP. Issues raised by UNDP country offices have also been included as appropriate.

2. UNCTAD, 2004, pages 282-283.

income countries, including LDCs, have sound macroeconomic policies in place,[3] and according to the International Monetary Fund (IMF) index of trade restrictiveness, many have relatively open trade regimes. Despite decades of reform, LDCs remain marginalized in the world economy. While some LDCs, mostly in Asia, have managed to increase their share in world trade and income, and have also managed to reduce their high incidence of extreme poverty, most LDCs — mainly in Africa — have seen decreasing shares in world trade and income, and increasing incidence of extreme poverty.[4] The trends that can be observed for the different groups of LDCs, based on their geographic location, are closely related with trends in their export specialization. The Asian LDCs that have done better have typically managed to diversify into manufactures and/or services, while the African LDCs which have done less well continue to specialize in non-oil primary commodities.[5]

Marginalized despite reforms

In the 40-year period between 1960 and 1999, the income gap between the world's 20 richest countries and the LDCs continued to widen, but the gap varied depending on the nature of the LDC exports.[6] Weighted by population, the average income per capita of the 20 richest countries was about 16 times higher than that of non-oil-commodity exporting LDCs in 1960, and 35 times higher by 1999. Thus, this gap more than doubled by 1999. By contrast, the income per capita of these 20 richest countries was 8 times as high as that of LDCs that exported manufactures and/or services, in 1960, and 12 times higher in 1999.[7]

A similar difference between LDCs can be observed with regard to poverty incidence.[8] While LDCs that continue to specialize in non-oil commodities have seen an increase of extreme poverty in the past decades, the LDCs that specialize in manufacturing have seen a decrease of extreme poverty. Between the late 1980s and the late 1990s, extreme poverty in non-oil-commodity exporting LDCs rose from 67 percent to 69 percent, an increase from the early 1980s, but it fell in manufacture-exporting

3. World Bank, 2002.

4. Karshenas, 2001.

5. UNCTAD, 2002, pages 49-61, 124.

6. UNCTAD estimates based on Summers and Heston International Comparison Programme and World Bank, *World Development Indicators 2001*, CD ROM (UNCTAD, 2002, pages 122-123). The income gap is the ratio of the weighted by population average GDP per capita (in 1985 PPP dollars) in the world's 20 richest countries to that in the LDCs and LDC subgroups. The sample of the world's 20 richest countries varies over time.

7. UNCTAD, 2002, page 123.

8. There is a lack of poverty data for the LDCs that makes it difficult to monitor poverty trends in these countries. The most comprehensive and latest figures on the incidence and depth of poverty in the LDCs are derived from UNCTAD's *The Least Developed Countries Report* 2002 database (for further references and methodological notes, see UNCTAD 2002, pages 39-100, particularly pages 62-64). While this paucity of data is very unfortunate, and has been highlighted by UNCTAD on various occasions (LDC Report 2002, LDC Report 2004 and background papers to both reports), very little had been done to rectify this lacuna till very recently. UNCTAD is now seeking to update its poverty estimates.

LDCs (even if Bangladesh is excluded) from 48 percent to 44 percent.[9] The unfavourable poverty trends are particularly pronounced in LDCs which specialize in extractive industries, while positive poverty trends are particularly pronounced in Bangladesh which has successfully increased its specialization in low-tech manufactures. Incidence of extreme poverty between the late 1980s and late 1990s also increased in LDC exporters of services from 41 percent to 43 percent.[10] If past trends persist, extreme poverty in the LDCs will increase rather than decrease in the coming decades. While the developing world as a whole is on track to achieve the objective of reducing extreme poverty by half between the base year 1990 and the target year 2015, the group of LDCs as a whole will not achieve this objective.[11]

Because of these trends, policy makers in the LDCs are concerned that they should be better integrated in world trade, that their share of world trade should be larger, and that they should manage to reduce the incidence of extreme poverty in a sustainable manner. In this context, recent literature has placed great emphasis on further trade liberalization.[12] It is argued that a further liberalization of trade will increase trade flows, that this will stimulate growth, and that higher rates of economic growth will reduce poverty. However, empirical evidence shows that past trade liberalization has had ambiguous effects on growth and poverty reduction in the LDCs, and that further trade liberalization is unlikely to bring about the desired effects on growth and poverty reduction without a strong complementary policy package that changes the direction of development.[13]

Non-tariff trade barriers, commodity dependence and phase-out of preferences

Today, tariff barriers to trade affect fewer LDC exports than non-tariff barriers. Between 1999 and 2001, environment related trade barriers affected 20 percent of the merchandise exports of other developing countries, but no less than 41 percent of the merchandise exports of LDCs.

In the same period, 28 percent of LDC exports suffered from commodity price decline, compared with 15 percent in other developing countries. More recently, however, the resurgence of global commodity prices has helped lift many commodity-dependent countries out of a prolonged period of economic stagnation. This is partly due to increased demand for commodity exports from LDCs in the most dynamic developing economies, particularly China and India. Strong demand for raw materials from these countries has had a remarkable impact on commodity prices and volumes of trade. For instance, there has been a considerable improvement in the terms of trade of sub-Saharan African countries (some 30 percent) between 1999 and 2004, far high-

9. Using the same poverty estimate and including Bangladesh, poverty in manufacture-exporting LDCs fell from 28 percent to 25 percent during the same period. UNCTAD, 2002, Chart 36 'The incidence of poverty in LDCs grouped according to export specialization, 1981-1983, 1987-1989 and 1997-1999' based on a $1 per day poverty line, page 124.

10. UNCTAD, 2002, page 124.

11. Ibid.

12. Sachs and Warner, 1995; Dollar and Kraay, 2000.

13. Rodriguez and Rodrik, 2001; Helleiner, 2000; Helleiner, 1994.

er than in any other region.[14] Also, the trade volume of rice was up 67.5 percent in the decade between 1993-1995 and 2003-2005, while cotton increased by 48.8 percent, fresh and chilled vegetables by 69.7 percent, and cut flowers by 72.9 percent during the same period.[15] Nevertheless, such price increases do not cover all commodities and their real magnitude has been diminished by exchange rate movements, especially the US dollar. Furthermore, while markets are likely to remain buoyant in the medium term, the secular trend of declining real commodity prices may eventually reassert itself. Price movements, moreover, are not the only disadvantage for countries specialized in commodities, since commodity production is not associated with the technological externalities and 'learning by doing' which characterizes much of manufacturing and the technology oriented service industries. The challenge for these countries is to sustain or accelerate their growth momentum over the coming years by gaining ground in more knowledge based activities whilst simultaneously upgrading the quality of their commodity production.[16]

Furthermore, LDCs, more than other developing countries, are affected by challenges associated with the specialization in extractive industries, and are negatively affected by the phasing out of preferences on textiles and clothing.[17] While the EU has essentially compensated both African and Asian LDCs for phasing out market access preferences in textiles through the introduction of wider GSP preferences (i.e. EBA), the United States has compensated only African LDCs for phasing out (i.e. AGOA). Market access to the United States has thus eroded for many Asian LDCs, especially in textiles and clothing. This affects some of the largest exporters of textiles and clothing amongst the LDCs.[18] Bangladesh's RMG exports account for 76 percent of total export earnings; the United States is the destination of 42 per cent of RMG, yet clothing is excluded from the GSP. Furthermore, Nepal is deprived from the US DFQF treatment of apparel, which is a major export product.[19]

The future of trade policy: from trade-led development to development-led trade

Though the relationship between trade and development is the subject of contentious debate in the literature, there is little doubt that trade can be a powerful source of economic growth. International trade can expand markets, facilitate competition and disseminate knowledge which can catalyze economic growth and human development. Trade can also raise productivity and increase exposure to new technologies, which can also drive growth. However, none of this is automatic or inevitable.[20]

14. UNCTAD, 2005.

15. UNDP, UNCTAD, ACP and CFC, 2007.

16. Global Initiative on Commodities, 2007.

17. UNCTAD, 2004, pages 230-239.

18. UNCTAD, 2004, page 232.

19. UNDP Bangladesh Country Office and UNDP Nepal Country Office.

20. UNDP, 2003, page 21.

Much policy advice in the 1990s advanced the argument that trade liberalization 'as such' is the engine of economic growth and that it is also a driving force for poverty reduction.[21] As a result, many developing countries and development partners have focused on trade liberalization. However, the trade integration policies of most LDCs have been characterized by two types of problems: (1) the projected trade expansion is delinked from the prescribed trade policies, and (2) the prescribed trade policies are characterized by a very narrow focus. At the international level, trade policies focus on the benefits of further trade liberalization, while at the national level they concentrate on the benefits of building trade capacity.

> … [I]ncreased exports alone do not result in poverty reduction … [S]ustained economic growth and institutional innovations, many requiring policy space, have been crucial to ensuring sustainable economic and human development for LDCs.

However, as shown, the experience of LDCs has belied the belief that trade liberalization automatically promotes growth and alleviates poverty. According to UNCTAD, available evidence shows that trade liberalization has so far not been closely associated with poverty reduction.[22] Poverty appears to be increasing in the LDCs with both open and closed trade regimes. Between these extremes, poverty increased less in countries that have pursued moderate trade liberalization. While this does not imply that trade liberalization increases poverty, it does show that liberalization has not helped reduce poverty.

On the other hand, the LDCs that experienced economic growth in the 1990s became more export oriented. However, increased export orientation was not necessarily associated with growth, as 'GDP per capita declined or stagnated in eight of the 22 LDCs with increasing export orientation between 1987 and 1999; and in 10 of these countries poverty actually increased'.[23] A key lesson, therefore, is that increased exports alone do not result in poverty reduction. In this context, sustained economic growth and institutional innovations, many requiring policy space, have been crucial to ensuring sustainable economic and human development for LDCs.[24]

Overestimating the benefits of further liberalization

Sustained economic growth can be accelerated by increasing both imports and exports; however, since there is no automatic relationship between growth in trade and poverty reduction, whether and to what extent this happens will depend on

21. Sachs and Warner, 1995; Dollar and Kraay, 2000.

22. UNCTAD, 2002, Ch.3. Among the LDCs, trade varies greatly and depends on whether their main exports are primary products, non-oil primary products, or manufactured goods. Primary products exporters exhibit the highest poverty levels. More than 80 percent of the people in mineral-exporting countries lived on less than $1 a day at the end of the 1990s, compared with 43 percent in service exporting LDCs and 25 percent in manufactured goods exporting LDCs (excluding Bangladesh) (UNCTAD, 2002, page 115; UNDP, 2003).

23. UNDP, 2003, page 34.

24. Sustained economic growth in 14 LDCs with rising GDP per capita led to a fall in poverty in these countries between 1987 and 1999 (UNDP, 2003, page 34).

household choices and broader government policies and spending. At present, it appears that the benefits that LDCs may derive from further multilateral trade liberalization are likely to be overestimated and are actually rather small, because today, most LDCs have very open trade regimes. LDCs will therefore derive relatively small benefits from a reduction of their own tariffs. Furthermore, LDCs benefit from many tariff-related market access preferences. They will therefore also gain relatively little from further tariff reductions by developed countries. LDCs could, however, derive relatively high gains from (1) better market access to the more industrialized developing countries, (2) the reduction of non-tariff barriers in developed countries, and (3) from a less restricted movement of people. For instance, in 2005, official remittance inflows were approximately four times higher than net aid flows and nine times higher than FDI in Bangladesh.[25] Currently, however, multilateral trade negotiations under the Doha Round do not promise meaningful progress in these areas.

The need for international support

At the international level, it is necessary to look beyond further trade liberalization and prioritize the strengthening of LDC export performance. Three types of policy measures are particularly important in this respect:[26]

- **Generally applicable support** which should focus on all developing countries and would (1) help countries cope with commodity price instability and decline, and (2) help them address challenges associated with the management of mineral resources and mineral revenues. Specific measures under the former could include the establishment of an export diversification fund, strengthening the capacity of developing country financial institutions to provide credit to small producers and small and medium enterprises, and the creation of regulatory environments enabling national stakeholders to use modern finance and risk management instruments.[27]

- **LDC-specific support measures** which should focus on (1) strengthening S&DT provisions, (2) strengthening market access preferences, and (3) introducing supply-side support measures. The policy instrument of market access preferences will inevitably erode, and it is therefore necessary to design new instruments to stimulate exports. But, while market access preferences continue to have bite, it is essential to make the best possible use of them. To this end, market access preferences should not be undermined by the exclusion of sensitive products, the escalation of tariffs, overly complex ROO, or overly stringent product standards in developed countries.

For instance, despite promising signs for the export of agro-based products such as tea and herbal and aromatic plants, Nepal has not been able to exploit international

25. UNDP Bangladesh Country Office.

26. UNCTAD, 2004, pages 239-263.

27. Global Initiative on Commodities, 2007.

market access opportunities due to strict technical requirements.[28] Market access preferences should provide complete DFQF access for all products for the LDCs, and they should be granted on a mandatory basis by all developed countries and more industrialized developing countries. The introduction of EPAs between the EU and many LDCs does not promise to improve market access preferences. An enticing feature of these arrangements is that LDCs are promised aid for the strengthening of trade capacities. Nevertheless, another feature of the arrangements is that many LDCs will need to comply with relatively stringent IPR and investment regulations, which go beyond current regulations in the multilateral trading system, and will effectively set a minimum standard for future multilateral trade negotiations.

> … [I]t is insufficient to focus on a narrow conception of supply capacities. Instead, there is a need to broaden the focus to address productive capacities more generally.

- **South–South cooperation.** South–South trade has significantly increased and many developing countries have benefited. But LDCs, which are marginalized in North–South trade, are also increasingly marginalized in South–South trade. While the share of LDC imports that originate in other developing countries has significantly increased, the reverse is not true. Instead, other developing countries today import a smaller share from LDCs than they did in the early 1980s. To counteract these developments it is necessary that the more industrialized developing countries open their markets to exports from LDCs. In this context, an important instrument that countries should make more use of is the Global System of Trade Preferences among Developing Countries.

National level priorities

Today, the focus on trade liberalization at the international level is accompanied by a focus on trade capacity building at the national level. Efforts to strengthen trade capacities typically help countries implement appropriate trade policies and regulations, and/or help producers comply with product standards. There is also an increasing recognition of the need to develop transport-related infrastructure such as roads and storage facilities as part of the current priority being placed on Aid for Trade. The development of appropriate transport infrastructure is a particularly great challenge for LLDCs. For instance, difficult routes both internally and through Tanzania and Kenya further slow down and restrict Rwanda's access to markets.[29] The landlocked status of Malawi is a major handicap for its highly competitive sugar industry.[30] But, while all of this is important, none of it is sufficient. The weak export performance of LDCs is not related only to trade barriers at the international level, nor only to their inability to ship products. It is more fundamentally related to their inability to compete internationally in terms of product prices and quality. In order to support the

28. UNDP Nepal Country Office.

29. UNDP Rwanda Country Office.

30. UNDP Malawi Country Office.

efforts of LDCs to increase their world exports, it is insufficient to focus on a narrow conception of supply capacities. Instead, there is a need to broaden the focus to address productive capacities more generally, to complement the analytical shift from trade-led development to development-led trade.

Current trade strategies comprise a prominent part of development strategies. While it may be an exaggeration to suggest that trade strategies have replaced development and PRSPs, trade strategies have certainly conditioned these strategies in an increasing number of countries. A more balanced relationship between trade and development will require a shift from trade-led development strategies — which assume positive effects of further trade liberalization on growth and poverty reduction — to development-led trade strategies, which instead focus on the ways in which the development of productive capacities can contribute to sustained economic growth with poverty reduction, with increased trade as a valuable instrument of development, but not an objective in itself.

During the past decades, many LDCs have been unable to effectively increase their exports. This shows that market access opportunities are distinct from market entry requirements. Although market access can be improved, and many market access preferences should be significantly strengthened, LDCs already benefit from market access preferences to many developed countries. But, so far, only a few of them have been able to effectively use such preferences. The ability of LDCs to do so does not only depend on an improvement of supply capacities, in the narrow sense, but on an improvement of productive capacities in the broadest sense.

In particular, the development of productive capacities will require an expansion, and a better utilization, of the following three factors:[31]

- **Productive resources.** These refer to the factors of production, which include human, physical, financial and natural capital.

- **Entrepreneurial capabilities.** These are essentially the core competencies and technological capabilities that entrepreneurs ought to have in order to effectively use productive resources to convert raw inputs into internationally competitive outputs.

- **Production linkages.** These refer to backward and forward, and horizontal and vertical linkages between small and large enterprises, informal and formal enterprises, and domestic and foreign enterprises. They also include various linkages between the informal and formal sectors and the agricultural and non-agricultural sectors.

Productive capacities are closely associated with three economic processes, namely, the process of capital accumulation,[32] the process of technological progress,[33] and the process of favourable structural change, characterized by an

31. UNCTAD, 2006, pages 59-81.

32. Akyuz and Gore, 1996.

33. Knell, 2006.

increasing specialization in high-value-added activities and an increasing number of productive employment opportunities.[34] On the one hand, productive capacities influence these three economic processes, but on the other, productive capacities are also influenced by these economic processes. However, this potentially beneficial relationship in LDCs is constrained by three factors—an underdeveloped infrastructure, weak institutions,[35] and weak external and domestic demand.[36] It is therefore necessary to overcome these three constraints in order to develop productive capacities.

LDCs need to increase their investment in the development of productive capacities (namely productive resources, entrepreneurial capabilities and production linkages), and related resources, especially infrastructure and institutions.

Real investment: From supply capacities to productive capacities

A key implication of the analysis above is that LDCs need to increase their investment in the development of productive capacities (namely productive resources, entrepreneurial capabilities and production linkages), and related resources, especially infrastructure and institutions. Only then will they benefit from a more favourable process of capital accumulation, technological progress and structural change. The necessary investments to develop productive capacities and to relieve constraints on them are a formidable challenge for any country, but especially LDCs, which are resource-stripped economies. It is important to emphasize that these investments go beyond the current investment focuses of many countries. Investment in entrepreneurial capabilities goes well beyond the current focus on universal primary education (it should include investment in technical and vocational training, secondary and tertiary education, research and development and extension schemes); investment in institutions goes well beyond an exclusive focus on anti-corruption measures and a favourable investment climate (it should also include the development of effective business support institutions and banks); and investment in physical infrastructure should go beyond current efforts to close the digital divide (it must include large investments in electricity grids and transport networks). According to World Bank estimates, LDCs require infrastructure investment equivalent to about 7 percent of their GDP annually.[37]

External resources for development financing

The significant resource needs of LDCs cannot be covered by their domestically available resources in the near future. This resource gap can only be financed by external

34. UNCTAD, 2006, pages 85-189.

35. Kozul-Wright, 2000.

36. UNCTAD, 2006, pages 193-280.

37. Briceno-Garmendia, Estache and Shafik, 2004.

resources, especially ODA, but also FDI. Between 1999 and 2003, net FDI inflows to LDCs were about 2.6 percent of GDP, while in 2004 net ODA disbursements to LDCs were about 9 percent of GDP.

These figures indicate that the LDC group has benefited from rising FDI and ODA inflows during the past few years. Nevertheless, many LDCs have been excluded because FDI is highly concentrated in a few countries (namely countries that benefit from oil, metals and minerals) and a few sectors (namely extractive industries). Moreover, ODA is also concentrated in selected countries (especially conflict affected countries), and a few areas (namely the social sectors, emergency assistance and debt relief). In order to finance the investment necessary in LDCs it is essential that:

Much more aid needs to be committed to the development of infrastructure and the productive sectors than has been the case in past years.

- **Aid is further increased.** In order for aid to play a more effective role in making progress towards the MDGs, the commitments to increase aid must be met. In 2005, G8 summit leaders agreed to increase aid to developing countries by $50 billion a year by 2010, with at least $25 billion a year going to Africa. A few months earlier, member states of the EU resolved to reach the internationally agreed target of 0.7 percent of GNI in ODA by 2015, with an interim target of reaching 0.51 percent by 2010. Donors should meet their stated commitments, in a manner that channels real additional resources to development. An increase in the effectiveness of aid will also depend on the untying of aid and the further exploring of opportunities for OECD countries to provide additional resources beyond those freed through debt cancellation, new innovative sources of finance (such as the IFFIm, the ATLs for drugs facilities, and Advance Market Commitments for vaccine investments). Attention should also be directed to the growing volume of aid provided by emerging economies, and measures that ensure ownership should be reinforced.[38]

- **There should be a better balance between the productive and social sectors.** Much more aid needs to be committed to the development of infrastructure and the productive sectors than has been the case in past years. Between 1992 and 1994, and 2002 and 2004, the share of ODA from OECD/DAC countries to LDCs committed to social sector development, emergency assistance and debt relief increased from 35 percent to 62 percent. By contrast, over the same period, the share committed to infrastructure development and the productive sectors decreased from 48 percent to 24 percent.

- **Aid should be more effectively deployed.** In order to strengthen the development effectiveness of aid, it is important for donors to achieve greater policy coherence. For example, it is necessary that trade policies that protect the agricultural sector in developed countries do not undermine aid policies that

38. UNDP Senegal Country Office and UNDP Mauritania Country Office.

promote rural and agricultural development in developing countries. Furthermore, donors must achieve greater coherence in their reporting procedures, and both donors and recipient countries should use aid in a more transparent and accountable manner. With agreement in principle on the Paris Declaration, the OECD countries have already begun reforms in this area based on the principles of harmonization, alignment, ownership and mutual responsibility.[39] The speedy and comprehensive implementation of the Paris Declaration is necessary for an increase of aid effectiveness and it can promote progress towards development objectives, including the MDGs. Finally, aid given for military purposes should not be included in ODA. Such an inclusion could be a fatal mistake since it will serve to undermine the development orientation of ODA.

> … [T]he creation of productive employment opportunities is the only proven sustainable, long-term measure to reduce poverty … Accordingly, this paper argues for a production oriented approach to poverty reduction in LDCs.

Domestic resources for development financing

Although LDCs have limited domestic resources and will continue to depend on high levels of aid, they can and should raise additional domestic resources to complement aid inflows, through an improved tax collection system. Furthermore, they have an opportunity to make more resources available for private investment through an improved banking system.

Banks are more important than financial markets for credit provision at low levels of development. The weakness of the banking sector in LDCs is highlighted by the fact that in 2003, money supply was 80 percent of GDP in other, more industrialized developing countries, but just 31 percent of GDP in LDCs; and between 1980 and 2003, the share of domestic credit to the private sector doubled from 30 percent to almost 60 percent for low- and middle-income countries, but stagnated at around 14–15 percent in LDCs.[40] Contrary to common perception, the problem in LDCs is not so much that banks do not have the liquidity to make loans; it is rather that potential borrowers do not have the collateral that banks require. In Senegal, for example, 80 percent of loan applications by small- and medium-sized enterprises were rejected because of lack of collateral.[41]

Lending by microfinance institutions does not effectively compensate for the lack of activity by commercial banks, or the weakness of many national development banks. This is because microfinance institutions typically provide relatively small credit volumes at relatively high interest rates for relatively short durations, whereas real-sector investments require relatively large credit volumes at relatively low interest rates for relatively long durations. In order to ensure that the domestic private sector, especially small and medium sized enterprises, have access to loanable funds

39. UNDP Mauritania Country Office.

40. UNCTAD, 2006, pages 230-246.

41. IMF, 2005.

and are able to conduct necessary investment, it is essential that commercial banks as well as development banks become more effective in fulfilling their core functions.

Emphasizing a production-oriented approach to development

Poverty reduction may be achieved through either the creation of productive employment opportunities for the poor or through different types of transfer payments in cash (e.g., payment of welfare) or in kind (e.g., provision of complimentary social services) to the poor. While these two approaches to poverty reduction might be considered contradictory, they are in fact complementary. However, the creation of productive employment opportunities is the only proven sustainable, long-term measure to reduce poverty, even though the provision of transfer payments is an important short-term measure to alleviate poverty. Despite this, and while both approaches are important, the latter approach has gained dominance in recent years. The understandable desire for quick results has encouraged developing countries and their development partners to focus more and more on 'high-impact actions', which are associated with transfer payments. Today, poverty reduction efforts are mostly associated with the provision of social services, mainly basic health and education. While the provision of social services is important for short-term poverty alleviation, it cannot by itself help to ensure long-term, sustainable poverty reduction. Moreover, if donors decrease their aid for social services, many poor countries will find themselves unable to provide these services to the poor. The only way for LDCs to decrease their high and sustained dependence on aid money, and to invest in their social sectors in the long run in a sustainable manner, is for them to promote high and sustained rates of economic growth and employment.

While economic growth is not the ultimate objective of development, it is a necessary means. It is necessary (although not sufficient) for government revenues and essential government expenditures to increase. Furthermore, it is necessary (although not always sufficient) for the creation of productive employment opportunities and an increase in household incomes. Accordingly, this paper has argued for a production oriented approach to poverty reduction in LDCs. The development of enhanced productive capacities should assume centre stage in national development and poverty reduction strategies. It should also be a key concern of international development assistance.

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Round table on issues in trade and investment

Summary of discussions

1. This round table addressed the topic 'Globalization and the Least Developed Countries: Issues in Trade and Investment'. The panel was chaired by H. E. Ms. Sahana Pradhan, Minister of Foreign Affairs of Nepal. Kamal Malhotra, Senior Adviser and Cluster Leader, Inclusive Globalization, Poverty Group, Bureau for Development Policy, UNDP, was the presenter of the issues paper 'Globalization and the Least Developed Countries: Issues in trade and investment'. It was noted that the paper is a collaborative effort of UNCTAD and UNDP. The paper was presented on behalf of the two agencies.

2. The key messages of the presentation highlighted that while globalization has been associated with rising world income, the benefits among countries have been unequal, and LDCs, despite significant trade liberalization and economic reforms, have often been marginalized. While there is little doubt that trade can be a positive force for economic growth, poverty reduction and human development, by increasing productivity and providing access to new markets and new technologies, nothing about this is either automatic or inevitable. To make this happen, there must be a shift from trade-led development policies to development-led trade policies.

3. The presentation also emphasized that, at the national level, while the focus on supply-side issues is desirable and welcome, there is a need to broaden that focus to include support for productive and economic growth capacities. At the international level, there is a need to strengthen export capacities of the LDCs and ensure effective market access and adequate policy space. It was concluded that both international development assistance as well as national poverty reduction strategies need to focus much more strongly on a production oriented approach to poverty reduction in the LDCs if commonly shared objectives are to be achieved.

4. Most participants agreed to the major recommendations stated in the issues paper. Participants emphasized the importance of integrating LDCs into the world economy. Trade and investment are important movers of globalization, and LDCs can benefit from both if properly addressed.

5. Many participants noted that there are impediments that affect meaningful trade participation by LDCs in the world economy. Difficulties facing the LDCs are many, including, but not limited to, insufficient levels of foreign and domestic investment, poor infrastructure, structural handicaps such as geography and

climate, commodity dependence and lack of value addition of export products, limited access to international markets, low levels of human, physical and technological capital, migration of skilled workers, the dominance of the informal sector, weak institutions, post-conflict situations, and lack of ownership and effective power to enforce international aid commitments in the context of international economic governance institutions.

6. Several interventions highlighted that the integration of LDCs into the world economy through better market access remains a major challenge. While preferential market access is yet to deliver the expected benefits to the least developed countries, it was noted that a number of policy issues should be addressed, including the heavy dependence of LDCs on a narrow range of primary commodities exports and the weaknesses of LDCs in supply-side capacities. In order to effectively increase their access to international markets, special attention should be given to enhanced S&DT and DFQF access for all LDC products in the markets of developed countries.

7. It was emphasized that regional integration is essential to maximizing the benefits of globalization for LDCs. Regional integration has the potential to attract investment flows, expand market size and develop regional infrastructure and connectivity, especially in the case of LLDCs.

8. Participants also reaffirmed the great potential of South-South cooperation based on bilateral, as well as regional and sub-regional integration schemes. They underlined that international development partnerships with emerging economies from the South offer unprecedented opportunities for LDCs, especially in the areas of infrastructure development and technology transfer.

9. Many participants called for a fair and open trade framework, citing the need to achieve a truly developmental Doha Round. To ensure a successful outcome, overall reduction of tariff and non-tariff barriers, such as the simplification and harmonization of restrictive rules of origin, is crucial.

10. There was a broad understanding that increased Aid for Trade, of which the EIF is a key element, must enable them to build capacities to compete effectively in international markets. Attention was drawn to impediments to improving Aid for Trade led initiatives, notably poor infrastructure, low levels of education and skills, poor technological base, weak export institutional frameworks, lack of effective market access and cumbersome customs procedures.

11. Participants felt that trade and investment are critical elements to promote sustainable growth. Both are mutually supportive and reinforcing. However, to make trade a powerful force for poverty reduction and effective sustainable growth, S&DT for the least developed countries under the multilateral trading system needs to be enhanced and effectively implemented. In all, an open, fair and non-discriminatory multilateral trading system is essential to help promote investment and enhance productive capacities of LDCs.

12. Participants concluded that both domestic and international enhanced institutional support measures are needed to build the productive capacities of LDCs needed to engage productively in the process of globalization.

Chapter 3

Globalization and the Least Developed Countries:

Issues in technology

Introduction

This paper considers the importance of technological progress for economic growth and sustainable human development in the least developed countries.[1] It argues that the promotion of technological change will most effectively contribute to these objectives if it forms part of a broader strategy which is aimed at developing productive capacities and expanding employment. The paper discusses the processes of **technological learning**, through which the capability to use and improve technologies is put in place, together with **technological innovation**, through which appropriate new technologies are used to deliver new or improved products to markets. Based on its analysis of the weaknesses of technological capabilities in LDCs, the paper recommends ways in which LDCs can put in place and implement policies that are supportive of technological progress. It also identifies the appropriate international support measures necessary to enable this. In respect of domestic policy, a distinction is made between promoting technological progress in agricultural and non-agricultural products, while the importance of targeted ODA, appropriate IPR regimes, and South-South cooperation are emphasized in terms of international support.

Technological progress, economic growth and poverty reduction

Sustained economic growth and substantial poverty reduction in LDCs requires the development of productive capacities — physical, human and institutional — in a manner which enables the working population to become more fully and productively employed. National productive capacities develop through the closely related processes of capital accumulation and technological progress.

There is widespread agreement on the importance of technological progress for economic growth.[2] Technological change increases the productivity of land, labour and capital, reducing costs of production and improving the quality of outputs. The ability to be internationally competitive also depends on having up-to-date technology. In open economies, this is not only necessary for export development but is also vital for domestic production for local markets. As most LDCs have undertaken

1. This issues paper was prepared for the UN Ministerial Conference 'Making Globalization Work for the LDCs', Istanbul (Turkey) 9-11 July, 2007, by the Division for Africa, Least Developed Countries and Special Programmes (ALDC), United Nations Conference on Trade and Development (UNCTAD), Geneva (Switzerland). The paper is based on UNCTAD LDCs Report 2007 'Knowledge, technological learning and innovation for development' (UNCTAD, 2007) and it includes important inputs from the Inclusive Globalization Cluster of the Poverty Group in UNDP's Bureau for Development Policy. Comments were provided by staff in the Office of Development Studies and Executive Office of UNDP. Issues raised by UNDP country offices have also been included, as appropriate.

2. Neoclassical theory, new endogenous growth theories, and evolutionary growth theories which draw inspiration from Schumpeter all emphasize this.

fast and deep trade liberalization since the early 1990s, technological progress has become vital for their competitiveness and economic viability.

Economic growth is likely to reduce poverty if more labour intensive technologies are adopted, since this means that more people will participate in the benefits of growth. Poverty reduction will also occur if technological progress is associated with structural change and the negative employment effects of technological progress for some sectors are more than offset by positive effects in other parts of the economy. If technological progress leads to a reduction in demand for labour in some sectors, this will not worsen overall unemployment — or theprospects for poverty reduction — if it simultaneously creates jobs in new or growing sectors of the economy. Balanced technological development between tradable and non-tradable activities and between agricultural and non-agricultural activities is thus crucial.

Technological change will therefore best support sustained economic growth and poverty reduction if it is part of a broader strategy to develop productive capacities and expand productive employment opportunities.

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The importance of technological learning and innovation

Effective policy design to promote technological progress requires a good understanding of how technological change occurs. In this regard, the assumptions about technological change which are made in formal neoclassical and endogenous growth theories are less relevant than empirical and analytical insights from a close study of processes of technological change.

Technological change in LDCs occurs primarily **by learning** the technologies that already exist in more advanced economies and not by pushing the knowledge frontier further. Neoclassical and endogenous growth theories view this as a transfer of technology in which access to foreign technology automatically follows from openness to trade and foreign investment, and access is equivalent to effective use. However, empirical studies show that, in practice, the acquisition, diffusion and improvement of foreign technologies requires considerable effort by enterprises. Much knowledge is tacit, and firms work in an environment of uncertainty with imperfect information. Time, effort and costly investments are required to learn to use technology efficiently.

Nevertheless, technological learning is critical for technological change. Technological learning can be defined as the development of capabilities to use and improve technologies. It encompasses:

- **core competencies**, which are the routine knowledge, skills and information to operate established facilities or use existing agricultural land including production management, quality control, repair and maintenance of physical capital and marketing.

- **dynamic capabilities,** which refer to the ability to build and reconfigure competencies to increase productivity, competitiveness and profitability and to address a changing external environment of supply and demand.

Technological innovation in industrial policy is a potentially significant process for LDCs. Positive spillovers from industrial policy and innovation are important for growth and dynamism in the agricultural sector, just as in the very early crucial stages of development when agricultural surpluses were important for industrialization.

The effective acquisition of foreign technologies depends on the development of these competences and capabilities. It is important that R&D is an integral part of these capabilities since it is insufficient on its own. For example, design and engineering capabilities are particularly important for upgrading facilities or establishing new ones.

In contrast with technological learning, **technological innovation** occurs when enterprises apply knowledge commercially and introduce new products on the market, or make significant technological improvements in existing products and processes. Innovation occurs when an enterprise introduces a product, process or method which is new to them, even if it is not new to the country or to the world.

The enterprise — firm or farm — is the locus of innovation and technological learning. But firms and farms are embedded within a broader set of institutions which play a major role in these processes. In advanced countries, national innovation systems have been established to promote R&D and link it more effectively to processes of innovation. In LDCs, what matters most are the **domestic knowledge** systems which enable (or constrain) the creation, accumulation, use and sharing of knowledge.

Technological innovation in industrial clusters is of critical importance in determining rates of economic growth. Industrial policy activity typically takes place in large clusters of stable and densely concentrated firms, as opposed to, for example, agricultural production, which is typically highly decentralized among many small farming units. From this perspective, technological innovation in industrial policy is a potentially significant process for LDCs to the extent that positive spillovers from industrial policy and innovation are crucial for growth and dynamism in the agricultural sector, just as in the very early crucial stages of development when agricultural surpluses were crucial for industrialization.[3]

3. Malhotra, 2006, page 12.

Weaknesses in the technological capabilities of LDCs

The level of development of technological capabilities in LDCs is very weak. Most workers in LDCs have to earn their living using only their labour, with rudimentary tools and equipment, little education and training, weak access to financial services, and poor infrastructure. As a result, labour productivity is low and there is widespread underemployment. This is the basic cause of persistent and extreme mass poverty in LDCs. As a result, the development of productive capacities, including, in particular, policies to promote technological learning and innovation, need to be at the heart of efforts to promote sustained economic growth and poverty reduction in LDCs.

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An expanding literature has suggested a number of ways for assessing technological capabilities in developing countries:

- **UNDP's Technology Achievement Index** classifies countries as leaders, potential leaders, dynamic adopters and marginalized countries, with all LDCs for which there are data falling in the last category.[4]

- **UNIDO's (**United Nations Industrial Development Organization**) Competitive Industrial Performance Index** assigns 'low' rankings to LDCs. Apart from Bangladesh and Nepal, the rankings of LDCs were falling.[5]

- **RAND's Scientific Capacity Index** classifies countries into scientifically advanced, scientifically proficient, scientifically developing and scientifically lagging countries.[6] Of the 33 LDCs in the sample, all except Benin are in the scientifically lagging category.

- **UNCTAD's Innovation Capability Index** also assigns 'low' rankings to LDCs.[7] Moreover, for half the LDCs, their 'innovation capability', relative to the rest of the world, was worse in 2001 than in 1995.

- The **World Bank's Knowledge Assessment Methodology** also underlines the weak performance of LDCs with respect to technological capabilities.[8]

4. UNDP, 2001, pages 46-51.

5. UNIDO, 2002, pages 41-48.

6. Wagner et al., 2001.

7. UNCTAD, 2005a, pages 111-116.

8. Chen and Dahlman, 2005.

There are vast differences in performance between LDCs and other country groups. The widest disparity is in the number of researchers per million of the population and patent applications granted by the US Patent and Trademark Office per million people. The Index also indicates that LDCs not only have inadequate access to ICT infrastructure such as computers and the Internet, but also to more simpler forms of communication such as radio, television, telephone and newspaper. Rwanda's National Information and Communications Infrastructure offers an approach to such challenges — including measures to improve affordability, reliability and access to ICT — yet significant resources need to be channelled into its realization.[9] While current technology development efforts focus on the promotion of ICT, it is important to emphasize that these efforts must go well beyond this goal.

> In addition to limited technology transfer, LDCs are less able to absorb new technologies. This is because of weak human resources and weak and segmented domestic knowledge systems.

The weak technological capabilities of LDCs are reinforced by limited technology transfer to LDCs and their limited absorptive capacities. Firm-level surveys show that new machinery and equipment are identified as the most important channel of technology acquisition by LDC firms.[10] However, in real per capita terms, machinery and equipment imports by LDCs in 2000-2003 were at almost the same level as in 1980. Moreover, in 2003, real capital goods imports were about $10 per capita (in 1990 dollars), which was seven times lower than real capital goods imports of other developing countries in that year.[11]

In addition to limited technology transfer, LDCs are less able to absorb new technologies. This is because of weak human resources — low levels of education and high levels of brain drain — and weak and segmented domestic knowledge systems.[12] Domestic knowledge systems, which underpin learning and innovation, are split between traditional and modern technologies. The production activities which create most employment and livelihoods in LDCs are based on traditional or indigenous knowledge systems. These have great potential as a reservoir of creativity but are largely de-linked from modern knowledge systems.

Modern knowledge systems also have a number of major weaknesses: (1) there are weak linkages within the system and between different specialized suppliers of knowledge (national laboratories, research institutes, universities, technology transfer agencies, etc.); (2) knowledge creators are de-linked from local production, and knowledge is created on the basis of an R&D-centred linear model of innovation rather than responding to demand, which in any case is very weak; (3) the modern knowledge system has often been donor-driven; and (4) modern knowledge systems in LDCs are not well-connected with international knowledge systems.[13]

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9. UNDP Rwanda Country Office.

10. See for example the Investment Climate Surveys of the World Bank: http://iresearch.worldbank.org/ics/Help/basicInfo.htm and Knell, 2006.

11. UNCTAD, 2006, pages 154-162.

12. Ibid, pages 100-104.

13. Ibid, pages 246-255.

The weakness of the knowledge system is reinforced by weaknesses in several other areas, including a weak financial sector (failure to provide credit and enable investment) and an underdeveloped infrastructure (lack of electricity and transport networks). A symptom and result of these weaknesses is the underdevelopment of the private sector and the missing middle in the enterprise structure.[14] During the past decades, LDCs have found it difficult to develop internationally competitive enterprises and diversify their productive activities.

The majority of LDCs continue to maintain a very strong specialization in primary unprocessed commodities, and only a few LDCs have managed to diversify into manufactures at the lower end of the technology scale. As a result, the value-added created by the labour force of LDCs is very low in comparison with the value-added created by the labour force of other country groups.[15] The *Least Developed Countries Report 2006* shows that the labour productivity divide between LDCs and other countries is very large. Value-added per worker in 2000-2003 was just 20 percent of the level in other developing countries and only 1 percent of the level in developed countries. The productivity gap between LDCs and other developing countries has also widened since 1980. Agricultural labour productivity fell in one third of LDCs in 1980-1983 and 2000-2003, while non-agricultural labour productivity fell in four fifths of LDCs during the same period.

Technological learning and innovation requires measures which go beyond what are traditionally identified as science and technology policies.

National policies: what should the priorities be?

Successful developing countries have adopted policies to promote technological learning and innovation geared towards achieving technological catch-up with more advanced countries. There is no reason why LDC governments should not have the same orientation and seek to achieve the same results. However, such policies in LDCs need to be appropriate to their level of technological development, economic structure and the capabilities of their governments and business sector. Technological learning and innovation requires measures which go beyond what are traditionally identified as science and technology policies.

In the early stages of catch-up, there is a need for a balanced approach which includes both agricultural and non-agricultural activities, tradables and non-tradables, and FDI and domestic enterprises.

14. UNCTAD, 2006.

15. UNCTAD, 2006, pages 167-182.

Agriculture and the promotion of a green revolution

For many LDCs, promoting a green revolution in basic staples should be a priority. Sustainable agricultural intensification is becoming a necessity in more and more LDCs as the rural population density rises and the opportunities for agricultural growth through expansion of agricultural land area are being exhausted.

From past experience, the first stage in promoting a green revolution should be the establishment of the basics for agricultural productivity growth. These include investing in rural physical infrastructure, particularly roads and (where appropriate) irrigation systems; establishing adaptive and experimental research stations; investing in and improving agricultural and rural extension services; and, where necessary, land reforms. None of these steps, in itself, is easy.

Getting the agricultural knowledge and information system right is also a key ingredient of establishing the basics. There are three aspects of the knowledge system which can contribute to the huge gap between the actual land and labour productivity levels in LDCs and what is potentially achievable. These are:

- **an extension gap,** which arises when average productivity is far below what could be achieved using the best practices and technology suitable for the specific location;

- **a research gap,** which arises when national applied research programmes have not developed appropriate high-yielding varieties;

- **a science gap,** which arises when adaptive research at the national level is not provided with the basic prototypes from international scientific programmes, such as the Consultative Group on International Agricultural Research (CGIAR).

While each of these aspects of the knowledge system needs to be addressed, it is the research and extension gaps which are the key for LDC governments, while the science gap is more an issue for their external development partners.

Once the basics for a green revolution are established, policies should seek to widen uptake of new technologies. In order to do so, it may be necessary to kick-start markets through government interventions that give farmers access to financial services and seasonal inputs at low risk and low cost. This can be achieved through the use of targeted subsidies and through the work of special agencies which provide a bundle of services. In the past, state commodity marketing boards were the key institutional innovation which provided multiple functions. In practice, they had numerous deficiencies. The task which many LDCs now face is to devise new marketing boards which fill the institutional vacuum created by the dismantling of the old boards, but embody institutional innovations which deal with the deficiencies of the past.

Non-agricultural policies

Although actions to initiate a green revolution should be an important component of technological development efforts in early catch-up, the non-agricultural sector should not be neglected. What will matter are the technology search capabilities which are necessary to identify relevant existing technologies as well as the design and engineering capabilities needed to establish new facilities and also upgrade products and processes. In short, the key capabilities allow countries to:

- **search for existing technologies** internationally;
- **generate investment projects** on the basis of this international search (which introduces new activities into a country);
- **execute** these investment projects;
- **learn from others** nationally (which encourages the diffusion of best technological practices within a country);
- **upgrade and improve existing products,** processes, production methods and organizational arrangements already in operational use.

Although actions to initiate a green revolution should be an important component of technological development efforts in early catch-up, the non-agricultural sector should not be neglected.

Business firms are the basic locus of non-agricultural technological learning and innovation. However, in many LDCs, such business firms are missing or underdeveloped. A priority for LDCs should therefore be the transformation of small and informal activities into organized small-scale enterprises, together with support for small-scale enterprises to grow into larger firms, which will have a greater potential to develop technological capabilities and innovate. To these ends, it is necessary to strengthen the capabilities of entrepreneurs (management and organization) and the labour force (craft and technical skills, design and engineering skills). In addition, it is also necessary to provide converging affirmative actions such as preferential access to credit, technology and markets. Undertaking innovation is a risky activity. This means that the promotion of technological learning and innovation by domestic firms may require financial incentives.[16] Such incentives can take various forms, including credit subsidies, tax incentives, and matching grants for innovation projects.

Collective entrepreneurship can also be a powerful mechanism for diffusing and upgrading best practices.[17] This can build on existing collective entrepreneurship practices, such as saving and credit rotation associations, or sectoral and territorial groupings of producers and traders who seek economies of scale, for example, by sharing capital equipment. The promotion of collaborative action in the fields of technology, design and marketing is a key issue.

The encouragement of clusters of domestic enterprises as well as the encouragement of stronger linkages between domestic and foreign enterprises is an important field for public policy. Because of the weak development of domestic enterprises in

16. Sachs, 2004.

17. Nadvi and Schmitz, 1999; Oyelaran-Oyeyinka and McCormick, 2007; Pietrobelli, 2007.

LDCs, FDI is sometimes seen as a means of acquiring technological capabilities.[18] This is possible. However, the evidence suggests that it is not an automatic process.

As important as the linkages between firms are linkages between different economic sectors. These linkages not only help to strengthen supply capacities (through technology and skills transfers), they can also help to stimulate demand (through stronger contracting relationships). While linkages can encourage diversification into new areas, they can also support upgrading in existing areas of specialization. Efforts should also be made to develop natural-resource-based production clusters through adding value to natural resources and exploring the possibilities for import substitution by local production of some inputs and equipment, as well as the development of domestic production engineering capabilities.

Finally, it should be stressed that technological learning and innovation go side by side with improvements in physical infrastructure, human capital and financial systems, improved technological capabilities within enterprises and more effective knowledge systems. This will also require an adequate macroeconomic framework that ensures appropriate macroeconomic conditions for sustained technological learning and innovation, as well as the right investment climate. The latter will require an appropriate regulatory framework but will also depend, in particular, on buoyant demand conditions.

International policies

There are three key areas of international policy which need to be emphasized: the use of ODA to promote technological learning and innovation, the appropriate modification of IPR regimes to serve this purpose, and the contribution of South-South cooperation.

ODA for technological learning and innovation

The new approach to development assistance, reflected in PRSPs, has sought to increase national ownership and support the development of home-grown policies. Nevertheless, in practice, the tension between conditionality and ownership has not been resolved. Donors can play an important role in providing financial and technical support for technological learning and innovation where technological progress is identified as a priority concern for governments. There has been a recent increase in support for science, technology and innovation by a number of development partners. However, this has been either geared towards funding centres of research excellence (e.g., academic centres with few links to industry) or it has been focused on a particular objective (e.g., technological innovations to help combat HIV/AIDS). The current approach does not effectively stimulate technological learning and innovation for the economy as a whole.

Moreover, the effectiveness of ODA for agricultural technological learning and innovation has been severely compromised due to the shift in the research priorities

18. UNCTAD, 2005b.

of major donors. There is now a need for a rapid increase in ODA for agricultural R&D for LDCs. It is also essential to provide ODA for non-agricultural R&D, which donors have neglected in the poorer countries. Although the agricultural sector is still the major source of employment and livelihood in LDCs, the development of the non-agricultural sector is increasingly important for employment creation and sustainable poverty reduction. Technologies for more efficient energy consumption are also important for these economies. For instance, Senegal has taken a lead in addressing the growing challenges of energy dependent economies, in the context of high energy prices, through innovative proposals which involve the establishment of a compensation fund.[19] In short, donors should support technological learning and innovation in both the agricultural and non-agricultural sectors, and also help countries acquire more efficient and environmentally friendly technologies. Aid for technological learning and innovation in the tradables sector should also be a priority focus of Aid for Trade.

Intellectual Property Rights regimes

Learning in LDCs will principally revolve around absorbing existing technologies and techniques and adapting these to specific local conditions, i.e. by imitation. Some kind of 'reverse engineering' is necessary in all cases of imitation. In this respect, strong IPR protection is likely to hinder rather than facilitate technology transfer and indigenous learning in early stages of industrialization. The current IPR regime favours the producers and holders of IPR, mainly found in developed countries, at the expense of those trying to get access to protected intellectual property content, mainly found in developing countries. This leads to an increase in the knowledge asymmetry between developed and developing countries.

While successful developing countries in East Asia have pursued active policies aimed at closing the technology and knowledge gap through mechanisms such as reverse engineering and compulsory licenses before the current IPR regime came into force, the current IPR regime is hindering the process of technological catching up for latecomer developing countries, including LDCs. While the current IPR regime may be improved in the short run via fine-tuning and calibrating norms and standards in line with LDC needs, and/or enhancing TRIPS flexibilities, these efforts are likely to be insufficient. It is essential that LDCs have considerably more policy space in the foreseeable future and this will require more than just tinkering with existing IPR regimes.

In the short term, it is essential that developed countries effectively implement their obligations under Article 66.2 of the TRIPS Agreement by adopting special incentives, such as tax breaks and subsidies, for the transfer of technology, including machinery and equipment to LDCs. Furthermore, it is desirable that development partners of LDCs take measures to promote technological development in LDCs in line with the recommendations of the Third Programme of Action for LDCs, which was agreed on in Brussels in 2001. For example, Bangladesh has recognized the importance of including measures to facilitate the development of new technologies,

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19. UNDP Senegal Country Office.

attracting FDI conducive to technology transfer and investing in local research and capacity building programmes.[20]

In the medium to long term, it is important to promote **alternative non-proprietary mechanisms for knowledge governance**. LDCs, in collaboration with the international community, should explore options such as (1) patent buy-outs; (2) price discrimination mechanisms; (3) public-private partnerships; (4) indirect or direct subsidization of research; (5) open source collective mechanisms, information and knowledge commons; (6) joint research initiatives;(7) regional technology sharing consortia; and (8) joint research ventures and licensing agreements with technology transfer clauses.

South-South cooperation

Given the smaller technological distance of LDCs from other developing countries (as compared with developed countries), technological imports may be particularly important from middle-income developing countries. It may be easier, therefore, to adapt technologies used in countries that are newly industrializing. The development of South-South technological links thus needs to be actively pursued.

20. UNDP Bangladesh Country Office.

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Round table on issues in technology

Summary of discussions

1. The discussion was chaired by H.E. Mr. Mohlabi Kenneth Tsekoa, Minister of Foreign Affairs of Lesotho. He recalled that to integrate themselves into the world economy, LDCs need to increase their competitiveness, and to that end it is essential to bridge the technology divide between developed countries and LDCs. Paradoxically, while modern technology is easily available, it is hardly accessible to LDCs. As a result, they remain disadvantaged in trade and manufacturing, innovation and learning and agricultural production. This impedes their efforts to increase production, create jobs, generate wealth, achieve food security and eradicate poverty.

2. Mr. Charles Gore, Senior Economic Affairs Officer and Chief of Research and Policy Analysis in the Division for Africa, Least Developed Countries and Special Programmes in UNCTAD, presented the main conclusions of the issue paper 'Globalization and the Least Developed Countries: Issues in Technology'.

3. In his presentation, Mr. Gore recalled the importance of building productive capacities through capital accumulation and technological change. He emphasized that globalization should involve innovative actions by the governments of both developed countries and emerging economies. These actions need to be driven by the private sector through the development of public-private partnership arrangements.

4. He added that while LDCs are being integrated into the global economy, they have a very low level of technological development. Structural adjustment programmes, which most LCDs pursued so vigorously, have dismantled their industrial base. New directions are now needed to increase agricultural productivity, develop manufacturing industries and expand productive employment outside the agricultural sector.

5. To escape from the trap of poverty, these countries need new policies that could narrow the technology gap and increase the knowledge intensity of the economy. They need to increase their local value-added and competitiveness through the development of training, learning and knowledge. LDCs also need financial resources as well as know-how.

6. Finally, Mr. Gore mapped out some actions that LDCs can take to bridge the technology gap, including the mainstreaming of science and technology in their national development policies. He underscored that they will require active policies to promote industrial productivity and a green revolution. Actions of their development partners could include the increase of ODA for science and technology development, the transfer of technology within TRIPS regimes and

addressing the issue of brain drain. He also emphasized the central role of South-South cooperation in technology learning and awareness.

7. During the discussion that followed Mr. Gore's presentation, some participants mentioned that access to technology is part of the Programme of Action for the Least Developed Countries for the Decade 2001-2010. Acquisition, transfer, diffusion and development of technologies could boost economic growth and ensure sustainable development in these countries.

8. Other participants noted that while access to new and emerging technologies is important, technology should also be appropriate to the levels of development of LDCs. Participants stated that the transfer of technology should avoid the 'one size fits all' approach and include both agricultural and non-agricultural technology. Some participants argued that to be competitive in the tradable sector, least developed countries do not only need modern but also state-of-the-art technology. Others underscored the importance of the absorptive capabilities of LDCs for successful technology transfer as well as the need for blending cutting-edge technology with indigenous knowledge.

9. The affordability of technology in view of the financial constraints faced by LDCs was identified as the most important aspect of technology diffusion to these countries. In this regard, the critical role of ODA for science and technology development was underscored in a number of interventions. The importance of mobilizing domestic resources was also emphasized. Participants recognized that LDCs themselves are responsible for their development and should identify their own needs, increase their budget allocation for research and development and use their own materials. They must assume full ownership and take the lead role in turning ICT into a vital development tool.

10. Participants further stated that since LDCs were primarily dependant on labour intensive technology, the use of modern technology negatively affects their unemployment levels. Therefore, employment should be carefully taken into account while formulating technology policy development in LDCs. It is imperative to look for alternative sources of employment for people when adopting new technology. In this regard, some participants referred to the experience of some developing countries that were successful in introducing new sectors that had absorbed labour freed by technology diffusion.

11. All participants agreed that learning and education underpin any technology transfer. In this regard, LDCs need to develop core competencies and technological capabilities. Investing in people is necessary to develop the capacity to use transferred technology. Infrastructure and capacity development are a sine qua non for access to new information and communication technologies.

12. Participants expressed their concern about brain drain, which impedes the efficient use of technology in LDCs. They suggested that science and technology should be used both to prevent brain drain and to ensure the effective replacement of emigrants. ODA for education and training was also mentioned as a potential leverage in the fight against brain drain in LDCs.

13. Participants were unanimous in their view that LDCs need balanced IPR systems. The representative of the World Intellectual Property Organization informed the Conference about technology centres to be established in each of the least developed countries. The first centre in Dar es Salaam, Tanzania, is already functional. Three new centres will open in 2007 in Bangladesh, Cambodia and Ethiopia. These centres aim at stimulating technological, industrial and economic development, providing advisory services and promoting the use of technological infrastructure to R&D as well as business communities.

14. Some delegations argued that LDCs needed full flexibility in TRIPS.

15. Participants recognized that South-South, North-South and triangular cooperation plays a central role in technology transfer. Interregional cooperation, like the Africa-Asia partnership, is also a good vehicle for transferring affordable technology. Cooperation between LDCs and emerging economies should also be further strengthened and nurtured.

16. Turkey was cited as exemplary in promoting South-South cooperation and all participants thanked this country for taking the initiative to organize the conference on 'Making Globalization Work for the Least Developed Countries'. They said such initiatives should be further encouraged.

Chapter 4

Globalization, agriculture and the Least Developed Countries

Introduction

This paper examines the importance of agriculture in poverty alleviation and the sustainable economic growth and development of LDCs. It highlights key elements required to assist the LDCs in exploiting their agricultural potential so as to benefit from the changes expected from globalization.[1]

Although globalization offers opportunities for growth and development in all parts of the world, the hopes and promises attached to rapid liberalization of trade and finance have not so far been fulfilled in many developing countries, and particularly so in LDCs. In fact, the latter are increasingly becoming marginalized, especially in agriculture.

LDCs face many difficulties, both internal and external, in their efforts to develop their agriculture and to achieve their objectives of poverty reduction through improving food security and increasing export earnings. Internal difficulties include low productivity, inflexible production and trade structures, low educational attainment and skill capacity, low life expectancy, poor infrastructure, and deficient institutional and policy frameworks. At the same time, with the growing integration of markets due to globalization and liberalization, their economies face a more fiercely competitive external trading environment. They continue to export a limited range of primary commodities that are highly vulnerable to instability in supply, demand and a decline in terms of trade. Besides price volatility, agriculture in LDCs is susceptible to weather conditions which determine the level of harvest. Therefore, LDCs can rapidly move from a surplus to a deficit situation. In addition, their external debt remains large. Their inability to compete in world markets, as well as in their home markets, is also reflected in their rising food import bills.

Agriculture in the LDCs: significant yet underdeveloped

Agriculture is the backbone of LDCs. It accounts for between 30 to 60 percent of the GDP among LDCs, employs more people than any other sector (as much as 70 percent in most cases), represents a major source of foreign exchange, supplies the bulk of basic food and provides subsistence and other income to more than half of the population of LDCs. The strong forward and backward linkages within the rural sector and with other sectors of the economy provide added stimulus for growth and income generation.

Agricultural output in LDCs rose in 1990-2000 at an annual average rate of 2.8 percent, exceeding the rate of 1.9 percent in 1980-1990, with some slight improvement in

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per capita terms. However, recent data for 2000-2005 indicate that there was virtually no increase in output, or even a slight decline.[2] The situation was the same for per capita staple food production. In addition, slow food production growth and sharp annual fluctuations in output remain major and chronic problems for LDCs, constituting the major causes of their rising poverty and food insecurity. Between the periods 1995-1997 and 2002-2004, the proportion of undernourished in the total population of LDCs increased from 34 percent to 41 percent, while the absolute number of undernourished is estimated to have increased from 116 million to 169 million.[3]

The domestic environment for LDCs: opportunities and challenges

Abundant resource potential to expand agriculture

The most fundamental factor influencing the agricultural production potential of a country is the availability of arable land. Land is the essential prior resource needed for crop, animal and forestry production. LDCs have widely diverse agro-ecological situations, with varying availability and quality of arable land and varying climatic conditions. Prospects for agricultural development necessarily hinge on these considerations. Although the ratio of abandoned land to total land area on average for LDCs has not changed much in the last three to four decades, at 62 percent, this ratio exceeds the average in 18 LDCs and is over 90 percent in a number of them. In the bulk of LDCs, abandoned area occupies between 30 and 60 percent of total land area. In contrast, agricultural area occupies around 38 percent of total land area between 2000 and 2003. During this same period, the proportion of arable agricultural land stood at 18 percent, with only 1.5 percent under permanent cultivation.

In order to classify countries in terms of their potential for agricultural production, the Food and Agriculture Organization (FAO) undertook a ranking on the basis of land resource availability and constraints.[4] The ranking is broadly indicative of a country's relative land resource potential. Three types of countries can be distinguished: those with a relatively large land balance, where extensive agricultural expansion may still be possible (e.g. Democratic Republic of the Congo and Mozambique); those which are close to the limit of exploiting actual arable land (e.g. Bangladesh and Somalia); and those which have exploited almost all their arable land and can probably not expand much more (e.g. Afghanistan and Yemen). Thus grouped, the countries can respectively be considered as having a high, medium and low agricultural potential. Out of the 10 highest ranked LDCs, eight fall in the humid zone of central Africa. In this group, there appears to be a productive potential that is not yet exploited.

2. All data cited in this paper are available from the author on request or can be accessed directly at: \\extftp01\ext-ftp\ES\Reserved\Koroma\LDCs.

3. FAOSTAT, 2007, http://faostat.fao.org/.

4. Only 36 LDCs with available data were used in the classification; adapted from Bot, Nachtergaele and Young, 2000.

Very limited gains in agricultural productivity

In LDCs, it is not the increase in productivity but rather, horizontal expansion, i.e. bringing more land under cultivation, that has remained the dominant source of agricultural growth. Given the increasing pressure on agricultural resources, however, faster agricultural growth, particularly in countries with limited scope for land expansion, will require continuing increases in agricultural productivity from its present relatively low level. Available evidence shows that potential productivity gains are considerable. In terms of agricultural value-added per worker, productivity increased, though only slightly, in 23 out of the 32 LDCs for which data are available, between 1992-1994 and 2002-2004.[5] However, compared with other developing countries, the agricultural value-added per worker in LDCs appears to be relatively low, suggesting that there is much room for improvement. Moreover, much of the agricultural sector in LDCs consists mostly of informal micro and small enterprises, which face limitations of small market size, poor business conditions and lack of regional integration, pointing to a need for a more effective policy for their development.

There is growing concern that the expansion and intensification of agriculture in LDCs may lead to degradation of the natural resource base (soil, water, vegetation and biodiversity) and consequently to a decrease in agricultural production. However, agricultural intensification per se — i.e. increasing the productivity of land already under cultivation — should not be a threat. In fact, properly managed intensification is needed to meet agricultural production needs and reduce the pressure of agricultural expansion in fragile and marginal areas. The lack of sound management practices and of access to appropriate technology and inputs for agriculture, rather than intensification, is the most serious cause of environmental degradation.

Increasing dependency on food imports

Domestic consumption of agricultural products in LDCs varies widely between food and non-food products. Non-food products such as raw materials and tropical beverages are basically produced for export. The little that goes to the domestic market is destined essentially for local processing industries, which, in turn, export the bulk of their produce. In contrast, the domestic consumption of food products is a large and growing proportion of output. In the 1990-1999 period, consumption of basic foodstuffs in LDCs grew by an annual 2.6 percent, equalling the growth rate of population, but more recently by 3.5 percent between 2000 and 2003. For many commodities, production has not, and perhaps will not, keep up with demand. For example, rice and wheat imports have more that doubled since the 1980s, with import growth for maize and other coarse grains rising steeply since the 1990s. In the case of meat, pig and poultry are driving the import growth. On the export side, commodities which have been traditional export commodities for LDCs have performed badly. Tropical beverages exports (coffee, cocoa and tea) have all experienced negative growth from the 1970s to 2003. In fact, it is only cocoa which experienced some improvements in the earlier part of this decade.

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5. World Development Indicators, 2006.

In sum, trends in production, consumption and trade amply demonstrate the increasing import dependence of LDCs for food. FAO projections for 2015 suggest that this dependence will continue to increase. If the requisite commercial imports cannot be ensured, or if food aid cannot make up for the shortfall, per capita food consumption will inevitably fall. [6]

The interaction between food supply and demand factors determines the level of food adequacy. The most widely available and used indicator for estimating food adequacy levels is per capita dietary energy supply, which measures the food available to each person on average in a country. The dietary energy supply has been very low for LDCs, as a group, and has barely risen since 1979. In the 2001-2003 period, for 17 of the 45 LDCs for which data are available, it has been below 2,100 kcal/day. This stands in contrast to the progress in other developing countries and the world as a whole, where food production has continued to outstrip population growth.

There is no one unique policy prescription that fits the diversity of the agricultural sector in LDCs. While enhancing productivity is a common essential requirement, the nature of this increase will determine the appropriate policy mix.

Recognizing the role of women in agriculture

Rural women play an important role in producing the world's staple crops and providing labour for post-harvest activities. Their role is particularly prominent in LDCs. Wars, increasing rural to urban migration of men in search of paid employment, together with rising mortality attributed to HIV/AIDS, have led to an increase in the number of female-headed households in the developing world. This 'feminization of agriculture' has placed a considerable burden on women's capacity to produce, provide, and prepare food in the face of already considerable obstacles. Overall, women's contribution to agriculture is poorly understood and their specific needs ignored in development planning. However, women's full potential in agriculture must be realized if the goal of promoting agricultural and rural development is to be achieved.

Renewed emphasis on building appropriate institutions

In many LDCs, governments have often intervened in markets in inappropriate ways and have invested in state-owned production enterprises that have often been inefficient. In recent decades, reforms have been undertaken to privatize inefficient state-owned enterprises and to eliminate marketing boards and other regulatory agencies in many countries. However, the historical role of such institutions and the associated provision of these public goods in agriculture have not always been fully appreciated. Public sector investment in rural schools, the development of input and output markets, agricultural extension and applied agricultural research have been vital to agricultural development in every economy in the world. Institutional

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6. FAO, 2003. http://www.fao.org/docrep/005/y4252e/y4252e00.htm.

reform without investment in these public goods does not produce economic growth in the agricultural sector. Growth is not produced by passive 'let the markets work' policies that do not include critical public investment programmes. Thus, the major lesson that emerges from country experiences is that, for agricultural growth to occur, a number of factors need to be in place which addresses the 'handicap' of the rural sector in terms of infrastructure, social services, technology, marketing infrastructure, and seasonal credit availability, along with the building of an appropriate institutional environment. There is no one unique policy prescription that fits the diversity of the agricultural sector in LDCs. While enhancing productivity is a common essential requirement, the nature of this increase will determine the appropriate policy mix. For example, in countries seeking increased productivity through shifts to commodities with a higher income elasticity of demand (such as fruits and vegetables) and through improved access to dynamic markets (both domestic and external), an appropriate institutional environment, market information and assistance in meeting health and sanitation standards are some of the possible policy elements.

A major problem facing farmers in LDCs is the unavailability of inputs on a timely basis or in the quantity required. This constraint is largely linked to the lack of credit, difficulties in obtaining foreign exchange, the lack of risk management and price formation mechanisms, the seasonality of agricultural input requirements, spatial dispersion of farmers, poor transport infrastructure and, sometimes, to the marketing and management inefficiencies of the state-owned companies responsible for single-channel input supply and marketing. The informal seed supply system is the dominant source of seed and planting materials for resource-poor farmers in marginal areas and has proven to cope better with a disaster situation compared to the formal seed sector. Nevertheless, the informal input supply sector has unfortunately received very little attention and financial support from policy makers, to the detriment of the productivity of small-scale farmers.

In many LDCs, weaknesses in basic infrastructure (such as transport, utilities and communications) are major constraints for agricultural development. Infrastructure constraints affect the cost and continuity of production and the quality of products. For instance, a proper network of farm to market roads reduces the costs of inputs and outputs, and leads to an increase in agricultural output, crop area and yield. Good infrastructure also promotes better information flows between communities and rural and urban areas, and thus can link farmers to markets for goods, input supplies and agricultural services.[7] Furthermore, the management of irrigation schemes and water distribution are usually under public control. Farmers' associations are rarely involved or are too weak to contribute to the design of water distribution systems and the maintenance of the network. The water needs of farmers have to be examined from both the household and production-for-export aspects, since the particular use affects the quality of life of all.

In most LDCs, the institutional capacity for research and extension is weak. As a result, the technology available is insufficiently adapted to local conditions. Neither have research results come up with a variety of technological solutions adapted

7. Binger, 2004.

to the range of socio-economic and agro-ecological conditions existing in the country, such as the differing technical needs of female and male farmers. Lack of technological alternatives is often mentioned as a constraint to irrigation development (e.g. different models of irrigation pumps, suited to the needs of different users). Where techniques and technologies developed by research are available, their dissemination is faced with a number of difficulties such as the poor delivery of extension and training services that are not necessarily targeted to the appropriate users.

In view of these constraints, LDCs would benefit from public-private partnerships that assist farmers with access to credit, technical assistance, capacity building, marketing information and crop and product diversification.

In addition to their small and declining share in world agricultural trade, agricultural exports of LDCs consist largely of a few low-value-added primary commodities. On average, the top three export items, which are predominantly primary agricultural commodities, account for over 68 percent of total export earnings.

Urgent need to reverse decline in investment

LDCs face a major domestic resource gap in generating the investments needed to achieve their developmental objectives in agriculture, including the target of reducing the number of undernourished people by 2015. In many LDCs, much public expenditure on agriculture is in the form of subsidies, leaving little public funding for the creation of new assets, for maintenance or for other growth-producing expenditure. The result is that many agricultural support services barely function, rural roads are impassable for much of the year, farm machinery is mostly inoperable and irrigation schemes are crippled. Most of the required investments expected from the private sector have not fully materialized. In this regard, public investment in research and infrastructure is an indispensable precondition and catalyst for, and complement to, private investment.

In almost all LDCs, ODA is the main catalyst for investment in agriculture. Although total ODA increased from $12.4 billion to $23.4 billion between 1999 and 2003, the share received by the agricultural sector declined from 19 percent to 15 percent during the same period. Much of the external assistance to agriculture in the LDCs is in grant form (between 50 and 78 percent) with a slight increase in multilateral commitments between 1999 and 2004.

Improving ODA is crucial to ensuring that appropriate agricultural intensification strategies can be pursued in the future. In particular, adequate external assistance is essential to enhance agricultural productivity, which is dependent on the availability of sustainable alternative technologies and farming practices that will not further degrade the natural resource base.

Given the importance of the agricultural sector in LDCs for poverty reduction and economic growth, current initiatives to provide financial assistance through targeted debt relief and other measures could in part be directed to supporting efforts to develop their sustainable agricultural potential.

External environment: opportunities and challenges

Given the rapid pace of globalization, the external economic environment presents major challenges as well as opportunities for agriculture in LDCs. While access to larger and more affluent markets favours growth and development through trade, LDCs face many internal supply-side constraints, associated with their economic underdevelopment, which render their exports uncompetitive. This section reviews the major trends and patterns of their agricultural trade and examines the main factors affecting them.

Increasing marginalization in global markets

The participation of LDCs in international agricultural trade is insignificant and has been declining. Their share in world agricultural exports has dropped steadily, from 3.2 percent in 1970-1979 to 1.9 percent in 1980-1989 and a mere 0.9 percent in 2000-2004. Their share in world imports has stayed more or less at the same low level of 1.9 percent from 1980 up to 2004. While world agricultural trade expanded at an average annual rate of over 10 percent between 2000 and 2004, agricultural exports in 17 out of 48 LDCs experienced negative growth. Their market share of many key agricultural commodities such as timber, coffee, tea and cocoa has fallen significantly from the 1980s to 2004 by over 37 percent.

In addition to their small and declining share in world agricultural trade, agricultural exports of LDCs consist largely of a few low-value-added primary commodities. On average, the top three export items, which are predominantly primary agricultural commodities, account for over 68 percent of total export earnings. The major agricultural exports of LDCs include coffee, tea, cotton, jute, fish and seafood, tropical wood, spices and bananas, mostly in unprocessed form. Moreover, for African LDCs, in particular, though not exclusively, exports are concentrated in only a few markets, of which the EU is by far the largest (about one third), followed by other Quad markets (Canada, the United States and Japan), although China and India are emerging as important partners. For Asian LDCs, China, India and other Asian countries are important trading partners. Intra-LDC agricultural exports between 1996 and 2004 have fluctuated around 7 to 11 percent. However, trade for LDCs is higher in sub-Saharan Africa, accounting for 26 percent of total agricultural imports in 2004. LDC exports to Asia were around 17 percent during the same period. In essence, market access conditions in the Quad countries as well other key partners (e.g., India) are of critical importance in defining their trading opportunities.

The marginalization of LDCs in world agricultural trade is reflected in the slow growth of their agriculture sector as well as of their overall economy, slower even than that of other developing countries. Two factors were identified as causing a long-term decline in commodity prices: low-income elasticity of demand, mainly for food, and the decline in use of raw materials in manufacturing. In addition, LDCs exporting largely raw materials are particularly prone to changes in commodity markets. Moreover, large cotton subsidies in certain countries have inflicted enormous damage in some LDCs. For example, Benin, Chad and Mali lost 25 percent of their total export earnings from 1990 to 1992 following a drop in the world price of cotton by 34 percent.[8]

Limiting effects of preference regimes and supply-side constraints

All LDCs are beneficiaries under the GSP. In addition, the majority receive special treatment under other schemes. In 2001, when the EU announced the EBA — the unilateral trade concession that would eliminate all existing tariffs and quotas on all imports from LDCs — the intention was to extend complete access to all LDC exports except arms and ammunitions, with a phase-in period for 'sensitive' goods i.e. bananas, sugar and rice. The Caribbean Basin Initiative (CBI) of the United States is a similar preferential arrangement, but involves only one LDC. In addition, LDCs in Africa can also benefit from the US Trade and African Growth and Opportunity Act of 2000 which extends certain trade benefits to sub-Saharan African countries. More recently, in December 2005, Japan expressed its commitment to provide DFQF access for essentially all products originating from all LDCs.

> The key to effective LDC participation in the new production and supply chains will depend on their being able to meet product standards required by these chains. This remains a challenge.

As agricultural tariffs have been lowered under the WTO Agreements, the preferential margin enjoyed by LDCs is eroded. Available statistics suggest that, with the exception of a few countries, the preference schemes have not contributed significantly to generating export growth of the beneficiaries or improving their trade shares. While this has been partly because of the various restrictions in the schemes (e.g., in respect of product coverage, quotas, and ROO), supply-side constraints and the fact that the preferences are unilateral and not legally binding in the WTO appear to have played a significant role.

Unrealized benefits of intra-regional trade

For LDCs as a whole, there is a potential for their participation in intra-regional trade in agricultural products that has not been fully exploited and which could be particularly beneficial in view of the small size of their domestic markets. LDCs have been parties to numerous regional trade agreements (RTAs), the vast majority of which are among African countries. Despite their many provisions regarding the removal of trade barriers, the level of intra-regional agricultural trade in the majority of RTAs of which LDCs are members has stagnated at a low level. This has particularly been the case in Africa, where LDCs predominate. All such trading efforts have come up against structural and policy obstacles as explained earlier. Moreover, the absence or inadequacy of a system for standardized packing and grading and quality control systems at the regional level continues to frustrate efforts to expand trade and establish transparent information systems. For instance, supply-side constraints and the

8. OECD, 1997.

procurement structure imposed by foreign supermarket chains leave out the large sector of small farmers in LDCs. The key to effective LDC participation in the new production and supply chains will depend on their being able to meet product standards required by these chains. This remains a challenge. Improvement and harmonization of inspection and certification systems are among the missing ingredients for promotion of intra- and extra-regional trade. Inadequate financing and guaranteeing of regional exports and imports has also been a factor.

The major external challenge facing LDCs is their ability to exercise their rights and meet their obligations under the new multilateral trading system.

WTO agreements: mixed results likely for LDCs

Of the 50 LDCs, 32 are at present WTO members. Ten more are in the throes of accession or have observer status. The Agreement on Agriculture (AoA) that emerged from the Uruguay Round began a process of bringing the trade-distorting agricultural policies of developed countries under multilateral rules and disciplines.[9]

The major external challenge facing LDCs is their ability to exercise their rights and meet their obligations under the new multilateral trading system. Given their high dependency on agriculture for jobs, food, national income and export earnings, they have a large stake in current and future trade negotiations in agriculture. Multilateral reforms undertaken in the WTO context is likely to both expand their opportunities and amplify the costs of their inherent structural weaknesses and policy failures.

In respect of WTO-induced policy changes, LDCs, along with all other WTO members, had to remove non-tariff measures and bind all agricultural tariff lines, but were exempted from tariff reductions. Most LDCs generally bound their tariffs at levels above the applied rates. All have declared that they have not provided any support to agriculture that is subject to the reduction commitment. In fact, many do not subsidize agriculture at all, but tax the sector explicitly, by taxing production and exports of many commodities, or implicitly, by giving higher protection to industry. Overall, the scope for LDCs to support agriculture through measures exempt from the reduction commitment (including green box measures and the *de minimis* provision) is considerable; however, such measures require financial outlays which most LDCs cannot afford.[10]

A potentially beneficial effect of the WTO Agreements for the development of value-added industries in LDCs is the reduction in tariff escalation. Tariffs have generally been higher on processed agricultural products than on primary commodities. While LDCs do export a range of processed products, such as coffee extracts, cocoa pastes, crude vegetable oils and leather, the current tariff rates on these products are relatively low and the reduction of tariff escalation will consequently not provide

9. Other agreements which bear on agriculture include the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS), the Agreement on Technical Barriers to Trade (TBT), the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed Countries and Net Food - Importing Developing Countries.

10. FAO, 2000.

many additional export opportunities. On the other hand, tariff escalation has been substantially reduced for many important processed commodities that LDCs do not export at present but could well do so in the post-Doha situation. Examples of such products include fruit juices, canned fruits and vegetables, roasted coffee and nuts. Importantly, SPS standards play an increasingly prominent role in the trade of processed products, especially foodstuffs, and this is an area where LDCs will need to do much more if they are to exploit the new opportunities.

LDC products also compete with production and export support given to producers in rich countries. While it is recognized that such subsidies provide a disincentive for LDCs to invest in food production, which could reduce their import dependency in the medium to long term, most LDCs are net food importers and thus may not gain in the short term from further agricultural trade liberalization in OECD countries because the removal of such subsidies would lead to higher world prices of basic foodstuffs which could negatively impact them.

Many other issues have arisen from the implementation of the WTO Agreements, as well as in the ongoing Doha Round of negotiations on agriculture, that are of particular concern to LDCs in respect of improving their market access and developing domestic export capacities. Some of these issues are summarized below.

- **Improving market access for agricultural exports:** Many LDCs indicated that the AoA has not brought about any real improvement in market access for their agricultural exports, mainly because of the erosion of their tariff preferences, the persistence of tariff peaks and tariff escalation in some sectors of particular interest to them and the high SPS standards imposed in the importing countries. In the ongoing Doha Round of trade negotiations on agriculture they look to ensure that there really will be an improvement in market access, especially for those products with a high growth potential and high value. Thus, they have an interest in reducing border protection and tariff escalation in the developed and developing countries and in ensuring that the beneficiaries of preferential arrangements are compensated for the loss or erosion of such preferences and assisted in adjusting to a more competitive environment. The Aid for Trade initiative will likely address some of these concerns.

- **Special and differential treatment:** Under the WTO Agreements, LDCs have received special consideration in respect of market access, implementation of their various commitments and technical and financial support. The WTO Hong Kong Ministerial Declaration calls for developed countries and developing countries in a position to do so, to 'provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability'.[11] However, LDCs have been disappointed with the limited implementation of the S&DT provisions of the agreements, particularly as regards financial and technical assistance. This is particularly the case with the SPS and TBT Agreements. Because S&DT provisions were often expressed as 'best endeav-

11. WTO Hong Kong Ministerial Declaration, Annex F, December 2005.

our' obligations, many LDCs have suggested that these should be included as binding commitments in the ongoing Doha Development Round.

- **Special products*:*** Special Products (SPs) are a category of products that will be exempted from the general disciplines agreed to (as an S&DT provision) under the market access terms of the ongoing Doha Round of trade negotiations. These are products that are relevant to the overall progress of developing countries, enhancing their specific national food security, livelihood security and rural development goals. Developing countries will be permitted to self-designate SPs. However, although it is not necessary for LDCs to designate SPs for them to benefit from the provision, as they are not required to reduce tariffs, they are still encouraged to do so for the following reasons:[12] (1) the possibility of graduation from LDC status; (2) the advisability of being in line with the current policy thrust of some developing countries party to RTAs that are designating SPs at the regional level, so that due consideration is given to the specific products of LDCs when designating regional SPs; (3) an improved ability to prioritize the development of product-specific sub-sectors.

- **Food safety and quality standards:** Another major challenge faced by LDCs is in raising the SPS/TBT standards of their exports to at least internationally recognized levels. Because of their poor capacities in scientific research, testing, conformity and equivalence, they face difficulties in meeting international safety and quality standards. The task is even more daunting when the developed countries, on risk assessment grounds, adopt higher standards than those currently recognized by international standard-setting bodies. Moreover, rising consumer concerns in affluent countries over food safety and quality compound the difficulty of LDCs in meeting ever higher standards. Fulfilment of the promises of financial and technical assistance to LDCs, and other developing countries, in respect of SPS/TBT standards is thus important to them.

- **Capacity building for trade:** LDCs have neither the institutional capacity nor the human resources to face all the challenges or take full advantage of the opportunities flowing from the multilateral trading system, and to participate fully as equal partners in new WTO negotiations on agriculture.

Technical and financial assistance to build capacity is therefore essential, especially in the following areas: (1) developing and strengthening institutional capacity to meet international standards, e.g. in food safety and quality; (2) strengthening the capacity in multilateral negotiations, in particular assisting them to deal with problems in honouring their WTO commitments, including follow-up of decisions in their favour, and to take advantage of trading opportunities; (3) strengthening their capacity to analyse trade issues in the context of the continuation of the reform process; (4) assisting non-

12. Paragraph 45 of the WTO July Framework Agreement guarantees that 'Least-Developed Countries, which will have full access to all special and differential treatment provisions above …'. These S&DT measures include the SPs and a Special Safeguard Mechanism that will be established. See WTO, 2004.

members of WTO to achieve accession on terms consistent with their development and food security needs; and (5) implementing the IF as recognized in the WTO Plan of Action for LDCs adopted in 1996 at the first WTO Ministerial Conference.

LDC agricultural development in a globalized world

The situation facing LDCs and their farmers today may be more difficult than that of developing countries that achieved sustained agricultural growth in the last three decades. The new and emerging challenges confronting them can be identified under three broad headings: overcoming their marginalization that has resulted from the integration of markets due to globalization and liberalization; adapting to technological change; and coping with the new institutional environment.

The new and emerging challenges confronting LDCs can be identified under three broad headings: overcoming their marginalization that has resulted from the integration of markets due to globalization and liberalization; adapting to technological change; and coping with the new institutional environment.

Globalization of markets: The economies of LDCs now have to compete in a more fiercely competitive world market. The gradual removal of trade barriers, rising demand for higher quality products and higher standards, the continuous erosion of trade preferences and the costly compliance with the new trade rules hamper the competitiveness of producers in LDCs in both world and domestic markets. With globalization and liberalization, LDCs are also becoming more vulnerable to changes in world market conditions, on account of their small economic size and their increasing reliance on importing food supplies. The decline in the commodity terms of trade has reduced both the incentives to engage in the production of tradables and the gains and economic stimulus from such production. The emerging threats by climate change, if real, will further serve to worsen their situation.

Technological challenges: Keeping pace with the increasing domestic demand for food, meeting requirements for enhancing competitiveness and ultimately raising rural incomes, necessitate raising agricultural productivity. Most LDCs are at an early stage of agricultural technology and the potential to increase productivity is enormous. However, sustained agricultural growth in most cases requires more than the ingredients of a green revolution. In particular, it calls for substantial investment in irrigation and rural infrastructure, human development and institutions. New developments in biotechnology and bioenergy production may pose further threats to export-based growth in LDCs if the new technologies result in a sharp increase in productivity in more advanced economies, thereby pushing down prices in products competing with those of LDCs.

The institutional environment: The institutional environment (both national and international) is also very different from the past. International trade is subject to WTO disciplines and takes place in a globalized context. The roles and modus operandi of donor institutions have also changed, due to liberalization and structural adjustment programmes in member countries. Perhaps the most important consequence has been the sweeping away of much of the public sector's involvement in agricultural research and extension and in commodity and financial markets. Inefficient and ineffective as it often was, the role of state intervention in supporting agricultural growth in earlier success stories is now clearly recognized, and has resulted, for example, in arguments being put forward for a reassessment of the performance of state marketing boards in Africa.[13] However, current attitudes among donors and within LDCs do not favour efforts to involve the state in the search for innovative solutions to some of the institutional problems that it has successfully addressed in the past.

Finally, against all these difficulties, there are also some new opportunities for agriculture in the LDCs. New technologies are bringing down the cost of communications dramatically, which should benefit remote, more sparsely populated areas with poor roads. Biotechnology (with appropriate safeguards) offers opportunities for more rapid technological advances if there is sufficient investment in their application to crops and other areas of agriculture in the LDCs. In addition, globalized markets and the implementation of trade agreements should bring benefits for LDC exporters, if they can be assisted in overcoming constraints in supply and competitiveness. Policy makers may be swinging back to a more balanced and nuanced understanding of the importance of agriculture and of the potential roles (and pitfalls) of state support.

13. See, for example, Dorward, Kydd and Poulton, 1998; Barrett, Kelly and Savadogo, 1999.

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Round table on issues in agriculture

Summary of discussions

1. This round table addressed the topic 'Globalization, agriculture and the Least Developed Countries'. The panel was chaired by H. E. Dr. Eltigani Salih Fidail, Minister of International Cooperation of Sudan. Alexander Sarris, Director of the Markets and Trade Division of FAO was the presenter of the issues paper 'Globalization, agriculture and the Least Developed Countries'.

2. The key messages of the presentation highlighted that agriculture is the backbone of the least developed countries. Available evidence suggests that agricultural growth can lead to economic growth and poverty reduction in LDCs. However, productivity growth in the agricultural sector in these countries has lagged behind that of other developing countries. LDCs need to encourage targeted policies for agricultural development and enhance product competitiveness not only at the international level, but also at the domestic and regional levels, as such markets are quite substantial and can provide considerable room for economic growth and poverty reduction. In this context, assistance in international trade negotiations and policy flexibilities are key elements.

3. The presentation also emphasized the role of Aid for Trade in alleviating supply-side constraints. It was stressed that the share for agriculture of Aid for Trade has declined. Many LDCs are affected by preference erosion, increases in prices of food imports, reduction in tariff revenues, and increases in transportation costs, among other constraints. Thus, LDCs require adjustment assistance in the form of technology transfer, adequate use of existing technologies, and improved rural infrastructure.

4. Participants concluded that agriculture is the backbone of the economy of LDCs. Almost 70 percent of their population, mostly in rural areas, depends on income generated by agricultural production. Yet, this sector remains underutilized. Challenges facing LDCs, especially food security issues, must be adequately addressed if they are to achieve the MDGs. In this context, ODA, technology transfer, revitalized small and medium enterprises, integration of agricultural policies into national development strategies, strengthening of South-South cooperation, and elimination of agricultural subsidies constitute major elements in the effective and productive engagement of LDCs.

5. Most participants agreed to the major recommendations stated in the issues paper. The main points raised by participants during the discussion follow:

Constraints in agricultural development

- Attention was drawn to the lack of access to credit, lack of irrigation systems, high transportation costs, low levels of investment, high energy costs, adverse climate conditions, disease burden, migration, unemployment and dependence on food imports. These are all major reasons for the steady decline in the agricultural productivity levels of LDCs.

- Most participants agreed that lack of investment in agricultural infrastructure and research and development makes it more difficult for LDCs to address inherent market failures in domestic and international agricultural markets.

- Some participants also highlighted the role of culture and religion in the resistance to mechanized agricultural systems in LDCs.

- Participants felt that in order to achieve food security, it is vital that LDCs evolve from traditional locally self-sufficient agriculture towards modern agriculture.

- There was a broad understanding that the agricultural subsidies in OECD countries have a negative impact on the agricultural sectors of LDCs. Such subsidies affect international price levels, as in the case of cotton.

- It was stressed that processed goods originating in LDCs face high and escalated tariffs, which prevent them from improving product quality. What is more, finished products come back to LDC domestic markets at higher prices.

- Some delegations called on developed countries to act on their commitments to make the WTO Hong Kong Ministerial Declaration effective, notably granting bound-duty and quota-free access to all exports of all LDCs on a permanent basis. It was also noted that in order to enhance agriculture-based economic growth, tariff and non-tariff barriers and SPS barriers need to be removed.

Need for policies and institutions that encourage agriculture-based development

- Several interventions highlighted that the development of the agricultural sector is among the priorities of development plans in many LDCs. In order to improve access to financing, launch a green revolution, and improve productivity levels, there is a need to further invest in improvement of seed quality, promote the value addition of agricultural products and encourage the development of agro-industries in partnership with local producers.

- Participants stressed the crucial role of small- and medium-sized enterprises, microfinance institutions, new technologies, better participation in commercialization and distribution chains and the availability of financial mechanisms to women and youth to enhance agricultural productivity and reduce poverty.

- It was also emphasized that agriculture is a central pillar for development of LDCs, and that if productive capacities are to be brought to the forefront, more public investment will be needed to overcome agricultural stagnation, along with implementation of macroeconomic, regulatory and institutional reforms.

- South-South cooperation and public-private partnerships were viewed as positive instruments for the promotion of solutions to common problems in agriculture, as well as key vehicles for industrialization. Also, information sharing at the local and regional level regarding market access opportunities was seen as necessary to improve agriculture productivity.

Strategies and linkages of agriculture and the overall economy

- Some participants expressed the need for implementing integrated vis-à-vis more isolated approaches, including various levels of intervention, notably at the political and financial levels.

- Participants called on development partners, financial institutions and international organizations to see the importance of agriculture and effectively assist LDCs in their transition from domestic-oriented agricultural production towards an internationally competitive agricultural sector.

Chapter 5

Energizing the Least Developed Countries to achieve the Millennium Development Goals:

The challenges and opportunities of globalization

Introduction

The LDCs are moving at a rapid pace to deal with the challenges of economic and social development.[1] Some LDCs are witnessing large growth rates, while others are being left behind, still with very high poverty rates and lack of access to basic services. In fact 18 out of the 46 LDCs for which data are available were unable to achieve per capita growth rates of more than 1 percent per year during the period 2001 to 2004.[2] Moreover, in a number of LDCs, there are persistent inequities in the delivery of public goods and social services, financial services for the poor and legal empowerment, including property and labour rights.

LDCs face both tremendous challenges and opportunities if they are to increase access to energy services in ways that are sustainable, equitable, and economically prudent. With globalization, LDCs can tap into more modern and efficient technologies and, information, and find more partners to tackle their energy access challenges. However, it is necessary for LDCs to ensure that they have the appropriate national strategies and policies, governance structures and capacity in place to protect their natural resources, their economies, and, most importantly, the interests of the poor. This paper highlights key energy related challenges and options for LDCs in the context of globalization.

Energy and the MDGs

Many LDCs are off track in meeting the MDGs (table 1). The crisis is most severe in sub-Saharan Africa where there is continuing food insecurity, disturbingly high child and maternal mortality, growing numbers of people living in slums and an overall rise in extreme poverty. In South Asia, there has been little progress in meeting the MDGs, and a majority of the population lives below the poverty line. It also continues to be vulnerable to droughts and natural disasters. Latin America, despite relatively lower rates of poverty, has failed to make significant progress toward MDG achievement in the past decade, with large pockets of poverty.

The energy challenges that underlie MDG achievement are best illustrated by the number of people who do not have access to modern energy services. It is estimated that worldwide there are 2.5 billion people who rely on traditional fuels such as wood, charcoal and dung as their principal source of energy for cooking and heating. Almost 1.6 billion people have no access to electricity. In light of these daunting figures, the important role of energy in MDG achievement is now being recognized by the international development community. This is due to the fact that energy, because of its

1. This issues paper was prepared for the UN Ministerial Conference 'Making Globalization Work for the LDCs', Istanbul (Turkey) 9-11 July, 2007, by Minoru Takada, Kamal Rijal and Ellen Morris from the Environment and Energy Group, Bureau for Development Policy, UNDP. Comments were provided by Olav Kjørven, Philip Dobie, Abul Barkat, Abeeku Brew-Hammond and staff in the Inclusive Globalization Cluster of the Poverty Group in the Bureau for Development Policy and the Office of Development Studies of UNDP. Additionally, the paper benefited from comments by the Government of Turkey and by UN-OHRLLS. Issues raised by UNDP country offices have been included as appropriate.

2. UNCTAD, LDC Report 2006.

Table 1. Energy services and the MDGs

MDGs	Goal	MDGs linkage to energy	Progress made in developing countries (from 1990 to 2004)[3]
1	**Eradicate extreme poverty and hunger by reducing the proportion of people whose income is less than $1 per day (in $PPP)**	• Access to modern fuels and electricity increases household incomes by improving productivity in terms of saving time, increasing output, and value-addition. • Energy for irrigation increases food production and access to nutrition.	• Average decrease from 28 percent to 19 percent of people living on less than $1 a day (1.1 billion people live on less than $1 a day). • Decrease in sub-Saharan Africa was marginal — from 45 percent to 44 percent — and those living in extreme poverty increased by 140 million people.
2 & 3	**Achieve universal primary education and promote gender equality**	• Access to modern fuels and electricity frees up time for education, facilitating teaching and learning. • Access to electricity empowers women to become educated on health and productive activities and brings major benefits to them.	• Net enrolment ratios in primary education increased on average 86 percent (from a high of 95 percent in Latin America and the Caribbean to a low of 64 percent in sub-Saharan Africa). • Women represent an increasing share of the world's labour force — over a third in all regions except southern and western Asia and northern Africa.
4, 5 & 6	**Reduce disease and child and maternal mortality**	• Modern fuels and electricity help improve health through access to clean water, cleaner cooking fuels, heat for boiling water, and better agricultural yields. • Health clinics with modern fuels and electricity can refrigerate vaccines, sterilize equipment and provide lighting.	• Rate of death of children under five years old per 1,000 live births declined on average from 106 to 87 (sub-Saharan Africa accounted for half of the total deaths). • In 2004, 10.5 million children died before their fifth birthday, mostly from preventable causes. • Rates of HIV infection are growing and the number of people living with HIV has risen from 36.2 million in 2003 to 38.6 million in 2005 (nearly half are women).
7	**Ensure environmental sustainability**	• Cleaner fuels, renewable energy technologies and energy efficiency can help mitigate environmental impacts at local, regional and global levels. • Agricultural productivity and land use can be improved with access to energy needed to run machinery and irrigation systems.	• Deforestation rate is 13 million hectares per year, with the highest rate seen in south-eastern Asia. • Per capita CO_2 has remained fairly constant between 1990 and 2003, but due to population and economic growth, overall CO_2 emissions are rising steadily.

3. United Nations, 2006.

inherent linkage with poverty alleviation, education, gender equity, health, and the protection of the environment, is a prerequisite for meeting all the MDGs (table 1). Although there are no MDGs explicitly for energy, it is now recognized that the MDGs cannot be met without expanding access to affordable and reliable energy services for the poor and unserved. The Brussels Programme of Action, with specific targets for LDCs, is fully consistent with the MDGs and provides an excellent platform to identify concrete ways to improve access to energy.

Energy is central to practically all aspects of our lives, including access to water, agricultural productivity, health care, education, job creation, gender equality and environmental sustainability. Yet, millions of households in the developing world still lack access to safe and reliable energy and pay high prices for poor-quality substitutes. Moreover, poor people spend much of their income on energy services, more than a third of household expenditure in some countries. They also devote a large portion of another important asset, their time, to energy-related activities — for example, women and young girls spend upwards of six hours a day gathering wood for fuel and water, cooking, and agro-processing. In sub-Saharan Africa, only 8 percent of the rural population has access to electricity while 90 percent of the population still relies on traditional fuels for cooking.[4]

Having access to modern energy services can make a real difference to poor people's lives (figure 1). Therefore, developing a new approach, where access to energy services is acknowledged not just as an outcome, but also as an actual driver of development, will be crucial if energy is to play a more prominent role in achieving the MDGs and making globalization work for LDCs.

Figure 1. Energy sources and options

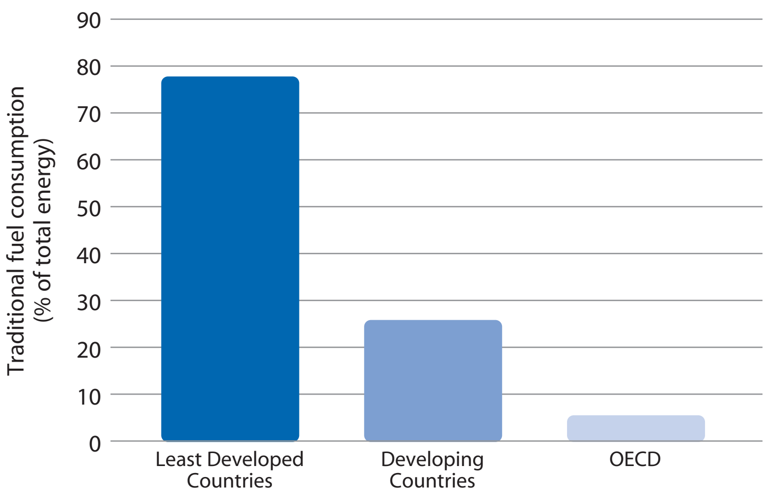
Energy service needed	Current energy options	Modern energy options
Lighting	Oil/kerosene lamps	Off-grid electricity (solar, hydro, wind)
Cooking fuel	Wood/charcoal stove	Improved LP gas stoves/ and kerosene
Pumped water	Surface/tube-well	Electric pumps
Refrigeration	Grid/diesel power if available	Off-grid electricity (solar, hydro, wind)
Telecommunications	Grid/diesel power if available	Battery charger/ off-grid electricity
Transportation	Human/animal-powered vehicles	Motorized vehicles
Agro-processing	Human/animal-powered devices	Multifunctional platform/ micro-hydropower

4. Millennium Project, UNDP, World Bank, 2005.

Energy challenges facing LDCs

It is estimated that four out of five people without electricity live in rural areas in developing countries, mainly in LDCs in South Asia and sub-Saharan Africa. According to the International Energy Agency (IEA), these figures will remain largely unchanged in 2015 unless new strategies are adopted to expand access to modern energy services. Most people in LDCs, especially in rural areas, have to rely heavily on traditional fuels for cooking, which are injurious to health and the environment (figure 2). Indoor air pollution is directly responsible for more deaths than malaria, and almost as many as tuberculosis and HIV/AIDS, killing 1.3 million people per year, mostly women and children.[5] Cutting in half the number of households using traditional fuels by 2015 will require 1.3 billion people switching from traditional fuels to modern fuels such as LP gas.[6]

Figure 2. People relying on traditional fuels as a percentage of total energy



Source: UNDP Human Development Report 2006

There are three broad areas of action needed for LDCs to reach the MDGs: access, sustainability and energy security.

- **Access.** Expanding access to modern energy services for the poor and unserved remains a major challenge for LDCs. For the majority of the poor, the reality includes numerous hours of labour each week grinding grain into flour, and cooking over a smoky fire, with women and girls spending hours each day collecting biomass fuels — all because they do not have access to modern energy services. On the planning side, an obstacle for many LDCs is that their PRSPs do not include targets and timelines to meet their national energy priorities.

5. WHO, 2006.

6. IEA, 2006.

A recent UNDP global review of the PRSPs found that only 48 percent included references to energy.[7] In fact, few of the PRSPs focus on access, affordability, and choice of energy services. This study also showed a misalignment between the national priorities and the budgetary allocations for energy, resulting in a lack of coherence between strategy and implementation.

- **Sustainability.** The way in which countries produce and consume energy has a strong impact on the environment, locally, regionally and globally. At the local and regional levels, deforestation, primarily the conversion of forests to agricultural land, continues at an alarmingly high rate. The resulting large-scale land degradation will have impacts on soil and water resources. At the local level, fuel wood and charcoal use in households and businesses are unsustainable when it leads to land degradation from wood gathering and indoor air pollution respectively.

At the global level, climate change has emerged as one of the most important issues facing the global community in the 21st Century. Greenhouse gas emissions from LDCs are practically negligible due to the low level of industrialization; however, the impacts of climate change pose a fundamental challenge to LDCs in reaching their development objectives. The estimated amount of carbon dioxide emissions that would be produced in meeting the needs of those who currently have no electricity or cleaner cooking fuels is only a fraction of the current global emissions (Table 2). In fact, they would constitute only a 3 percent increase in global CO_2 emissions.

Table 2. CO_2 produced to meet basic human needs

Need	Number of people without access (billion)	Projected carbon emissions* (Gt C/year)
Electricity (assuming 50W per capita year)	1.6	0.15
Cleaner cooking fuel (assuming 35 kg propane per capita-year)	2.5	0.07
Total	**4.1**	**0.22**

*Note: Current global carbon emissions: 7.0 Gt C/yr

Source: Robert Socolow, 2006, Presentation at World Bank Energy Week, 'Stabilization Wedges: Mitigation Tools for the Next Half-Century'

The evidence is mounting that development efforts are being undermined by climate change: droughts, land degradation, degraded water supplies and biodiversity loss all pose a threat to development in general and the poor in particular. The effects of climate change are expected to impact most heavily on LDCs due to their dependence on the natural environment for their livelihood as well as their lack of resources required for adaptation.

7. UNDP, 2007.

- **Security.** Vulnerable energy supplies and dependence on imported fuels leave many LDCs prone to instability, which can bring physical hardships and weighty economic burdens for the poor. Without energy security, it is not possible to ensure the continuous availability of energy services, in sufficient quantities, and at reasonable prices. The cost of fossil fuel imports is unbearable for many poorer countries, particularly for LDCs, and sudden price increases can disrupt economic growth. In many LDCs, a large percentage of export earnings (e.g., up to 40 percent in Nepal) are diverted to pay for importing petroleum fuels. This imbalance puts LDCs at great risk. At the local level, recent studies confirm that increasing oil prices have a disproportionately negative impact on the poor. For example, a household survey conducted in northern India estimated that due to the increase of petroleum product prices, 39 percent of households stopped using LP gas or kerosene for cooking, which resulted in an increased consumption of biomass fuels.[8]

What can LDCs do to meet their energy needs?

The MDGs provide the impetus and direction for LDCs, and it is now time to support these countries as they move toward greater access, long-term sustainability, and enhanced energy security. The three priorities for consideration are:

- **Integration of energy considerations into MDG-based national development strategies**

  Issue: Many national development strategies or poverty reduction strategies do not recognize energy access for the poor as a priority. Energy is still viewed only in terms of increasing energy supply and infrastructure rather than as a means of increasing access for the poor to the services that energy can offer.

  Options: For LDCs to make headway in expanding access to basic energy services for the poor, one option is to clearly make it a national development priority. This could begin with LDCs defining national energy access goals and targets in macro-development strategies, policies and programmes, and estimating the costs to meet the targets. Such clear policy signals coming from LDCs would certainly help to strengthen their position as markets further open under globalization. At the same time, public budgets should be aligned with MDG-based national energy strategies in order to build coherence between the policies and the investment framework. An MDG-based national development strategy, with clear targets and strong political commitment, that articulates energy priorities and the needs of the poor, will help LDCs make great strides within their own borders and in their expanded role with other countries.

8. Kjørven, 2006.

Political commitment on energy access in West Africa

The Economic Community of West African States (ECOWAS) recently launched a Regional Energy Access Policy to strengthen regional integration on energy access, harmonize political and institutional frameworks, and develop coherent energy policies focused on poverty reduction and achieving the MDGs. Not only has the ECOWAS policy been endorsed by heads of state, but it has also stimulated policy debates at the national level to up-scale and accelerate ongoing national efforts for integrating energy access considerations into MDG-based PRSPs. This is an excellent example of how, if there is political will, it is possible to reflect energy access goals in national and regional development strategies that have the necessary budget allocations.

Source: ECOWAS White Paper for a Regional Policy, 2006

- **Mobilization of investments**

Issue: Often, domestic and external financing (including ODA) is not aligned with the countries' priorities that are expressed in their national development strategies or poverty reduction strategies. Typically, investments have short-term horizons with unrealistic expectations, which do not always support development interests, and often times in the process, leave the poorest out of the equation. In addition, as a result of weak economic governance in LDCs, rarely is there fair and equitable access to economic assets and opportunities.

Options: A significant financial commitment ($200 billion according to IEA estimates) is needed to expand energy investments and services in developing countries. In order to mobilize investment, LDCs should clearly articulate their priorities, targets, and budgets outlined in national development strategies or poverty reduction strategies, to potential investors. This investment can come from national budgets, complemented by donor funds, household contributions and the private sector, which together can finance modern energy services. In addition, there is a need to expand access to financial services and legal resources for the poor and their legal empowerment, including through property and labour rights, so that people will have the means to pay for energy services and products that can transform their lives.

Another factor is access to microfinance, to provide small loans that can be used for building energy businesses or purchasing energy services needed to run a small business. Globalization will potentially attract new investment in LDCs because of the opportunities to establish joint ventures and public-private partnerships. The latter, for example, can be a good option for bringing in outside investors who have technical expertise and quality products. It is important to keep in mind that LDCs will need the capacity to formulate and enforce legal and regulatory measures that could result in investment for increasing access to energy services.

How much will it cost to increase energy access in Senegal?

The UN Millennium Project (2006) estimated the cost to meet the following targets in Senegal:

1. cleaner cooking systems
2. electricity for households and communities
3. mechanical power for agro-processing and water

They found that it would cost US$12.20 per capita per year, or US$ 1.7 billion to meet these targets over 10 years. Of this total cost, the per capita costs would amount to $5.40 for cleaner cooking systems; $4.30 for electricity; and $2.52 for mechanical power. With GDP per capita at around US$ 700, this amounts to no more than 1.7 percent of GDP per capita to reach these goals. Thus, the cost estimates for energy service needs in Senegal show that they are manageable if the investment can be mobilized.

Source: UNDP Energy Costing Tool, 2006

- **Development of institutional capacity**

Issue: Lack of capacity in LDCs is a major bottleneck not only in integrating energy into national development strategies or poverty reduction strategies or mobilizing investment, but also in delivering energy services at the local level. There is often limited capacity to translate political and funding commitments into viable, high impact policies and programmes. Moreover, there is often a lack of institutional capacity at the sub-national and local level for planning, coordination, management and monitoring of the delivery of modern energy services for the poor in LDCs.

Options: Achieving the MDGs in LDCs will not happen without sustained economic growth at the local level. LDCs need to consider ways to strengthen institutional capacity to manage and scale up energy service delivery. This is especially true at the local level, since service delivery is increasingly being decentralized. Therefore, options can include building the capacity of local authorities with incentives, training and wider exposure in order to do more effective participatory planning in designing and managing energy service delivery systems. Nepal's Rural Energy Development Programme offers an example of how decentralizing the delivery of energy services in rural areas can dramatically increase efficiency and create local empowerment to plan, implement and monitor local energy programmes (table 3). This required dedicated support to build the capacity of local organizations involved in the entire supply chain of energy service delivery.

As globalization proceeds, LDCs will need to increase their capacity to manage resources, expand their entrepreneurial capabilities, and put in place policies that enable the economy to develop in line with the MDGs. Micro, small and medium enterprises are very important engines of growth for LDCs, but need business training and technical capacity. This could include enhancing entrepreneurial skills to start new ventures for productive use of energy services; business management skills to access finance from different financing institutions; and marketing skills to sell products linked to external markets.

Table 3. Institutional capacity development in Nepal: the Rural Energy Development Programme (REDP)

	Responsibilities prior to REDP	Responsibilities after REDP
Central government	Policy formulation and implementation	Policy formulation
Local government (district level)	No role for local government authorities in decentralized energy planning and promotion	Planning and promotion of energy services at district and village levels
Communities	No community involvement	Operation and management of energy system done through community organizations
NGOs	Not active in energy services development through community mobilization	Community mobilization on contract with the district committee as social organizations
Private sector	Only few companies active, mainly involved in manufacturing and installations in urban areas (Kathmandu and other large cities)	Technical services provided through private sector organizations in rural areas for survey, installation, operation, repair and maintenance

Source: UNDP Rural Energy Development Programme (http://www.undp.org.np/energy/projects/redp)

Making the link with globalization

With accelerating globalization, the tendency may be to adhere to conventional thinking whereby the emphasis is on energy supply and infrastructure rather than on increasing access to energy services. The challenge is to keep the focus on reliable and affordable energy services for the poor, because that will be the building block for economic growth, improvements in health and education and increases in productivity. Investments that will likely occur as globalization proceeds will require LDCs to have legal and regulatory measures in place to protect their interests. This

Practical options to consider in making globalization work for LDCs on energy

Enact supportive policies:

- Provide tax incentives to support the deployment of modern energy technologies, such as renewable energy, at an affordable price.
- Reform subsidies to support sustainable development. These can be time-bound subsidies to reduce the cost of market entry for modern energy technologies or subsidies targeted at access to energy for the poor.
- Offer loan guarantees for small and medium enterprises building energy businesses in LDCs.
- Enforce effective government oversight of trade and commerce regulations to protect public benefits and ensure equitable access to energy.

Build capacity:

- Create training and learning exchanges for regulators, policy makers and energy planners in LDCs to understand how to optimize their energy economies while meeting the MDGs.
- Offer business development assistance at the local level to include business planning and decision-making, sales and marketing, organization, basic accounting and legal issues.
- Develop South-South learning exchanges of best practices, skills and resources to build experience in LDCs and promote market pull.

Promote investment:

- Design and utilize carbon finance mechanisms for clean energy projects and programmes in LDCs, such as the MDG Carbon Facility.
- Promote joint ventures with energy companies to allow LDCs to leapfrog to more modern technologies.

will be a challenge as world trade continues to grow and the economies of LDCs are more linked with other countries through joint ventures and the expansion of transnational corporations.

The overarching challenge in making globalization work for LDCs is the need to build their capacity to manage and protect their natural resources, expand micro, small and medium energy enterprises, and put in place policies that enable the economy to grow and develop in line with the MDGs.

To maximize the benefits of globalization, it is necessary for LDCs to build capacity and skills domestically to accelerate both the formulation of national energy strategies, policies and governance structures as well as the delivery of modern energy services. MDG-based national development strategies, inclusive of expanding access to modern energy services for the poor, should be used to align donor, investor and business interests.

Globalization will provide LDCs an opportunity to leapfrog to more efficient and cleaner energy systems, including renewable energy, that are now widely available. Moreover, the transfer of technology for modern energy systems will help to transform markets in LDCs, allowing these countries to become better connected to national and global markets and better equipped to thrive in these markets. However, the transfer of technologies and the bringing in of new partners for LDCs will not be automatic and must be accompanied by strong capacity development efforts, increased investment and improved access to information and knowledge. These can help the LDCs develop their productive capacities, enhance their energy security, and improve sustainability.

North-South and South-South exchanges should support the use of indigenous resources and training of local communities to build the productive capacity of LDCs so that they can tap into new markets. Capacity development to ensure sustainability and adaptability of energy policies and systems will also help LDCs better absorb and direct investments in a way that is compatible with the objective of reaching the poor.

There is potential to spur FDI in the energy sector of LDCs, however they need to leverage FDI with local capital in order to maximize the benefits of globalization. Market rules are not always fair and equitable for LDCs, particularly as they impact the poor, women and more vulnerable groups. Therefore, pro-poor energy policies and regulations will need to be in place in order to ensure that investments are equitable.

Globalization will allow LDCs to share information and knowledge through networking, organizational learning and improved communication with a broader set of actors that will enable new partnerships. With access to information, experts, tools, methodologies, policy innovations, and market data, LDCs will be poised to take advantage of the wealth of knowledge available globally to jump-start their work on energy access, sustainability and security at the national and local levels.

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Round table on issues in energy

Summary of discussions

1. The discussion was chaired by H.E. Mr. Jean Rénald Clérismé, Minister of Foreign Affairs of Haiti. In his introduction, Mr. Clérismé underscored the importance of energy for socio-economic development of least developed countries and invited the participants to identify energy policies which could facilitate the integration of LDCs in the world economy. He also invited them to share good practices and lessons learned.

2. Mr. Minoru Takada, Manager, Sustainable Energy Programme, Environment and Energy Group of UNDP, presented the main conclusions of the issue paper 'Energizing the Least Developed Countries to achieve the Millennium Development Goals: the challenges and opportunities of globalization'.

3. Key messages of the intervention of Mr. Takada included the lack of political agreement on energy and climate issues, the urgent need for action, and the need to focus on public participation, including through ODA.

4. Mr. Takada stressed that LDCs need to develop efficient energy systems and diversify energy sources if they are to achieve the MDGs. He stated that the challenges they face relate not only to the quantity but also to the quality of energy. He added that most of LDCs rely on traditional energy sources, such as biomass, which leads to pollution and health problems. Indeed, he said, the inhalation of indoor smoke kills more people than malaria.

5. He noted that over the last 15 years, the international community has reached a consensus on three issues: providing increased access to energy, particularly to the poor; ensuring environmental sustainability; and guaranteeing security of energy supplies through international cooperation.

6. He also noted that, at the policy level, energy issues for the poor are often ignored in macroeconomic strategies, including in the PRSPs. International support did not really benefit LDCs which need capacity building and improvements in their institutional and legal frameworks to attract private sector investment.

7. It was emphasized that it is important to provide basic services to the poor. Ways to finance these low-cost services exist. Basic energy services would not add carbon emissions if countries were provided with alternative energy options. Beyond ensuring access to basic energy services for the poor, transport and infrastructure services should be also improved.

8. During the discussion, participants stated that LDCs need to integrate energy in their national development strategies as well as in their investment programmes. Energy development could be financed through national budgets, by donors and the private sector. Many participants stated that, unfortunately, neither FDI, nor ODA are available to energy development in LDCs, and international financial institutions usually shy away from such investments. Participants called upon international financial institutions and the international community to fund energy development projects. They also called upon LDCs to create a conducive environment for FDI. They underscored that inadequate infrastructure was a serious obstacle to attracting investment, particularly to LLDCs.

9. In the view of participants, international cooperation can help to lift the financial burden of investments and improve energy security and energy sustainability in LDCs. Cooperation between LDCs, particularly between oil producing and oil importing countries can also contribute to solving this problem.

10. Participants agreed that it was possible to finance electricity development programmes if LDCs and the international community set energy as a priority. They emphasized that although energy supply is important, it is also equally important to address the issue of absorptive capacity and service delivery.

11. Participants underscored that Africa would benefit from a continental vision and national, sub-regional and regional policies. Some delegations recalled that the issue of regional integration in Africa was raised as early as in the 1960s, particularly by Dr. Kwame N'Krumah with reference to the United States of Africa and by H.E. Sékou Touré.

12. Despite the recognition of the importance of regional integration, African countries are not integrated in the energy area, in particular hydropower. Moreover, 95 percent of Africa's water resources remained untapped, leading to imports of electricity. Some countries have taken steps and developed interconnectivity projects. But other big projects, such as the dam on the Inga River, an African regional integration project, have failed due to lack of investment. Cross-border cooperation in the area of hydropower also remains underutilized in the South Asian LDCs. High oil prices have increased the cost of production and distribution of electricity in the oil importing LDCs.

13. Because of the small size of their domestic market, small island LDCs suffer from high costs of energy delivery. Regional cooperation, that includes transport, energy, research, science and technology and infrastructure development can become a powerful mechanism for overcoming their geographical handicap and favouring the socio-economic development of these countries.

14. Participants underscored the negative effects of climate change on transport and infrastructure development. Climate change has, indeed, already led to the reduction of water levels and jeopardized the implementation of regional energy development projects such as dams in Western Africa.

15. Participants recognized the importance of alternative sources of energy such as wind power, solar energy, hydropower, etc. but stated that the financial needs to develop these energy sources are high. One way of financing energy access would be through privatization, but it poses a risk of excluding the poor from the necessary energy coverage.

16. Participants concluded that in designing energy strategies, LDCs should first analyse their own situation and assess their resources. They also need to strike a balance between environmental concerns and the imperatives of development.

Istanbul Declaration on Least Developed Countries: Time for Action

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Groups of countries in special situations: Third United Nations Conference on the Least Developed Countries

Letter dated 3 August 2007 from the Permanent Representative of Benin to the United Nations addressed to the Secretary-General

I have the honour to transmit herewith the Istanbul Declaration on the Least Developed Countries: Time for Action, adopted at the Ministerial Conference of Least Developed Countries held in Istanbul on 9 and 10 July 2007, on the theme "Making globalization work for least developed countries" (see annex).

It would be appreciated if the present letter and its annex were issued as a document of the sixty-second session of the General Assembly, under items 58 (a) and 59 (a) of the provisional agenda.

(Signed) Jean-Marie Ehouzou
Ambassador
Permanent Representative

*A/62/150.

Annex to the letter dated 3 August 2007 from the Permanent Representative of Benin to the United Nations addressed to the Secretary-General

ISTANBUL DECLARATION ON LEAST DEVELOPED COUNTRIES: TIME FOR ACTION

We, the Ministers and Heads of Delegations of the Least Developed Countries having gathered, upon invitation of the Government of Turkey, on 9 and 10 July 2007, in Istanbul (Turkey) for the Ministerial Conference on 'Making Globalization Work for the Least Developed Countries'

Reaffirming our commitment to the Programme of Action for the Least Developed Countries for the Decade 2001-2010, adopted in Brussels (Belgium) in May 2001, at the Third United Nations Conference on Least Developed Countries,

Reaffirming also our commitment to the Declaration adopted by the Heads of States, Governments and Heads of delegations on 20 September 2006, at the high-level meeting of the General Assembly on the Midterm Comprehensive Global Review of the implementation of the Brussels Programme of Action,

Reaffirming further our commitment to the Ministerial Declaration adopted during the Ministerial Conference held on 7 and 8 June 2006 in Cotonou (Benin) in preparation for the high-level meeting of the General Assembly on the Midterm Comprehensive Global Review of the implementation of the Programme of Action,

Restating our commitment to the Cotonou Strategy for the Further Implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010 which provides guidelines for the timely implementation of the Brussels Programme of Action,

Recognizing that most Least Developed Countries have made considerable progress, inter alia, in the promotion of democracy, human rights, the rule of law, transparency, accountability, and other legal and institutional mechanisms as well as in strengthening human and institutional capacities and macroeconomic reforms,

Recognizing that sustained economic growth, sustainable development, poverty alleviation and full integration of the Least Developed Countries into the global economy are contingent, inter alia, upon the realization of commitments by the development partners including through fulfilment of Official Development Assistance targets, all outstanding debt cancellation, increased investment flows and unhindered market access and transfer of technology to Least Developed Countries,

Noting with concern that Least Developed Countries face special difficulties in responding to the central challenge of globalization that is to ensure that globalization becomes a positive force for all, *Recalling* that the Brussels Programme of Action provides a framework for a strong global partnership to enable Least Developed Countries to integrate beneficially into the global economy,

Being resolved to implement the Brussels Programme of Action without further delay, *have adopted the following Declaration:*

1. *We recognize* that the ongoing process of globalization and interdependence is potentially a powerful and dynamic force that can contribute to growth, poverty eradication and sustainable development. It is however of great concern to us that while some countries have benefited from globalization, the Least Developed Countries remain marginalized in the globalizing world economy;

2. *We also recognize* the increasing interdependence of national economies in a globalizing world and the emergence of rule-based regimes for international economic relations, and *we emphasize* that it is for each government to evaluate the trade-offs between the benefits of accepting international rules and commitments and the constraints posed by the loss of policy space, and that all countries take into account the need for appropriate balance between national policy space and international disciplines and commitments;

3. *We stress the need* for a fair globalization and open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial systems that benefit all countries in pursuit of sustainable development, particularly the Least Developed Countries;

4. *We strongly urge* the development partners to fulfil their commitments, particularly made for Least Developed Countries in the outcomes of the major United Nations conferences and summits in the economic, social and related fields so as to allow Least Developed Countries to achieve socio-economic development and beneficially integrate into the global economy;

5. *We reiterate* that trade and investment are important means for achieving sustained economic growth, sustainable development and poverty eradication;

6. *We call upon* developed countries that have not already done so and developing countries in a position to do so to provide immediate, predictable, duty-free and quota-free market access on a lasting basis to all products originating from all Least Developed Countries;

7. *We note* serious distortions in production and trade in agricultural products caused by the export subsidies, trade-distorting domestic support and protectionism by many developed countries, and *we urge* developed countries to eliminate all trade distorting barriers including tariff peaks and tariff escalation, high subsidies and other non-tariff barriers;

8. *We call upon* development partners to respond to trade-capacity needs of the Least Developed Countries by significantly increasing their contributions to the trust fund of the Enhanced Integrated Framework for Trade-related Technical Assistance for the Least Developed Countries;

9. *We underscore* the urgent need to operationalize the Aid for Trade initiative with sufficient additional, non-conditional and predictable funding, which should primarily support Least Developed Countries to address their supply constraints, diversify, promote value addition and improve their infrastructural, human and institutional capacities;

10. *We call upon* the development partners to facilitate foreign direct investment flows to the Least Developed Countries in order to support their development activities and to enhance the benefits they can derive from such investments, particularly in the areas of capacity building, technology transfer, building and developing infrastructure, entrepreneurship development, employment generation and poverty alleviation;

11. *We stress* that agriculture is still the pivotal sector in the economies of many Least Developed Countries, which underpins food security, foreign exchange earnings, rural development and employment generation, and *we call upon* our development partners to assist the Least Developed Countries in improving their productive capacity, increasing competitiveness, and moving up the value chain in the processing and exporting of agricultural products by supporting them through the Official Development Assistance, foreign direct investments and improved access to appropriate technologies and practices;

12. *We recognize* the need for affordable, reliable, economically viable, socially acceptable and environmentally sound supplies of energy for promoting growth and sustainable development, *and we call upon* the international community to assist the Least Developed Countries in building a strong energy sector by providing financial and technical assistance, and facilitating public and private sector investment in the sustainable use of traditional energy resources, advanced, cost-effective and cleaner fossil fuel technologies and renewable energy resources, such as solar photovoltaic and thermal energy, wind power, geothermal energy, hydropower and biogas;

13. *We acknowledge* that science and technology are vital for the achievement of development goals and that the 'technological gap' between the Least Developed Countries and other countries impedes their capacity to fully participate in the global economy and constitutes a major challenge in their efforts to enhance productive capacity, increase competitiveness, attract private capital flows, generate income and employment, reduce poverty and achieve sustained economic growth and sustainable development;

14. *We urge* the international community to promote and facilitate access to, the development, acquisition, transfer and diffusion of technologies, particularly environmentally sound technologies and corresponding know-how to the Least Developed Countries; and *we call* for increased technical and financial assistance to the Least Developed Countries for strengthening their national innovation capacity, inter alia, through R&D;

15. *We also urge* development partners to broaden and strengthen the participation of Least Developed Countries in the international economic decision-making and norm-setting and in this regard *we call upon* the international community to undertake pragmatic and innovative measures to further enhance their effective participation in international dialogues and decision-making processes;

16. *We further urge* all countries and the United Nations System, including the Bretton Woods Institutions and the World Trade Organization, to make concrete efforts and adopt speedy measures with a view to making globalization work for Least Developed Countries;

17. *We call upon* all development partners to support the implementation of the transition strategy of countries graduating from the list of Least Developed Countries, to avoid any abrupt reductions in either official development assistance or technical assistance provided to the graduated country and to consider extending to the graduated country trade preferences, previously made available as a result of least developed country status, for a period appropriate to the development situation;

18. *We reaffirm* that South-South cooperation as well as subregional and regional cooperation have an important role for the Least Developed Countries development in areas such as human and productive capacity-building, technical assistance and exchange of best practices, particularly in issues relating to credit and finance, health, education, professional training, environment, energy including**,** *inter alia***,** hydroelectricity, water resources, tourism, science and technology, trade, investment and transit transport cooperation. Such cooperation, including *inter alia* triangular approaches, should be supported by the international community;

19. *We recognize* that national security and stability are essential for the implementation of the Brussels Programme of Action in the Least Developed Countries. In particular, Least Developed Countries in conflict, emerging from conflict and in post-conflict situation require enhanced international support with the view to achieving the goals and targets of the Brussels Programme of Action in a timely manner;

20. *We appreciate* the determination of the Government of Turkey to assist the Least Developed Countries in their efforts to achieve sustained economic growth, sustainable development and poverty eradication and, in this regard, we welcome its commitment to allocate $5 million specifically for the Least Developed Countries for their small- and medium-scale development projects, as well as its pledge of $1 million to the Trust Fund of the Enhanced Integrated Framework for Trade-related Technical Assistance for the Least Developed Countries, in addition to the fund of 15 million US dollars, substantial part of which will be used in LDCs for the implementation of projects through the Turkish International Cooperation Agency;

21. *We commend* Turkey for taking the initiative of organizing the Ministerial Conference 'Making Globalization Work for the Least Developed Countries' and express our deep gratitude and sincere appreciation to the Government and people of Turkey for their warm hospitality, generosity and the facilities made available to ensure its success;

22. *We express appreciation* for the efforts of the United Nations Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS), and other relevant United Nations agencies, Funds and Programmes, in particular United Nations Development Programme (UNDP), United Nations Conference on Trade and Development (UNCTAD), Food and Agricultural Organization of the United Nations (FAO), in advancing the implementation of the Brussels Programme of Action and in contributing to the successful outcome of this Conference.

Statements

Statement by H.E. Mr. Abdullah Gül, Deputy Prime Minister and Minister of Foreign Affairs of Turkey*

Madam President of the General Assembly,
Honorable Ministers,
The Administrator of the UNDP,
Excellencies,
Ladies and Gentlemen,

I would like to welcome you all to Istanbul. It is a great pleasure and privilege for us to host such a high-level and important conference in Turkey. The objective of the conference, 'Making Globalization Work for the Least Developed Countries', is a compelling priority for us all.

Turkey's decision to host this conference is also a testimony of our desire and determination to support the Least Developed Countries (LDCs). The challenges you face and the goals you pursue hold a particular place in our foreign policy agenda. We see this conference as an opportunity to better understand each other's needs. We also hope to use this understanding to expand our policies and programs towards the LDCs.

Excellencies,
Distinguished Guests,

Globalization comes with opportunities and challenges. The LDCs, in this regard, find themselves in a particularly difficult position. Strengthening the ability of the LDCs to cope with the challenges of globalization and benefit from its opportunities presents a tall order.

Promotion of economic growth, sustainable development, capacity-building and good governance are among the essential elements of success. The improvement of the living conditions of over 600 million people in 50 LDCs depends on effective policies geared to this end.

Yet, this is first and foremost the responsibility of the LDCs themselves. The optimal means for growth and development should be found by those who live through these conditions and who know best the realities of their specific countries. However, in the global environment nobody should be left alone.

In fact, the UN Millennium Summit decisions, which urge member states to address the special needs of the LDCs, confirm that this is a collective responsibility for the entire international community.

The LDCs have achieved considerable progress in structural reforms, trade promotion and the development of private enterprise. We commend these efforts. However, despite their efforts and the assistance by their development partners, much remains to be done. Development partners must do more to complement the national efforts and policies of the LDCs.

**President of Turkey at the time of publication.*

Contribution of non-governmental organizations, civil society organizations and the private sector is equally indispensable. The international community must fulfill the commitments and objectives with respect to ODA for the LDCs. Cancellation of bilateral and multilateral debts and the acceleration of the WTO's Doha Work Programme are also crucial. We have to focus our attention on strengthening and accelerating the effective implementation of the UN development agenda and the Millennium Development Goals in particular.

Excellencies,
Ladies and Gentlemen,

Let me say a few words on where Turkey stands regarding these challenges and what we actually do to alleviate their impact.

Firstly, Turkey believes that ensuring fair, comprehensive and sustainable development is a common responsibility for the entire international community.

Secondly, this responsibility should not be reduced simply to a matter of providing financial resources. We must redress the imbalances of the international economic system. In some cases, that requires financial resources. In many others, what is needed is a political will that responds to the concerns of the LDCs.

As a developing country itself, Turkey tries to alert and raise the awareness of the international community. However, transformation of the global approach to the development problems requires a much more comprehensive and cooperative effort. We know this is a long-term effort. We remain committed to pursue it for as long as it takes.

The Official Development Assistance provided by Turkey in this regard has been steadily increasing over the recent years. It reached $750 million in 2006.

At this point, I would like to point to the Turkish International Cooperation and Development Agency (TIKA). It plays a central role in extending Turkey's assistance to countries in need since its establishment in 1992.

Presently, TIKA is carrying out hundreds of projects in partner countries spanning from Central Asia to the Balkans, from the Middle East to Africa, and from Asia-Pacific to Latin America and the Caribbean. With 22 field offices, it contributes to the development of many countries in various regions. These projects have already started to make a positive impact. For this reason, a fund of $15 million has recently been allocated for the implementation of projects through TIKA in the LDCs, LLDCs and SIDs.

Today, I am happy to announce that Turkey allocated an additional $5 million to finance small- and medium-scale regional development projects in the LDCs.

Our pledges might seem to be a modest amount. We believe every drop counts. However, I am sure they will set the stage for a much more ambitious plan of development cooperation. We now look forward to hearing your views and suggestions to steer the process. Indeed, we expect you to be in the driving seat and let us fill the gaps as required.

We wish you to come up with concrete project proposals. These projects could be in a number of areas that you would deem necessary. We believe that we can bring an added value particularly in areas such as agriculture, irrigation, sanitary water supply, agro-processing, effective use and development of biomass and biofuel, trade related capacity building, communications technologies, health and education.

Our contributions are of course not confined to development assistance alone. We also provide humanitarian assistance to the countries in need. And we do that with great conviction, because the Turkish people have a strong tradition of responding to humanitarian crises. We attach particular importance to 'forgotten crises'.

I am pleased to point out that Turkey's bilateral humanitarian assistance has increased considerably in recent years. It reached $300 million within the last three years. This amount does not include assistance by our NGOs. I am also proud to say that assistance by the Turkish Red Crescent Society and other Turkish NGOs has exceeded those made by the Government.

Furthermore, since 2004, Turkey has contributed almost $6.5 million through the World Food Program to those countries suffering from food shortages. We have already become one of the major donors of the World Food Program in its efforts to resolve the food crises in Africa.

In addition to development and humanitarian assistance, Turkey also attaches great importance to the building of a trade and commerce capacity for the LDCs. Turkey has been providing duty-free and quota-free market access for the industrial goods originating from all LDCs since 1 January 2006. This shows our commitment to provide special and favorable treatment to the LDCs. We wish to assist their better integration into the multilateral trading system.

Moreover, Turkey decided to contribute $1 million to the Trust Fund of the EIF for the LDCs. We hope this will contribute to the trade-capacity enhancement of the LDCs.

Turkey is supporting debt relief initiatives for the LDCs. As a donor country, we will keep on supporting the Poverty Reduction and Growth Facility of the IMF.

We are also committed to the advancement of bilateral commercial relations with the LDCs. We encourage the Turkish private sector to invest in the LDCs. FDI has a critical role in achieving sustainable development by increasing job opportunities.

We believe that we have a lot to learn from each other.

Our common experiences provide a strong foundation for establishing stronger relations within the family of developing countries. Turkey will continue to do its best to be the voice of LDCs where they are not represented to better reflect their concerns. We are committed to make this cooperation a success story. We have the necessary will and potential to do so.

Distinguished Ministers,

Excellencies,

Before I conclude, let me express my gratitude to the UN Office of the High Representative for the LDCs, Landlocked Developing Countries and Small Island Developing States as well as the UNDP for their guidance, professionalism and unrelenting efforts to make this conference a success. I also wish to express my warmest thanks to all the other UN agencies for their close collaboration in organizing this conference.

I would like to thank you all for coming to Istanbul to share your experiences and concerns. I know that it has been a long journey for many of you, but I hope we will all benefit from this meeting and that you will enjoy your stay in Turkey.

Thank you.

Statement by H.E. Ms. Sheika Haya Rashed Al-Khalifa, President, United Nations General Assembly

I would like to thank the Government of Turkey for hosting such a timely meeting. I would also like to pay tribute to the United Nations Development Programme, and Administrator Kemal Derviş, as well as the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States for their contribution in the preparation of this conference.

Globalization is not only a phenomenon that shaped the world in the last century, it is part of the day-to-day life of each and every one of us. While there are many who question whether globalization has been good or bad, we all agree that the world today will continue to be shaped by the many aspects of this phenomenon.

One thing is clear — it provides vast opportunities for development and advancement for all societies. But, not all of us are provided with such opportunities. The paradox is evident when some in the world are waiting in line to buy new consumer technologies, at a cost almost equal to the annual per capita income of hundreds of millions of people.

This sad fact poses serious questions, especially when we are at the midpoint of the target date of achieving the MDGs. Why are we failing? And what should we do?

Mahatma Gandhi once said that in poor places, people see God in a piece of bread. This still holds true after many decades.

LDCs have found themselves in an unfortunate situation. They have benefited least from globalization, and have been affected most by its negative impact.

Although some progress has been made on education and gender targets during this 'decade of action', the number of people living in poverty in LDCs is expected to increase to almost 500 million in 2010, from 334 million in 2000.

LDCs are unlikely to achieve international development goals, including those contained in the Millennium Declaration and the Brussels Programme, by the target dates. What we are in urgent need of is greater collaboration, not just among governments, but also civil society and the private sector.

This collaboration should build upon good governance at the local, national and international levels.

Donor countries must live up to their aid, trade and debt commitments. We should ensure the enhancement of the quality and quantity of assistance.

Our ability to deliver on our promises — partner and donor countries alike — is a reflection of our commitment to effective multilateralism, and building greater trust among the global community. But we have to go beyond this. South-South cooperation is increasing and should continue to increase. New donors are also emerging from the South. This is a very positive trend.

Realizing the full potential of South-South cooperation is an important aspect for achieving the development goals. Stronger developing economies have an obligation to champion the needs of the most vulnerable countries, namely: the Least Developed Countries.

I can assure you that the concerns and interests of LDCs have been a central part of the General Assembly's programme of work during the 61st session.

In September 2006, the General Assembly held a High Level Meeting on the midterm review of the Brussels Programme of Action for LDCs. This meeting reaffirmed our political determination to meet commitments set out in the 2001 Brussels Programme, by building stronger partnerships between LDCs, donor countries, civil society and the private sector.

Then, in November 2006, we held a high level debate on 'Partnerships towards achieving the Millennium Development Goals: Taking stock, moving forward'. It was a platform to announce a 10 billion dollar fund by the Islamic Development Bank for the eradication of poverty.

And just recently, in June 2007, I co-chaired a follow-up meeting in Doha, Qatar, entitled 'Financing Development to achieve the Millennium Development Goals'. The meeting reaffirmed the importance of delivering the commitments on aid, and emphasized that it is still within our grasp to achieve the MDGs, if the right policies are put in place and supported by sufficient resources.

Globalization fundamentally changed the divide between developed and developing, donor and recipient countries. More importantly, globalization made us profoundly aware of the suffering of millions who live in poverty, disease and neglect. It made us realize that the suffering of people belongs to the entire world. Development should not remain merely a moral obligation, but rather a strategic one.

The United Nations is at the heart of all development activities, and should remain so. Dag Hammarskjöld once said, and I quote:

"The United Nations was created not to lead mankind to heaven, but to save humanity from hell."

Although this was said when the threat to peace and security was inter-state conflicts, it remains true today. Yet, the threat has changed. It is now, poverty, hunger, famine, disease, environmental degradation including global warming, desertification and drought.

I am optimistic that this meeting can set the way forward, and help find lasting solutions to assist LDCs.

Statement by H.E. Mr. Moussa Affolabi Okanla, Minister of Foreign Affairs of the Republic of Benin and Chair of the Group of Least Developed Countries

Mr. Prime Minister,
Madam President of the General Assembly,
Ladies and Gentlemen Ministers, Dear Colleagues,
Your Excellency Mr. Benjamin Mkapa,
Mr. Executive Secretary of the United Nations Economic Commission for Africa,
Mr. Secretary General of the United Nations Conference on Trade and Development,
Mr. Administrator of the United Nations Programme for Development,
Ladies and Gentlemen Representatives of the UN System Organizations and Agencies,
Dear Participants,

This is a great honour for me to address you on behalf of the Least Advanced Countries and to express our deep appreciation to the Government of Turkey for this initiative which brought us together in this splendid city of Istanbul, to debate such an important topic as 'Making Globalization Work for the Least Developed Countries'.

At a time when the socioeconomic situation of most of our countries remains precarious and further marginalizes them from the global economy, it appears appropriate to organize such meetings as this one, for the purpose of taking a close look at the challenges that need to be addressed in order to speed up the implementation of the commitments and meet the objectives of the Programme of Action for the Least Developed Countries for the Decade 2001-2010.

The ongoing globalization process and the resulting interdependence constitute potentially a powerful, dynamic force which can contribute to growth, the elimination of poverty and sustainable development in the LDCs. These countries, however, were unable to take advantage fully of the resulting opportunities, because of the difficulties confronting them.

Your will agree with me that we do not lack the will nor the determination to implement bold steps, in particular within the framework of the commitments set forth in the Brussels Programme of Action.

Indeed, we, the LDCs, recognize the importance of the national efforts we must include at the core of our development policies and strategies. We reaffirm our commitment to pursue appropriate economic policies and strategies aimed at ensuring the sustained, and balanced, economic growth and development needed to improve our peoples' living conditions. This is why several of us have persistently striven to create the requisite conditions to attract domestic and foreign investment and ensure the increase and diversification of our exports.

We are aware, however, that with the limited resources available to our countries, due mainly to our economies' structural weaknesses, our efforts alone will not be sufficient to solve the manifold problems we must tackle.

I therefore wish, on behalf of the LDCs, to underscore the fact that in this globalization era, a more favourable international economic environment and the support of our development partners are essential to help us stem our countries' economic decline and improve living conditions for our peoples.

A significant reduction of poverty in our countries is predicated not only on an increase in agricultural productivity, but also on the local transformation of our commodities, at least into semi-finished goods, in order to create more jobs, generate added value, increase revenues for our states and benefit more from that greater opening of the international marketplace to our products which we keep wishing so ardently. We will also need to develop competitive enterprises in the manufacturing sector and the service sector, and multiply dynamic sectoral linkages.

On behalf of the LDCs, I urge our development partners to heighten their efforts so as to meet as promptly as possible the commitments made, in particular as regards ODA, debt cancellation, access to markets and FDI.

The discussions we will have during the round table meetings will provide us with opportunities to look concretely at the ways and means whereby we could, as recommended by the United Nations Conference on Commerce and Trade 2006 Report, initiate 'a paradigm shift from a consumption- and exchange-oriented approach to poverty reduction towards a production- and employment-oriented approach'. In this regard, the first priority should be to refocus assistance on the productive sectors and the creation of economic infrastructure in the LDCs so as to create jobs.

In addition, private domestic investment and FDI have become essential to development financing. Yet although our governments implemented measures and national policies aimed at creating a pro-investment climate, the LDC share in total FDI inflows remains exceedingly weak (less than 1 percent). Furthermore, FDI flows continue to be concentrated on a few countries and a few sectors. We are calling yet again on our development partners to adopt, as originating countries, effective policies and measures to promote and increase FDI flows and technology transfers to our countries.

Likewise, appropriate macroeconomic policies should be complemented by sectoral development policies and strategies emphasizing agriculture and rural development, considering that effective poverty reduction requires sustained economic growth and sustainable development.

Finally, in view of its increasing scope and more importantly its impact on the already fragile LDC economies, we should devote great attention to the energy problem in our discussions. As a matter of fact, our countries possess a great wealth of potential energy sources, including renewable energies such as wind or solar energy.

We should thus, together with our development partners, in order to solve the major crises occurring in this sector, examine appropriate solutions whereby, at an affordable cost, such energies could be made available to the population in our countries and provide support to our fledgling industrial sector.

Mr. Prime Minister,

Dear Colleagues,

We are convinced that LDC integration into the multilateral trade system and global economy is an objective shared by the entire international community. The reinforcement of our capacity to participate fully in trade negotiations in the WTO framework as well as in the decision-making process within international financial institutions is clearly in line with this objective.

We emphasize the necessity, as a matter of priority, to bridge the alarming, growing digital divide between our countries and the rest of the world, in particular in the area of ICT. We beseech the international community to support the efforts made by the LDCs in this area.

Such are the great feelings that inspire me at the opening of our conference and undertakings, during which we will focus particularly on the importance of cooperation between developing countries and donor countries in a spirit of complementarity and shared responsibility.

To conclude, I wish to extend yet again my sincere thanks to the People and Government of Turkey for their warm hospitality and the excellent organization set into place for this Conference.

I also wish to express to the former High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, Mr. Anwarul Chowdhury, my deep gratitude for his efforts throughout his mandate, which coincided with the adoption and the mid-term evaluation of the Brussels Programme of Action.

My thanks also go to the entire UN System for its day-to-day endeavours to advance the cause of the LDCs. In view of the significant work accomplished by the Coordination Office, it would be desirable that the LDCs continue to be accorded sustained attention by the international community and all of the entities of the UN System.

Finally, let us express the wish that this Istanbul conference will serve to further strengthen the much appreciated cooperation already existing between Turkey and the LDCs.

Long live international cooperation for a globalization beneficial to all!

Thank you.

Statement by Mr. Supachai Panitchpakdi, Secretary-General, United Nations Conference on Trade and Development

As most of you know, UNCTAD has long been involved in issues pertaining to the LDCs. Our involvement cuts across all areas of our work. Through our research and analysis, we attempt to help the LDCs understand these challenges and then formulate the most effective policies for overcoming them. We also provide technical assistance and capacity building, especially on trade and the multilateral trade negotiations. Through our meetings, we provide a forum for exchanging views and best practices with other countries and development partners. In all these areas, we are addressing the central question of this conference: how to make globalization work for the LDCs.

The current era of globalization has been associated with a considerable rise in world income and rapidly expanding trade and investment flows. For many years, the LDCs have not shared in these benefits, but since 2000, that situation has begun to change. Today, the group as a whole is enjoying a positive economic performance, boasting record levels of economic growth, export growth and FDI — thanks in large part to greater demand and higher prices for oil and other mineral resources in which the LDCs are particularly well endowed. Despite these uplifting signs, however, serious challenges remain. Let me touch briefly on just four of them.

First, many of the LDCs are not sharing in the positive economic performance. They continue to have low rates of economic growth, low levels of exports, and low or no inflows of foreign investment. Their weak performance is closely associated with a strong dependence on a narrow range of primary commodities, other than oil, or on low-tech manufactures, such as garments.

Second, it is far from clear that the economic growth in some LDCs can be sustained. Periods of rapid growth are not uncommon in poor countries, and are typically followed by prolonged periods of stagnation or regression. For economic growth to really contribute to poverty reduction, it must not just be high but also sustainable.

The third challenge is that economic growth has frequently failed to generate productive employment opportunities — which also means that it has failed substantially to reduce poverty.

Fourth, in the current decade, the LDCs are undergoing a historic transition in their employment patterns, one that will put serious strains on their economies. In many of these countries, the growth of the non-agricultural work force exceeds that of the agricultural labour force. Many more people are now seeking employment outside agriculture, but most of them will be disappointed, because there are few job opportunities outside the fields. Thus, while agricultural employment generation remains important, there is an urgent need to create jobs in other sectors.

Poverty, of course, is another critical challenge. The data are weak, but one out of two people in the LDCs lives on less than $1 a day. And while the developing world as a whole is on track to halve extreme poverty by 2015, in the LDCs poverty will only get worse in the years to come. The LDCs are rapidly becoming the major locus of extreme poverty worldwide, and by 2015 the vast majority of extremely poor people will be living in these countries.

The challenges, as we have said, are formidable. How can the LDCs confront them? How, in other words, can they benefit from globalization, grow their economies, create job opportunities and increase household income?

For UNCTAD, the answer can be summed up in two words: productive capacity. There will be no progress if the LDCs do not develop their productive capacities. This goal should thus be at the heart of national and international efforts to promote development and poverty reduction. But it will require a departure from current practice. It will mean not just more development assistance, but also a different focus of that assistance. The LDCs and their development partners need to complement their focus on social and humanitarian development with a much stronger focus on economic and productive sector development. They also need an international economic regime that considers their special needs and addresses those needs through meaningful, and strong S&DT. Such treatment should be granted not just in trade, but in investment as well, with respect to technology transfer and IPR.

The Programme of Action for the Least Developed Countries for the Decade 2001-2010 highlights the need for a balance between social and humanitarian development on the one hand and economic and productive sector development on the other. Both the Programme of Action and the Millennium Declaration contained a number of concrete and time-bound development goals. But whereas the MDGs almost exclusively target social and humanitarian development, the LDC-specific goals are much more focused on economic and infrastructure-related development. Clearly, it is important to pursue social and human goals. But it is equally important not to lose sight of the economic and infrastructure goals.

I was talking about the centrality of productive capacity to development. This implies that a larger share of aid should be dedicated to the development of infrastructure and production. Here, I would like to point out three very encouraging trends from which the LDCs in particular stand to benefit.

First is the increased commitment of donor countries to the Aid for Trade initiative, which focuses on the development of trade-related infrastructure. Second is the increased commitment of more advanced developing countries to provide other developing countries with technical assistance in these same areas. And third is the growing international interest in 'triangular cooperation', involving not just North-South partnerships, but also South-South and North-South-South, and extending increasingly to other stakeholders like businesses and NGOs.

Productive capacity development of the scale needed by the LDCs obviously requires considerable amounts of investment. Aid will have to be stepped up, but — and this point cannot be overemphasized — aid must absolutely be complemented by other resources, including increased investment from the LDCs themselves, from the private sector, and from public-private partnerships.

Boosting investment and developing productive capacities will, accordingly, figure prominently on the agenda of the twelfth United Nations Conference on Trade and Development. UNCTAD XII, to be held in Accra, Ghana, next April, will include an investment summit and several high-level sessions on developing the productive sector. In the meantime, I am confident that the outcome of this conference in Istanbul will make invaluable contributions to international efforts to promote the development of the LDCs.

Statement by Ms. Valentine Sendanyoye Rugwabiza, Deputy Director-General, World Trade Organization

It is a distinctive privilege to be here today — in this historic and beautiful city, Istanbul — to share with you our views on how the multilateral trading system could contribute to 'making globalization work for the LDCs'. Through you, Honourable Minister, I commend the Government of Turkey for hosting this conference which is a clear reflection of the commitment of your Government to support the LDCs' efforts to better integrate into the global economy.

One of the most visible aspects of globalization is the multilateral trading system. Today, there is a broad consensus that trade opening plays a vital role in growth and development. Trade opening and rule-making are indeed major goals of the WTO. But, as of today, a number of the current substantive rules of the WTO do perpetuate some bias against LDCs and other developing countries. This is true, for example, with rules on subsidies in agriculture that allow for trade-distorting subsidies which tends to favour developed countries. This is also true when we look at the high tariffs that many developed countries apply on imports of agricultural and industrial products, in particular from developing countries. As the WTO's director-general, Pascal Lamy, often says, while the political decolonization took place more than 50 years ago, we have not yet completed economic decolonization. A fundamental aspect of the Doha Development Agenda is therefore to redress the remaining imbalances in the multilateral trading system and to provide LDCs and developing countries with improved market opportunities.

But while trade is an essential ingredient, we also know that trade opening is not a panacea for all the challenges of development. Nor is it necessarily easy to accomplish, or be effective, unless it is embedded in a supportive economic, social and political context.

My point is that trade opening is necessary but not sufficient in itself to ensure automatic development benefits for the people in LDCs. In fact, trade opening can only be politically and economically sustainable if it is complemented by flanking policies which address, at the same time, capacity problems — human, bureaucratic or structural — and the reforms that support an inclusive growth. This is where trade policy intersects with education and social security, with fiscal policies, with infrastructures. This policy mix must be carefully considered: coherence between foreign policy and trade, finance and development policies is paramount to making globalization work for LDCs.

If addressing policy mix is a difficult task in developed countries, which have the necessary means to do it, it becomes a truly uphill battle in many LDCs. This is what motivated placing Aid for Trade high on the WTO agenda, together and in parallel with the Doha Round.

Aid for Trade aims at improving the capacity of developing countries to reap the benefits of more open trade. For some developing members this will mean setting up testing facilities and reliable institutions to help to ensure that exported products meet the technical, sanitary and phytosanitary regulations and standards of export markets. For some others it would mean larger scale projects such as improving transport infrastructure and trade logistics.

The WTO has limited activities in the field, mainly focused on training, which means that the Aid for Trade initiative has been set up in collaboration with the UNDP, the World Bank, UNCTAD, the IMF, regional development banks, the OECD and other agencies such as the ECA who have brought their expertise to bear. The WTO will provide the platform for monitoring and regularly reviewing whether Aid for Trade is being adequately funded and delivering the expected results. In particular, we need to make sure that donors translate their pledges to increase Aid for Trade into reality. We also need beneficiaries to ensure that trade and growth priorities figure prominently in their development assistance priorities and poverty reduction strategies. Finally, we also need to work on better coordinating the assistance provided by donors.

To this end, in September and the first week of October, we will hold three regional Aid for Trade reviews in Latin America, Asia and Africa, with the cooperation of the respective regional development banks and the World Bank. All this will lead to the first global monitoring and evaluation event which will be hosted by the WTO in Geneva on 20-21 November.

In the meantime, I am also happy to report the progress achieved in the revamping of the EIF which is an Aid for Trade programme with limited coverage to LDCs. Sweden is hosting in Stockholm on the 25th of September a donor's pledging conference for the Enhanced Integrated Framework.

Today's announcement by the Government of Turkey sends a strong and unequivocal message to traditional and non-traditional donors that they need to translate their promises to help LDCs address their supply-side constraints and build their trade capacity into reality.

But Aid for Trade must be a complement to, not a substitute for, ambitious results in the Doha Development Agenda.

Increasing trade and investment opportunities for developing countries and, in particular, the LDCs, remains far and away the most important contribution that the WTO can make to development.

Today, the Doha Round is at a crossroads: the path towards success or the slow move towards a deep freeze.

WTO Members have pledged to conclude these negotiations around the end of the year. But if this is to be achieved, we need key progress in agricultural subsidies and tariffs on agriculture and industrial tariffs now.

What remains to be done is small compared to all the proposals already on the table, which represents two to three times what was achieved in the last round of negotiations (to mention a few examples of what will be lost if this round fail to conclude: DFQF for at least 97 percent of LDC exports in developed countries and some developing countries, total elimination of export subsidies in 2013, more ambitious reduction of subventions and tariffs on cotton, etc.). But what remains to be done is also small compared to the potential benefits of rebalancing the multilateral trading system in favour of LDCs and developing countries.

Indeed, reaching agreement on subsidies today depends on additional concessions from the US equivalent to less than a week's worth of transatlantic trade. It depends on an additional handful of percentage reduction in the highest agricultural tariffs by the EU and Japan. It depends on an additional handful of percentage reduction in the highest industrial tariffs by emerging economies such as Brazil or India. All this to be done, not by tomorrow, but over a transition period of several years to leave space for a smooth adjustment.

I hope all WTO members will bear the proportions in mind over the coming weeks when they will be called upon to make the necessary decisions. Today, the challenge is less economic than political. It is about making the multilateral trading system deliver for development. It is about making globalization work for LDCs. I urge you to remind your counterparts in developed countries and other developing countries that there are billions of people who are counting on this deal to deliver on the Millennium Development Goals.

Thank you for your attention.

Statement by Mr. Abdoulie Janneh, Executive Secretary, United Nations Economic Commission for Africa

Trade and Investment

In its 2004 (skeptical) report, the World Commission on the Social Dimensions of Globalization summarized how the world feels about globalization as follows (Stiglitz 2006, page 8):

> 'The current process of globalization is generating unbalanced outcomes, both between and within countries. Wealth is being created, but too many countries and people are not sharing in its benefits … Seen through the eyes of the vast majority of women and men, globalization has not met their simple and legitimate aspirations for decent jobs and a better future for their children … Meanwhile, the revolution in global communications heightens awareness of these disparities'.

Globalization has produced winners and losers, but mostly the former than the latter. For Least Developed Countries, globalization may potentially generate substantial benefits but also important challenges.

In the area of trade, while trade volumes in LDCs have increased over the past years, the relative share of this group of countries in world trade remains low and has even declined in some regions. For example, Africa's share in global exports in 2005 was 2.8 percent only, roughly equivalent to its 1991 value and less than half its peak value of 6 percent achieved in 1980 (ERA 2007).

The main challenges include lack competitiveness for LDCs producers, tariff escalation, biased trade regimes in developed countries (such as export subsidies), restrictive rules of origin in preference schemes, etc. The outcomes of key international trade initiatives such as EPAs and the Doha round continue to be disappointing. However, some recent developments in international trade arrangements carry potential gains for LDCs:

- Duty-free quota-free market access: The agreement by developed countries (as well as advanced developing countries that are in a position to do so) to grant DFQF market access to LDCs will open new export opportunities. The key challenge for LDCs is to undertake the necessary strategies to increase their production capacity and competitiveness to take advantage of these new privileges. Monitoring of implementation of these dispositions is a perennial issue in international trade agreements, which is likely to hinder progress in this area as well.

- The fact that LDCs have no obligation for reciprocity in these arrangements constitutes a major advantage that will allow them to keep adequate protection for domestic producers.

- The Aid for Trade Initiative is a major step that can help LDCs in strengthening supply capacities, building trade-related infrastructure, and dealing with adjustment costs related to trade liberalization. The success of this Initiative is critical for the LDCs' ability to fully take advantage of other trade provisions, such as the DFQF market access discussed above.

With regard to investment, while globalization has increased investment flows across regions, private capital continues to flow primarily among developed countries and a selected 'hot markets' in the developing world. LDCs as a group remain vastly on the sidelines of financial globalization.

- Globalization has increased competition for private capital, especially in the context of liberalization of capital accounts.

- Liberalization of capital accounts has also exposed LDCs to higher risks of financial fragility, putting more pressure on macroeconomic policy and requiring higher levels of policy coordination both within and across countries.

Given that LDCs are still unable to fill their financing gap with external private capital, more efforts will be required to increase official non-debt-generating external financing to increase the levels of investment and growth.

- In this regard, the commitments by developed countries to increase both the proportion of aid going to LDCs and the share of untied aid going to LDCs constitute a welcome step in the right direction.

- The delivery on these commitments for more non-debt-generating financing for LDCs will reduce the debt burden for these countries, which will increase their creditworthiness. This in turn, should increase the flow of private investment into these countries in the near future.

The contribution of United Nations Economic Commission for Africa (UNECA)

Support in capacity building for trade promotion and trade competitiveness

- UNECA provides specific support to LDCs to enhance their knowledge of issues of special interest to them in the on-going Doha Round of trade negotiations as well as the EPA negotiations; this is in the context of its overall support to the African WTO Geneva group.

UNECA provides support in strengthening the capacity of LDCs in trade negotiations as evidenced by their proactive and constructive participation in bilateral and multilateral trade negotiations.

Support in promoting investment and financial development

Key activities in this area include research and advisory interventions in

- strategies for development of capital markets at the national and regional level;
- strategies for mobilization and management of domestic resources;
- strategies for improving the domestic investment climate.

Energy

Least Developed Countries are poor and contribute marginally to the world economy. According to the 2006 World Bank Global Economic Prospects, over 300 million people in sub-Saharan Africa live in extreme income poverty of less than $1 per day, most in African LDCs. This represents, according to the UN 2006 Millennium Development Goals Report, 44 percent of the population of the region. Extreme poverty is manifested in reduced income and limited economic (domestic and industrial) productivity that impact most areas — health, education, nutrition and industrial development.

However, recent analysis shows that over 23 countries in Africa are growing at more than 5 percent. In order to sustain this growth, they will need to produce and consume more and more energy. There is now ample evidence that energy is needed to fuel most economic activities, achieve the MDGs, and to increase the competitiveness of Africa's industrial sector. It should therefore be of concern that most African countries, in particular the LDCs, are currently facing a stiff energy crisis, mainly due to a combination of factors that include: the negative impact of oil price increases on net-oil-importing countries; the low generation capacities of hydropower dams due to unfavourable climatic conditions; and insufficient investment in the power sector over the last few decades.

While the discovery of more and more oil reserves on the continent has attracted the interest of the rest of the world to Africa, one should keep in mind that the continent has abundant renewable energy resources (hydraulic, geothermal, solar and wind) that are barely tapped. Exploiting them would require considerable resources that are beyond the capabilities of the countries alone, divided among numerous priorities. For example, the IEA is of the view that Africa needs $250 billion of investments in power generation, transmission and distribution between 2001 and 2030 to ensure universal electricity access.

Most African governments have taken measures to increase the investment framework in their countries in order to enhance the role of the private sector and attract foreign investments. A recent ECA study found that efforts were undertaken to reform the regulatory framework of the power sector and increase the performances of power utilities, but it is fair to say that these efforts fell short in attracting many independent investors in the sector. It is hoped that accelerating the economic and, in particular, energy integration of African countries could provide some solutions to the financing gaps. Much more need to be done at country and regional levels with more pronounced and concerted support from development partners to increase and sustain the current observed overall economic growth rate on the continent.

Finally, it should be noted that LDCs are the most vulnerable countries to the negative impacts of climate change, despite the fact that their total contribution to the greenhouse gas emissions responsible for global warming is negligible. They nonetheless have to invest in more expensive clean energy technologies in order to reduce overall global emissions. In order to do so, they should benefit from a larger global solidarity.

Information Communication Technology

The world is currently entering what is commonly referred to as the Knowledge Society, which is driven by information and intellectual information products as the raw materials. In this context, the ability to transmit information over the information and communications infrastructure is a key resource for any nation, including LDCs, to participate effectively in the global information society and to address the development challenges. The successful deployment of ICTs can contribute to the development of knowledge societies in the LDCs and contribute to bridging the digital divide. The potential of information and knowledge to provide a competitive edge to economic growth, is no longer a myth. ICT can be used as a catalyst for increased trade and economic growth; it can reduce transaction costs and create new industries. The reduction of transaction costs is working in both directions — better market access and higher import competition. ICT is the driver of globalization. There are some ongoing efforts in the LDCs to catch up with these evolving opportunities.

In the case of Africa, recognizing the important role of ICTs in facilitating the attainment of development goals and responding to the challenges of globalization, the Conference of African Ministers of Planning and Economic and Social Development adopted the African Information Society Initiative in May 1996 as a common vision to bridge the digital divide between Africa and the rest of the world, to create digital opportunities and to speed the continent's entry into the information and knowledge economy. It was in this context that the ICTs, Trade and Economic Growth Programme was put in place by ECA, supported by the Government of Canada to promote development of policy environments favourable to electronic business and trade within and amongst African countries and between Africa and the rest of the world. Case studies are being carried out in six African countries, including LDCs.

Agriculture

- It is widely acknowledged that agricultural growth contributes to overall economic development. There is overwhelming empirical evidence to support this point, with very few exceptions where sustained economic development has not been preceded by robust agricultural growth.

- But, does this relationship between agricultural growth and economic development still hold in an increasingly globalized world?

- With regard to agricultural growth, considerable, and often, widening, interregional disparities persist. We thus know of many developing countries that have witnessed neither significant agricultural growth nor notable economic development.

- This is the case of most African countries where poverty and hunger remain rampant and are expected to increase if the present trends in agricultural development were to continue.

- African agriculture has yet to gain from globalization as the continent's share of global agricultural exports has fallen sharply from 15 percent in the mid-1960s to some 5 percent now.

Impediments to agricultural development

- The transformation of African agriculture from its traditional subsistence state to a modern and market-oriented sector is a precondition for greater participation in the global economy.

- Yet, this structural transformation process is seriously impeded by a range of factors, including:

  1. poor market access conditions at local/national, regional and international levels;

  2. poor infrastructure and provision of public support services in rural areas;

  3. high share of agro-climatically constrained land resources;

  4. weak science, technology and innovation institutions to enhance productivity and competitiveness of food and agricultural commodity value chains, especially for commodities and environments of particular importance for the poor;

  5. tariff and non-tariff barriers; and

  6. agricultural support policies and export subsidies from trading partners, especially developed countries.

Can globalization make a difference?

- Globalization has resulted in the rapid growth of world trade, internationalization of production by multinational corporations and declining information and communications costs.

- Potential global trade benefits for agriculture in LDCs could arise from the following:

  1. the increased direct exposure to international competition and the resulting possibility to access global markets and specialize in areas of comparative advantage could yield high gains for this sector;

2. the indirect effects of increased international trade on the growth of non-agricultural sectors changing the domestic demand for agricultural goods both in quantity and quality;

3. the often unrecognized consequence of globalization in terms of lifestyle changes including diet, particularly among the urban middle class, as a result of income growth and increased global interconnectedness through travel and communications.

- For African LDCs to harness this potential would require that:

1. African governments accord greater priority to agricultural and rural development, and back such commitment by allocating adequate budgetary resources to investment in infrastructure and agricultural support services;

2. African countries develop coordinated commodity value chains within a regional integration framework to capture the full potential of comparative and competitive advantage based on agro-ecological diversity and economies of scales of regional scope; and

3. WTO negotiations on agriculture lead to fair agricultural commodity trade and market access, including substantial reduction in trade-distorting agricultural support policies and export subsidies from developed countries.

Statement by Ms. Harriet Schmidt, Director, United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

Holding this conference in Istanbul, one of the earliest cosmopolitan cities of the world, is truly symbolic. Located on the crossroads of commercial, economic, political and cultural routes, this city has, for centuries, been bridging the East with the West and the South with the North, and promoting dialogue and understanding among nations. It served as an inspiration for poets and artists, scholars and musicians, merchants and politicians. It can similarly serve as an inspiration and provide useful historical lessons for this conference, which seeks to address the all-important question of the full and beneficial integration into the world economy of the 800 million citizens of the LDCs who are not benefiting from globalization.

As a concept, globalization means a more interdependent world, where the events in one corner echo in others. It also means a more integrated world with shared values, interests, concerns, responsibilities and greater degree of solidarity among its peoples. Paradoxically, as some countries get more integrated and prosperous, others get more marginalized and isolated. Worse, those privileged enough to be within the high walls of the global village tend to forget about those left outside.

This is the sad reality for the LDCs. While globalization has, over the last 30 years, expanded trade, increased economic output and created unparalleled wealth in global terms, the LDCs have failed to reap its benefits. Accounting for 12 percent of the world's population, they receive less than 2 percent of FDI flows. Furthermore, this minute amount of FDI is highly concentrated in oil and mineral rich LDCs. The share of LDCs in world merchandise exports dropped from 3 percent to 0.7 percent between the 1950s and the present decade. Similarly, between the 1970s and the 1990s, their share in agricultural exports dropped from 3.3 percent to 1.5 percent. In the last 30 years, the number of people in extreme poverty in Africa, home to 34 of the 50 LDCs, has doubled. These setbacks are the more striking when one considers the international initiatives that have been undertaken to increase access of LDCs to international markets, promote economic growth and reduce poverty.

Globalization has failed to benefit LDCs for many reasons. Internally, LDCs continue to face daunting structural constraints inherited from the colonial past. Extreme poverty, insufficient financial resources, inadequate physical and social infrastructure, lack of skilled human resources and weak institutional capacities, not to mention the challenge of HIV/AIDS, malaria and tuberculosis, inhibit their growth and jeopardize their sustainable development.

Externally, globalization has been largely driven by the industrial economies' need for market and investment opportunities abroad, engendered by the modern technological revolution. As a result, the rules and structures of global governance that have emerged to manage this process do not reflect the special needs and economic interests of the LDCs, late-comers to the process of globalization. Neither the Uruguay Round, which was signed in 1994, nor the wavering Doha Round, which had been billed as a development round, has so far succeeded in addressing the special needs of the LDCs. While the 'Development Package' agreed at the WTO Ministerial Conference in Hong Kong in December 2005 was a positive step, it fell far short of the target of DFQF market access for all the products from all LDCs set by the Brussels Programme of Action. Even without considering the non-tariff barriers, there are genuine concerns that the loopholes in the Doha Development Package could be exploited by the industrial countries to keep out products in which LDCs are competitive. The lack of any significant progress in elimination of agricultural subsidies in the industrial countries and in the liberalization of the international labour market, which would produce quick gains to the LDCs, are clear indications of just how much the global economic regime remains skewed against the LDCs.

If the force of globalization continues on the path of the last 30 years, it will completely sweep away the LDCs. It is therefore the moral and political imperative of the international community to ensure that LDCs not only benefit from the opportunities created by a more integrated world economy, but that they also play their rightful role in shaping its nature. Globalization should address, not accentuate, the world's challenges. We are not short of ideas on what needs to be done to achieve this goal. Neither is the world short of the resources and technology needed to make globalization beneficial to all. In the Brussels Programme, the LDCs and their development partners have agreed on goals and targets and identified polices and measures in pursuit of those goals. What is lacking is the political action to translate these commitments into reality.

In this connection, I commend the actions announced this morning by the Government of Turkey to enhance its support to the development efforts of the LDCs. I encourage the Government of Turkey and other development partners to continue taking tangible actions in support of the LDCs.

Making globalization work for the LDCs calls for meeting global commitments on development aid, debt relief, trade and trade related capacity-building, and reforming the multilateral trading and financial systems by placing at their centre the needs of the poorest nations. This should be a major economic and political undertaking for governments, multilateral institutions, the private sector and civic institutions if we want to achieve a truly global community.

Keynote speech by H.E. Mr. Benjamin Mkapa, former president of the Republic of Tanzania

Conference Chairperson,
Participants,
Ladies and Gentlemen,

Globalization has become an all-encompassing word, exchanged and bandied about worldwide, sometimes touted, most times vilified, to describe the global process of our time.

It is a process examined from political, economic and social perspectives. But the most dominant and fervently discoursed perspective is its economic impact on the evolving global economic order.

The thematic title of this conference assumes that globalization's evolutionary process to date does not work for least developed countries. I agree with this prognosis 150 percent. But let me start by acknowledging the protagonists on both sides of the debate.

There are those in the developed countries who advocate or mitigate the effects of the present structure and rules of globalization on the developing countries, and in particular, the least developing countries of Africa. In their view, these LDCs do not profit adequately from present systems because they do not engage in the process seriously, diligently and efficiently; that because of inertia they are not positioning themselves to use their comparative advantages to benefit from a global free market system. To such people, the current structure, rules, and process of globalization offers an assured, sustainable route to global order.

Then there are those in developing countries, especially in LDCs, who see the process of globalization as weighing heavily against their interests of independence, economic growth and equitable participation in a fair and inclusive global order. In their turn, they see the structures and rules as being weighted mightily, if not exclusively, in favour of the developed countries.

I come from Tanzania, one of the least of the least developed countries. Our national language in Kiswahili, and the Swahili word for globalization is *Utandawazi* — increasing global encompassing and interconnectivity. But to the majority of our people — the learned and the pedestrian — the preferred word to describe this phenomenon is *Utandawizi* — global massive theft or expropriation. It implies the non-rewarding, acquisitive alienation by the developed, mostly western countries, of LDCs' natural resources, principally exclusive primary agricultural commodities (coffee, cotton, sisal, tea) and minerals — in particular hydrocarbon fossil fuels and uranium for weapons of mass destruction. To them, globalization is a symptom and a route towards global disorder.

One realization on both sides represents common ground, namely that globalization is a process which is inexorable, irreversible. It predates the 'voyages of discovery' by the Portuguese and Spaniards around the world, or that of the Chinese to the Indian and East African subcontinents. The search for knowledge about the extent of our planet as well as the thirst for exchanges of goods and services between territories and continents predates the Second World War. It is a human instinct, and a human surge. The process is unstoppable; it can be better managed.

Conference Chairperson,

Some historical facts and trends are incontrovertible. I restate them not in condemnation or apologetic plea for reparation, but as a factual reminder.

The institutions governing, and policies determining, the globalization processes were established by the victors of the Second World War. These are the United Nations and Bretton Woods institutions. The poverty, recovery, reconstruction, rehabilitation, economic, and especially currency instability that these institutions were mandated to address and correct were those of the allied victors.

Many of the present day LDCs, especially in Africa, were non-states at the time of formation of this development-and-sustainability paradigm, even although their citizens played their part in victories in some of the theatres of the war. In economic terms, the colonial territories were extensions of the metropolitan victorious economies. They had no voice in the formation of these managing, regulating, monitoring and policy advocacy institutions, and at best were deemed as operationally marginal appendages to the colonial power economies. Upon independence, they became an afterthought.

The end of the cold war has magnified the influence of the victors in the Second World War and, in particular, their influence over the institutions of the current process of globalization promoted by the West — developed victor nations. By one calculation, the economic power of the G8 represents 63 percent of the world's GNP, and they represent 50 percent of the total international trade in goods.

Today's process of globalization therefore is modeled on the decisions and actions taken by developed country governments of the North. The result has been to strengthen the economic and geopolitical dominance of the North and to safeguard its corporate interests. To make this process or model work for the developing countries, and especially for LDCs, will require substantial, principled changes in its institutions and operational rules. In the sixties and seventies, as many LDCs gained political independence, a campaign was initiated for the emergence of the New International Economic Order. The call was quickly silenced by the developed countries. The result has been the current widening economic disparities. It is time to revisit the case for a new global economic order. There is a saying in Nigeria: 'A day of peace in times of stress is like a thousand days in Paradise'. In these times of stress, LDCs should not wait for the advent of paradise; they must press for a century of peace with development!

Conference Chairperson,

Five years ago, I co-chaired with the president of Finland, H.E. Tarja Halonen, a World Commission on the Social Dimension of Globalization sponsored by the International Labour Organization (ILO). In our report, we make the following telling observation:

'The current process of globalization is generating unbalanced outcomes, both between and within countries. Wealth is being created, but too many countries and people are not sharing in its benefits. They also have little or no voice in shaping the process. Seen through the eyes of the vast majority of women and men, globalization has not met their simple and legitimate aspirations for decent jobs and a better future for their children. Many of them live in the limbo of the informal economy without formal rights and in a swathe or poor countries that subsist precariously on the margins of the global economy. Even in economically successful countries some workers and communities have been adversely affected by globalization. Meanwhile, the revolution in global communications heightens awareness of these disparities'.

Three years since our report and nearly two years since my retirement as president of Tanzania, I am still an ardent believer in multilateralism and in the sharing of universal human values. I have however become less convinced that the international community, particularly the rich industrialized world, is serious and committed to delivering on their promises and commitments, to financially and through other means (private investments) support the development of the poorer populations of humanity, particularly the so-called least developed.

Among the 50 nations (with over 600 million population) classified by the UN as LDCs, 34 of them are in sub-Saharan Africa. In 2004, the GDP per capita calculated by PPP of LDCs was $1,270, compared with $4,306 for developing countries and $29,624 for members of the OECD. LDCs accounted for only 0.6 percent of global GDP and the same proportion of global trade. In terms of human development outcomes, people in LDCs in 2003 had a life expectancy of 51 years — 12 fewer than the average in developing countries. LDCs adult literacy rate, 53 percent was significantly lower than that in the developing world as a whole. Only 61 percent of people in LDCs had access to safe water, compared to almost 79 percent in developing countries.

For comparison, it is interesting not to forget that global disparities exist not only among countries, but among individuals as well. In 2005, the UNDP reported that the world's richest 500 persons had a combined income greater than the poorest 416 million and that 40 percent of the world's population accounted for only 5 percent of global income while the richest 10 percent, almost all of whom live in high income countries, accounted for 54 percent of global income! Are we really living in a 'One World'? If it is a 'shared' world, where is the sharing?

The World Commission report I referred to earlier observed that '… the exclusion of LDCs, including most of sub-Saharan Africa, from the benefits of globalization remains a stubborn reality. The LDCs are trapped in a vicious circle of interlocking handicaps, including poverty and illiteracy, inadequate physical and economic infrastructure, degrading environment from urban explosion and desertification from climate change, civil strife, geographical disadvantages, poor democratic governance, and inflexible economies which largely depend on few commodities. In addition, many are also burdened by high external debt and hard hit by the continuing decline in the prices of primary commodities (recent exception being oil, gas and minerals). These problems have been compounded by the continuing agricultural protectionism in the industrialized nations, restricting market access for poorer countries while their subsidized imports undermine poor local agricultural producers'. They are marginal players, more like spectators in the global trading system! Tackling the monumental global transformations and imbalances in population and economic profiles calls for political will and courage. The former president of the World Bank, James Wolfensohn, writing in the *International Herald Tribune* on the eve of the G8 Summit in Germany called on the leaders to embrace change. He added, "It also required a complete revision of our view which today is America- and Euro-centric."

Conference Chairperson,

In recent years, while there has been some significant progress by some LDCs in meeting specific MDGs, their progress as a group in meeting most of the goals, however, has been slow and uneven. Progress in achieving the various goals of the Brussels Plan of Action for LDCs towards reducing poverty and achieving sustained growth and development appears to have been dashed, primarily because of inadequate financial resources from the developed world in spite of considerable governance improvements in the LDCs. In fact, there are projections that the number of persons living in extreme poverty may increase from 334 million in 2000 to 471 million in 2015, if the current poverty incidence persists.

It is necessary to acknowledge, however, that LDCs have made some progress in recent years. For example, the UN Secretary General's May 2005 report on the Brussels Plan of Action reported that, inter alia, for LDCs:

- Child mortality has been reduced by more than one third — from 244 per 1,000 live births in 1970 to 157 in 2002;

- Adult literacy increased from 42 percent to 53 percent during 1990-2002;

- Debt-service ratio more than halved between 1990-2002 i.e. 16.2 percent to 7.7 percent respectively.

These and several other statistics very significantly across regions, with the least progress having been made in sub-Saharan Africa, where the HIV/AIDS pandemic has worsened human conditions. And yet, there is considerable hope for Africa as there is for LDCs as a whole, if its leaders and citizens rethink their future prospects confidently and strategically.

On the economic front, a fresh look should be made on the framework of key rules on trade and finance as well as global competition, investment and immigration. Global institutions making rules in these areas should accommodate greater participation and weightier voice of the LDCs. In this way, we shall be able to make globalization work for development, and for the development of all people. LDCs must, together with other developing countries, continue to press for and act on increased levels of participation in global economic decision-making and governance, since they risk de facto exclusion in the present system of global economic governance.

But LDCs are exceptionally vulnerable to the asymmetry of the current rules regime. Their growth and development prospects require special consideration. To nurture their production and export potential and capacity, provision should be made for their S&DT.

Conference Chairperson,

The cost of integrating into the globalizing world for most developing countries has been extremely high. Apart from being price takers for their exports, their survival has necessitated their incurring huge debts. This debt problem is a constituent element of on-going globalization. In nearly all of them the external debt in unsustainable; in 2001, the LDCs were spending almost 3 percent of GDP on servicing debt.

Bilateral and multilateral initiatives have been embarked upon to resolve the debt problem, including the HIPC. My own country is a beneficiary, and it has made a difference. Nevertheless, the reality is that the initiatives launched have had inadequate effect. The initiatives cover few countries, and those countries that have met criteria and conditionality have not yet reached external debt sustainability. I sincerely believe that the attempt to lend credibility to the concept of debt sustainability to LDCs is a tragic farce!

Developed countries have endeavoured to mitigate the resource gap caused by the debilitating indebtedness of developing countries by infusion of development aid. Thus aid has become both a theoretical and practical pillar of the global economic system, and in particular of relations between rich developed countries and the LDCs. There is an ongoing near-strident debate on the usefulness of aid and its contribution to a fair globalization. Some think aid is a smokescreen for continued exploitation of poor countries. Others think it is a form of penance for today's global economic inequities. Yet others think it is a just condition for what is currently a fair globalization.

Whatever one's observation point, there is no denying that aid must continue and increase in the interest of an equitable globalization corrective process. As we state in the Report of the World Commission on Social Dimensions of Globalization:

'It is also important to ensure that debt relief is accompanied by an increase in ODA from developed countries. Much of the remaining debt problem for LDCs concerns multilateral sources. When such debt is not repaid this directly reduced the resources available for future loans. To compensate for this, there is a need for increased funding from donor countries. In addition, special attention must be given to countries whose debts have been rendered unsustainable by a collapse in commodity prices'.

From Brussels (2001) to Monterrey (2002) to the Millennium Summit (2005) and to Gleneagles (2005), the international community promised 'scaling up' development assistance (and its effectiveness) to LDCs, particularly those in Africa — the 'scar on the conscience of the world' as one Western leader described it. African countries, constituting the largest number of least developed countries, also find themselves at a stalemate with the Doha Round of Trade Negotiations and the EPAs with the European Union, primarily because the 'powerful' insist on dictating to the 'powerless'! That the 'delivery' on these various promises has not reached agreed targets as recent reviews by among others, the G8 Research Group at the University of Toronto have shown, should not deter us. In my view, the declining support from the international community provides us with the opportunity for a sober reflection on the appropriateness of our 'aid dependent' development strategies. It may be time for developing countries, including LDCs to 'empower' themselves through greater economic nationalism and self-reliance, as we increasingly see in Asia and Latin America, in order to better manage the effects of globalization and to be a more proactive participant in that reality.

Developing and least developed countries, if they are to succeed in their war on poverty, must demand that a supportive international economic environment be built. LDCs need to play an active and vocal role in pointing out the imperative of strengthening the management of globalization at the international level, through enhanced international policy coordination, reform of the international financial architecture, including measures to prevent financial crisis, and a comprehensive approach to deal with present and potential debt problems of all developing countries.

The new international economic framework for development must stress the importance of development policy space. This refers to the freedom that countries had and should continue to have in terms of identifying, selecting, adopting and implementing the national development policy choices and strategies, on the basis of their individual circumstances, that they will require in order to promote their development objectives. International rules need to respect national sovereignty and allow policy space for development and policy flexibility for developing countries, as they are directly related to the development strategies of national governments.

Conference Chairperson,

A wide variety of approaches have been used in the past by today's developed countries in pursing their own development strategies. The much-touted current 'successes' of Brazil, China and India some other developing countries were due to the fact that they chose national development strategies appropriate to them rather than on the basis of externally prescribed economic policies from those who drive today's globalization model. This clearly indicates that a one-size-fits-all approach to development is not appropriate. National development policies have to be designed and implemented by governments taking into account the unique conditions and specificities of each country. This applies all the more so for LDCs, with all the challenges that our countries face. The state's continuing role in support of sustained capital formation and productivity increases, in providing appropriate incentives to the private sector, improving public infrastructure, and providing basic social services such as public education and health, must be recognized rather than be left to the vagaries of the free market.

One cannot speak of globalization and its impact on development prospects without also speaking about the role of the international financial architecture in aiding and allowing its worst effects on developing countries and LDCs.

Since the mid-1990s, the impact of financial crises on output growth, employment and real incomes has caused severe setbacks in economic development, reduced the scope for public investment in health and education, and increased poverty in the affected developing countries. One needs to note that while the development trajectory of developing countries from Asia, Africa and Latin America were severely affected by the series of financial crises that occurred in the late 1990s and the early part of this decade, the economies of developed countries were barely affected. In fact, the shocks of the various financial crises on developing countries allowed Northern governments and corporations greater access to many of our economies as domestic Southern companies failed, and developing country governments ran short of financial resources. It should be noted that those developing countries who disregarded orthodox economic policy advice to combat financial crises were in fact the ones who managed to get over the crises early and in good shape.

Efforts therefore need to be continued to find an internationally agreed mechanism that could help prevent financial crises in the future and lead to more equitable burden sharing between debtors and creditors and between the public and the private sector in crisis situations; in this context, the creation of a framework to deal effectively with international sovereign debt of developing countries owed to private creditors remains a matter of urgency.

The progress of global interdependence needs to be undertaken in the context of a global cooperative governance framework. For far too long, since the 1980s, cooperative multilateral governance for economic development has been sidelined in favour of approaches that institutionalize developed country economic dominance. Public institutions controlled by developed countries like the World Bank, the IMF, the OECD, and the WTO became the preferred sources for international economic policy advice and control, while the core global economic governance institution with universal membership, the United Nations — especially through UNCTAD and United Nations Department of Economic and Social Affairs — became increasingly marginalized. We, LDCs, must be at the forefront of bringing the UN back into the business of laying down the international cooperative framework for economic policy and development. The UN must be supported in once again becoming the core global economic governance institution.

Conference Chairperson,

These are some of the changes to the international economic architecture which can help make globalization work for the least developing countries. But changes at the national level are also called for. The challenges of globalization and integration into the global economy faced by developing countries, especially the least developed, will need to be addressed effectively on the basis of nationally designed and owned development plans.

The national vision and how governments manage the country's internal affairs determines the extent to which its people benefit from globalization and are protected from its negative effects.

While it is important to respect and respond to the peculiar and specific conditions of developing countries, it must be emphatically stated that reforms to national policy and institutions are critical to beneficial integration into a fair globalization process. There must be good national political governance based on a democratic political system, respect for human rights, the rule of law and social equity. The state must be effective, particularly in respecting and enforcing economic and social contracts, engender a vibrant civil society buttressed by a state policy of equal opportunities for all, gender equity and strong representative organizations of workers and employers. This foundation is key to effective and equitable participation in the global economy.

In the past decade, considerable reforms in several African LDCs have produced macroeconomic stability, reducing the direct role of government in the economy. These have included improvements in tax systems, including its structure and administration. A lot more, however, needs to be done before economically significant increases of tax revenues as a ratio of GDP can be achieved. This leaves the private sector as the principal driver of growth, with governments primarily in a facilitating role. This, in my view is the realistic path towards sustainable self-reliance and poverty reduction. It will require bold actions with respect to removing the several constraints in the investment climate, a focus of a recently launched Investment Climate Facility of which I am co-chair. The economic 'energy' of the poor must be unleashed through legalization of the property rights of those who operate in the informal sector. Let's bring 'life' to dead capital and liberate the legal shackles binding the poor.

My message simply is that, there are several areas where Africa or the African experience can serve as lessons for LDCs worldwide in their search to lift themselves out of poverty:

- This is a decisive moment for LDCs, indeed all developing countries, to commit themselves to a strategy of a 'self-dependent' path to reducing poverty by 'scaling up' their own efforts through maximizing efficient and effective use of resources.This particularly calls for integrating their various diaspora into resource mobilization plans, implementing programs that 'liberate' the poor through property rights reform, and forming new links with other 'South' nations, particularly the newly industrializing economies such as China, India and Turkey. As Malawian conventional wisdom states: He who splits his own firewood warms himself twice!

- LDC governments need to focus on learning more from those whose history and developmental experiences most closely resemble their own, i.e. Asia, particularly the reforms in the investment climate that have transformed China and India into today's economic powerhouses.

- LDCs must redirect resources to build infrastructure, integrate markets and promote regional trade. Intra-African trade for example is only 12 percent of total trade, the lowest among all regions of the world, while LDC members of South Asian Association for Regional Cooperation (SAARC) and South Asian Free Trade Area (SAFTA) are improving their trade prospects considerably.

- LDCs must invest in agriculture and aggressively support small- and medium-scale entrepreneurs — vital creators of wealth, employment and a key target for poverty reduction.

- LDCs need to learn more from each other: about managing mineral wealth and fighting corruption; about export diversification and the role of NGOs in rural development and poverty reduction; about post-conflict economic and political management; and about democratic governance. We also need to trust and have greater confidence in our own experts and specialists, many of whom are leaving our shores out of frustration for not being appreciated. We would then better control and manage the effects of 'brain drain'.

- While we remain grateful for support from our development partners, we must insist on 'owning' and 'leading' our own development agenda. 'Charity begins at home', the saying goes.

Conference Chairperson,

Some of the imbalances of globalization and challenges of development are better addressed in a regional context. Regional integration should therefore be pursued as an agent of fair global economic integration. Additionally strong regional policies and institutions can be a potent jumping board for better governance of the global economy. How can we not learn from the power of the European Union in determining the course of international economic relations?

I am chairman of the South Centre Board. Based in Geneva, the Centre facilitates South-South analytical thinking on development issues and facilitates North-South development discourse towards a fair globalization. One of our findings is that South-South trade barriers are very high. I believe that trade liberalization between them would lend them clout in the struggle for a better globalization. LDCs have a responsibility to forge a collective unity to present alternative solutions and build a more equal world. There is a pressing need to strengthen the foundations that have been laid for South-South cooperation — such as the G77, NAM and the G15.

In addition to the economic grounds for the high suspicion with which developing and least developed countries look at the current model of globalization, there are political and cultural concerns. Because of the dominance of western developed economies in the system, there is a tendency to regard the adoption of western political and cultural institutions as a sine qua non of successful globalization. The international community must profess basic political, economic and human rights, such as are enshrined in the United Nations and its Human Rights Charter. But recognition must also be given to, and account taken of, the reality of historical and cultural diversity in the search for peaceful development by international cooperation and exchange.

Globalization should not require the replication in the developing world of political and institutional structures of governance of the United Sates and Western Europe. Nor should cultural and social values across the developing world be recreated in the image of western life styles and role models. A fair globalization requires that the process respect diversity of culture, religion, political and social opinion while fully respecting universal principles.

Conference Chair, Participants, Ladies and Gentlemen,

The challenge of making globalization work for LDCs, in effect, comes down to the pressing demand to reform the institutions and operations of the present political and economic order in order to build a better world for all. It is the challenge to work for, and to build, a global community of nations whose governance is inclusive and democratic and provides opportunities and tangible benefits for all countries and people. Conferences and researches have now firmly established that we are one world, and that the ravages of climate change are visited, without discrimination, upon both developed and least developed countries! The LDCs are the most acutely disadvantaged by the present framework of globalization. But their aspiration embodies the hope and drive of multitudes of the wretched of our planet. They must persevere in the knowledge that however strong the wind, it can never force the river to flow backwards. As my country's founding president Mwalimu Julius K. Nyerere would say: It can be done; play your part!

Thank you for your attention.

Keynote speech by Mr. Kemal Derviş, Administrator, United Nations Development Programme

It is a great pleasure to be here in Istanbul, my native city. I must say it is also a special pleasure to follow His Excellency Benjamin Mkapa. He delivered a wonderful speech; I agree with his message and I will try to complement it. I got the chance to know His Excellency during the UN High-Level Panel on System-wide Coherence deliberations, and I dare say he has become a friend, and he already was a mentor for many of us.

Voice, participation and power of the LDCs

The first message that I do want to reinforce is the need for voice, participation and power: the Least Developed Countries must have a stronger voice and must participate more in an overall reform of the international architecture, the international governance system, within the United Nations and more broadly. Without that voice and without that participation, many of the reforms and many of the paths we are trying to find cannot be realised. We do live in a world where of course problems are always local and citizens feel them locally. But the international system constrains and determines a lot of things and unless LDCs have that voice, unless they have their weight in the international institutions, unless they can cooperate and coordinate among themselves to express that voice, I think many of these reforms will not take place. There will be a lot of talk, as President Mkapa said, but not much action. So I do hope that this conference and other meetings of this sort mean that you will work more closely with each other and also with us, your partners in the United Nations system, to develop that new architecture and to make sure that the needs of the citizens of LDCs are really felt in the international institutions.

Resource mobilization

The second point I would like to make is the importance, still, of resource mobilization. A lot of promises are made at summits such as the G8, 2005 World Summit and others, and there has been some progress, I must say, since the late 1990s. But that progress is now slowing down in terms of aid flows going to LDCs and in fact to development in general. As you probably know, the numbers published by the OECD-DAC for 2006 show an actual decline for 2005 and the projections of ODA for 2007 are that there will be another decline. So, far from the accelerated increase that the messages that the G8 summits and elsewhere were giving us, we are actually seeing a small decline. Now of course the numbers are complicated: debt relief is part of it, and debt relief is accounted differently in different countries, so one has to be careful in the way we judge them, but overall the situation is not good and we need to redouble our efforts at the United Nations and elsewhere.

President Mkapa rightly underlined that if the debt relief given through the multilateral development banks is not replaced by new resources which will allow these banks to lend and provide new grants for development, then in fact debt relief would lead in the long term to a decrease in resources in development, rather than an increase.

Trade and development

The third topic which is important is trade and development. The Deputy Director-General of the WTO, Ms. Valentine Rugwabiza, is here with us and gave us her message: trade remains extremely important. A trade system that truly encourages development, that truly gives developing countries and LDCs in particular, not only access to world markets but the capacity to compete, is I think critical in the development agenda. Here too, progress has been very slow, if not nil. We are at a critical stage, we hope still that there will be a breakthrough that will truly take into account the need of the LDCs, but unfortunately success is very far from assured. It is frustrating for all of us who are interested in development, to see those who preach free trade and liberal markets sometimes take the most drastic protectionist measures in rich countries, measures that completely falsify the workings of markets and cut down the opportunities for developing markets — and it happens again and again.

Policy space

The fourth message that I would like to give is about policy space. After decades of studies and research in development, it is quite clear that there is no one truth, no one single model that works for everyone. Countries are different by their geography, their history, the structure of their economies, their assets, their locations; therefore it is absolutely necessary that each country, looking at its own particular circumstances, chooses a path to development that reflects the needs and the necessities of that particular country. Of course, in choosing that path, in choosing that strategy, it is very important to look at international experience, and I think that organizations such as mine, the United Nations Development Programme, can bring a lot of the experience to bear, and share with our development partners what has worked, what has not worked; we can analyse the reasons of failure and of success and in choosing the national development strategy in each country, these experiences are invaluable. But then, taking all that into account, I think that each county — the citizens in each country and societies in each country — have to choose their own path, and have to be free to do so, free to choose it in a way that it is truly a national path and truly a national strategy.

Migration and development

A fifth point I would like to make, and we haven't talked about it too much this morning, is migration. Migration is part of globalization; just as capital flows impact on all economies, human migration impacts on all economies. And here too it is very important that the international community as a whole gets together and looks at issues relating to migration and development. I do not think it is acceptable — it is understandable — but it is not acceptable that each country sets migration policies entirely in its own interests. When rich countries decide on migration policies, on their acceptance of migrants from abroad, they have to take into account the broader picture: the trade picture, the skills picture and the needs of developing countries. This is far from being done; migration is viewed purely from a rich country perspective when the debates and laws take place. It is important that developing countries bring their analysis, their interests, and their way of looking at it, to bear on the international discussions. Migration can of course benefit all — migrants can improve their lot; they can relieve labour market pressures in poorer countries — but is very important that some of them come home after acquiring skills, and that the flows of migration are regulated with incentives and policies that allow migrants who have acquired high skills to come home. It is also important that the human rights of migrants are respected all over the world, and that there is a code of conduct that we can all support.

Climate change and development

In terms of some of the policy issues, I do believe that climate change is now becoming one of the big topics of this first part of the 21st Century. It is no longer a question mark scientifically: climate change is happening — slowly — but it is happening. It is slow, but it is accelerating, and I don't think we can deny that it does represent a major challenge to the human community. It is also now established that human economic activity — the emission of heat trapping gases — is a cause of climate change. As you know, some years ago there was a debate on this within the scientific community; some denied that there was a link between carbon emissions and what was happening with the climate. Today, 95 percent of scientists agree that there is indeed such a link, and that the large carbon emissions that have occurred in the past — the so-called carbon debt that rich countries have to the world community, about 70 percent of the total carbon in the atmosphere — represents a real challenge for the future. It is also true that, of course, much is being added to the carbon stock and therefore an overall multilateral approach is required to deal with this problem.

LDCs are unfortunately in a situation where they have not been contributing to the past problem; they are in no way responsible for the carbon debt that exists in the atmosphere, perhaps only very marginally, and they are not even contributing to it very much today, and yet the climate projections show that it will be many LDCs who will be most affected, and affected within our lifetimes — not a hundred years from now — by some of the effects of climate change. So it is an issue that we have to focus on. LDCs have to create coordinating and negotiating mechanisms so that they also bring their weight to bear on this discussion.

The United Nations development family and LDCs

In terms of the United Nations development family, all the organizations, not just UNDP, are your organizations and we want to work very closely with you. Of course, we are working with rich countries, with middle-income countries, and in that context I think our biggest contribution is to bring the facts to bear, to have the analysis, and to try to generate compromise solutions that will be favourable to development and that will be in line with the basic values of the United Nations.

Here, let me end on two notes, and again I have to agree with His Excellency Benjamin Mkapa; coming after him is not easy because his message is so strong. I do believe that the fundamental values of the United Nations, of the UN Charter, of human rights, are fundamental human values to which we have all subscribed. It does not mean that one system has to resemble the other, or that social or political systems should be imported wholesale from developed countries. But I do believe that it is important for all countries — developing countries, low-income countries — to strongly support a human rights based approach to development that puts the human being and human development — the woman, the child, the man — at the centre of our concerns. I do not believe that any compromise on that helps the cause of developing countries. I think that developing countries must say very loudly that we are as committed to human rights as developed countries are or anyone else in the world. I do want to underline this. Everywhere there remains human rights problems; we have to build our capacities to deal with it, all these problems cannot be solved overnight, but the message should be: we want to solve them, we want to advance them, and we want to put human beings at the centre of development.

Partnerships between middle-income countries and LDCs

My final message today is that I think it is very important that there is a strong partnership between middle-income countries and LDCs. There is much that has happened in middle-income countries — in Asia, in Latin America and indeed, in my own country, Turkey — much that went well, much that didn't go so well; there is a lot of experience. Sharing those experiences between middle-income countries and LDCs is extremely important. Often, the problems of a middle-income country are closer to the challenges that LDCs face than the problems in a very advanced country. So conferences such as these that bring together middle-income countries with LDCs, have special significance. I am, therefore, particularly happy to be here with you, and I would also like to thank the Government of Turkey for organizing this event.

Closing statement by H.E. Ambassador Ertuğrul Apakan, Undersecretary of the Ministry of Foreign Affairs of Turkey

Esteemed Ministers,
Your Excellencies,
Distinguished Participants,
Ladies and Gentlemen,

For the last two days, we have been discussing a very pertinent topic for today's world. Whether we like it or not, globalization is a fact of life for all of us. Yesterday's keynote address by President Mkapa has provided us with a very clear understanding of the internal dynamics of this process. Let me only say that, to turn this process to our advantage, we must unite our efforts.

I have been listening with great interest to all the very enlightening presentations and interventions during the course of our deliberations. We have benefited vastly from the substantive discussion. We have acquired many new insights into the enormous potential that the members of the LDC group, both individually and as a group, possess for mutually beneficial cooperation in the economic as well as the political domains. We have also come to grips much better than before with the problems faced by our LDC counterparts.

An important point that this conference has made even clearer for me is that the adverse effects of globalization cannot be redressed without a globally concerted effort. Therefore, we intend to disseminate the message that cooperating with the LDCs for solving their specific problems is a duty and responsibility for all of us.

A second and perhaps more important conclusion is the need for partnerships between middle-income countries and the LDCs. As the UNDP Administrator, Mr. Kemal Derviş, has so rightly highlighted in his keynote address, the problems of a middle-income country are closer to the challenges faced by an LDC rather than the problems of a very advanced country. Therefore, an effective model of South-South cooperation has the potential to make important contributions to global development efforts.

Excellencies,
Ladies and Gentlemen,

This understanding has been a new and important stimulant for us to create a positive agenda on the problems of the LDCs. Our meeting has helped focus the attention of the Turkish public opinion on this issue. It has also given us a fresh perspective of Turkey's place in relation to the development agenda. We have gained a deeper awareness of what we can actually do together. We are ready to share our experiences. We will also contribute and provide support to the global strategies in this field.

In this vein, this meeting has opened a new chapter towards a durable relationship with LDCs. Let me also emphasize that we are ready and will be more than happy to host future meetings in order to keep the Istanbul spirit alive. We are determined to do our best in this connection, both bilaterally and multilaterally. In doing so, we will be guided by the Istanbul Declaration which calls upon all involved to act more actively and responsibly in bringing about solutions to the problems of the LDCs.

In this regard, I am happy to announce that our Ministry will designate an LDC Coordinator. This will help to follow up the decisions and conclusions of the Istanbul Declaration in cooperation with the UN system. We sincerely intend this meeting to be only a start and hope to add value to the existing efforts.

This resolve of the Turkish government is shared by the Turkish private sector and the civil society. This is demonstrated by the presence of their representatives in almost all of the LDCs, be it as investors, traders or generous participants in humanitarian affairs.

We are hopeful that the rest of the international community will also register the significant and constructive messages coming out of this Conference. We are determined to do our utmost in turning the good words — by which I mean the words of both LDCs and their development partners — into deeds.

In closing, let me repeat what our Minister said yesterday morning: You can count on Turkey to be your voice in the international forums where LDCs are not represented.

I thank you all for coming to Istanbul and participating in this conference. My sincere thanks also goes to all the UN agencies involved, in particular to the UNDP and UN-OHRLLS.

It was a great pleasure for the Government of Turkey to host this meeting.

I wish you success in your endeavours.

Thank you again.

Annexes

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NATIONS

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Third United Nations Conference on the
Least Developed Countries
Brussels, Belgium, 14-20 May 2001

BRUSSELS DECLARATION

We, the Governments participating in the Third United Nations Conference on the Least Developed Countries,

Gathered here in Brussels in May 2001, the first year of the new millennium, to free our fellow women, men and children from the abject and dehumanising conditions of extreme poverty,

Determined to make progress towards the global goals of poverty eradication, peace and development for the least developed countries and their people,

Guided by the principles set out in the Millennium Declaration and its recognition that we have a collective responsibility to uphold these principles of human dignity, equality and equity and to ensure that globalization becomes a positive force for all the world's people, we commit to working for the beneficial integration of the least developed countries into the global economy, resisting their marginalization, determined to achieve accelerated sustained economic growth and sustainable development and eradicate poverty, inequality and deprivation,

Recognizing that the goals set out at the Second United Nations Conference on the Least Developed Countries have not been reached and that LDCs as a whole remain marginalized in the world economy and continue to suffer from extreme poverty, LDC progress has been undermined by lack of sufficient human, productive and institutional capacity, indebtedness, low levels of domestic and foreign investments, declining trends in ODA flows, severe structural handicaps, falling or volatile commodity prices, HIV/AIDS and for some of them violent conflicts or post-conflict situations, *Having* adopted a Programme of Action for the Least Developed Countries for the decade 2001-2010, GE.01-51907

Declare that:

1. We are **committed** to the eradication of poverty and the improvement of the quality of lives of people in LDCs by strengthening their abilities to build a better future for themselves and develop their countries.

2. We **believe** that this can only be achieved through equitable and sustained economic growth and sustainable development based on nationally owned and people-centred poverty reduction strategies. Good governance at the national and international level; the rule of law; respect for all internationally recognized human rights, including the right to development; promotion of democracy; security through preventive diplomacy and the peaceful resolution of armed conflicts; gender equality; investment in health, education and social infrastructure; strengthening of productive capacities and institution building are all essential in order to realise the vast and untapped human and economic potential in LDCs.

3. We **recognize** that the primary responsibility for development in LDCs rests with LDCs themselves. But their efforts need to be given concrete and substantial international support from governments and international organizations in a spirit of shared responsibility through genuine partnerships, including with the civil society and private sector.

4. We are particularly **concerned** by the acute threat of the HIV/AIDS pandemic, and emphasize the need for the strongest possible measures to combat this and other communicable diseases, particularly tuberculosis and malaria.

5. We also **emphasize** that improving the welfare of people is an indispensable requirement for sustainable development. We have to strive to fully achieve the goals and objectives set out in the Rio Declaration in particular, as regards combating desertification, preservation of biological diversity, supply of safe drinking water and climate change in accordance with common but differentiated responsibilities.

6. We **believe** that increased trade is essential for the growth and development of LDCs. A transparent, non-discriminatory and rules-based multilateral trading system is essential for LDCs to reap the potential benefits of globalization. The accession of LDCs to the WTO should be encouraged and facilitated. We **commit** ourselves to seizing the opportunity of the fourth WTO Ministerial meeting in Doha in November 2001, to advance the development dimension of trade, in particular for the development of LDCs. We aim at improving preferential market access for LDCs by working towards the objective of duty-free and quota-free market access for all LDCs´ products in the markets of developed countries.

Measures will also be taken to address problems caused by supply-side constraints. The crucial importance of trade and economic growth must be reflected in poverty reduction strategies.

7. We **recognize** that the most important financing of development comes from domestic resources, and that foreign direct investment is also an important source of capital, know-how, employment and trade opportunities for LDCs. In this regard we emphasize the need for an enabling environment for savings and investment, which includes strong and reliable financial, legal and administrative institutions, sound macro-economic policies and the transparent and effective management of public resources in order to help mobilise both domestic and foreign financial resources. We commit ourselves to seizing the opportunity of the Conference on Financing for Development in March 2002 in Monterrey (Mexico) for the mobilization of resources for development, in particular for the LDCs.

8. We **affirm**, also in this context, that ODA has a critical role to play in support of LDC development. We take upon ourselves not to spare any effort to reverse the declining trends of ODA and to meet expeditiously the targets of 0.15 percent or 0.20 percent of GNP as ODA to LDCs as agreed. We undertake to improve aid effectiveness and to implement the OECD-DAC recommendation on untying ODA to LDCs.

9. We are **concerned** with the external debt overhang that affects most LDCs and remains a main obstacle to their development. We affirm the commitment to provide the full financing and the speedy and effective implementation of the enhanced HIPC Initiative, which is essential for freeing domestic budgetary resources for poverty reduction. We undertake to make expeditious progress towards full cancellation of outstanding official bilateral debt within the context of the enhanced HIPC Initiative. We also undertake to provide debt relief to post conflict countries within the flexibility provided under the HIPC framework. The debt sustainability of LDCs, including non-HIPC LDCs, will continue to be subject to review, and consideration may be given to granting a moratorium on debt service payments in exceptional cases.

10. We **stress** the critical importance of an effective follow-up to the Conference at the national, regional and global level, and we commit ourselves to this end. We also ask the Secretary-General of the United Nations to ensure that the Conference be followed up in an efficient and highly visible manner.

11. We **reaffirm** our commitment to the development of the 49 LDCs and to the improvement of the lives of the more than 600 million women, men and children living in those countries. Our common efforts will be an important contribution to achieving the international development goals and realizing the universal aspirations for peace, cooperation and development.

Participants

Countries

Afghanistan

Angola

Bangladesh

Benin

Bhutan

Burkina Faso

Burundi

Cape Verde

Central African Republic (the)

Chad

Comoros (the)

Democratic Republic of the Congo

Equatorial Guinea

Eritrea

Ethiopia

Gambia (the)

Guinea

Guinea-Bissau

Haiti

Lao People's Democratic Republic (the)

Lesotho

Liberia

Madagascar

Malawi

Maldives

Mali

Mauritania

Mozambique

Myanmar

Nepal

Niger (the)

Rwanda

Samoa

Sao Tome and Principe

Senegal

Sierra Leone

Solomon Islands

Somalia

Sudan

Timor-Leste

Togo

Turkey

Tuvalu

Uganda

United Republic of Tanzania (the)

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