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Special High-Level Event – Implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020: Graduation and structural transformation

Issues note prepared by the UNCTAD secretariat

1. In May 2011, Heads of State, government ministers and other senior officials representing the Member States of the United Nations gathered in Istanbul for the Fourth United Nations Conference on the Least Developed Countries (LDCs) to discuss the specific development challenges facing those countries and to deliberate on actions that could best enable their inclusive and sustainable development. At the end of the Conference, Member States declared their collective commitment to a renewed and strengthened global partnership for the development of the LDCs and adopted the Programme of Action for the Least Developed Countries for the Decade 2011–2020, also known as the Istanbul Programme of Action.

2. The overarching goal of the Istanbul Programme of Action is "to overcome the structural challenges faced by least developed countries in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the least developed country category". The aim is to enable half of the LDCs to reach the criteria for graduation by 2020. This goal is expected to be achieved by means of national policy actions and international support, which focus on (a) achieving sustained, equitable and inclusive economic growth in LDCs of at least 7 per cent per annum; (b) building human capacities; (c) reducing the vulnerability of LDCs to economic shocks and disasters, as well as climate change, and strengthening their resilience; (d) ensuring enhanced financial resources and their effective use; and (e) ensuring good governance at all levels.

3. A striking feature of the Istanbul Programme of Action is the greater importance given – for the first time – to building the productive base of LDCs' economies, promoting structural transformation and the commitment for half of the LDCs to reach the criteria of graduation by 2020. These are ambitious goals, especially the intention to accelerate

graduation from LDC status. It will be necessary to scale up efforts at both the national and international levels and to make significant progress in the development of productive capacities and structural changes to ensure that half of the LDCs meet the graduation criterion during the current decade.

4. In reviewing the implementation progress of its predecessor, the Brussels Programme of Action, the Istanbul Programme of Action stresses that many of the important goals have not been fully achieved. There appears to be a sharp contrast between the very ambitious goals and actions agreed and the lack of new financial commitments and coordinated implementation plans needed to help achieve the goals. The lessons from this experience for the implementation of the current programme of action, especially the ambitious goal of enabling half of the LDCs to graduate by the next United Nations Conference on the Least Developed Countries in 2021, must not be lost. In the last four decades, only three countries – Botswana, Cape Verde and the Maldives – have graduated from the LDC category. Given the poor graduation record, attaining the ambitious goal on graduation would require a radical shift in development models and development partnership.

5. The high-level event on the implementation of the Istanbul Programme of Action during the UNCTAD XIII Conference in Doha, Qatar, will discuss the challenges associated with graduation from LDC status and the actions that both the LDCs and their development partners need to take to ensure a smooth transition within the agreed timetable. More specifically, the event will explore several key questions.

6. First, will the LDCs continue to play a marginal role in the world economy? As noted in the Istanbul Programme of Action, although the performance of LDCs improved substantially in terms of economic growth and international trade during the 2000s, this has not been translated into a sustained catching-up of the LDCs with the rest of the word. While LDCs represent a significant share of world population – 12 per cent in 2009 – their contribution to global output remains below 0.9 per cent, considerably lower than in the mid-1970s. In other words, one eighth of the world's population produces less than one hundredth of the world's total gross domestic product (GDP). Their share of world merchandise exports is now around 1 per cent, growing from around 0.6 per cent in the 1980s and 1990s. Half of this increase can be attributed to the rise in fuel exports.

7. Despite their concerted efforts to attract foreign investment by liberalizing their investment policies and providing very generous incentives, LDCs as a group receive only 2 per cent of total foreign direct investment (FDI) inflows worldwide. Other evidence shows that overall, the LDCs continue to play a very marginal role in the world economy and that their growing integration in the global market is accompanied by very limited advances in their relative position, compared with other developing countries. The implications of this trend for the implementation of the Istanbul Programme of Action, in particular the goal to meet the graduation criteria by 2020, must be given serious consideration.

8. In *The Least Developed Countries Report 2010*, UNCTAD proposed a new international development architecture, arguing that the continuing marginalization of the LDCs warranted a review of the international support measures provided to them, with a view to identifying new types of support measures creating an external environment more conducive to accelerating the development of the LDCs. Could half of the LDCs attain the graduation goal by 2020 without a new international development architecture?

9. Second, and linked to the first point, is it realistic to expect half of the LDCs to be able to meet the graduation criteria by 2020, given the present conditions of the world economy and the outlook for the next several years? For most of the last decade, GDP of the LDCs as a group grew by over 7 per cent, which was impressive, especially when compared with the dismal performance of these countries in the previous two decades. If these recent high

growth rates are repeated and sustained for a lengthy period, some LDCs may possibly attain the graduation threshold within a decade or so. However, this scenario is dependent on two factors: the external economic environment, in particular the speed of recovery from the current global economic crisis, and the quality of growth in the LDCs and its impact on employment, structural transformation and investment, both public and private.

10. The LDCs are more dependent on external markets and external sources of finance and knowledge than any other countries in the developing world. However, the gradual deepening of South–South economic linkages during the last decade has, to an extent, helped change the nature of the LDCs' integration into the global economy and their dependence on traditional markets. It has also helped modify their vulnerability to exogenous shocks. For example, in 2009, more than half of the LDCs' merchandise exports was destined to other developing countries, up from 40 per cent at the beginning of the decade. This shift in the export destinations of LDCs has been coupled with the simultaneous evolution of their merchandize imports. Nowadays, other developing countries account for well over half of the LDCs' total merchandise imports. Furthermore, there are increasing financial flows between LDCs and other developing countries, including FDI, official financial flows and remittances. At present, about 40 per cent of FDI and remittances received by the LDCs originate from other developing countries. A major new trend in the pattern of integration of the LDCs to the global economy has thus emerged over the past decade, opening up new opportunities for LDCs with a potential for the diversification of their external markets and continued growth.

11. However, traditional markets in the North remain critical for LDCs, and the recovery process in these markets will have both direct and indirect impacts on the future growth prospects of the LDCs. Indeed, the successful implementation of the Istanbul Programme of Action is likely to be affected if recovery in advanced economies takes time, slowing down growth in major developing countries, especially China and other large economies in Asia. Unfortunately, the current external economic environment is characterized by further volatility, especially in commodity prices – and most worrying for many LDCs – high fuel and food prices. The medium-term trend also portends somewhat weaker private external capital inflows and possibly less aid. As the LDCs' economies have become more open and more specialized in the production and export of commodities in the last three decades, they have also become more vulnerable to sudden reversals of fortune when external conditions change for the worse. All these issues – the recent positive trends and the opportunities they have generated, and the potential risk of slow growth and slow recovery from the recent triple crisis – have to be taken into account in formulating plans for the implementation of the Istanbul Programme of Action, in particular the goal of reaching the graduation criteria by 2020.

12. The quality and form of growth in LDCs also deserves serious attention. The experience of the present decade indicates that high economic growth is a necessary but not sufficient condition to reduce poverty and attain broad development objectives. Growth in LDCs is largely externally induced and has failed to trickle down to make a dent in poverty reduction. Nor has it generated structural progress or transformation in their economies. The main challenge for LDCs is how to ensure that growth leads to tangible gains in terms of income generation, job creation – both in rural and urban areas – and the development of productive capacities, including basic infrastructure.

13. Third, is the business-as-usual approach to policymaking sufficient to place the LDCs on the path of more dynamic and inclusive development and enable half of them to meet the graduation criteria by 2020? The experience of the previous decade indicates that high economic growth is not sufficient to attain broad development goals. UNCTAD's analysis, as well as the evaluation contained in the Istanbul Programme of Action, suggests that the productive structure of the LDCs has remained almost static, even during the high

economic growth of the 2000s. The LDCs must promote structural transformation and build their productive capacities to start catching up with the rest of the world and to substantially reduce poverty.

14. *The Least Developed Countries Report 2011* suggests that the recovery from the triple crisis in the LDCs is partial at best and that the current world situation and the mid-term outlook are not promising either. Judging by the recent sovereign-debt-related crisis in Europe, the lingering after-effect of the financial crisis on the availability of credit and trade finance and the slow recovery in the United States of America and its potential impact on the growth of the Asian economies, it would appear that the world economy is likely to bring less propitious external conditions for the LDCs during the 2010s than during the boom period of the last decade. The general view is that the present decade is likely to be faced by a great deal of instability and change. The outlook for the world economy and for the LDCs is thus surrounded by great uncertainty. The slower and more volatile growth in developed economies would adversely affect the growth prospects of the LDCs and the prospects for them to attain the goals set out in the Istanbul Programme of Action.

15. However, there are indications that if the major Asian economies continue with their recent growth pattern, international commodity prices could remain high during the present decade. This would obviously have a positive impact on the LDCs, especially the commodity exporters. The question, then, is the following: How can the LDCs take advantage of a renewed opportunity to translate temporary, commodity-based prosperity into sustainable, inclusive economic development that generates productive jobs? The failure to create a sufficient number of jobs, even when economic growth is high, is considered to be one of the reasons for a lack of structural transformation in the LDCs. It is difficult for LDCs to attain inclusive development and meet all the graduation criteria without significant change in the structure of their economies. What kind of development strategy should the LDCs implement to achieve the goals of the Istanbul Programme of Action?

16. Issues for discussion include the following:

(a) What are the major obstacles to graduation from the LDC category?

(b) What should be the key components of a smooth transition strategy for graduating LDCs? How long is “reasonable” for a smooth transition?

(c) What will be the role of South–South and triangular cooperation to help LDCs meet the goals and targets of the Istanbul Programme of Action?

(d) How can the benefits of South–South cooperation be maximized for the LDCs' development and their eventual graduation from the group?

(e) How can commodities serve as a lever for development and help LDCs meet the graduation criteria by 2020?