

7 Conclusion

The post-boom global economy looks to have some important differences with the half-century since LDC independence. As other developing countries rapidly converge on a crisis-ridden OECD, LDCs are becoming increasingly distinctive. The OECD economies are in crisis and so aid is set to decline relative to the GDP of LDCs: new types of international finance for LDCs will need to be developed. Because other developing countries are growing rapidly, commodity prices are likely to remain high, making the management of natural resources critical, and LDCs will have a chance of being competitive in labour-intensive manufacturing, making pump-priming industrial policies valuable.

Supportive international policies need to be sharply differentiated so that LDCs can begin to converge on the rest of mankind. Yet no international agency has either a remit focused on the poorest countries or a mandate that spans all the different types of policy. Nor are LDCs adequately represented in the G8/G20 process, to which the EMEs have now gained entry. This makes it imperative that the governments of LDCs collectively take leadership of the pertinent agenda. It may be helpful to summarise the international agenda suggested in this paper.

The International Agenda: a Summary

Harnessing natural resources for development:

1. In view of the overarching importance of resource extraction for most LDCs in the coming decade, it would be helpful for LDC governments collectively to endorse common guidelines for their management, such as the guidelines set out in the independent [Natural Resource Charter](#).

Supportive international policies need to be sharply differentiated so that LDCs can begin to converge on the rest of mankind.

2. Aid to finance public geological information. This would enable LDC governments both to attract companies and to reduce the information gap between governments and companies. The US Government recently provided this to the Government of Afghanistan.
3. A new voluntary international standard for encouraging and policing competition in awarding contracts for resource extraction through auctions, in order to gain maximum benefit to governments.
4. The WTO to provide commitment mechanisms for LDC governments wishing to reduce the perceived risk of resource extraction contracts.
5. The international financial institutions (IFIs) substantially to scale up their provision of advice on resource taxation to governments of LDCs. The pay-off for good professional advice is very high because resource extraction companies are expert at minimising tax bills. But the cost of such advice on the open market is beyond the means of LDCs.
6. Where an LDC government prefers to sell resource extraction rights directly in exchange for a package of infrastructure and aid (as in Chinese deals), other donor governments should comply with this preference by putting together equivalent consortia which could compete.
7. Within the WTO, defend the right to impose local content rules for purposes of promoting diversification.
8. Ask the WTO to impose on all its member countries the requirement recently imposed by the Lugar-Cardin Amendment on those companies listed on the New York Stock Exchange.

9. Develop an international capability for dispute resolution in cases of environmental damage caused by resource extraction, through which adversely affected local communities can appeal for fair and enforced compensation.

Breaking in to manufacturing

10. Establish a common preference scheme for those LDCs that have yet to break into manufactures, with generous ROO (analogous to the AGOA garment rules). At a minimum the OECD countries should provide a common scheme for privileged market access, but much better would be for a common global scheme brokered by the G20, under which the emerging market economies also provided privileged market access for LDC products.

Promoting urbanisation

11. Donors need to shift their priorities from a somewhat romantic rural-social agenda which has dominated the past decade, to a more practical urban-economic agenda which is where future development will take place. It will be much easier for donors to make this change if it is a collective demand of LDC governments rather than case-by-case appeals.

Rebuilding foreign financing

12. Donors should change their basis for aid allocation so that proportionately more aid goes to LDCs.
13. The international agencies, and particularly the IMF, should extend their public expenditure and financial accountability (PEFA) assessments so as to be able formally to certify budget systems as fit for aid in the form of budget support, so that aid can be reallocated from projects and special purpose funds.

14. In those environments in which NGOs play a significant role in the delivery of basic services, the World Bank should be encouraged to develop new administrative arrangements for aid delivery, along the lines of public service agencies, which enable governments to control and co-ordinate NGO activities.
15. The World Bank should be asked to develop an IBRD-2 scheme for pre-emerging market economies, whereby over and above the IDA, governments could borrow at close to the risk-free world commercial interest rate.
16. LDC governments should initiate a global investment guarantee scheme, designed on their terms, so as to reduce the high risk-premium which they currently pay for foreign investment.
17. LDC governments should support and invigorate the Zoellick initiative on target shares of sovereign wealth funds being invested in LDCs.
18. Lobby for a switch from permanent and uncontrolled migration to temporary and controlled migration to OECD countries. Ideally this would be linked to a mechanism for generating revenue for government.

Promoting food security in the face of climate change

19. In LDCs the key climate change issue is adaptation, whereas in developed and emerging market economies it is mitigation. Hence, assistance to LDCs should be for adaptation rather than mitigation.
20. Adaptation within agriculture needs rapid innovation in crop varieties and GMOs are a useful mechanism for such innovation. LDC governments should encourage public research on GMOs in developed countries. As part of this governments should lift bans on GMOs.

21. LDC governments should support the concern of Ngozi Okonjo-Iweala that food-exporting countries should refrain from banning exports.

While the international agenda has been the core focus of this paper, supportive domestic policies in LDCs may also need to be reprioritised. During the past decade they have been social and rural, often heavily influenced by donor preferences. Yet future economic opportunities will be predominantly urban and will require supporting infrastructure and market integration. Market integration will require a far more effective approach to regional integration than LDC governments have had to date. It is most likely to come not from the pan-regional approach (because too many governments are involved), but from small groups of neighbouring countries (such as the East African Community) with strong common interests. Many LDCs are landlocked. Landlocked countries have a vital interest in cost-effective transport corridors. These require both hard and soft infrastructure. The hard infrastructure involves large fixed investments across borders; attracting such investment therefore depends upon effectively eliminating the multiple opportunities for hold-up inherent in unlimited sovereign rights. The soft infrastructure involves curtailing the corruption which is parasitic on the flow of commerce.

Notes

- 1 Both the EU and USA also have regional integration agreements extending preferences on a reciprocal basis, and the EU is moving towards replacing its Cotonou agreements with such Economic Partnership Agreements. Our focus is on unilateral rather than reciprocal preferences, although some of our policy messages will apply to both.
- 2 Hoekman *et al.* (2006), drawing on Low *et al.* (2005). See also Olarreaga and Özden (2005) for an application to preferences in the apparel sector.
- 3 Computable general equilibrium studies of trade preferences include both rent and supply effects, but typically ignore the potential of scale thresholds. See Bchir *et al.* (2007) for a recent example.
- 4 See Duranton and Puga (2005) for a survey of the micro-economic mechanisms underlying clustering.
- 5 For further development of these ideas see Burgess and Venables (2004) and Puga and Venables (1996).
- 6 See Rodrik (2004) for discussion of these issues.
- 7 For details of eligibility see http://www.agoa.gov/eligibility/country_eligibility.html.