

1 Introduction

The period 2000–2008 was, in retrospect, a remarkable global boom during which developing countries converged rapidly on member countries of the Organisation for Economic Co-operation and Development (OECD). Most least developed countries took part in this growth, in contrast to the previous two decades, during which they had stagnated. Per capita income rose on average by an unprecedented 4 per cent per year, and this was reflected in some of the fundamental indicators of wellbeing: for example, infant mortality dropped by around 11 per cent. Consistent with these impressive improvements in outcomes, measures of governance advanced: assessing governance is controversial, but the average score on the widely-used International Country Risk Guide (ICRG) increased by nearly 4.5 points.

However, despite these solid achievements, on important measures LDCs continued to diverge from the rest of mankind. In other developing countries per capita income rose even faster, by over 5 per cent per year, so the income differential between LDCs and other developing countries widened. In absolute terms, in LDCs per capita income rose by just under US\$100, whereas in other developing countries it rose by over US\$600. In relative terms, the differential widened from 5.1:1 to 5.4:1. Similarly, in other developing countries infant mortality dropped even more rapidly, by an astonishing 18 per cent. Even in terms of governance, on the ICRG measure, while LDCs advanced absolutely, they did not succeed in closing the gap with other developing countries.

Hence, although there was certainly an improvement in LDC performance during the boom of 2000–2008, there is no basis for complacency. Indeed, the very fact that there is still, in 2010, a group of least developed countries is an indication of serious past failures on the part of both the international

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community and the governments of LDCs themselves. There are many policies that could have been effective in enabling LDCs to converge on the economic conditions experienced by the rest of mankind. That these have not been implemented reflects a lack of strategic focus, and a lack of co-ordination, by key decision takers. The future can and must be different. The world economy has entered a period of profound and rapid change. LDCs face a new range of challenges and opportunities.

Consider an alarming, though by no means inevitable, prospect. Over the next two decades most of the people living in those developing countries already richer than the LDCs rapidly converge on the developed countries. Meanwhile, the LDCs merely repeat their performance of the last two decades. In considering such a prospect a caveat is in order: the membership of the categories of 'LDC' and 'other developing countries' is sure to change somewhat. Already, some of the countries still officially classified as 'least developed' are no longer appropriate for the category. For example, Equatorial Guinea is officially 'least developed', yet as a consequence of oil discoveries it has been one of the most rapidly growing economies in the world and its per capita income is now far above LDC levels. Conversely, a few developing countries that are not currently in the 'least developed' category may become so as a result of misfortune such as conflict, climate change or the exhaustion of natural assets. Nevertheless, accepting that the composition of the categories may change somewhat, the first part of this prospect – the convergence of most other developing countries with the developed economies – is likely to happen. Indeed, over the course of this century most countries other than LDCs (and all the populous ones) are likely to converge sufficiently to be eligible to join the OECD. By 2100 most people will be living in developed countries. A bitter lesson

of the post-independence period for LDCs is that growth in the world economy need not imply growth in their own economies. If the rest of the world converges on prosperity, countries that remain in poverty risk becoming increasingly detached. Their brightest young people will aspire to emigrate, and there will be far more countries that are attractive and feasible destinations. As locations for economic activity, the LDCs will increasingly be regarded as suitable only for natural resource extraction.

The future for LDCs need not be like this, but it will be unless there is effective change. The rest of the developing world will rapidly develop; in LDCs business-as-usual will not deliver the substantial acceleration necessary to keep pace with them, let alone to catch up.

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

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

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

This paper suggests a menu of strategic policies around

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which LDC governments might rally. It focuses on new opportunities arising from recent changes in the world economy. It is easier to seize new opportunities than to revisit old battles. The most important opportunity will be the surge in extraction of natural resources from their territories; the scale of the financial flows will be without historic precedent for the LDCs. However, this will pose huge challenges of economic governance. This issue is discussed in Chapter 2. A further new challenge will be the consequences of the rise of the middle-income developing economies as industrial powers. Potentially, this makes it more difficult for the LDCs to diversify out of primary commodities into industrialisation. However, related developments in modern global manufacturing, notably trade-in-tasks, offer scope for new strategies. This is the subject of Chapter 3. LDCs have very small economies. Recent research suggests that very small scale is an impediment to development. The most realistic solution is regional integration, yet progress has been very slow. Revitalising regional integration is the subject of Chapter 4. The crisis in the OECD has worsened prospects for conventional development assistance, but opened prospects for more commercial forms of finance. This is the subject of Chapter 5. Finally, climate change and Asian growth are both posing new threats to food security in LDCs. This is the subject of Chapter 6.