UNITED NATIONS
ECONOMIC
AND
SOCIAL COUNCIL

GENERAL

E/ESCAP/SB/LDC(7)/1
24 March 2005

ORIGINAL: ENGLISH

ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

Special Body on Least Developed and Landlocked Developing Countries

Seventh session
10-11 May 2005
Bangkok

ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS IN THE LEAST DEVELOPED AND LANDLOCKED DEVELOPING COUNTRIES THROUGH TRADE, DEBT RELIEF AND AID

(Item 4 of the provisional agenda)

Note by the secretariat

SUMMARY

Asia and the Pacific has often been portrayed as a thriving region which has successfully made broad-based and sustained inroads in poverty reduction. While MDG achievements in Asia and the Pacific generally surpass those in other poor areas, an overly broad appraisal of MDG progress in the region could be misleading as it does not reveal the less impressive track record of LDCs and LLDCs in Asia and the Pacific. In fact, an assessment of the MDG indicators shows that the LDCs and LLDCs in Asia and the Pacific are not much better off than those elsewhere. Strikingly, for some indicators, progress in achieving the MDGs is even slower in Asian and Pacific LDCs and LLDCs than in other ones.

While sustainable economic growth is crucial for supporting the achievement of the MDGs, at the same time, structural impediments in the form of low savings and investments in LDCs and LLDCs may hinder the prospects for rapid economic growth. This report addresses the issue of dismantling structural impediments, particularly through greater trade opportunities and enhanced resources from more aid and a reduced debt burden for LDCs and LLDCs. It also presents key messages and concrete recommendations, at both the national and international levels, emerging out of the technical consultation meeting jointly organized by UNDP, ESCAP and ADB in Dhaka in February 2005 to review the draft document on the voices of the poor in the least developed countries in Asia and the Pacific on achieving the MDGs. The Special Body may wish to endorse the key messages and recommendations of this report, which reflects the predicament of LDCs and LLDCs in achieving the MDGs.

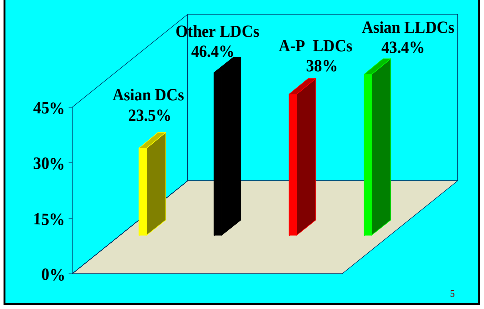
Introduction

1. In the United Nations Millennium Declaration (resolution 55/2 of 8 September 2000), the General Assembly expressed the commitment of countries to eliminate extreme poverty and ensure the right to development for everyone. It also noted that responsibility for managing worldwide economic and social development must be shared among the nations of the world and should be exercised multilaterally. In line with this Declaration, eight goals on development and poverty eradication, otherwise known as the Millennium Development Goals (MDGs), were established.

A selected MDG assessment

2. Despite significant progress towards achieving the MDGs, in many developing countries (DCs) in the Asian and Pacific region as compared with other areas, the overall attainment of these goals in Asia and the Pacific will be largely determined by the progress made by the least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing States (SIDS).[1] For instance, in terms of poverty (Goal 1), while the Asian developing countries, on average, have an impressive 23.5 per cent of the population living below the poverty line ($1 PPP) compared with other LDCs[2] with over 46 per cent, at the same time, unfortunately, these figures overshadow the poor track record of over 38 per cent and 43.4 per cent for Asian and Pacific LDCs and LLDCs, respectively (figure I).[3]

Figure I. Percentage of population below international $1/day poverty line (PPP)



3. Comparing other goals and social indicators, it appears that MDG achievements in the Asian developing countries generally surpass those in other areas. Yet this discrepancy in MDG indicators is much smaller when the scope of the analysis is narrowed to the LDCs. For example, although the net enrolment ratio in primary education (Goal 2) is much higher in Asian developing countries (87 per cent) than in other areas (62 per cent), measurement of the same ratio in Asian and Pacific LDCs and LLDCs indicates much less outstanding achievements (78 and 57 per cent), not too far above the

---

[1] The 14 least developed countries are Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, the Lao People's Democratic Republic, Maldives, Myanmar, Nepal, Samoa, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu. The landlocked developing countries are Afghanistan,* Armenia, Azerbaijan, Bhutan,* Kazakhstan, Kyrgyzstan, the Lao People's Democratic Republic,* Mongolia, Nepal,* Tajikistan, Turkmenistan and Uzbekistan. The small island developing States are Cook Islands, Fiji, Kiribati,* Maldives,* the Marshall Islands, Micronesia (Federated States of), Nauru, Niue, Palau, Papua New Guinea, Samoa,* Solomon Islands,* Tonga, Tuvalu* and Vanuatu.* (*also LDCs).

[2] Refers to the 36 other LDCs: 34 in Africa, 1 in Western Asia and 1 in the Caribbean.

[3] All data used in this paper are taken from the United Nations Statistics Division's the millennium indicators database (<http://millenniumindicators.un.org>), *World Development Indicators* (Washington, World Bank, 2004), *Pacific Islands Regional Millennium Development Goals Report 2004* (<http://www.spc.int/mdgs/MDGReport/Reg_report.htm>) and various national MDG reports. It should be noted that the regional averages are calculated based on the most recent available data on $1/day poverty weighted by each country's population.

enrolment ratio in primary education recorded in other LDCs (54 per cent) (figure II). Likewise, while the Asian developing countries on average seem to outperform other areas by far with regard to Goal 3, “Promote gender equality and empower women” (94 per cent for Asian developing countries), a closer look at the same ratio of literate females to males in Asian and Pacific LDCs (75 per cent) as compared with other LDCs (80 per cent) actually reveals comparable achievements in Asian and Pacific LDCs (figure III).

Figure II. Net enrolment ratio in primary education (Goal 2)

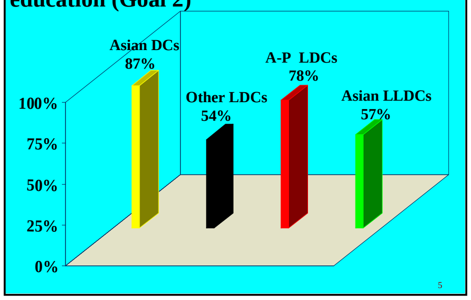
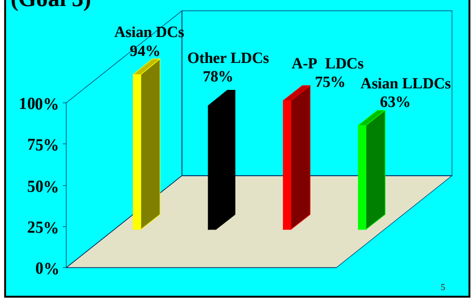


Figure III. Ratio of literate females to males (Goal 3)

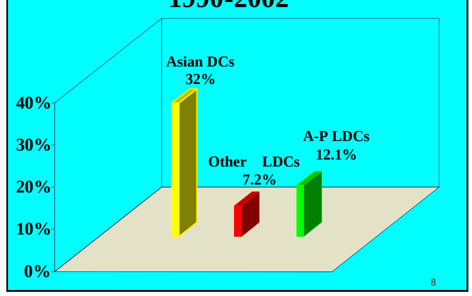


4. The striking and sizeable discrepancies in MDG progress among developing countries and LDCs and LLDCs in Asia and the Pacific on the one hand and comparable MDG achievements among LDCs in Asia and the Pacific and other areas on the other hand serve as a useful forewarning against an overly broad appraisal of MDG achievements in Asia and the Pacific as a whole. Such an analysis at the regional level would be misleading since it would not reveal the dire predicament faced by LDCs and LLDCs in Asia and the Pacific.

Growth and structural impediments

5. What is critical for LDCs and LLDCs in their effort to achieve poverty reduction as well as other MDGs is to have high sustainable real economic growth. This will require both competitive manufacturing and vibrant agricultural sectors that allow these countries to export value added manufactured products and create employment for poor people in the rural areas. However, owing to certain key structural impediments confronted by these countries in the form of low saving rates (figure IV) and high dependency on primary export products, they are more likely to encounter economic stagnation and fall into the so-called “classic poverty trap”. For these countries, the low saving rates occur because the poor masses end up spending a large portion of their income on current consumption (food, clothing and shelter) leaving very little income in the form of future savings. With low saving rates, the per capita investment and

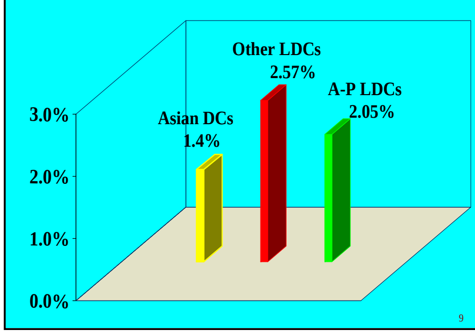
Figure IV. Average savings rates, 1990-2002



capital of a country may decline to a level that could lead to negative real per capita income growth, thus making the poverty situation even more dire.

6. A simple real per capita income and investment growth framework can be used to illustrate the basic spirit of negative real per capita income growth, which could lead to the "classic poverty trap" for poor countries.[4] In the case of Asian and Pacific LDCs, for example, with a savings rate of 12.1 per cent (figure IV), a capital-output ratio of 3 and a population growth rate of 2.05 per cent (figure V) and assuming a capital depreciation rate of 3 per cent per annum, the expected per capita growth rate of real income could be negative 1.01 per cent [$= (12.1/3) - 2.05 - 3$]. Using the same growth framework and taking savings and population growth rate numbers from the figures IV and V, the average real per capita growth rate of income in Asian developing countries and other LDCs could be 6.2 per cent and -3.3 per cent, respectively.

Figure V. Average population growth rates, 1990-2002



7. Under a business-as-usual scenario and using the preceding growth rates, the initial average real per capita income of $806 for Asian developing countries in 2002 could still more than double (to $1,759) by 2015 as shown in table 1. However, during the same period, owing to negative growth of real per capita income, not only could the other LDCs encounter a decline in their real per capita income by about 35 per cent (from an initial real per capita of $262 in 2002 to $172 by 2015) but the Asian and Pacific LDCs could also suffer a significant loss of real per capita income by about 22 per cent (from an initial figure of $386 in 2002 to $338 by 2015).[5]

Table 1. Growth rates and real per capita income (in 1995 dollars)

Group of countries	Per capita income growth (2002) (percentage)	Average real per capita income in US dollars (2002)	Real per capita income in US dollars (2015)
Asian DCs	6.2	806	1 759
Other LDCs	-3.3	262	172
A-P LDCs	-1.01	386	338

---

[4] Assuming a fixed per capita capital-output ratio (π=k/y, where k and y are per capita real capital and income) with given population growth (n) and depreciation (d) rates, the simple linear per capita real income growth (g^y) equation can be written as: $g^y = (i/\pi) - n - d$, where i is the investment to income ratio. Alternatively, for a closed economy with i equal to savings rates (s) the preceding equation can be written as, $g^y = (s/\pi) - n - d$.

[5] Employing a standard cumulative growth equation [= $y_{\text{initial year}} * (1 + g^y)^{\text{years}}$], the final per capita real income at the terminal year (say 2002) can be calculated easily. For all Asian countries = $\$806 * (1 + 0.062)^{13} = \$1,759$; for other LDCs = $\$262 * (1 - 0.033)^{13} = \$172$; and for Asian LDCs = $\$386 * (1 - 0.0101)^{13} = \$338$.

8. The above illustration of a “poverty trap” due to structural impediments faced by LDCs runs counter to the spirit of the Millennium Declaration and consequently that of the MDGs. Since attainment of the MDGs in these countries is a shared responsibility, creating an enabling environment through bold global and regional partnerships assumes great importance in tackling the challenge of dismantling structural impediments faced by the LDCs. The structural impediments, in the form of low savings and investments rates, could be reduced or even completely removed possibly through more trade, increased aid and providing relief in respect of the high level of external debt carried by these poor countries. For Asian and Pacific LDCs to have a decent positive per capita growth rate of real income, say 5 per cent, a savings rate of at least 30 per cent would be required [=(30/3)-2.05-3].

9. However, from figures VI and VII, it appears that the current per capita official development assistance (ODA) and debt servicing in Asian and Pacific LDCs as compared with other LDCs are not very promising. In terms of ODA, although there is a global decline in the absolute amount, the Asian LDCs received only about a little more than half ($15) that of the other LDCs ($25) on a per capita basis in 2002 (figure VI). As to the external debt servicing-to-exports ratio, while the numbers have been reduced over the years, they are still a significant burden and drain of scarce resources for poor LDCs (figure VII).

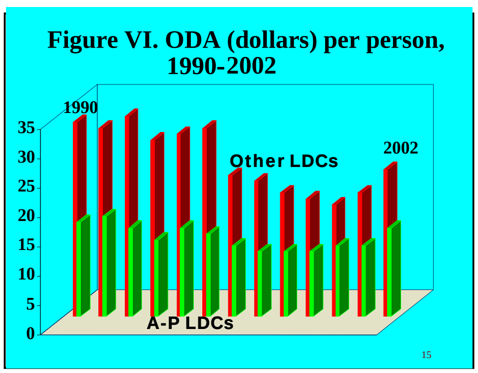


Figure VI. ODA (dollars) per person, 1990-2002

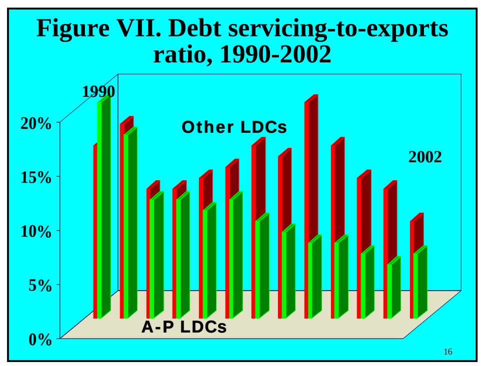


Figure VII. Debt servicing-to-exports ratio, 1990-2002

10. Although the LDCs in the Asian and Pacific region have increased their share of exports to GDP in recent years owing to growth in garment exports, they have yet to catch up with their counterparts in other Asian countries and other parts of the world (figure VIII).

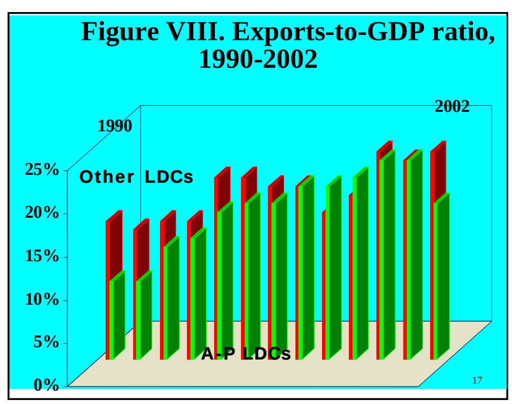


Figure VIII. Exports-to-GDP ratio, 1990-2002

11. From the foregoing, it is evident that under a business-as-usual scenario, the poor LDCs in other areas, on average, are unlikely to achieve most of the MDGs by 2015 while the progress of the Asian and Pacific region on average seems far more promising. Relying on this premise, therefore,

many current documents reviewing the progress and prospects of achieving the MDGs at the global level have simply focused on the other LDCs and vigorously pursued their case for more aid and other favourable treatment from the international community. Given their ominous plight, it is important that those countries receive due support from the international community in their endeavour to achieve the MDGs by 2015. However, at the same time, the preceding evidence-based discussions have also revealed that the challenges in achieving the MDGs in the Asian and Pacific LDCs and other priority groups such as LLDCs and SIDS are equally formidable. Comparing the impressive MDG achievements in Asia and the Pacific as a whole vis-à-vis other LDCs obscures the lamentable situation of the poor people in LDCs, LLDCs and SIDS in Asia and the Pacific. Like the others, these countries in Asia and the Pacific also deserve to receive strong support from the international community to meet the challenges of achieving the MDGs.

12. In the light of the above, and the fact that Asia and the Pacific is the fastest-growing and most dynamic region of the world, this report will propose concrete recommendations for consideration by the Special Body in terms of how the global and regional partnership can facilitate the dismantling of the structural impediments and address the special needs of Asian and Pacific LDCs and LLDCs through greater trade (e.g., tariff and quota-free access for LDCs' exports), enhanced debt relief (via possible cancellation of official bilateral debt) and more generous ODA. Furthermore, since the needs and challenges of each of these countries differ greatly, it will be important to critically consider how various types and modalities of this global partnership for development could address their different needs.

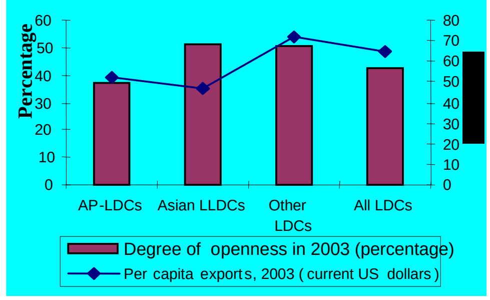
13. In addition, in view of the upcoming United Nations Millennium +5 Summit in New York in September 2005 as well as the ministerial round of the Doha Development Agenda negotiations to be held in Hong Kong in December 2005, the findings and recommendations of this document will be crucial in conveying the perspective of voiceless poor people in LDCs and LLDCs of the Asian and Pacific region and help to draw the attention of the international community as well as other prosperous countries in the region to the problems.

14. Section I of the document contains a short discussion of trade-related issues in facilitating the achievement of the MDGs in Asian and Pacific LDCs and LLDCs, particularly focusing on market access, the potential for interregional trade and trade policy coherence and sequencing. The issue of making additional resources available to achieve the MDGs through aid and debt relief is discussed in section II. Section III contains key messages and recommendations.

I. Facilitating trade and market access to achieve the MDGs

15. Empirical evidence for the region shows that more open economies grow faster and thus international trade can be a powerful driver of economic growth (figure IX). In the long run, trade provides the means by which LDCs and LLDCs can develop in a more autonomous and sustainable manner, thereby reducing their dependence on aid and debt relief. Thus, an enhanced global partnership for development, as portrayed in Goal 8, is of key interest to LDCs and LLDCs as it will afford them more commercially meaningful access to international markets.

Figure IX. Degree of openness and per capita exports, 2003



16. Relationships between international trade and poverty reduction in LDCs and LLDCs could be direct and powerful provided that there are strong backward linkages and that they are backed by supporting domestic policies. In other words, trade liberalization policies must be supported by a gamut of other complementary policies and aid that will build up supply-side capacity and create productive potential so that market access can be more effectively utilized.

17. LDCs and LLDCs of the region are characterized by important differences with respect to the composition and destinations of exports. Some are exporters of manufactures and others of services, while a third group exports mainly primary commodities. On average, these countries have open economies, as shown by the indicators in figure IX.

18. Those countries where exports of manufactures and services feature prominently have experienced higher economic growth and made more significant inroads in poverty reduction than those that have relied on primary commodity exports. This is due to increases in employment opportunities and economy-wide income generation that have made direct contributions to poverty reduction.

Special trade challenges

Market access

19. Target 13 under Goal 8 addresses the special needs of LDCs and calls for greater market access to be given to products of interest to poor countries, particularly products that are labour-intensive and thus result in new income-generating opportunities. However, problems of tariff peaks and tariff escalation fall disproportionately on these very products, with footwear, fisheries and garments featuring prominently. In this regard, it is important to note that, in the garments and

agricultural sectors, the average tariffs faced by Asian and Pacific LDCs and LLDCs are higher than those faced by other LDCs (table 2).

20. The main reason for this appears to be export composition and direction. Clothing products dominate the export basket, and the United States of America is the key destination market. Clothing products face higher tariffs than other products and the tariffs imposed by the United States are higher than those of other trading partners. The Asian LDCs are also excluded from preferential schemes such as the Cotonou Agreement for African, Caribbean and Pacific countries and the African Growth and Opportunity Act for African developing countries. The recent suspension of benefits for Myanmar by the European Union also had an impact.

Table 2. Weighted average applied tariffs, faced per sector by LDCs, 2003 (percentage)

Countries	Agriculture	Clothing
All LDCs	4.42	7.29
Asian and Pacific LDCs	8.44	7.46
LDCs in other regions	4.23	5.91

Source: *Secretariat calculations, based on primary data provided by WTO and on the methodology used for calculating MDG indicator 39.*

21. Generalized system of preferences (GSP) schemes and the European Union’s everything but arms initiative have had beneficial effects, but they have only partially solved LDCs’ market access problems. This is because utilization rates (defined as the ratio of imports actually receiving preferences to imports covered by a given preferential scheme) have, on the whole, remained low. Restrictive rules of origin, as contained in GSP schemes, appear to be the main factor causing low utilization rates, while certain schemes exclude major export items of LDCs. Of particular note is the fact that the GSP scheme of the United States does not include textiles and clothing. Based on UNCTAD estimates in 2003, the country most affected by the exclusion of products from the American GSP scheme is Bangladesh, which supplies almost 90 per cent of the 20 main products not covered by the scheme. Other countries that are significantly affected are Cambodia and Nepal. The Canadian GSP scheme was recently expanded to include textiles and clothing, with new and more liberal rules of origin. The product coverage of the Japanese GSP scheme has also been expanded recently.

22. An additional area in which labour-abundant LDCs are seeking enhanced market access is for their low-skilled workers. Remittances from overseas workers in some countries are proving to be the second-largest source of private financial flows that could provide an additional means of tackling poverty in these countries.

Accession to WTO

23. The accession of non-members to WTO is of special interest to the region as only 24 of ESCAP’s 46 developing countries are WTO members. Of the 11 countries of the region which are in

the process of accession, 5 are LDCs (Afghanistan, Bhutan, Lao People's Democratic Republic, Samoa and Vanuatu), while 4 are LLDCs (Azerbaijan, Kazakhstan, Tajikistan and Uzbekistan). Without exception, and notwithstanding the 2001 WTO guidelines on simplifying and streamlining accession, the process has proven to be complex and resource-intensive.

24. An enhanced global partnership, as foreseen in Goal 8, would entail focusing the accession process more on pro-development policy reforms from which acceding countries can benefit economically. WTO members should therefore take the lead by focusing on sectors of developmental interest to LDCs and LLDCs and not insist on compliance with provisions that have little meaning for the situation of acceding countries. For example, a measured opening up of some of the backbone infrastructural services, e.g., the financial, telecommunications and transport service sectors, could significantly improve supply capacities, productivity and export competitiveness for LDCs. In short, an enhanced global partnership would mean that the terms, conditions and speed of accession to WTO would induce national-level policy reforms that will promote economic and social development.

25. Furthermore, implementation of far-reaching commitments could divert public resources away from important expenditures on education, health or infrastructure services, where needs are acute and long-term returns may be greater. For example, the implementation of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) requires extensive legal, legislative and institutional development, as well as financial resources, before compliance is achieved. Is implementation of TRIPs in the best interest of acceding countries, given their other numerous pressing economic and social needs? Particularly for LDCs, it seems clear that this is not a priority. WTO members should therefore allow LDCs to avail themselves of generous transition periods commensurate with their development needs. A more rigorous and systematic assessment of the costs of implementation should be undertaken and additional ODA provided so that the provision of ODA is not a zero-sum calculation. In other words, ODA allocated for accession should not come at the expense of lower allocations in other sectors.

The potential of intraregional trade

26. An enhanced global partnership would be incomplete without a discussion of the potential for intraregional trade and economic cooperation. The ESCAP region has gained recognition as a global producer, trader and consumer in its own right. As such, the region is its own best source of future trade and investment growth and future dynamism for the global economy. In 2003, developing countries in the ESCAP region contributed more than two thirds of world South-South trade, with an annual growth rate of 11 per cent per year, which is nearly twice the growth rate of total world exports.

27. It is interesting to note that the trend is also significant with regard to the Asian and Pacific LDCs. Other developing countries accounted for only 32 per cent of total LDC trade in 1989, but by

2001, this had increased to 56 per cent. The proportion of total exports of LDCs directed to other developing countries rose from 15 to 34 per cent between 1989 and 2001. Nevertheless, LDCs have a deficit in their international trade with other developing countries, which increased from $5.5 billion in 1990 to $15.6 billion in 2002. South-South trade in services is also on the rise and offers substantial possibilities for a further expansion of LDC exports. Yet, for increased South-South trade to occur, developing countries will need to revisit their own structure of protection, the incidence of which has often been shown to weigh more heavily on LDC exporters than on those from developed countries. Increased labour mobility from LDCs to developing countries would offer immediate benefits.

28. Another important area where interdependence among developing countries of the region is likely to deepen relates to commodities, both fuel and non-fuel, which constitute 46 per cent of intra-South trade. The region's rising energy needs, particularly in its fastest-growing economies, will result in the region increasingly needing its own resources, of which many LDCs and LLDCs could be prime suppliers.

Policy coherence and sequencing through trade mainstreaming

29. Although there is some potential to meaningfully reduce poverty through trade liberalization, a number of other conditions and policies that go beyond the traditional purview of WTO have to be in place to ensure that a positive effect materializes. Designing such policies is a challenging task given marked differences in individual country contexts.

30. If LDCs and LLDCs are to trade their way out of poverty, trade policy needs to be integrated into country development plans and poverty reduction strategies. In other words, by incorporating trade policy into a country's overall development framework and ensuring that it complements the country's other economic and social priorities, the goal of policy coherence is promoted. It is important, therefore, that trade mainstreaming not only identifies opportunities for trade liberalization and export promotion, but also opportunities to reduce poverty through trade policy. In this context, the principles of key poverty reduction strategy papers, including country specificity and ownership, comprehensiveness and broad stakeholder participation, should be respected and a thorough poverty impact analysis should be "mainstreamed" into the development of any new trade policy.

31. This also requires a systematic analysis of the possible poverty and social impacts of trade options being considered, and in this regard social impact assessments could play an important complementary role. In the area of trade negotiations, social impact assessments can play a complementary role in devising a negotiating approach that will lead to negotiating positions and agendas with greater context specificity, more balanced sensitivity to individual countries' needs and a timeframe that takes into account analyses of the likely effects of alternative packages of rules and concessions.

Policies to reduce adjustment costs

32. Importantly, a social impact assessment can be a means of identifying more concretely the mitigating or flanking measures that are needed to avoid certain negative social effects arising from the “losers” of trade, such as displaced workers, or real wage decreases, which risk pushing people into deeper poverty. Other losses could include lower government revenues from tariffs. This, in the case of LDCs and LLDCs, could be significant because, first, they are highly dependent on such revenues given their limited scope for generating government revenue through domestic taxes and, second, it further reduces their ability to put in place and fund social safety nets.

33. Thus, the aim of the social impact assessment would be to explore the consequences of a country accepting a package of trade concessions and rules which is imposed on it, as is often the case with LDCs and LLDCs, and how the losers should be compensated so that the reforms are politically palatable for society as a whole.

34. At the regional level, a case in point is the South Asian Free Trade Area revenue-compensating mechanism. While the need for such a mechanism has been recognized, particularly for LDCs, it remains an open question whether consensus can be reached on the shape and form that such a mechanism should take.

35. Thrashing out and agreeing on such compensation schemes will not be easy, yet they are worthy of further analytical scrutiny. In an enhanced global partnership for development, there is, accordingly, much more that donors and trading partners acting through international institutions, both multilateral and regional, can do to provide developing countries with a level and form of financial assistance likely to raise their short- to medium-term comfort levels in undertaking market-opening policies.

Aid for trade

36. An important corollary of the balance of concessions and obligations that will form part of the Doha Round results and an enhanced global partnership for development is the role of ODA. There are at least two areas in which there continues to be a compelling case for further attention to LDCs and LLDCs.

Human resources development in trade negotiations and trade policy formulation

37. One area is human resources development for developing country negotiators and institutional capacity-building. While there has clearly been remarkable growth in technical negotiating skills in recent years, LDCs and LLDCs still lack depth of expertise. Post-liberalization reforms or improvements in the regulation of markets typically remain highly complex, requiring significant expertise and resources dedicated to institution-building. Regulatory reform, in particular, is a highly resource-intensive area which requires a concerted effort by developed countries (as providers of

financial as well as human resources), competent international and national agencies (as executing entities) and the recipient countries. Long-term partnership arrangements among counterpart ministries, supervisory and regulatory agencies as well as labour unions, chambers of commerce, industry associations and NGOs could be provided in key areas such as auditing, accounting, technical and sanitary and phytosanitary regulations and standards, utility and other services regulations, administration of justice, consumer protection and social and environmental policies. In this regard, the agreement reached on technical assistance and capacity-building for the launch of negotiations on trade facilitation is significant and novel as it is the first time that implementation of commitments is explicitly linked to the provision of technical assistance. If this link is shown to deliver results, it could set an important precedent in enhancing the development partnerships that would pave the way in other areas under negotiation as well.

Supply-side capacity-building

38. A second major area for ODA is addressing the supply-side constraints that inhibit export responsiveness in LDCs and LLDCs and thus limit potential gains from trade liberalization. For LDCs and LLDCs exporting high-bulk, low value added goods (e.g., mining, agricultural, textile and clothing products), an improvement in transport infrastructure and access to cost-effective information and communication technology are key supply-side aspects that need to be addressed. These challenges have to be tackled as a prerequisite for any market-opening process to bear the desired results in a sustained manner. Hence, additional development assistance in these areas needs to be prioritized to enable LDCs and LLDCs to realize the positive effects that trade promises for poverty reduction and the attainment of the MDGs. In this regard, an aid-for-trade fund of US$ 5 billion has been proposed and it is heartening to note that a strong consensus is emerging on the need to provide additional supply-side development assistance in areas such as improved agricultural productivity, infrastructure and the provision of basic social services.

II. Aid and debt relief: some key issues for achieving the MDGs

Making aid work to achieve the MDGs

39. The resource gap in Asian and Pacific LDCs and LLDCs remains ominously high. The capacity of these countries to incur financial obligations and mobilize adequate domestic (public and private) resources remains seriously handicapped by various structural constraints, such as the low diversification of their economic base and the ensuing high economic vulnerability, their persistent poverty levels, the inadequacy of their basic infrastructure, their geographic disadvantages (landlocked state, small island situation, remoteness from markets) and their proneness to natural disasters.

40. The international community is urged to address the special needs of the LDCs and the constraints facing the LLDCs by fulfilling the aid and debt relief targets embodied in Goal 8, as well as the targets in the Brussels Programme of Action for the Least Developed Countries for the Decade 2001-2010 and the Almaty Programme of Action for Landlocked Developing Countries. Aid to Asian and Pacific LDCs should be front-loaded and should primarily be in the form of grants. Concessional loans and debt relief will also play a vital role in financing national investment to attain the MDGs in those countries.

41. Over the years 1990-2002, aid flows to other LDCs, both in absolute terms and on a per capita basis, remained appreciably higher than aid flows to Asian and Pacific LDCs and LLDCs. In recent years, this imbalance has only widened. Between 2000 and 2003, a 60 per cent increase in ODA flows to Asian and Pacific LDCs was recorded, while ODA flows increased by as much as 87 per cent in other LDCs. As shown in figure VI, no tangible increase in per capita ODA flows to Asian and Pacific LDCs has been recorded since 1990.

Composition of aid

42. An analysis of the composition of aid to Asian and Pacific LDCs reveals a similarly dire picture, with a 10 per cent decline in the proportion of grants in total ODA from 2002 to 2003. Strikingly, while the fastest and steadiest increase in ODA grants as a proportion of total ODA is recorded in the Asian and Pacific region (with Afghanistan, China and Pakistan as the main receivers of those grants), at the same time Asian and Pacific LDCs faced a sharp decline in that proportion (figure X).

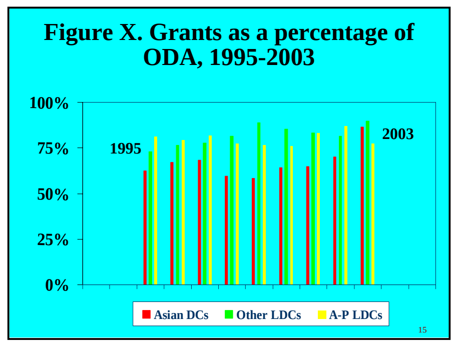


Figure X. Grants as a percentage of ODA, 1995-2003

Aid management

43. Aid management issues which limit the effectiveness of aid utilization need to be addressed by all concerned partners. On the part of donors, the gap between aid commitments and actual disbursements in Asian and Pacific LDCs needs to be addressed urgently. ODA loans received as a percentage of total loans extended in Asian and Pacific LDCs decreased sharply from 52 per cent in 2002 to 34 per cent in 2003 (figure XI). During the same period, ODA loans received as a percentage of total loans extended in Asian developing countries increased by 20 per cent, from 48 per cent in 2002 to 69 per cent in 2003, and remained relatively stable in other LDCs.

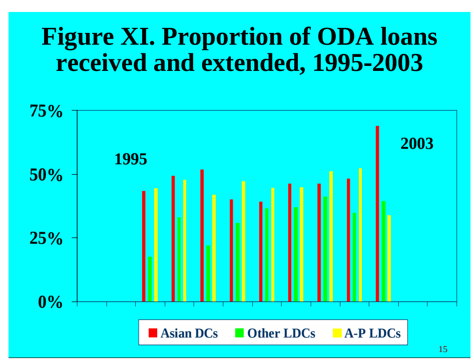


Figure XI. Proportion of ODA loans received and extended, 1995-2003

44. Development requires financing not merely of initial investments but also of recurring expenditures. As such, the MDGs will be reached in Asian and Pacific LDCs only if donors indicate their long-term commitment to assist these countries. Donors should consider programme budget support as the most viable long-term strategy to assist these countries. Independent monitoring and evaluation of aid performance at the level of the recipient country should also be considered.

45. Since each country is different and has its own set of challenges and development goals, what is required is a country-based approach that promotes country ownership and channels aid to sectors where its impact is greatest. To enhance the efficiency of utilization of such aid, Asian and Pacific LDCs need to strengthen their domestic capacities for planning and project implementation, improve monitoring and evaluation, ensure better institutional coordination among various government agencies involved in negotiating and utilizing aid and achieve greater decentralization of project implementation where feasible and desirable.

Debt relief for additional resources to achieve the MDGs

46. In view of the persistent poverty levels and growing resource gaps in Asian and Pacific LDCs and LLDCs, there is an urgent need to re-examine the issue of debt relief from the perspective of generating additional resources to attain the MDGs. The international community cannot obligate any country to spend money on debt servicing when it does not, at the same time, have enough money to send all its children to primary school or reduce the number of children dying needlessly of treatable and preventable diseases.

47. Based on the figures in table 3, it is important to note that, on a per capita basis, while other LDCs' outstanding debt burden is 1.7 times ($255/$150) greater than that of Asian and Pacific LDCs, at the same time the debt relief granted to the former countries is 10.25 times ($1.64/$0.16) more than to the latter countries.

48. At the country level, among Asian and Pacific LDCs, debt-to-GDP ratios and per capita outstanding debt stood at alarmingly high levels in 2002, including the Lao People's Democratic Republic (146 per cent and $471 per capita), Maldives (41 per cent and $830) and Vanuatu (71 per cent and $785). All the more disturbing is the debt burden situation in Asian LLDCs, which mirrors the dire debt situation of LDCs in other areas. In 2002, total outstanding debt in Asian LLDCs amounted to as much as 82 per cent of their total GDP. The per capita figure of this outstanding debt in Asian LLDCs ($247) almost matched the LDC per capita figure of $255 in other areas.

49. While other LDCs' debt burden and debt-servicing liability have received increasing attention with the Heavily Indebted Poor Countries (HIPC) Debt Initiative, eligibility thresholds remain excessively high and, as a result, no Asian and Pacific LDCs have benefited from this initiative as yet.

Table 3. Per capita debt burden and debt relief granted

	Per capita outstanding debt (US dollars)	Per capita debt relief (US dollars)
Asian and Pacific LDCs	150	0.16
Other LDCs	255	1.64

Source: Debt and debt relief data from OECD/DAC databases on aid and other resources flows, <http://www.oecd.org/dataoecd/50/17/5037721.htm>; and population from the United Nations Population Division.

50. Asian and Pacific LDCs have succeeded in keeping debt-servicing ratios relatively low, both as a percentage of GDP and as a percentage of exports, thanks to thriving economic growth in the region. As shown in figure VII, the gap between other LDCs and Asian and Pacific LDCs, with regard to debt-servicing ratios, has been narrowing consistently since the mid-1990s.

51. In view of the pressing need to make additional resources available to meet the MDGs in resource-starved Asian and Pacific LDCs, it is imperative that the "better performers" not be "punished" by exclusion from the HIPC Initiative because their debt-servicing record has been good. The criteria for the selection of HIPC-eligible countries need to be reviewed and all severely indebted and moderately indebted countries should be eligible for debt relief. MDG-based needs assessments should prevail over arbitrary indicators such as debt-to-export ratios. It is also proposed that "debt sustainability" be redefined as the level of debt consistent with achieving the MDGs and reaching 2015 without a new debt overhang. Most important, any debt relief initiative should be an add-on to ODA and not be at the cost of ODA.

III. Key messages and recommendations

52. The preceding issues were extensively discussed at a technical consultation meeting jointly organized by UNDP, ESCAP and ADB in Dhaka in February 2005. At that meeting, experts from LDCs, international organizations (UNDP, ESCAP, ADB, UNCTAD and WTO) and bilateral donors (USAID and JICA) reviewed a draft document on the voices of the poor in the least developed countries in Asia and the Pacific on achieving the MDGs. Some key messages and recommendations that emerged from the consultation meeting are submitted below for consideration by the Special Body:

Facilitating trade and market access to achieve the MDGs

Key messages

(a) Pro-poor growth and trade would result in not only the LDCs and LLDCs gaining - the entire world would benefit from the gains that would accrue from the resulting peace, progress and prosperity.

(b) Trade would provide autonomy and sustainable growth to the LDCs and LLDCs which would, over time, reduce their dependence on aid and debt relief.

(c) Given the dynamism and potential of the Asian and Pacific region, it is feasible for the LDCs and LLDCs to trade their way out of poverty. This requires action at both the domestic and international levels.

(d) The benefits of trade must create jobs, alleviate poverty, reduce inequality and – in general – lead to the achievement of the MDGs.

(e) The international community must empower the LDCs and LLDCs to maximize gains from trade by, among other things, supporting increased market access for the exports of the LDCs and LLDCs and enhancing export capabilities.

Recommendations

Actions at the national level

(a) Policy formulation at the national level should focus on mainstreaming trade into overall development plans, so that the pace and sequence of trade liberalization are better aligned with national strategies and objectives.

(b) LDCs and LLDCs should undertake social impact assessments of various trade liberalization options, for a more concrete and systematic understanding of the costs of trade liberalization and how losers should be compensated.

Actions by the international community

(a) LDCs should be accorded stable and predictable market access through WTO bound duty- and quota-free access for all products of export interest.

(b) Preferential market access is beneficial to LDCs and LLDCs, but the rules that determine origin – and therefore determine eligibility for preferences – should be simplified with LDCs and LLDCs accorded greater flexibility in implementing the rules.

(c) LDCs and LLDCs should be compensated for preference erosion resulting from Doha Development Round negotiations through increased assistance programmes aimed at enhancing export competitiveness.

(d) More commercially meaningful commitments should be made in terms of temporary movement of natural persons as well as cross-border supply of services such as outsourcing as this leads to benefits such as skills enhancement and knowledge transfers.

(e) A more development-friendly WTO accession process should focus on the main market access issues, downplay side issues and provide net increases in ODA for policy and institutional reforms induced by WTO membership.

(f) Technical assistance should be intensified in human resources development so that the negotiating capacity of trade negotiators is strengthened. Policy analysis should also be strengthened so that policy makers and negotiators base their decisions on sound economic grounds.

(g) Compensatory mechanisms at the international and regional levels should be provided to the LDCs and LLDCs to assist them in overcoming adjustment costs that would improve prospects for trade reforms to be implemented without social and economic disruption.

(h) LDCs and LLDCs lack productive capacity to make effective use of market access. In this regard, a significant increase in funds allocated to trade and supply-side responses is of particular importance to these countries. An improvement in supply-side capacity would, in turn, attract domestic and foreign investments that would eventually reduce dependence on aid and create new market opportunities.

(i) Regional and bilateral trade agreements should be based on outward orientation and designed in compliance with WTO rules and principles. LDCs should be provided with special and differential concessions in an effort to reverse the trend for them to be marginalized in global trade. Consideration should be given to extending these concessions to landlocked and other small developing countries.

(j) Regional and bilateral trade agreements should add investment provisions so as to encourage regional FDI from fast-growing more advanced Asian and Pacific developing countries. There is a need to examine opportunities for trade-creating FDI and, in this regard, adequate funding should be ensured, for example, by earmarking a small percentage of the region’s large foreign exchange reserves of more than US$ 2.2 trillion.

(k) The global community is urged to strengthen global development partnerships by addressing volatilities in the financial and monetary systems. There should be greater multilateral policy coherence among trade, financial flows, aid and debt relief for a more predictable trading environment.

Aid and debt relief

Key messages

(a) National Governments and their development partners should think and act boldly to build effective partnerships to achieve the MDGs.

(b) There is a strong basis for effective partnerships emerging out of a number of specific characteristics of LDCs and LLDCs:

(a) Many countries in the Asian and Pacific region, including some LDCs and LLDCs, have adopted successful development policies based on different variants of the (East) Asian model and these experiences should be replicated.

(b) Aid has worked when linked with good national policies. This is evidenced by the fact that a severe debt problem has not built up in most LDCs and LLDCs.

(c) There are strong trade and foreign (FDI) linkages in the region which can complement ODA and debt relief, thereby contributing to an extension of the Asian dynamism to the LDCs and LLDCs. There are even ODA flows from some of the richer countries in the region (such as Thailand) to LDCs and LLDCs.

(d) A number of LDCs and LLDCs are above the per capita gross national income threshold for International Development Association eligibility but are, nevertheless, highly vulnerable.

(c) There is a need for a “little push” to LDCs and LLDCs in terms of enhanced aid and, where applicable, increased debt relief.

(d) At the national level, it is critical for LDCs and LLDCs to formulate and implement development and poverty reduction strategies that include the achievement of the MDGs and also to increase their capacities to utilize aid effectively. National Governments need plans that include an exit strategy for donors and these include evolutionary increases in domestic resource mobilization as well as higher inflows of FDI and domestic private capital investments.

(e) At the international level, it is critical for development partners to meet the targets set in the Brussels Programme of Action, the Almaty Programme of Action and the

Mauritius Strategy. These should entail a higher level of aid as domestic resources are not yet sufficient to ensure fulfilment of the MDGs. The quality of aid also needs to be improved – this involves a commitment to national ownership and also includes issues like harmonization of aid. Debt relief can make a contribution in this regard and is vital in a few LDCs.

(f) With more effective partnerships, it is possible to see win-win situations emerge in which aid dependence will progressively decline, security will be enhanced (both within the region and globally), markets for development partners will grow and Asian dynamism will be widened for the benefit not just of the Asian and Pacific but of the whole world.

Recommendations

Actions at the national level

(a) Aid works for development only if proper policies and institutions are in place. Good governance at all levels is a prerequisite for effective use of aid. People and communities are both participants in and beneficiaries of such assistance.

(b) Making aid effective calls for better aid harmonization and coordination. Since each country is different with its own set of challenges, development goals and strategies, a country-based approach which enables each country to reach its development goals is necessary. Such an approach promotes country-based ownership and channels aid to sectors where its impact is the greatest by requiring recipient countries to prepare their own development programmes. Development also requires financing not merely of initial investments but also of the many forms of current expenditure. In order to ensure that aid is harmonized, recipient countries need to prepare a coherent aid policy in the spirit of the Rome Declaration and in consultation with donors.

(c) For effective aid utilization, assessment of outcomes is more important than assessment of available inputs. However, it is important for Governments to undertake appropriate costing and analyse paths for achieving their developments goals. Emphasis needs to be placed on enhancing the efficiency of utilization of such aid assistance. From that perspective, recipient countries could strengthen their domestic capacities for planning and project implementation, improve monitoring and evaluation, ensure better institutional coordination among various government agencies involved in negotiating and utilizing aid and achieve greater decentralization of project implementation where feasible and desirable. Countries could benefit from the experiences of other countries in similar situations. Resources available from other developing countries of the region could also be tapped.

Actions by the international community

(a) The international community was urged to meet the targets in the Brussels Programme of Action, the Almaty Programme of Action and the Mauritius Strategy. Aid should be determined by economic and social concerns and directed to addressing fundamental causes of poverty, especially in countries with internal conflicts and countries battered by natural disasters. Given the limited capacity of these countries to incur financial obligations, external assistance to them should primarily be in the form of grants. Aid should also be front-loaded.

(b) Steps should be taken for greater coherence among donors in areas such as policy conditionalities as well as ODA practices, trade regimes and technology transfer from donor countries. Efforts should also be made to ensure that policy conditionalities converge with recipient country priorities, thus promoting national ownership. Independent monitoring and evaluation of aid performance at the level of the recipient country should be considered. The fostering of national ownership should be based on genuine dialogue and conducted in a spirit of partnership between donors and recipients.

(c) The international community should continue its dialogue with recipient countries on issues such as grant components in aid, tied purchases and financing of recurring costs to bring about improvements in these areas. Donors should consider programme budget support as the main long-term strategy to assist these countries and indicate their long-term commitment to assist these countries.

(d) Regional solutions could enable smaller countries to address issues that would have been too costly to implement at the country level by introducing economies of scale.

. . . . .