Out of the trap
supporting the least developed countries

A collective research
to assess the impact of the special measures
on the development of the LDCs

Contributors
Jean-Louis Arcand, Céline Carrère, Lisa Chauvet, Ana Cortez,
Pierre Encontre, Michaël Goujon, Sylviane Guillaumont Jeanneney,
Catherine Korachais, Roland Mollerus, Laurent Wagner
under the direction of Patrick Guillaumont

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Caught in a trap

ECONOMICA

Caught in a trap

Identifying the least developed countries

Patrick Guillaumont

Out of the trap

Supporting the least developed countries

Edited by Patrick Guillaumont

A companion volume of

Caught in a trap:

Identifying the least developed countries

- Previous book (2009)
- Examines the rationale of the category, its history and its grounds in development economics
- Assesses the two indicators of structural handicaps used to identify LDCs
- Suggests new indicators for capturing least development
- Explaines why some LICs have been caught in a trap, while others have escaped

Out of the Trap

- Aim: to assess the impact of the special measures in favour of LDCs on their development. After 40 years of measures, nearly no rigourous assessment of their impact

- Impact analysis needs a relevant counterfactual, which does not exist for LDCs, since all low income countries facing structural handicaps are supposed to be in the category

- Challenge: disentangling the effects of the special measures (for LDCs) from those of the specific structural features (of LDCs)

- Needed: besides looking for the impact of the whole set of measures, considering the effect of each kind of measure on related indicators, and drawing corresponding policy lessons

Out of the Trap: structure

I. Overall performances

- growth performance and poverty reduction: a reversal?
- policy performance: is it weaker?

II. External assistance to LDCs

- global aid flows: target failure, higher effectiveness
- multilateral assistance: structural handicaps addressed?

III. Trade of LDCs

- trade-related measures: what strategy involved?
- trade maginalisation and its reversal: a gain from preferences?

IV. New challenges for LDCs in the global economy

- graduation: more and smoother?
- climate change: higher vulnerability to be addressed?
- global economic governance: enhancing LDCs role

I. Overall LDC performance

- Growth:

  resumed since the mid-90s; average rates higher than in other developing countries, but not without oill exporters…still lower when averages are weighted by the population

  no clear growth resumption when growth is adjusted for the impact of terms of trade

- Poverty reduction:

  lower in LDCs due to low income (growth) elasticity of poverty

- Structural change:

  progress registered in LDCs (retrospective HAI and EVI), but lower than in other developing countries

Impact of membership using various methods: NOT CLEAR

I. Overall performance: Weaker policies?

- Usual policy and institutional indicators (CPIA, WGI, …) found weaker in LDCs than in other developing countries leading to lower long term growth

- Econometric evidence that policy indicators are significantly determined by the structural features (handicaps) of LDCs: once eliminated, policies not weaker than in other developing countries

II. ODA flows to LDCs

- *The target: what impact the category has on ODA allocation?*
- Preference given to LDCs in ODA allocation results from their features rather than from their membership in the category

- *ODA flows to LDCs: how effective?*
- Impact of ODA on average economic growth: the structural vulnerability (higher in LDCs) is a factor of lower growth, but also a factor of higher marginal aid effectiveness due to the stabilizing impact of aid
- Evidence of increasing returns of aid in LDCs from analysis of the success of projects: gives support to the « big push » view

II. ODA flows to LDCs: policy recommendations

- *Aid allocation:*

  Use of LDCs identification criteria (HAI, EVI, GNI) as allocation criteria: positive implications not only for LDCs, but also for graduating but still vulnerable countries
- *Aid orientation: structural effectivenes to be looked for*, by using aid to enhance human capital (trade-off issue?) and to lower structural vulnerability (competitive diversification, regional integration)

III. LDC in world trade: a reversal of marginalization?

- Decline in share of world trade: reversed in the last decade, for goods (1% in 2009) but not for services (still at 0.5%)
- No real reversal without the 5 LDCs oil exporters and the mineral exporters
- The real change is that since 2000 the export volume is now growing at the same rate than other developing countries

III. LDC in world trade: diversification?

- UNCTAD export concentration index: rising in LDCs, decreasing elsewhere. Some progress once fuel exporters are excluded but less than elsewhere

- New calculations at the 6 digit level and with a Theil index capturing
  - a diversification at the extensive margin (nb of products exported)
  - a reconcentration on already exported products (both due to prices and volumes, in particular with oil)
  - finally slight decline (-10%) of the Theil index of concentration between 1990 and 2006

III. LDC in world trade: a gain from preferences?

- Method: use of a panel gravity model capturing the impact of membership on the exports to specific markets (EU, US), thus allowing to control for the impact of the access given on these markets to exports from various sources

- Result for exports on EU market: a positive, but declining impact. and, once controlled for « Lome convention», the results become negative, but less and less during the last decade
- Opposite found for the US market: increasingly negative once controlled for AGOA

III. LDCs in world trade: why preferences failed?

- A significant *extension* of preferences given to LDCs

- But *real margin* of preferences is lower or even negative due to preferences given to competitors:

  On EU market in 2004:

  unadjusted pref. margin : +4.6%
  adjusted preferential margin +3.1%

  On US market (2004):

  unadjusted margin: +0.9%,

  adjusted: - 0.3%

- Moreover barriers resulting from *rules of origin*, as measured by a restrictiveness « R-index »: *higher R-index for higher preference margin*

IV. LDCs in global economic governance: a marginal role to be enhanced

- Deep marginalisation in global governance
- Not present at the G20 but affected by its decisions: need of representation
- Marginal influence in BWI but main clients: LDC voice to be enhanced
- A priori stronger influence at WTO, but weak real power of influencing decisions