



United Nations Ministerial Conference  
of the Least Developed Countries

**Making Globalization Work for the LDCs**  
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# **Globalization and the Least Developed Countries**

Conference Background Paper

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# GLOBALIZATION AND THE LEAST DEVELOPED COUNTRIES<sup>1</sup>

## 1. Introduction

1.1 This paper analyses how the Least Developed Countries (LDCs)<sup>2</sup> 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. 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 the LDCs.

1.2 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<sup>3</sup>. There are currently 50 countries classified as LDCs, of which thirty-one are Landlocked LDCs (LLDCs) and 12 are Small Island Developing States (SIDS)<sup>4</sup>. LDCs contributed 0.69 percent of global output in 2005 even though they accounted for almost twelve percent of the world's population<sup>5</sup>. 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, 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. Growth is increasing and poverty is falling in some LDCs – especially in Asia – while the incidence of poverty is increasing in others – most notably in Africa<sup>6</sup>.

1.3 The picture of progress towards the achievement of the Millennium Development Goals (MDGs), which corresponds to a large degree with the targets under the Programme of Action for the Least Developed Countries for the Decade 2001-2010<sup>7</sup>, which includes 30 time bound and measurable international development goals, including those contained in the Millennium Declaration, is also mixed. In general, slow levels of progress against many of the internationally agreed development goals are interspersed with

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<sup>1</sup> Background paper for the July 2007 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-OHRLS). 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, Acting Director of the Poverty Group. 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. The paper benefited from peer review by Debapriya Bhattacharya, Executive Director of the Centre for Policy Dialogue, Bangladesh and by staff in the Office of Development Studies and Executive Office of UNDP. Comments were also received from the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States (UN-OHRLS) 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>.

<sup>2</sup> 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, the LDCs are considered to be in need of the highest degree of attention on the part of the international community.

<sup>3</sup> Low income is assessed as a 3-year average estimate of the 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](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](http://www.unctad.org/sections/ldc_dir/docs/ldc_highlight001evi_en.pdf).

<sup>4</sup> United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries, and Small Island Developing States: <http://www.un.org/special-rep>.

<sup>5</sup> 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>.

<sup>6</sup> UNCTAD, LDCs Report 2002.

<sup>7</sup> 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](http://www.un.org/events/ldc3/conference/plan_action.htm).

examples that convey optimism. One country, Cape Verde, has already achieved the target on primary education, and nine more are on track to meet it by 2015<sup>8</sup>. Ten LDCs have achieved the target on eliminating gender disparities in education, and nine others look set to reach it by 2015<sup>9</sup>. 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’<sup>10</sup>. The infant mortality rate in LDCs is 99 per 1000 live births, while life expectancy at birth is 49<sup>11</sup>. Between 1993 and 2004, over 4 in 10 people in LDCs lived on less than US\$1 a day<sup>12</sup>.

1.4 This background paper focuses on the impact of the external policy environment on the prospects for the integration and development of the group of LDCs; 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<sup>13</sup>. This paper therefore analyses how the LDCs are affected by the policies of the international community on official development assistance (ODA), foreign direct investment, 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 cross-cutting domestic issues faced by the LDCs as a group.

1.5 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 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 to engage more proactively and meaningfully in discussions that relate to the overall architecture of globalization is likely to diminish. As a result of both domestic and external constraints, the LDCs are unable to put in place and sustain national policies that would enable them to increase their productive assets. This serves to increase inequality between LDCs and richer countries, and makes it more difficult for LDCs to achieve economic growth and sustainable human development.

1.6 The paper also analyses the growing economic and political power of newly emerging Southern economies – especially the BRICS<sup>14</sup> – 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.

1.7 While the paper focuses primarily on the impact of the external policy environment on the group of LDCs, we first recognize that the 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.

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<sup>8</sup> UNCTAD, LDCs Report 2006, p. 35.

<sup>9</sup> Ibid.

<sup>10</sup> UNCTAD, 2004.

<sup>11</sup> UNICEF, 2004, p. 113.

<sup>12</sup> Ibid.

<sup>13</sup> *Globalization, Agriculture, and the Least Developed Countries; Energizing the Least Developed Countries to Achieve the Millennium Development Goals: The Challenges and Opportunities of Globalization; Globalization and the Least Developed Countries: Issues in Trade and Investment; and Globalization and the Least Developed Countries: Issues in Technology.*

<sup>14</sup> Brazil, Russia, India, China, and South Africa.

1.8 Adverse geography and climate contribute to a situation where it is more difficult to amass the physical, human or institutional capital – the productive capacities – required to support development. The great majority of the poorest countries are located in the tropics, with a per capita GNP approximately one third of the world average. Global production is highly concentrated in the temperate zone which consists of only 8.4 percent of the world's inhabited area. Landlocked LDCs 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 landlocked LDCs, as compared to 0.42 in other landlocked countries. Moreover, the distance to the nearest port was 1,129 kilometers in Asia-Pacific landlocked LDCs, compared to 1,255 kilometers in other landlocked countries<sup>15</sup>. Small islands LDCs are constrained by the size of their internal markets, often in addition to the limits that arise from limited land or other natural resources.

1.9 LDCs face an acute challenge in respect of 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.

1.10 In particular, many kinds of infectious diseases are endemic to the tropical zones and most of the LDCs face a heavy disease burden of HIV/AIDS, tuberculosis, and diarrhoeal and tropical diseases such as malaria. The economic and social impacts of ill health undermine growth and progress towards the MDGs and, 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<sup>16</sup>. Of the 40 million people worldwide currently living with HIV/AIDS, approximately one-quarter live in the LDCs<sup>17</sup>.

1.11 The LDCs are least responsible for global carbon emissions, yet they also have the least capacity to adapt to climate change and are disproportionately affected by its negative consequences<sup>18</sup>. 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 (IPCC) in its 2001 report<sup>19</sup> 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 information, and an equitable distribution of access to resources. All these capacities are in short supply in most if not all LDCs.

1.12 The 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 Asian and sub-Saharan African LDCs<sup>20</sup>. 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.

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<sup>15</sup> UNDP, 2005.

<sup>16</sup> The Abuja Declaration, The African Summit on Roll Back Malaria, April 2000: [http://www.rbm.who.int/docs/abuja\\_declaration.pdf](http://www.rbm.who.int/docs/abuja_declaration.pdf).

<sup>17</sup> UN General Assembly, 2006.

<sup>18</sup> See, for example, the Intergovernmental Panel on Climate Change (2007) and Oxfam International (2007).

<sup>19</sup> Accessed via: <http://www.ipcc.ch/>.

<sup>20</sup> International Bioenergy Platform, 2006.

1.13 The 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 and the private sector is sometimes constrained by legal, financial, human and infrastructural factors and thus their potential to influence political processes, governance structures and the accountability of the state is limited.

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

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

## **2. Development Finance and the LDCs**

### **2.1 Official Development Assistance**

2.1.1 ODA can play a vital role in supplementing domestic resources for 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 specifically targeted for LDCs to 0.2 percent of GNI<sup>21</sup>. Aid to the LDCs has been increasing since 2000, growing to \$24.9 billion by 2004. In nominal terms aid to the LDCs doubled between 1999 and 2004, a rate of increase four times faster than that to 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<sup>22</sup>.

2.1.2 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 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 of the LDCs during the same period, including for 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<sup>23</sup>.

2.1.3 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 aid 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.

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<sup>21</sup> UN Programme of Action for LDC, p. 51. As of 2004, contributions of ODA have reached the following percent of GNP/GNI for the OECD/DAC countries: Norway (.33), Portugal (.53), Luxembourg (.31), Denmark (.31) Netherlands (.25), Sweden (.22), Ireland (.21), Belgium (.18), France (.15), United Kingdom (.14), Switzerland (.11), Finland (.08), Germany (.08), New Zealand (.07), Canada (.07), Austria (.06), Australia (.06), Italy (.05), Japan (.04), Spain (.04), United States (.04), Greece (.03). Source: <http://mdgs.un.org/unsd/mdg/SeriesDetail.aspx?srid=650&crd=>

<sup>22</sup> UNCTAD, LDCs Report, 2006.

<sup>23</sup> Ibid.

2.1.4 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.

2.1.5 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 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 (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, which have the potential to deliver additional benefits for LDCs.

2.1.6 Efforts are also needed to further improve the effectiveness of aid. In early 2005 the members of the OECD Development Assistance Committee (DAC) adopted the Paris Declaration on Aid Effectiveness, which sets concrete benchmarks for improving the quality and coherence of official development assistance. This includes aligning behind nationally set priorities (whether defined in a Poverty Reduction Strategy Paper 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<sup>24</sup>.

## **2.2 Debt relief**

2.2.1 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 been able to benefit from multilateral debt relief under HIPC, and are also eligible for relief under the G8 initiated Multilateral Debt Relief Initiative (MDRI).

2.2.2 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<sup>25</sup>. For these 15 LDCs, this amounts to \$16.6 billion of assistance in end-2005 Net Present Value terms (NPV)<sup>26</sup>. 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 US\$297.1 million of debt service savings in 2006, with expected savings over the lifetime of the initiative for those same countries of \$11.4 billion in end-2005 NPV terms.

2.2.3 A further 7 LDCs are between their HIPC decision and completion points, and are therefore receiving interim relief on their debt service<sup>27</sup>. Debt relief as a result of the HIPC Initiative is expected to total over \$9.3

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<sup>24</sup> For example, see the UK Government's 2005 paper on conditionality: <http://www.dfid.gov.uk/pubs/files/conditionality.pdf>.

<sup>25</sup> Benin, Burkina Faso, Ethiopia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Uganda and Zambia.

<sup>26</sup> Author's 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.

<sup>27</sup> Burundi, Chad, Democratic Republic of Congo, The Gambia, Guinea, Guinea-Bissau and Haiti.

billion in NPV terms for these seven countries. However, a further 8 LDCs are 'pre-decision point' because of recent instability or conflict. In fact, 8 of the 9 countries that have yet to benefit from HIPC are LDCs<sup>28</sup>.

2.2.4 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.

## **2.3 Foreign direct investment and capital flows**

2.3.1 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 six 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<sup>29</sup>. This is an important and encouraging development.

2.3.2 The aggregate increase of FDI disguises a very mixed picture at the country level where FDI inflows are dominated by the natural resource endowed LDCs. In 2004 almost half of the total FDI to LDCs went to Angola, Equatorial Guinea and Sudan. In the same year 10 LDCs received 83.6 percent of LDC FDI inflows<sup>30</sup>, while only four LDCs held stocks of more than \$5 billion<sup>31</sup>.

2.3.3 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 a national enabling 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 LDCs remain elusive as growth has been taking place in enclaves in areas such as Export Processing Zones (EPZs) and the natural resource extraction sectors<sup>32</sup>.

2.3.4 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 (DTTs), mainly with developed countries<sup>33</sup>.

## **3. International Trade**

### **3.1 Global trade and the LDCs**

3.1.1 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 of many of the poorest countries<sup>34</sup>.

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<sup>28</sup> Central African Republic, Comoros, Côte d'Ivoire, Eritrea, Liberia, Nepal, Somalia, Sudan and Togo.

<sup>29</sup> UNCTAD, World Investment Report 2006.

<sup>30</sup> UNCTAD, LDC Report 2006, p. 54.

<sup>31</sup> Angola, Sudan, Equatorial Guinea and United Republic of Tanzania; UNCTAD, FDI in LDCs at a Glance 2006, p. 3.

<sup>32</sup> UNCTAD, LDCs Report 2006.

<sup>33</sup> UNCTAD, FDI in LDCs at a Glance 2006, p. 10.

<sup>34</sup> UNCTAD Handbook of Statistics Online: <http://www.unctad.org/Templates/Page.asp?intItemID=1890&lang=1>

3.1.2 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 Turkey, Chile, Indonesia and Vietnam has grown significantly. The BRICS comprised 10 percent of global trade in 2004<sup>35</sup>. By contrast, the export performance of the LDCs has declined since the mid-1950s<sup>36</sup>. The LDCs' 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<sup>37</sup>.

3.1.3 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<sup>38</sup>. LDCs exporting oil saw merchandise exports rise by 134.4 percent, while exports from LDCs concentrating on manufactures and minerals rose by 43 percent. By contrast, for the period 1998-2002, merchandise exports decreased by six percent in LDCs exporting agricultural products.

3.1.4 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 whom 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, oilcrops 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.

3.1.5 In recent years some commodity prices have rebounded, including for agricultural goods such as coffee, tea, cocoa, cotton and sugar<sup>39</sup>. 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<sup>40</sup>. At the same time, oil importing LDCs have faced significantly higher energy bills as the price of oil has risen.

3.1.6 In 1999 average real GDP per capita, adjusted for purchasing power parity, 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 1997-99<sup>41</sup>. These trends have recently improved but greater efforts are needed to support production and export diversification in the LDCs, as well as to stabilize fluctuations in commodity prices that lead them to face disproportionate costs<sup>42</sup>.

## 3.2 The importance of agriculture

3.2.1 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 labor 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<sup>43</sup>.

<sup>35</sup> WTO Trade Statistics Database and World Trade Developments in 2004 and Prospects for 2005.

<sup>36</sup> UNCTAD and Commonwealth Secretariat, 2001.

<sup>37</sup> 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 per cent. (WTO, World Trade Report 2006, p. 3).

<sup>38</sup> Angola, Bangladesh, Equatorial Guinea, Yemen and Sudan

<sup>39</sup> FAO, 2002, p. 11.

<sup>40</sup> <http://www.unctad.org/TEMPLATES/webflyer.asp?docid=8308&intltemID=1634&lang=1>.

<sup>41</sup> Sources: UNCTAD: <http://www.unctad.org/templates/webflyer.asp?docid=2451&intltemID=2079&lang=1> and <http://www.unctad.org/templates/webflyer.asp?docid=4815&intltemID=2807&lang=1>.

<sup>42</sup> Global Initiative on Commodities Event, Outcome Document, Brasilia, May 7-11, 2007.

<sup>43</sup> FAO, 2002.

3.2.2 However, the LDCs remain marginalized in global agricultural trade. Their share of world agricultural exports has dropped steadily, from 3.3 percent in 1970-79 to 1.5 percent in 1990-98. 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<sup>44</sup>.

3.2.3 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 are much larger than total exports. The resulting trade deficits are largely financed by foreign aid. During the period 1996-2001 all except seven of the LDCs were net food importers, and for many LDCs food imports are now a significant component of total merchandise imports and exports<sup>45</sup>. As a result, the 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<sup>46</sup>.

### 3.3 Trade in manufacturing and services

3.3.1 The share of manufactured goods in LDC exports was 33 percent for 2000-2003 (22 percent excluding Bangladesh), mainly dominated by labor intensive products such as garments<sup>47</sup>. Some LDCs have a strong comparative advantage in textiles as the sector requires simple technology and considerable (and largely unskilled) labor. Partly because of quotas under the Multifibre Arrangement (MFA) until 2005, the industry grew rapidly<sup>48</sup>. Since the expiration of the MFA, some LDCs are concerned that many of these industries have lost ground with 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 .9 percent in 2004 to .7 percent in 2005<sup>49</sup>. The impact of MFA expiration has been cushioned somewhat by safeguards on China's exports as part of its 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.

3.3.2 The share of LDCs in global commercial services was just 0.4 percent of exports in 2002, and 1 percent of imports<sup>50</sup>. However this hides the importance of the services sector in the economies of LDCs themselves. On average, the services sector comprises 41 percent of GDP in LDCs and 18 percent of their total trade<sup>51</sup>. In terms of 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 services sector in the LDCs is in the informal sector it is also an important source of employment. In Bangladesh, Benin and Niger 30 percent of the labor force is employed in the services sector; in Djibouti 50 percent, and in the Solomon Islands 20 percent<sup>52</sup>. While the majority of the services sector in LDCs comprises of small scale activities for the local market, export sectors of interest include tourism, construction, transport and health services.

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<sup>44</sup> Ibid.

<sup>45</sup> UNCTAD, LDCs Report 2004, p. 140.

<sup>46</sup> UNCTAD, LDCs Report 2006, p. 12.

<sup>47</sup> UNCTAD, LDCs Report 2006, p. 47.

<sup>48</sup> According to the ILO report "*Promoting fair globalization in textiles and clothing in a post-MFA environment*" 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.

<sup>49</sup> UNDP Regional Centre in Colombo, 2007.

<sup>50</sup> South Centre, 2004, p. 5.

<sup>51</sup> World Bank Development Indicators, 2002.

<sup>52</sup> South Centre, Trade in Services Workshop Report, 2006.

3.3.3 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 the LDCs to benefit more from 'brain circulation' and 'brain gain'. However, the liberalization of labor 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'.

#### **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 2005/06, approximately four times higher than net aid flows to Bangladesh and nine times higher than Foreign Direct Investment. 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 labor market. *Source: UNDP Country Office in Bangladesh*

### **3.4 Existing preferential schemes and special and differential treatment**

3.4.1 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.

3.4.2 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 Everything but Arms (EBA) initiative. Nevertheless, the fact that such schemes are non-binding, their lack of comprehensive product coverage, onerous rules of origin (ROO) requirements and implementation procedures, together with existing supply side constraints have not led to effective and secure market access for LDCs<sup>53</sup>. Some preferential access schemes – such as Canada's Market Access Initiative for Least Developed Countries – have rules of origin requirements that are less demanding of the content that must originate in the exporting LDC<sup>54</sup>.

3.4.3 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 assist LDCs to 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 interest to them will be excluded from the 97 percent provision and therefore the beneficial impacts on their exports will be limited.

<sup>53</sup> Hoekman, 2005.

<sup>54</sup> Only 40 percent of the ex-factory value of the good 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](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<sup>55</sup> or the strict 'rules of origin' requirements<sup>56</sup> 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 rules of origin 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*

3.4.4 In addition to an increasing number of south-south regional trade initiatives, LDCs are entering into more regional free trade agreements 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.

3.4.5 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 the EU is pursuing a TRIPS-plus approach in respect of intellectual property rights. Specific concerns relate to geographical indications which would extend protection to all products beyond that required by TRIPS; and on the issue of enforcement of existing provisions covering obligations on presumption of authorship or ownership, again going beyond TRIPS<sup>57</sup>. In one case special treatment is envisaged for LDCs by relating the implementation and enforcement of IPRs based on the level of development; but in another, the EU has nonetheless tied implementation of the EPA TRIPS-plus standards to the same timeline as implementation of the TRIPS Agreement<sup>58</sup>. 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.

## **4. Barriers to Increasing the Benefits of Trade for LDCs**

4.1 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 also exist due to the policy choices of the international community, in terms of limits to market access or domestic producer support that unfairly undermines developing country producers. LDCs face adverse trading conditions that are biased against the products in which they have – or potentially have – a comparative advantage.

4.2 The sections below describe how developing countries and the 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 fora.

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<sup>55</sup> 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).

<sup>56</sup> 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).

<sup>57</sup> CIEL, 2007.

<sup>58</sup> South Centre, 2007.

### 4.3 Tariff barriers

4.3.1 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 labor-intensive industrial products where developing countries have comparative advantage<sup>59</sup>. Average agricultural tariffs are close to 10 percent in Canada and the US, 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<sup>60</sup>.

4.3.2 LDCs also face significant tariff escalation. Despite the marked growth in output of processed agricultural products in LDCs over the past twenty years, their global market share declined from 2.3 percent in 1981-1990 to 1.8 percent in 1991-2000<sup>61</sup>. 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.

4.3.3 Even after the removal of MFA quotas, tariffs on textiles and clothing exports will remain as high as 12 percent (3 times higher than the average tariff on industrial goods). Large numbers of 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.

#### **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 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 rules of origin (ROO) rules in Europe, only about 16 percent of woven exports can avail Duty Free Quota Free (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*

### 4.4 Non-tariff barriers

4.4.1 40 percent of LDC exports face substantial non-tariff barriers (NTBs) including import quotas and licensing, domestic content requirements, sanitary and phytosanitary requirements, customs procedures in developed country markets, and contingency measures<sup>62</sup>. According to UNCTAD these NTBs doubled in the period 1994-2004<sup>63</sup>, and there has been a sevenfold increase in testing and certification requirements since the conclusion of the Uruguay Round. 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.

<sup>59</sup> IMF and World Bank, 2001

<sup>60</sup> Oxfam, 2002, pp. 100

<sup>61</sup> <http://www.fao.org/docrep/005/y4852e/y4852e02.htm>

<sup>62</sup> 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).

<sup>63</sup> UNCTAD, LDCs Report 2004.

## 4.5 OECD subsidies

4.5.1 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<sup>64</sup>, exceeding the total income of 1.2 billion people living below the dollar-a-day poverty line. The hidden cost of this agricultural support falls disproportionately on 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 over USD \$ 4 million<sup>65</sup> a year in farm payouts from the European Union<sup>66</sup>. 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.

## 4.6 LDC representation in trade fora

4.6.1 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.

4.6.2 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 11 January 2007, with Vietnam's accession to the WTO, there were 150 members of the WTO. Thirty-two of the current 50 LDCs are WTO members. Eight LDCs are in the process of WTO accession and two are WTO Observers<sup>67</sup>. Nevertheless, despite the efforts of the LDCs and their increasing coordination as a group, they continue to remain the most marginalized from the 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 only involving 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 LDC-specific Special and Differential treatment<sup>68</sup>.

4.6.3 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 WTO members have no representation in Geneva<sup>69</sup>. In terms of participating in the WTO decision making process, constraints include weak institutional and human capacity, as well as, limited access to technical expertise and financial support.

## 5. Technology, Intellectual Property and Indigenous Knowledge

5.1 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. Moves towards knowledge-based economies fuelled by the Information Communications Technology (ICT) revolution are mostly concentrated in developed countries and a few emerging economies. As a result there are new risks for further exclusion and

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<sup>64</sup> UNCTAD, Trade and Development Report 2006, p. 77.

<sup>65</sup> Subsidy calculations are based on average payments per hectare under arable crops, taking into account reductions under modulation.

<sup>66</sup> Oxfam International, 2004.

<sup>67</sup> [www.wto.org](http://www.wto.org).

<sup>68</sup> UNCTAD, Trade and Development Report, 2006.

<sup>69</sup> [www.aitic.org](http://www.aitic.org).

marginalization of the LDCs leading to 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 LDCs. In relation to income, the cost of internet access in an LDC is 150 times greater than the cost in developed countries<sup>70</sup>. 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 in the effective use of existing technologies<sup>71</sup>.

5.2 The development 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 diversifying export markets and services and in terms of creating sustainable sources of energy. Access to sustainable energy is a prerequisite to meeting all of 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 importation of coal is expensive for landlocked LDCs because of transportation costs, and rising oil prices over the past few years have exacerbated the energy crisis in many LDC oil importers. In this context, globalization offers 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.

5.3 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 contributes, for example, to more than \$40 billion value of medicines for leukemia or lymphatic cancer<sup>72</sup>. 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.

5.4 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 the 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 is concentrated in developing countries<sup>73</sup>.

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<sup>70</sup> UNCTAD, The Digital Divide Report: ICT Diffusion Index 2005, p. 8.

<sup>71</sup> UNCTAD, UN Commission on Science and Technology Development, 2005, p. 12.

<sup>72</sup> UNDP, HDR 1999, p. 70.

<sup>73</sup> <http://www.cgdev.org/content/publications/detail/2792>.

5.5 Despite having a transition period for implementation of the Agreement on Trade Related Intellectual Property Rights (TRIPS) until 2013<sup>74</sup>, 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 IP 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.

## 6. Migration

6.1 The temporary movement of lower skilled labor 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<sup>75</sup>. It is estimated that remittances to all developing countries reached \$167 billion in 2005<sup>76</sup>. 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 Lesotho, Nepal, Yemen, Bangladesh, Sudan and Cambodia 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.

6.2 The importance of temporary worker schemes can be contrasted with the permanent migration of skilled workers – 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<sup>77</sup>.

6.3 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 which have resulted in skilled workers seeking work abroad leading to high incidences of 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 country in 2000<sup>78</sup>. 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<sup>79</sup> For some LDCs, the level of intensity is especially

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<sup>74</sup> As per WTO TRIPs Agreement Article 65, the original transition period given to LDCs was eleven 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 LDCs.

<sup>75</sup> Ratha, 2003.

<sup>76</sup> 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>

<sup>77</sup> By contrast, it is possible that reverse or temporary migration can lead to situations of ‘brain-gain’ for LDCs, and that diasporas 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.

<sup>78</sup> Docquier and Morfauk, 2004.

<sup>79</sup> UNCTAD, Trade and Development Report, 2006.

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<sup>80</sup>.

6.4 The global labor 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 US have programs to attract skilled migrants, thereby exacerbating brain drain in developing countries. There are large recruitment campaigns in "at risk countries" where skill exodus is severe. Furthermore, the specifics of immigration laws and visa practices discourage brain circulation or temporary migration.

## **7. The Changing Global Landscape**

### **7.1 The rise of new powers**

7.1.1 The tectonic plates of globalization are slowly shifting and a number of new powers are rising to the fore. A major shifting aspect of 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.

7.1.2 In addition to the role that emerging powers are starting to play as donors, the reform of the 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 US 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 the global institutions, especially in the international financial institutions.

7.1.3 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 the LDCs now represent the main clients of these institutions. In the context of global governance of trade and finance, LDCs face growing challenges to formulate policies that promote human development and encourage beneficial global partnerships<sup>81</sup>. Unless LDCs can fully participate in the design and implementation of an effective global partnership for development that reflects the interests and needs of different parties in a balanced and equitable manner, they will find it more difficult to benefit from the current phase of globalization.

7.1.4 The rise of the BRICS and other emerging economies also poses competitive threats to nascent industries in 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 ten years may be at risk<sup>82</sup>. For

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<sup>80</sup> Wickramasekara, 2003.

<sup>81</sup> Sobhan, 2001.

<sup>82</sup> Brenton and Ikezuki, 2004.

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 foreign direct investment seeking market access in these countries or in regional FTAs in which they are involved.

7.1.5 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.

7.1.6 While emerging economies could act as competitive threats to nascent industries in the LDCs, they could also offer vital support to LDCs to aid their 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 the LDCs. Subsequently Brazil has announced that it will start granting DFQF access to exports from 32 of the world’s poorest countries in 2007. The move will 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 underpin significant gains for the group of LDCs.

7.1.7 As aggregate demand in the emerging economies grows, so does the demand for commodity exports from the 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 characterizes much of manufacturing and the technology-oriented service industries. The challenge for these countries is to sustain – or accelerate – the growth momentum over the coming years by gaining ground in more knowledge based activities whilst simultaneously upgrading the quality of their commodity production.

## **7.2 LDC graduation**

7.2.1 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 the 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<sup>83</sup>.

7.2.2 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<sup>84</sup>. For instance, the Maldives benefits from preferential market access to the EU under the Everything But Arms scheme, which in total accounts for a quarter of exports. However, on graduation from LDC status, scheduled

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<sup>83</sup> Sobhan, 2001.

<sup>84</sup> Hoekman, 2005.

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<sup>85</sup>.

7.2.3 The UN's Committee for Development Policy (CDP) evaluates a country on three criteria to determine its state of development and thus eligibility for graduation: a country's income level, stock of human assets, and economic vulnerability. The General Assembly, through the UN Economic and Social Council (ECOSOC), recommends a three year transition period to complete the graduation process. The 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<sup>86</sup>. 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.

## **8. Implications for the LDCs and Policy Responses**

8.1 As the preceding analysis indicates, the LDCs' engagement 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 'MECs' – Most Excluded Countries. This exclusion is partly the result of the policy choices, and in many ways policy incoherence, of the industrialized world - market access restrictions for goods, insufficient aid and investment, unhelpful migration policies, expensive and inappropriate technologies, and marginalization in political fora.

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

8.3 During the present period of globalization world inequalities have increased significantly. World income and wealth have greatly diverged as assets are increasingly concentrated in and controlled from 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<sup>87</sup>. 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.

8.4 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 the LDCs themselves, and support from the international community. 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 particularly noteworthy. This prioritizes a people-centered policy framework which seeks to create an overall enabling environment for national and international actions to eradicate poverty and overcome the structural bottlenecks in the LDCs. Its objective is to put 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

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<sup>85</sup> Hess, 2005.

<sup>86</sup> UN Economic and Social Council, 2001.

<sup>87</sup> UNDP, HDR, 1999.

distributed within LDCs, including through strengthening participatory democracy and accountability mechanisms, as indicated in Commitment 2 of the Programme of Action for the Least Developed Countries 2001-2010.

8.5 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.
- At the same time, 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 investigation of migration and development issues, including their impact on local capacities and through the identification of the incentives necessary to attract return migrants.

8.6 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 the public and private sectors, through the provision of appropriate technical assistance in line with LDC priorities.
- Reforming the governance of existing multilateral cooperation institutions so as not only to reflect increasing power of Southern emerging economies, but also the perspectives of LDC and LIC 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 LDCs – 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 LDC members, in their favor. 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 Special and Differential Treatment provisions as a form of ‘infant economy protection’.
- Renewing and implementing the international commitment to address systemic problems relating to the commodity problematique 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 of this, but on its own will not be sufficient.
- Ensuring that bilateral and regional FTAs are no more onerous or constraining of national policy space than multilateral agreements in relation to intellectual property rights, investment, and other provisions.

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

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