ISSUE 139

The Commonwealth

Trade Hot Topics

Putting LDCs Back on Track: Challenges in Achieving the IPoA Targets

Mohammad A. Razzaque and Kirthika Selvakumar*

Background

Since 1971, the United Nations has grouped together the least developed countries (LDCs), a category of states deemed highly disadvantaged in their development process and face the risk of failing to exit poverty. Over the past four decades, the number of LDCs has grown to 48, with a current total population of about 900 million people. These countries are generally characterised by low per capita income, poor levels of human capital development, less diversified economic and exporting activities and high economic and structural vulnerability.

To respond to the challenges facing the LDCs, the United Nations has since 1981 hosted once-a-decade special conferences on LDCs. The most recent of these, the Fourth United Nations Conference on LDCs (UN LDC IV), took place in Istanbul, Turkey, in May 2011. Like its predecessor, held in Brussels in 2001, the Istanbul Conference also adopted a Programme of Action, the IPoA, for the decade 2011–20 to be implemented by LDCs themselves and development partners—including, among others, traditional donors and emerging developing countries—to help address the economic and social circumstances facing the world's poorest countries.

Implementation of the IPoA is of great interest to the Commonwealth as 13 of its members are LDCs.[1] This is particularly so as the implementation experience and monitoring mechanism of the previous international support system was widely considered weak and disappointing. The IPoA therefore has an explicit focus on its implementation mechanism. A comprehensive high-level midterm review of IPoA took place in June 2016.

Since the launch of the IPoA, the Commonwealth Secretariat has been partnering with a number of renowned organisations and think-tanks to complement the official review processes by undertaking independent assessments of the programme's implementation.[2] This issue of *Trade Hot Topics* presents recent evidence that shows that LDCs are not making encouraging progress on specific targets set out in IPoA and provides some suggestions in helping them tackle the challenges confronting their trade and development prospects.

IPoA 2011–20: What does it aim to achieve?

The IPoA is ambitious. It articulates a vision and strategy for the sustainable development of LDCs with a strong focus on developing their productive capacities. It foresees halving the number of LDCs to 24 even though over the past four decades only four countries have been able to 'graduate' out of

* The authors are respectively Head and Assistant Research Officer of the International Trade Policy Section, Commonwealth Secretariat. Any views expressed in this article are those of the authors and do not necessarily represent those of the Secretariat.

1 Bangladesh, Kiribati, Lesotho, Malawi, Mozambique, Rwanda, Sierra Leone, Solomon Islands, Tuvalu, Uganda, Tanzania, Vanuatu and Zambia.

2 The LDC IV Monitor comprises the Centre for Economics and Foreign Policy Studies (EDAM), the Centre for Policy Dialogue (CPD), the Commonwealth Secretariat, the Economic and Social Research Foundation (ESRF), Fondation pour les Etudes et Recherches sur le Développement International (FERDI), the International Centre for Trade and Sustainable Development (ICSTD) and the Development Centre of the Organisation for Economic Co-operation and Development .

3 Botswana, Cape Verde, Maldives and Samoa.

the group. The overall ambition of the IPoA is to be fulfilled through favourable measures for these countries in various areas, including international trade, development financing and technical assistance, building productive capacity, etc. Their development partners have also pledged a renewed and strengthened global partnership.

In terms of identifying priority areas of action, the IPoA appears to be a comprehensive document. It addresses a large number of LDC concerns, ranging from effective participation in international trade to crisis mitigation to domestic reforms. Specifically, the international community has agreed on various actions for implementation by LDCs and their development partners in eight priority areas: productive capacity; agriculture, food and nutritional security and rural development; trade; commodities; human social development; multiple crises and other emerging challenges; mobilising financial resources for development and capacity-building; and good governance at all levels.

Although each IPoA priority area has specific goals and targets, the nature of development challenges means in most cases these cannot be narrowly defined. Any progress made can be assessed qualitatively and to some extent using quantitative indicators. In certain instances, whether improvements achieved can be considered as fulfilling the stated objectives and goals may be subject to interpretation. For example, under the pillar of productive capacity, one of the goals is to 'significantly increase the share of electricity generation through renewable sources by 2020' (para 45.(e), p.11); under agriculture, food and nutritional security and rural development, one specified target is to 'make substantial progress towards eradicating hunger by 2020' (para 59.(a), p.17). Clearly, 'significant increase' and 'substantial progress' are ambiguous, and a lack of clearly defined targets means they cannot be measured. Nevertheless, one very important feature of the IPoA lies in its capturing and articulating the most important development aspirations for LDCs.

Five years into the implementation period, in May 2016, the midterm global review of the IPoA took place (in Antalya, Turkey), to assess progress made and chart a way forward. Various evaluations undertaken to support the midterm review postulate a broad-based consensus that progress towards achieving the goals and targets has been limited. Some positive developments have been seen, such as on access to the Internet and mobile telephony networks; policy attention to transport, power and trade facilitation infrastructure; and certain human and social development indicators, such as access to clean water, child mortality and disparity in primary education.[4] Incidence of extreme poverty has also declined to some extent. However, the LDCs continue to face low productivity, high incidence of poverty and unemployment and lack of diversification in their production structures, among others things. The majority are failing to meet the IPoA targets on human and social development despite an acceleration of effort over the past five years. At best, the most encouraging outlooks seem to be confined to a handful of individual countries.

Growth, trade, structural transformation and graduation

Despite most IPoA goals and targets being broad and qualitative in nature, in at least four areas some targets are clearly defined to make it possible to assess progress made. These areas are economic growth, trade performance, structural transformation and countries' prospects of graduating out of the LDC group. Although these are a few selected indicators, they can capture the severe magnitude of challenges the countries face.

Growth performance

Perhaps the single most important objective of the IPoA is for LDCs to achieve 'sustained, equitable, and inclusive growth... to at least 7 per cent per annum, by strengthening their productive capacity, in all sectors through structural transformation and overcoming their marginalisation through their effective integration into the global economy, including through regional integration' (para 27.(a), p.6). Having a concrete annual economic growth target makes it possible to see which LDCs are achieving it and which are not.

Calculations based on gross domestic product (GDP) growth data for individual countries show only five countries (less than 20 per cent of the LDC group's membership)—that is, Cambodia, Democratic Republic of Congo, Ethiopia, Lao PDR, Myanmar —have achieved average growth of 7 per cent as envisaged in the IPoA declaration. If International Monetary Fund (IMF) growth

4 These are summarised in UNOHRLLS (2016) *State of the least developed countries 2016*. New York: UNOHRLLS.

projections for the period 2017–20 for individual countries bear out, it is estimated that only four LDCs (Bhutan, Ethiopia, Lao PDR and Myanmar) will be able to achieve the growth target for the whole IPoA period of 2011–20.

It is necessary here to acknowledge that the global economy has seen subdued economic activity in recent times. Along with prolonged weak economic prospects in the Eurozone since the aftermath of the global financial crisis of 2008, China has settled to a 'new normal' of relatively low economic growth of just around 6 per cent, as against the 9–10 per cent rates it has achieved over the past three decades. Among other large emerging countries, Brazil, Russia and South Africa have experienced faltering economic performance. All this has meant depressed demand for traded goods, leading to weaker commodity prices, lower export revenues and weak economic growth for many LDCs that rely heavily on natural resource-based products.

Trade performance

The IPoA recognises the important role of international trade in helping LDCs achieve sustainable development. In this regard, it emphasises addressing supply-side constraints, building and diversifying the export base and creating an enabling global trading environment for LDCs through favourable market access. One specific trade target set in this context is to significantly increase the share of LDC trade in global trade, with the aim of doubling the share of their exports in global exports by 2020 (para 65a). Subsequently, the same target has been reflected in the 2030 Agenda for Sustainable Development, as adopted by the global community in 2015.

Unfortunately, implementation of the IPoA has coincided with a period of unprecedented slowdown in global trade. Since 2012, global trade has grown at a much slower pace than the preceding 6 per cent average growth achieved in 1980-2007. Such a prolonged period of weak global commercial activities is unprecedented. If IMF projections are correct, 2012–21 could be the slowest decade of trade expansion since the second world war.

In terms of LDC exports, including merchandise goods as well as commercial services, there was some encouraging progress during the 2000s. Between 2000 and 2010, LDC exports grew nearly five-fold, from US$43 billion to about US$190 billion. Despite the financial crisis, exports grew quite strongly until 2013, thanks to commodity price surges. However, as the global trade slowdown deepened and commodity prices dipped, LDCs' total exports also collapsed (Figure 1). Indeed, in 2015, LDC exports stood at only US$201 billion—just about the same as in 2008. As a result, the secular decline in the share of LDCs in world exports (since the 1950s) was arrested for only short period, between 2006 and 2010, after which their marginalisation in global trade resumed.

Indeed, it now looks almost inevitable that the target of doubling the LDC share of global exports by 2020 will not be achieved. At the start of the IPoA implementation period, the corresponding LDC share was 1.05 per cent, and this had actually declined to 0.96 per cent by 2015. It can be estimated that, even under low growth in overall global trade, achieving the target of raising the LDC share to 2.1 per cent will require LDCs to post an average annual export growth rate of more than 15 per cent during 2016–20. This is an almost impossible task given current trends in global trade. This particular IPoA target has also been adopted into the Sustainable Development Goals (SDGs), which means faltering LDC participation in global trade will deal an early blow to one SDG target.

Figure 1: LDCs' exports of goods and services and share in world exports

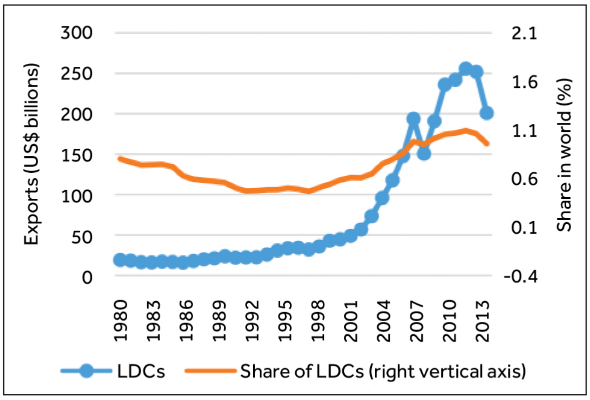
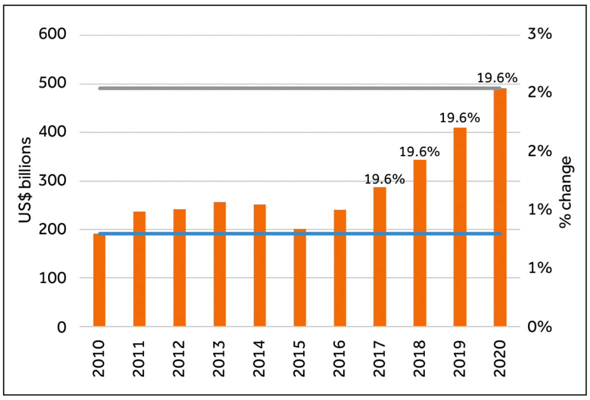


Figure 2: LDC exports of goods and services



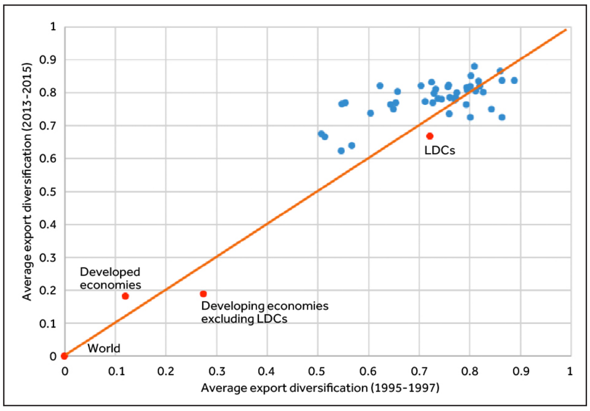
Source: Authors' calculations using data from UNCTAD Stat

Structural economic transformation

The IPoA document specifically underlines the importance of refocusing 'attention on *structural transformation* of least developed countries through increasing productive capacity and diversification and strengthening home-grown development paths' (para 26.(d), p.5). Structural transformation would broadly imply countries making progress from being stuck in predominantly primary and traditional sectors towards more productive manufacturing and modern services sectors. For most LDCs, this transformation has not taken place: since 1995, only 19 LDCs have managed to increase their share of manufacturing value added in their total GDP, and in most cases the improvements have been only marginal.

Another way of assessing structural economic transformation is by examining the diversification of a country's export basket. Achieving a diversified export basket takes a considerable period of time and as such significant developments since the adoption of the IPoA are not expected. On an index of export diversification, which compares individual countries' export structure with the world average, ranging from a value of 0 (for highly diversified, reflecting the world average) to 1 (highly concentrated and thus far away from the world average), the average value of LDCs turns out to be 0.68 as against 0.19 of developing countries (excluding LDCs) in 2015. This stark contrast is evident in Figure 3, in which the index values of LDCs are concentrated in the top right corner (scores closer to 1 and highly concentrated) whereas the average index values for developed economies and developing countries are in the bottom left corner (scores closer to 0 and highly diversified). With levels of diversification already low, export concentration has increased for 34 LDCs since 1995–97.

Figure 3: LDCs' export diversification

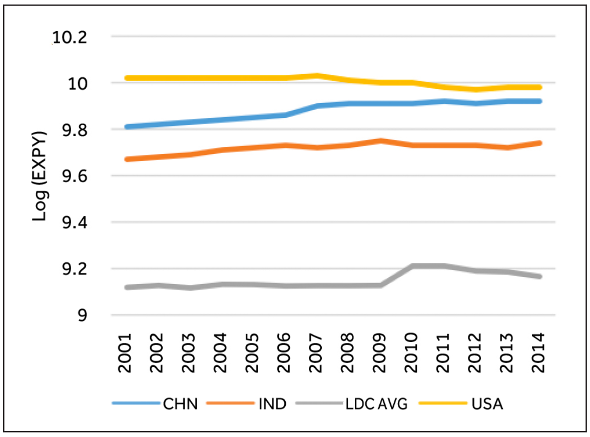


Note: The line drawn through the scatter is at 45 degrees. Countries that are on the right of the line have experienced increased export concentration measured at three-digit group (SITC Revision 3) level in 2013–15 as compared with in 1995–97.

Source: Authors' calculations using UNCTAD Stat

Structural transformation can also be viewed as progress made in terms of achieving export sophistication. One consideration in this approach relates to whether LDCs can produce and export items of the typical quality of products exported by middle-income and/or advanced economies. An analysis of comparative technology content shows that LDCs lag significantly behind the relatively advanced developing economies and other developed countries (Figure 4). Although over time—particularly since the late 2000s—there has been some improvement, LDCs do not show any evidence of catching up with other groups of countries. Making improvements in this respect is an important indicator for long-run development, as there is a very strong association between export sophistication and GDP per capita (Figure 5). Even within the set of LDCs it is possible to observe a positive association between GDP per capita and product sophistication (Figure 6). Thus, it is quite right that the IPoA has put so much emphasis on achieving structural transformation in the LDC economies.

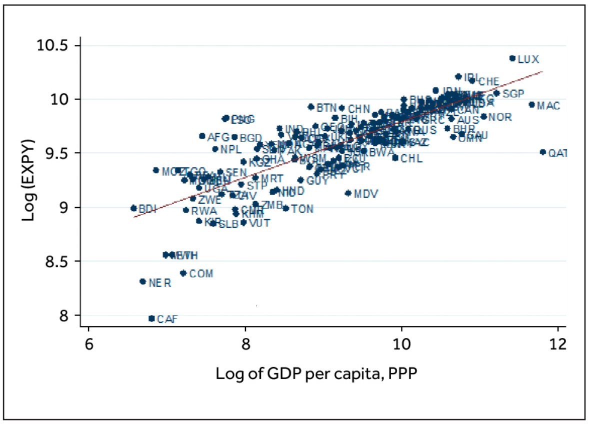
Figure 4: Productivity content of exports



Note: EXPY is a measure of the productivity level associated with a country's exports coined by Hausmann, Hwang and Rodrik (2006). EXPY is given by summing all the PRODY values for the products exported by the country, each weighted by the product's share in total exports. PRODY is calculated as a weighted average of per capita GDP of countries producing that product, with weights derived from revealed comparative advantage. The data points for 2006, 2007, 2008 and 2009 are calculated using three-year moving averages, as the data available for those years were significantly fewer. All EXPY values are measured using a logarithmic scale.

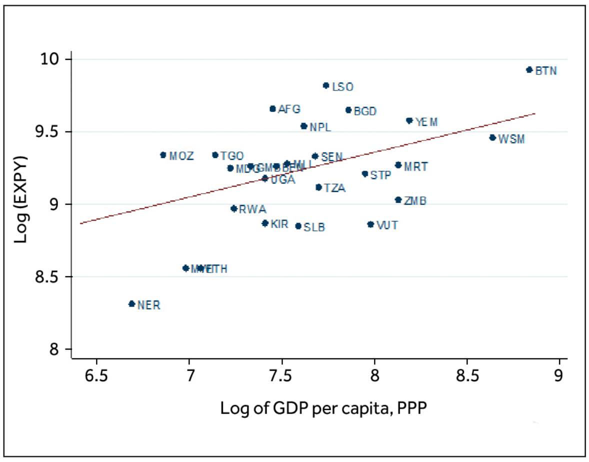
Source: Authors' calculations using data from World Integrated Trade Solution database

Figure 5: Relationship between GDP per capita and productivity content of exports in the global economy



Source: Author's calculations based on World Integrated Trade Solution database

Figure 6: Relationship between GDP per capita and productivity content of exports in LDCs



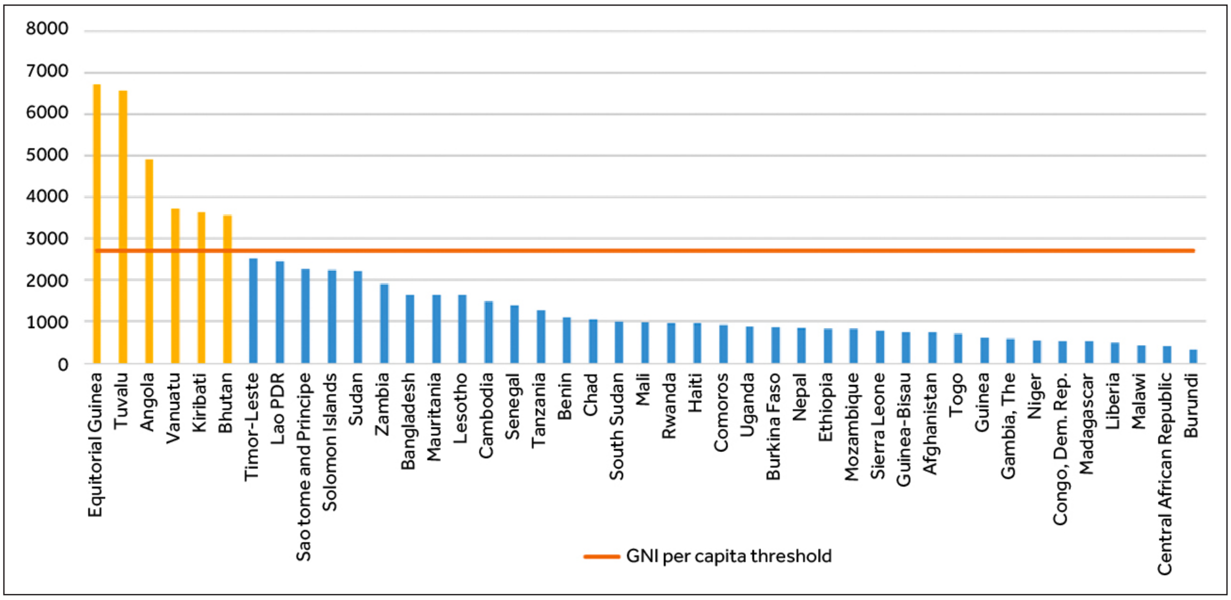
Source: Author's calculations based on World Integrated Trade Solution database

Graduation prospects by 2020

As mentioned earlier, the IPoA has put in place an ambitious target of halving the number of LDCs by 2020. Currently, there are two routes countries can use to graduate out of the LDC group. The first uses the 'income-only' rule, which is met if a country's gross national income (GNI) per capita is twice the graduation threshold, set at US$1,242 in the 2015 triennial review. Our analysis which projected the threshold and GNI per capita to 2020 shows that only six countries will be eligible for graduation: Angola, Bhutan, Equatorial Guinea, Kiribati, Tuvalu and Vanuatu (Figure 7). Of these, Kiribati has not been recommended for graduation despite meeting both the income and the Human Asset Index (HAI) criteria for a second time, as its Economic Vulnerability Index (EVI) score is the highest in the world (see below on these indices).[5]

The other pathway requires a country to meet at least two out of three conditions: (i) to have a

Figure 7: Graduation based on projections of GNI per capita in 2020



Note: The LDC graduation threshold in 2020 is projected to be US$2716. [6]

5 It should be noted that countries do not automatically graduate on fulfilling the graduation criteria as they need to be recommended for graduation by the Committee of Development Policy (CDP).

6 The LDC graduation GNI per capita threshold is 20 per cent greater than the World Bank's low-income country (LIC) threshold, which was US$1,025 in 2015. Therefore, the 2015 LDC graduation threshold was 1.2*$1,025=$1,230. The 2020 LDC graduation threshold of GNI per capita is then projected using the average growth of GNI per capita from 2011 to 2015 (2 per cent), which is $1,230*(1.02^5)=$1,358, and doubling it would be $2,716. The GNI per capita of LDCs for 2020 has been forecast using GDP growth rates from the IMF World Economic Outlook projections (October 2016).

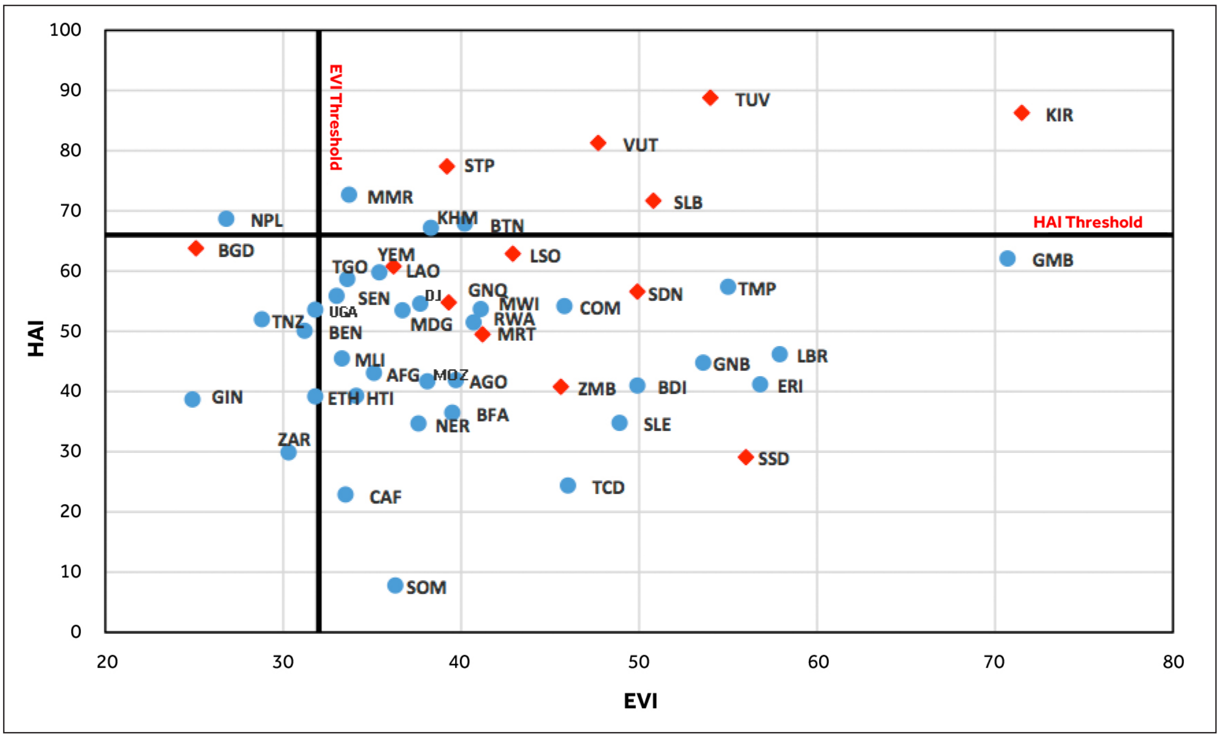
certain level of income as measured by a three year average of GNI per capita (ii) to have reduced their economic vulnerability below a stipulated level (iii) to have made social progress in the area of health and education by meeting the threshold for HAI.[7] These indices comprise various social and environmental indicators to measure risks not otherwise captured.

At the time of writing, the four countries have been put forward for graduation based on the 'income-only' rule : Angola, Equatorial Guinea, Tuvalu and Vanuatu. Of these, the United Nations General Assembly has taken note and accepted the recommendation for Angola, Equatorial Guinea and Vanuatu. Equatorial Guinea will graduate in June 2017, Vanuatu in December 2017 and Angola in February 2021. Tuvalu's graduation has been defered to the session of 2018 to allow the Council to have an opportunity for further consideration of the particular challenges that Tuvalu faces.

The graduation process can be quite lengthy, taking up to six years. Countries need to have met the eligibility criteria twice consecutively at the triennial reviews before the Committee for Development Policy (CDP) recommends them for graduation to the United Nations Economic and Social Council. After the first triennial review, the United Nations Conference for Trade and Development prepares a vulnerability profile that further assesses the vulnerabilities the country is facing that are not covered by the EVI. This is followed by an ex-ante impact assessment by the United Nations Department of Social and Economic Affairs, which considers the possible impact of the withdrawal of special support measures to that country as an LDC. This provides CDP with comprehensive information on which to base its decision to grant eligibility for graduation. Subsequently, graduation only takes effect three years after the General Assembly takes note of the recommendation.

Considering projected growth in LDCs, it is very unlikely that 24 countries will be able to graduate based on the income rule only. On the other hand, the prospects for graduation through meeting the current thresholds set for the EVI and the HAI do not look promising: only Nepal meets both the EVI and the HAI graduation thresholds as set in 2015 (Figure 8). Only eight LDCs meet the current EVI

Figure 8: EVI and HAI scores of LDCs



Note: Countries in the top left quadrant meet the EVI and HAI thresholds. Countries that meet the GNI per capita threshold are marked in red.
Source: Authors' calculation using World Bank DataBank

7 The HAI is based on indicators of (a) nutrition: percentage of population undernourished; (b) health: mortality rate for children aged five years or under; (c) education: gross secondary school enrolment ratio; and (d) the adult literacy rate. The EVI is based on indicators of (a) population size; (b) remoteness; (c) merchandise export concentration; (d) share of agriculture, forestry and fisheries; (e) share of population in low-elevated coastal zones; (f) instability of exports of goods and services; (g) victims of natural disasters; and (h) instability of agricultural production. The graduation thresholds applied at the 2015 triennial review are GNI per capita at US$1,242 or above, HAI score of 66 or above and EVI score of 32 or below.

threshold and just nine meet the HAI threshold. Thus, it is highly unlikely that the IPoA target of halving the number of LDCs will be met. This sombre situation signals the urgent need to put in place enhanced and effective international support mechanisms to help LDCs achieve these targets.

Way forward: LDCs as the test case for the SDGs

Implementation of the IPoA has been affected by widespread economic uncertainty since the global financial crisis of 2008 from which the world economy has not yet been able to recover. As a result of this, the average growth of LDCs during 2011–16 was much lower than the 2000–08 average and far below the IPoA target rate of 7 per cent per annum. Indeed, during 2012–16, LDCs saw on average the slowest pace of economic expansion since the late 1990s.[8]

Along with this, an unprecedented slowdown in world trade means that for many LDCs the export-led growth and development strategy has seen a major setback. Indeed, if IMF projections over the next five years prove correct, 2012–21 could be the slowest decade of trade expansion since the second world war. This is also affecting LDCs disproportionately, as their share in global trade has fallen. It is now almost inevitable that the IPoA target of doubling the LDC share in global exports by 2020 will not be met. This lost decade of gains from trade has important development implications, particularly for LDCs.

It is true that achieving structural economic transformation, including export diversification, as envisaged in the IPoA was always going to be difficult to achieve. However, the recent deteriorating economic and trade performance of many LDCs is a profound challenge to a global work programme on LDCs such as the IPoA. As the global community has now embarked on realising the SDGs by 2030, the IPoA implementation experience will require a renewed focus if it is to effectively address the challenges facing LDCs. It is in this respect that the LDCs will be seen as a test case for the SDGs.[9] Given the recent economic situation, it is imperative that development partners consider a comprehensive and action-oriented support system for LDCs.

International trade should be regarded as an immediate route to deliver gains for LDCs. Subdued world economic and investment activities have contributed to depressed demand and weak commodity prices, leading to export revenue shortfalls. Trade prospects for LDCs have come under further strain with the rise and persistence of protectionist measures since the onset of the 2008 global financial crisis. It has been estimated that the total amount of LDC exports foregone as a result of trade distortions implemented between 2009 and 2013 was US$264 billion, and such restrictive measures continue to exist.[10]

One immediate concrete step in this regard will be to withdraw all trade-restrictive measures that hurt LDC exports. It is developed and relatively advanced countries that are also important development partners who have imposed most of these measures; these actors should exercise maximum restraint while using such measures (including anti-dumping and safeguards and standards-related actions) against exports from the poorest and most vulnerable countries. Where this is not possible, alternative support should be provided to counter any trade distortion effects for LDC suppliers.

Offering preference-based market opening in services can also constitute an important way of supporting LDC trade. The World Trade Organization's (WTO's) LDC services waiver has opened up the possibility of making preferences in services more widely available on a non-reciprocal basis. While some offers of preferential treatment have been made, their meaningful implementation will help LDCs materialise gains.

Having now entered into force, the members of the WTO will start implementing the Trade Facilitation Agreement, which is expected to unleash huge trade potential. However, its implementation will be demanding and LDCs will require both financial and technical assistance to benefit from the deal. The implementation process must be inclusive so as to prioritise LDCs' needs.

Along with this, trade-related supply capacities in LDCs must be enhanced. While the Aid for Trade (AfT) initiative has been generally helpful, there is scope to make it even more effective.

8 According to UNCTAD's *Least developed countries report 2016*, 13 LDCs experienced a decline in their GDP per capita.
9 As also mentioned in the UNCTAD *Least developed countries report 2015*, LDCs will be the battleground on which the 2030 Agenda will be won or lost.
10 See Evenett, S.J. and Fritz, J. (2015) 'Throwing sand in the wheels: How protectionism slowed export-led growth for the world's poorest countries'. Report prepared for the Government of Sweden (revised version). According to this report, the measures implemented by G20 nations were together responsible for close to 90 per cent of LDC export losses.

Although AfT for trade facilitation has risen over the past decade or so, the amount of assistance available, approximately US$650 million, indicates that much more in terms of resources will be required. Indeed, there are concerns that effective implementation of the WTO's TFA deal in many LDCs and other vulnerable countries may not be possible because of inadequate resource support.

Implementation of the IPoA and the SDGs is also about investing in productive capacities in LDCs. Given the current economic situation, mobilising considerably more domestic resources in LDCs will be extremely difficult. On the other hand, flows of official development assistance (ODA) to LDCs have not been encouraging. The IPoA target of donors providing ODA to LDCs that is equivalent to 01.5–0.20 per cent of their GNI has not been achieved.[11] That is, notwithstanding the fact that ODA is inadequate compared with the needs of developing countries, the proportion of it that goes to LDCs is also quite small. Going forward, meeting the resource gap to realise IPoA targets and the SDGs is an issue that needs to be addressed seriously.

Finally, when it comes to trade as a means of helping LDCs achieve their IPoA and SDG objectives, a coherent approach to delivering international support mechanisms is critical. In this context, regular reviews by the WTO and other trade-related institutions relevant to certain IPoA/SDG targets, and United Nations bodies responsible for IPoA/SDG implementation, to develop clear and practical recommendations for helping LDCs will extremely valuable. In 2017, WTO members will have the Sixth Global Review of Aid for Trade and the 11th Ministerial Conference. These events should be considered important opportunities to discuss the challenges facing LDCs and consider concrete measures to address them. There is a need for more focused attention to those trade-related issues where there are clear IPoA/SDG objectives.

11 The UNCTAD *Least developed countries report 2016* suggests that the gap between actual disbursements and the lower bound of the 0.15-0.20 per cent target is about US$30 billion.25

Previous Ten Issues of the Commonwealth Trade Hot Topics Series

Issue 138:	Staging Brexit at the WTO
Issue 137:	Post-Brexit UK - ACP Trading Arrangements: Some Reflections
Issue 136:	Connectivity and Global Value Chain Participation: Cost and Capability Considerations
Issue 135:	Modes of Service Delivery and Global Value Chain Participation
Issue 134:	Graduation from LDC Status: Potential Implications for the Pacific Fisheries Sector
Issue 133:	Trade Implications of Brexit for Commonwealth Developing Countries
Issue 132:	Global Trade Slowdown, Brexit and SDGs: Issues and Way Forward
Issue 131:	The Changing Global Trade Architecture: Implications for Sub-Saharan Africa's Development?
Issue 130:	Trade Implications of Climate Policy after the Paris Outcome
Issue 129:	The Paris Climate Agreement: What Implications for Trade?

The Commonwealth

Trade Hot Topics

ISSN: 2071-8527 (print) ISSN: 2071-9914 (online)

Commonwealth Trade Hot Topics is a peer-reviewed publication which provides concise and informative analyses on trade and related issues, prepared both by Commonwealth Secretariat and international experts.

Series editor: Dr Mohammad A Razzaque

Produced by Trade Division of the Commonwealth Secretariat

For further information or to contribute to the Series, please email m.razzaque@commonwealth.int