

## **Report on AITIC-CUTS Geneva Resource Centre Dialogue “Preparing for UN - LDC IV, LDCs: Trade and Development Challenges”**

**18 May, 2010, Geneva, Switzerland**

### Introduction

1. Agency for International Trade Information and Cooperation (AITIC) and CUTS Geneva Resource (CUTS GRC) jointly organized a dialogue on 18 May 2010, at Centre International de Conference Varembe (CICG), Geneva, Switzerland. The dialogue was to facilitate and prepare the ground for a concrete and implementable outcome of UN LDC IV to be held in Istanbul, Turkey in 2011, by providing the Geneva trade and development community a platform to discuss the key trade and development challenges facing LDCs and responses required to meet them.
2. Mrs. Gayatri Kanth, Deputy Executive Director, a.i., AITIC, in her introductory remarks, said the meeting was specially convened to address “the panorama of developmental challenges” being faced by LDCs and prepare the ground for appropriate policy responses that need to be finalized at the upcoming United Nations LDC IV meeting in Istanbul, Turkey, next year. Mrs Kanth provided an account of the trade and developmental difficulties arising in the wake of global economic crisis. She said LDCs face a proliferation of shocks emanating from financial and economic crisis, food and fuel prices increase, and the delay in the delivery of the development promise of Doha Round. She stressed the need for a new paradigm in which a right balance is struck between the developmental challenges on the one side and appropriate policy responses on the other. She cautioned against “one-size-fits-all framework of responses”, suggesting that there has to be different alternatives based on the “unity in diversity” framework. Mrs Kanth spoke about the diminishing market access opportunities for LDCs along with the shrinking ODA assistance. She said LDCs need trade-related assistance to address their supply-side constraints in areas like trade facilitation and in creating infrastructure-institutional arrangements which have been hard-hit by the crisis.
3. Mr. Atul Kaushik, Director, CUTS Geneva Resource Centre, in his introductory remarks emphasized that the preparations for UN LDC IV should lead to concrete recommendations on the challenges faced by LDCs. These recommendations can be presented to governments for discussion and adoption at LDC IV. He informed that CUTS is engaged in a number of substantive activities related to LDC IV. It is part of a forum of Geneva-based inter-governmental and non-governmental organizations that is brainstorming to come up with concrete ideas. It is also collaborating with the Commonwealth Secretariat to prepare two thematic studies and five technical/sectoral papers on various development issues confronting LDCs. It also plans to hold a Pre LDC IV African CSO Forum in November 2010 to assist African CSOs in their preparations for LDC IV as well as consolidate their inputs to LDC IV. Finally, CUTS intends to be present at the LDC IV. He then moderated the dialogue.

## First Session

4. The first session of the dialogue titled “Trade and Development Challenges Faced by LDCs” had presentations by Mr. Debapriya Bhattacharya, Special Adviser on LDCs, Office of the Secretary General, UNCTAD and H.E. Dr. Dinesh Bhattarai, Ambassador, Permanent Mission of Nepal and Coordinator of LDC Group in the UN organisations in Geneva, respectively.

5. Presentation by Dr. Bhattacharya was based on a special report prepared by the UNCTAD Secretariat titled “Follow-up to the Third UN Conference on LDCs for the Fourth UN Conference on the LDCs: Key Development Challenges facing the LDCs”. The report will be presented to UNCTAD Trade and Development Board Executive Session on 8 June 2010.

6. Dr. Bhattacharya presented an analysis of the economic performance of LDCs in the last decade. This analysis brought out certain important elements. LDCs as group experienced significant growth rates and improvements in macro-economic indicators such as inflation rate, fiscal balance etc. However, this growth was not broad-based and will no longer appear significant if growth in oil-exporting LDCs is factored out. Moreover, the growth has not led to structural changes in LDCs which remain heavily dependent on mineral and agricultural commodities. He acknowledged that the share of LDCs in global trade crossed 1% in 2008. But this trade is dominated by commodities and the share of manufactured products in LDC exports has in fact declined. He also noted that while LDC exports to developing countries have shown more robust growth, it is the developed countries that take the bulk of their manufactured exports.

7. Dr. Bhattacharya greatly emphasized the need for structural change in LDC production and trade profiles for sustained and broad-based growth and development. But several indicators point to the other direction. For example, both domestic and foreign investment flows to LDC (minus for oil and extractive industries) have declined, savings are decreasing, limited investment is flowing into key sectors of transport, telecommunication and ICT, very small percentage of official development assistance (ODA) is going into productive sectors, and there is a real danger of another debt crisis. He also mentioned that while ODA amounts have increased, they still remain much short of the needs of the LDCs.

8. The presentation by Ambassador Bhattarai further built on the formidable challenges facing LDCs. He presented a number of facts and figures to show that the situation in LDCs has in fact gotten worse. There were 25 LDCs when the LDC criteria were first established in 1971, now there are 49. LDCs have 12% of the total world population and 30% of that population lives in extreme poverty. Despite three UN Conferences and action plans in 1981, 1991, and 2001, LDCs continue to be marginalized because the commitments made at these conferences have been followed by weak delivery.

9. LDCs have faced multiple crises since 2001. While LDCs did not contribute to these crises, they have been badly affected by them. LDCs are highly indebted and majority of them have seen their exports decline between 2002 and 2008. They face substantial market access barriers in many of their export markets. Their integration into the multilateral trading system remains slow: only 3 LDCs have acceded to the WTO so far and 12 LDCs are still negotiating their accession. LDCs are also least represented in global economic forums where strategies to deal with the crises are developed and decisions taken.

10. Ambassador Bhattarai acknowledged the increase in ODA to LDCs which has jumped from 0.05% to 0.09% of the GDP of DAC members between 2002 and 2008. However, this still remains short of the target of 0.15% of their GDP.

11. Ambassador Bhattarai asserted that UN LDC IV will be a great opportunity for genuine reflection, assessment, and coming up with concrete and implementable plan of action for the next decade. He emphasized several points for the success of LDC IV. LDC IV should identify effective national policies for adoption by LDCs, global actions in favour of LDCs, and provide for more and better partnerships between the LDCs and their development partners. It should assess the performance of programmes such as Aid for Trade, Enhanced Integrated Framework (EIF), and duty-free-quot-free (DFQF) market access for LDC exports. Moreover, it should have an effective system of monitoring the implementation of its plan of action.

12. Echoing the views of Dr. Bhattacharya, Ambassador Bhattarai too stressed the need for investment in productive capacity building of LDCs, including investment in physical infrastructure and knowledge. He also called for special measures in favour of post-conflict countries.

13. Several questions and comments came up in the short round of discussion after the two presentations. These were responded to by the presenters as well as by some other participants from the floor. The discussion is summarized below :

- The declining share of manufacturing in LDC production and exports (sometimes termed as de-industrialization) is mainly due to the unilateral liberalization often under the World Bank/IMF loan conditionalities, and not due to the WTO commitments of these countries.
- The increase in agricultural exports from African LDCs is due to both volume and price effects.
- A moratorium on debt owed by LDCs is being contemplated and UNCTAD supports that.

- LDCs are not homogenous. There is diversity in their conditions and performances. Hence there is need to develop criteria to distinguish among sub-groups of LDCs.
- First mover LDCs have in fact moved towards some structural change. This structural change often comes after a period of sustained growth which several LDCs witnessed in the last decade. Hence we should not draw conclusions based on the past data sets.
- Services sectors are often the fastest growing in African LDCs.
- The share of ODA going to productive sectors is now increasing and there is stronger support to the trade sector.
- An index of structural change can be devised that will consist of patterns/sectoral distribution of production, trade, and investment, etc.

### Second Session

14. The second session titled “How to Respond to the Challenges?” also heard two presentations. These were made by H.E. Mr. Darlington Mwape, Ambassador, Permanent Mission of Zambia and Coordinator of LDC Group in the WTO, and H.E. Dr. Anthony Mothae Maruping, Ambassador, Permanent Mission of Lesotho, Chairman of the EIF Board and former Coordinator of LDC Group in the WTO.

15. Ambassador Mwape started his presentation by highlighting the problems of economic development faced by LDCs. He went on to briefly enumerate the development challenges faced by LDCs. While some LDCs grew by the target of 7% per annum in the last decade, many others like Zambia did not. Despite growth, LDCs remain net food-importing, dependent on single commodity exports, and with wide spread poverty and unemployment. Moreover, the multiple crises of last few years have eroded whatever little gains had been made earlier.

16. Ambassador Mwape emphasized the importance of investment in productive sectors, particularly trade which is needed to sustain the improvements in social sectors. According to him the MDGs placed too much emphasis on social sectors. It was like giving LDCs fish instead of teaching them how to catch fish.

17. He had several suggestions regarding the future course of action, particularly the action plan to be adopted by LDC IV. Identification of labour-intensive sectors and

promoting investment in them should be a key element in these plans. The plan should also take into account the renewed recognition of the role of state as an effective policy maker and regulator.

18. Ambassador Mwape spoke at length about trade issues and made some key suggestions for consideration by LDC IV. One, LDCs lack effective market access for their exports due to conditionalities attached with preferential market access, non-tariff barriers, and their own limited productive capacities. While appreciating the recent duty free quota free scheme of India as an example, he opined that the market access opportunities under this scheme can be realized only if such offers are also accompanied by incentives to investors in preference-offering countries to build partnerships with businesses in LDCs. Two, there was no Aid for Trade at the time of the adoption of the Brussels Plan of Action (BPoA) in 2001. The next plan of action, however, must have specific targets for Aid for Trade to the LDCs. Three, the plan of action should also have specific targets related to agricultural development as well as debt.

19. Ambassador Mwape also appealed for an early harvest of issues of interest to LDCs even if Doha Round cannot be concluded soon. These are issues related to DFQF, cotton, and waiver for preferential market access for LDC services exports. Grant of these genuine LDC demands without waiting for the conclusion of Doha Round will facilitate the integration of LDCs into the multilateral trading system. He compared the situation to that of a race between Fiat (LDCs) and Ferrari (Developed countries), and said that the Fiat can be allowed to start earlier so that both can reach the destination at the same time.

20. Ambassador Maruping started by assessing the implementation of BPoA which could be regarded as a mixed bag as only three LDCs are hopefully graduating from their LDC status. The BPoA also suffered from lack of effective implementation including the lack of effective monitoring and evaluation mechanism and follow up. He then identified a number of crises facing LDCs including commodity dependence, food and fuel price hikes, debt, financial and economic crisis, and climate change. The consequences of these crises are severe. On the one hand, they have adversely impacted the exports, remittances, FDI, and ODA to LDCs, and on the other, LDCs are facing increasing fiscal deficits, bankruptcies, and reduction in reserves. The combined effect is increasing poverty and unemployment in LDCs.

21. According to Ambassador Maruping, LDC IV can help in meeting these formidable challenges. The effort should start by having an inclusive and transparent process where LDCs have real ownership, all stakeholders including governments, private sector and civil society are consulted, various parts (e.g. New York, Geneva, other

UN centres, LDC capitals) are well coordinated, and there is a sense of team work and partnership. The process should give priority to technical work before tackling political issues. In terms of content, the next plan of action should have clear priorities which are specific instead of doing everything. It should address issues related to youth, gender and environment. It should concretely spell out what, how, by whom, with what, and why. The plan should recognize the diversity among LDCs, particularly related to sub-groups such as: post conflict but resource endowed, already relatively more advanced than others, and landlocked. This diversity in LDC situations also requires that they should have ample policy space. He also thought that the criteria for LDC classification could be reconsidered.

22. Regarding implementation of the next plan of action, Dr Maruping suggested that it could be for a period of 12 years with a thorough review to be undertaken after every 4 years. He thought that only one review after 5 years as is the current practice did not provide for effective assessments and corrections during the implementation period. To ensure effective implementation, the new plan should have clear accountability and monitoring mechanisms. Moreover, good partnerships between LDCs and other countries *a la* EIF will be essential. Recognizing that full implementation will require substantial resources, he suggested the following possible sources to fund implementation: additional ODA with minimum conditionalities, FDI, remittances, domestic sources, debt relief, special packages by global and regional development finance institutions, and prudent monetary and exchange rate policies.

23. Ambassador Maruping regarded trade as a locomotive for economic growth and appealed that the demands by LDCs in the Doha Round of the WTO should be accepted. These relate to DFQF, simplified rules of origin, removal of NTBs, delayed preference erosion, trade facilitation, services waiver, and early accession of acceding LDCs. Like other presenters, he too emphasized the importance of building LDC productive capacities. In this regard, he particularly emphasized the importance of technology development and transfer, and UNIDO's three Cs, i.e. compete, comply and connect.

24. The final round of discussion is briefly summarized below:

- A view was expressed that ODA should continue to target social sectors as these sectors are not attractive to private investors due to lower returns. Moreover, development of social sectors is essential to facilitate investments in productive sectors.
- LDCs have excellent opportunities for exploring alternative sources of energy that can be a good way to deal with energy and climate change crises. Similarly, investment in agriculture should be a priority to deal with food crisis.

- Key elements for focus could include: productive capacity building specially by learning from the experience of developed and emerging economies, South-South Cooperation, industrialization, and ensuring compliance of commitments, e.g. by G-20 countries.
- The context since 2001 has changed dramatically. The situation demands a new development paradigm and all LDC development strategies should be re-thought.
- LDCs should have representation in all global consultative and decision-making mechanisms, including the World Bank and IMF. This will also require LDCs to be more pro-active in global economic governance.
- LDCs populations have very large share of youth who are in urgent need to receive education and employment. It was also pointed out that distributive justice should not be ignored.
- Employment generation is the key. This can be addressed by prioritizing investment in labour-intensive sectors.

25. Mrs. Kanth in her closing remarks thanks the participants on behalf of AITIC and CUTS and informed the participants that the Geneva-based organizations like the AITIC, CUTS, ICTSD, South Centre and IDEAS Centre had decided to pool resources and work towards better coherence in delivery of assistance for the LDC IV. She also informed that AITIC was planning on launching a study to assess the impact of Doha Round on LDCs which could be presented to LDC IV.

26. Mr. Kaushik concluded the dialogue by thanking all the presenters and participants.