



trade hot topics

Helping LDCs to Catch Up

Paul Collier*

Background

Since 1971, the United Nations has denominated 'Least Developed Countries' (LDCs) a category of states that are deemed highly disadvantaged in their development process, exhibiting very low levels of socio-economic and human capital indicators. Recognising the special development needs of these countries, the UN has been holding special conferences on LDCs. Three such conferences had been held (the first two in Paris in 1981 and 1991 and the last one in Brussels in 2001) where Programmes of Actions were adopted to undertake various measures by the international development community to help LDCs devise response to the challenges that they face. These measures mainly fell under three broad areas of international co-operation, viz. (i) special concession for LDCs in the multilateral trading system (for example, non-reciprocal market access preferences); (ii) development financing; and (iii) technical assistance. As the Fourth UN Conference on LDCs (UN LDC IV) is set to take place in Istanbul, Turkey, in May 2011, the issue of developing a comprehensive international support mechanism has come to the forefront.

Despite an impressive overall growth performance by LDCs during the last decade, on average they

have continued to diverge from other developing countries. Therefore, they need to catch up. In this issue of *Commonwealth Trade Hot Topics*, I propose some practical steps that could be taken at the Istanbul summit to accelerate the process of their growth and development. This article is a summary of a study that I undertook at the request of the Commonwealth Secretariat and has now been published with the title, *Catching Up: What LDCs Can Do and How Others Can Help* (Commonwealth Secretariat, 2011).

The focus of this article is on international assistance because this is the key opportunity presented by Istanbul. However, a country cannot be developed simply by international action: the destiny of each LDC is primarily in the hands of its own government. International actions are, at best, supporting and complementary.

Many different international actions can help LDCs to converge on the rest of mankind. Often these actions would complement each other and so it is more appropriate to move on a broad front of policies that focus on a single objective such as increased financing. My focus is on policy responses to new opportunities and threats, rather than on revisiting old battlegrounds. For example, the major current opportunity constituted by the natural resource

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boom calls for a shift of aid to financing public geological information, combined with legislative and governance initiatives. The international actions that could help protect LDCs from further global food crises centre on trade policies in food-exporting and technology policies in the Organisation for Economic Co-operation and Development (OECD) countries. By design, this is a summary of possible actions: it is intended to alert readers to potential options rather than to be a self-contained treatise. In the following, I highlight some of these proposed actions in a number of key areas including, among others, harnessing natural resources, development of manufacturing activities, foreign financing, and food security and climate change.

Harnessing natural resources for development

The most important opportunity facing LDCs in the coming decade is the surge in extraction of natural resources from their territories. Properly handled, this is transformative, dwarfing all other financial flows. However, it will pose huge challenges of economic governance. To address these problems, I propose the following:

- In view of the importance and difficulties of successful resource-driven development, LDC governments might wish collectively to endorse the comprehensive guidelines set out in the *Natural Resource Charter* (see the website, www.naturalresourcecharter.org), an independent policy guide, chaired by former President of Mexico Ernesto Zedillo.
- LDC governments lack geological information, and this puts them at a disadvantage in attracting and negotiating with resource extraction companies. Aid could be used to finance public geological information. Competition between resource extraction companies is likely to improve the terms that governments get. Where public geological information is adequate, competition can be structured through auctions of extraction rights. Currently, this is normal in oil but rare in minerals.
- One reason why LDC governments get poor terms is that companies fear future contract repudiation. Governments wishing to enhance the credibility of their commitments could ask the World Trade Organization (WTO) to provide enforcement. However, to protect themselves from the risk of rogue regimes committing to illicit deals, governments should require that

only those contracts that had been legitimately and transparently concluded should be eligible.

- LDC governments have usually not succeeded in capturing enough of the rents on natural resources as state revenues, whether through taxation or participation in ownership. The design of these instruments is complicated and the international financial institutions (IFIs) should substantially scale up their provision and finance of specialist expertise.
- Some LDC governments prefer to sell resource extraction rights directly in exchange for a package of infrastructure and aid (as in Chinese deals). For contracting to be competitive, several donors should comply with this preference, putting together equivalent consortiums. Competition between consortiums can be structured through auctions, with bids expressed in quantities of infrastructure.
- To enforce common standards of transparency, governments could request the WTO to impose on all its member countries the requirement recently imposed by the Lugar-Cardin amendment on those resource extraction companies listed on the New York Stock Exchange.
- LDC governments can face open-ended demands from communities in the vicinity of resource extraction for compensation for environmental damage, and for privileged access to revenues. The contrast between the handling of environmental damage in the Gulf of Mexico and the Niger Delta has highlighted the distinct difficulties of LDCs, where such disputes have sometimes escalated into serious violence. A new international capability for dispute resolution in such cases, to which governments and communities could resort, might help to avoid protracted and violent conflicts and gradually establish international norms.

Breaking into manufacturing

The rise of the middle-income developing economies as industrial powers could make it even more difficult for the LDCs to diversify out of primary commodities into industrialisation. However, related developments in modern global manufacturing, notably trade-in-tasks, offer scope for new strategies. In this respect, the following two suggestions would be worthwhile to consider.

- Trade preferences that give LDCs privileged access in OECD markets can be effective in

attracting international companies. For example, within months of enhanced access for garments granted by the USA to Haiti following the earthquake, a major Korean garments manufacturer had committed to 20,000 new jobs. However, a common solution to a common problem is preferable to such *ad hoc* bilateral arrangements. The OECD countries should establish a common preference scheme for those LDCs that have yet to break into manufactures, with generous rules of origin, including 'cumulation' among LDCs.

- Ideally, a common global scheme might include improved market access to the Emerging Market Economies.

Promoting urbanisation and regional integration

Recent research suggests that the very small scale of enterprises and markets typical of LDCs is an impediment to development. The most realistic solutions are urbanisation and regional economic integration. These objectives are, indeed, linked. Regional integration will provide the larger hinterlands that enable large cities to be viable, and also increase the proportion of the population that is urban.

Donors should be encouraged to shift their priorities from a somewhat romantic rural-social agenda which has dominated the past decade, to a more practical urban-economic agenda which is where future development will take place. It will be much easier for donors to make this change if it is a collective demand of LDC governments rather than case-by-case appeals.

Among others, the European Commission could promote regional integration in neighbourhoods that included LDCs by replicating its approach within Europe. There, its cohesion programme financed the temporary costs to the poorest European countries of integrating with their richer neighbours. Using this model, the Commission could use some of its aid budget to finance the temporary costs to LDCs of integrating with their less poor neighbours.

Rebuilding foreign financing

The recent financial and economic crisis in the OECD has worsened prospects for conventional development assistance but opened prospects for more commercial forms of finance. How might LDC governments increase their access to international

public finance? In response, I would make the following observations.

- Since other developing countries are now rapidly developing and attracting massive private capital inflows, the rationale for continuing to provide them with concessional public finance has evaporated. Donors should be challenged to reassign their aid programmes to the key remaining development challenge of helping LDCs to catch up.
- More aid to LDCs should be provided as Budget Support rather than projects and special purpose funds. To demonstrate that this is warranted, the International Monetary Fund (IMF) and the World Bank should extend and link their PEFA and PER assessments so as to be able formally to certify those budget systems judged to be fit for aid in the form of Budget Support. For those budget systems judged not yet to be up to such a standard, a time-bound programme of technical support should be provided.
- In those environments in which non-governmental organisations play a significant role in the delivery of basic services, the World Bank should be encouraged to develop new administrative arrangements which would enable aid to be channelled by governments to NGO-organised service provision, in return for NGO accountability to government.
- The World Bank should be asked to develop an IBRD-type club specifically for pre-emerging market economies that are ineligible for IBRD, whereby over-and-above their International Development Association (IDA) allocation, governments could borrow at close to the risk-free world commercial interest rate.
- LDC governments should consider initiating a global investment guarantee scheme, designed on their terms, so as to reduce the high risk-premium which they currently pay for foreign investment.
- LDC governments should support and invigorate the Zoellick initiative on target shares of sovereign wealth funds (SWFs) being invested in LDCs.
- LDCs experience heavy out-migration to the OECD, but this is currently a two-edged sword, providing a remittance flow but denuding them of their most able people. LDCs would benefit more assuredly from temporary migration than from permanent migration. Ideally, temporary migration could be controlled in such a way as to

support tax-sharing, whereby a portion of tax payments by emigrant workers accrued to the government of their home country.

Promoting food security in the face of climate change

Climate change and Asian growth are both posing new threats to food security in LDCs. In this backdrop, the following points need to be emphasised on.

- In LDCs the key climate change issue is adaptation, whereas in developed and emerging market economies it is mitigation. There is a danger that the mitigation agenda will inadvertently be imposed on LDCs, through the linking of assistance to targets for mitigation. Climate-related assistance to LDCs should be for adaptation not mitigation.
- Adaptation within agriculture needs rapid innovation in crop varieties. Genetically modified organisms (GMOs) are a useful mechanism for such innovation. LDC governments should encourage public research on GMOs in developed countries that could be pertinent for use in LDCs. To encourage this approach, those LDC governments that currently ban GMOs should revise their policy.
- LDCs should support the concern that food-exporting countries should refrain from banning exports. Such bans are doubly dysfunctional, driving up prices while discouraging investment in extra production.

Working together

Paradoxically, despite the talk of 'solidarity', practical economic co-operation is markedly weaker among LDC governments than among their counterparts in OECD. For example, the extent of sovereignty pooling among African governments is negligible relative to that in Europe. Therefore, the need for co-operation is much greater.

The typical LDC economy is tiny with many of them being landlocked. As market integration is essential, it will require a far more effective approach to regional integration than LDC governments have had to date. It is most likely to come not from the pan-regional approach (because too many governments are involved), but from small groups of neighbouring countries (such as the East African Community) with strong common interests. As noted above, aid can be refocused to help the weakest economies of regional groups (as

in Europe), in return for accelerated integration. All countries could benefit from using more aid for these regional objectives.

Landlocked countries have a vital interest in cost-effective transport corridors. These require both 'soft' and hard infrastructure. The soft infrastructure involves curtailing the corruption which is parasitic on the flow of commerce. The hard infrastructure involves large fixed investments across borders; attracting such investment therefore depends upon effectively eliminating the multiple opportunities for hold-up inherent in unlimited sovereign rights. Both types of infrastructure therefore require political commitment technologies. Such technologies depend upon their credibility and so are more effective if anchored regionally or internationally, rather than being dependent only upon domestic courts.

Conclusion

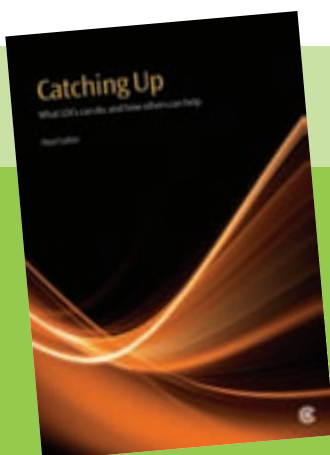
While the international agenda usually draws the attention most, supportive domestic policies in LDCs may also need to be reprioritised. During the past decade they have been social and rural, often heavily influenced by donor preferences. Yet, future economic opportunities will be predominantly urban and will require supporting infrastructure and market integration.

Effective change depends in part upon the design of a strategic package of policies: the task is too large for any single policy. It also depends upon co-ordination: the task is too large for any single actor. Finally, it depends upon sustained implementation: the gap between LDCs and the rest of mankind is now so wide that closing it will take decades.

The key reason why this has not happened to date is that LDC governments have not collectively seized the initiative. Instead, the space has been occupied by a growing variety of agencies none of which has the authority to command a co-ordinated effort.

The only actors who can lead a process of effective change are the governments of LDCs themselves, acting in common. They have the most compelling reason to remain serious and focused. Acting in common for clear and well-founded goals, including implementing those actions within their direct control, they would have the authority and credibility to force change from the international community.

Recent publications from the Commonwealth Secretariat



Catching Up: What LDCs can do, and how others can help

Paul Collier

ISBN No: 978-1-84929-051-7

Despite solid gains made during the last decade, the Least Developed Countries (LDCs) are not keeping pace with other countries and the gap between them and the rest of the developing world has in fact widened. This means that LDCs will have to progress even faster to avoid being left further behind.

In this publication, economist and award-winning author of *The Bottom Billion*, Paul Collier, suggests a menu of strategic policies around which governments might rally that could help LDCs to reduce this differentiation. He argues that the only actors who can lead this process are the governments of LDCs themselves working together towards clear and well-founded goals.

He emphasises the need for effective change and highlights potential future problems associated with the management of natural resources and the threat of climate change. Implementing the right policies, he argues, is essential if LDCs are to catch up and not become detached from the rest of mankind.

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CARICOM

Policy Options for International Engagement

Kenneth Hall, Myrtle Chuck-A-Sang

ISBN: 978-976-637-413-6

CARICOM's success in navigating the global environment calls for a paradigm shift in diplomatic initiatives from a bi-lateral platform towards a collective and synchronised effort at the regional, hemispheric and global levels. The development of a cohesive CARICOM foreign policy would provide a more structured foundation for maximising the collective efforts, resources and gains.

In *CARICOM: Policy Options for International Engagement*, the contributors bring a wealth of experience and knowledge in putting forward the critical questions policymakers must consider and answer, in charting the course and laying the framework for this coordinated structure and foreign policy plan. Divided into four sections, the volume firstly presents the perspectives that corroborate the need for collective action. The second section focuses on the emerging powers and the need for South to South Cooperation while the third section discusses the external trade negotiations and the impact of the loss of EU preferences and subsidies; the EPA and trade negotiations in the WTO; and the new CARICOM-US trade relations. In the fourth and final section, the volume is rounded out by an examination of the kind of cooperation that is needed first at the regional level to sustain economic development. The need for harmonisation of fisheries policies and the prevention of maritime degradation; the preservation of the environment and the need to reverse the effects of climate change; the need for a cohesive regional security policy and a viable air transportation industry as well as the legal framework to implement multilateral treaties are all examined as imperative to CARICOM's development of a coordinated regional foreign policy plan.

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This Trade Hot Topic is brought out by the International Trade and Regional Co-operation (ITRC) Section of the Economic Affairs Division (EAD) of the Commonwealth Secretariat, which is the main intergovernmental agency of the Commonwealth — an association of 54 independent states, comprising large and small, developed and developing, landlocked and island economies — facilitating consultation and co-operation among member governments and countries in the common interest of their peoples and in the promotion of international consensus-building.

ITRC is entrusted with the responsibilities of undertaking policy-oriented research and analysis on trade and development issues and providing informed inputs into the related discourses involving Commonwealth members. The ITRC approach is to scan the trade and development landscape for areas where orthodox approaches are ineffective or where there are public policy failures or gaps, and to seek heterodox approaches to address those. Its work plan is flexible to enable quick response to emerging issues in the international trading environment that impact particularly on two highly vulnerable Commonwealth constituencies — least developed countries (LDCs) and small states.

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ITRC undertakes activities principally in three broad areas:

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- It contributes to the processes involving the multilateral and bilateral trade regimes that advance the more beneficial participation of Commonwealth developing country members, particularly small states and LDCs.

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ITRC's most recent activities focus on assisting member states in the WTO Doha Round and the Economic Partnership Agreement (EPA) negotiations involving the African, Caribbean and Pacific countries (ACP) the European Union (EU), undertaking analytical research on a range of trade policy and development issues, and supporting workshops/dialogues for facilitating consensus-building on issues of Commonwealth members' interest, exchange of ideas, and disseminating results from informed analysis.

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28 June 2010: Consultation Meeting on WTO Accession, held in Brussels, Belgium

26 June 2010: Workshop on Policy Barriers in Intra-regional Trade in South Asia, held in Dhaka, Bangladesh

14-15 June 2010: High Level Workshop on Aid for Trade in East African Community countries, held in Dar-es-Salaam, Tanzania

3-4 June 2010: Trade policy Workshop with the Members of Parliaments in the Pacific, held in Samoa

27-28 May 2010: Trade policy Workshop with East African Members of Parliaments, held in Arusha, Tanzania

4 May 2010: Workshop on Potential Supply Chains in South Asian Textiles and Clothing, held in Colombo, Sri Lanka

3-4 May 2010: Commonwealth Investment Experts Group Meeting for the Pacific, held in Port Vila, Vanuatu

3 April 2010: Workshop on Developing Supply Chains in the Textile and Clothing Industries in South Asia, held in Dhaka, Bangladesh

15-16 March 2010: Commonwealth Roundtable - Regional Trading & Integration Arrangements, held in Hampshire, UK

2 November 2009: High-Level Meeting for WTO Representative of ACP Missions, held in Geneva, Switzerland

26 October 2009: Discussion meeting with the WTO's Geneva Week Participants, held in Geneva, Switzerland

Selected ITRC Publications

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Grynberg, R and Kabuleeta, P (forthcoming). Investment and Economic Partnership Agreements: Issues for ACP Negotiators. London: Commonwealth Secretariat.

Jones, E et al. (2009). Manoeuvring at the Margins: Constraints Faced by Small States in International Trade Negotiations. London: Commonwealth Secretariat.

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Stevens, C et al. (2009). The CARIFORUM and Pacific ACP Economic Partnership Agreements: Challenges Ahead?, Economic Paper No. 87, London: Commonwealth Secretariat.

Winters, L A et al. (2009). An EU-India Free Trade Agreement: Reflections on the Implications for Excluded Countries. London: Commonwealth Secretariat.

Cali, Massimiliano and te Velde, Dirk Willem (2008). 'Towards a Quantitative Assessment of Aid for Trade'. Economic Paper, London: Commonwealth Secretariat.

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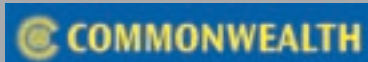
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