



**Are LDCs moving out of the trap?**

**What is the impact of international support measures?**

*A side event organized by Ferdi with LDC IV Monitor*

*at the*

**XIIIth United Nations Conference on Trade and Development  
UNCTAD XIII/ CNUCED XIII**

*Doha, 25th of April 2012*



**Are LDCs moving out of the trap?  
What is the impact of international support measures?**

**Overview**

**By  
Patrick Guillaumont**



## **Overview**

**From**

### ***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, Alassane Drabo,  
Pierre Encontre, Michaël Goujon, Sylviane Guillaumont Jeanneney,  
Catherine Korachais, Jim de Melo, Roland Mollerus, Laurent Wagner***

**under the direction of 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: HAI and EVI
- Suggests new indicators for capturing least development (SHI and LLDI)
- Explains why some LICs have been caught in a trap, while others have escaped

Guillaumont

# Caught in a trap

Identifying the least developed countries

Patrick Guillaumont



Caught in a trap

ECONOMICA

# Out of the trap

Supporting the least developed countries

Edited by Patrick Guillaumont





## *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 rigorous 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: content***

### ***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 marginalisation 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 (brief)

- **Growth:**  
resumed since the mid-90s; average rates higher than in other developing countries, but not without oil exporters... still lower when averages are weighted by the population  
no clear sustainable growth resumption when growth is adjusted for the impact of terms of trade
- **Poverty reduction:**  
lower in LDCs due to lower income (growth) elasticity of poverty
- **Structural change:**  
progress registered in LDCs (retrospective HAI and EVI), but lower than in other developing countries





## Overall LDCs performances (I): long term growth

- Economic growth from 1970 to 2000 significantly lower in LDCs than in other developing countries, but no longer so in the last decade:  
can it be a late result of special measures... or of a policy improvement?
- Assessment of the impact of membership over 2 or 3 decades, according to several methods:
  - looking for comparable countries at the border of eligibility (among «discordant countries», meeting neither inclusion nor graduation criteria, LDCs have higher growth than non-LDCs, but risk of selection bias)
  - use of regression discontinuity design approach: a possible impact, but only during the last decade...
- Need to look at the sources of the last decade growth



## Overall LDCs performances (II): growth resumption

- Growth resumption from the mid-90s, with average rates even higher than in other developing, but...
- becoming simply similar when the 6 oil exporters LDCs are excluded...
- and still lower when averages are weighted by the population
- When the rate of growth of GDPpc is adjusted for the (significant) impact of the **terms of trade**, its increase between 1980-2000 and 2000-08 is strongly reduced (increasing only from 1.0 to 1.65% on average , instead of from 0.2% to 3.0% ),
- The same holds when oil exporters LDCs are excluded: on average the non oil exporters LDCs stay behind the non LDCs (non oil exp.), in particular when adjusted rates are compared (1.3% instead of 2.1%)



## Overall LDCs performances (III): beyond growth

- **Poverty reduction:**  
lower in LDCs, but MDG 1 more difficult to achieve due to the higher initial level of poverty and to the higher income volatility, both making the income (growth) elasticity of poverty lower in LDCs (absolute value)
- **Structural change:**  
assessed from the Ferdi retrospective series of HAI and EVI progress registered in LDCs, but lower than in other developing countries



## Overall LDCs performances (IV): weaker policy?

- Usual policy and institutional indicators (CPIA, WGI...) **found weaker** in LDCs than in other developing countries... then policies suspected to be a source of their lower long term growth
- But clear econometric evidence that these indicators (the policies) are **significantly determined by the structural features** (handicaps) of LDCs: once eliminated the influence of GNIpc, HAI and EVI, the previous indicators no longer appear weaker in LDCs
- Moreover **improvement** of these indicators in the last decade in particular for the part not determined by structural factors, in absolute value and relatively to other developing countries

## II. ODA flows to LDCs (brief)

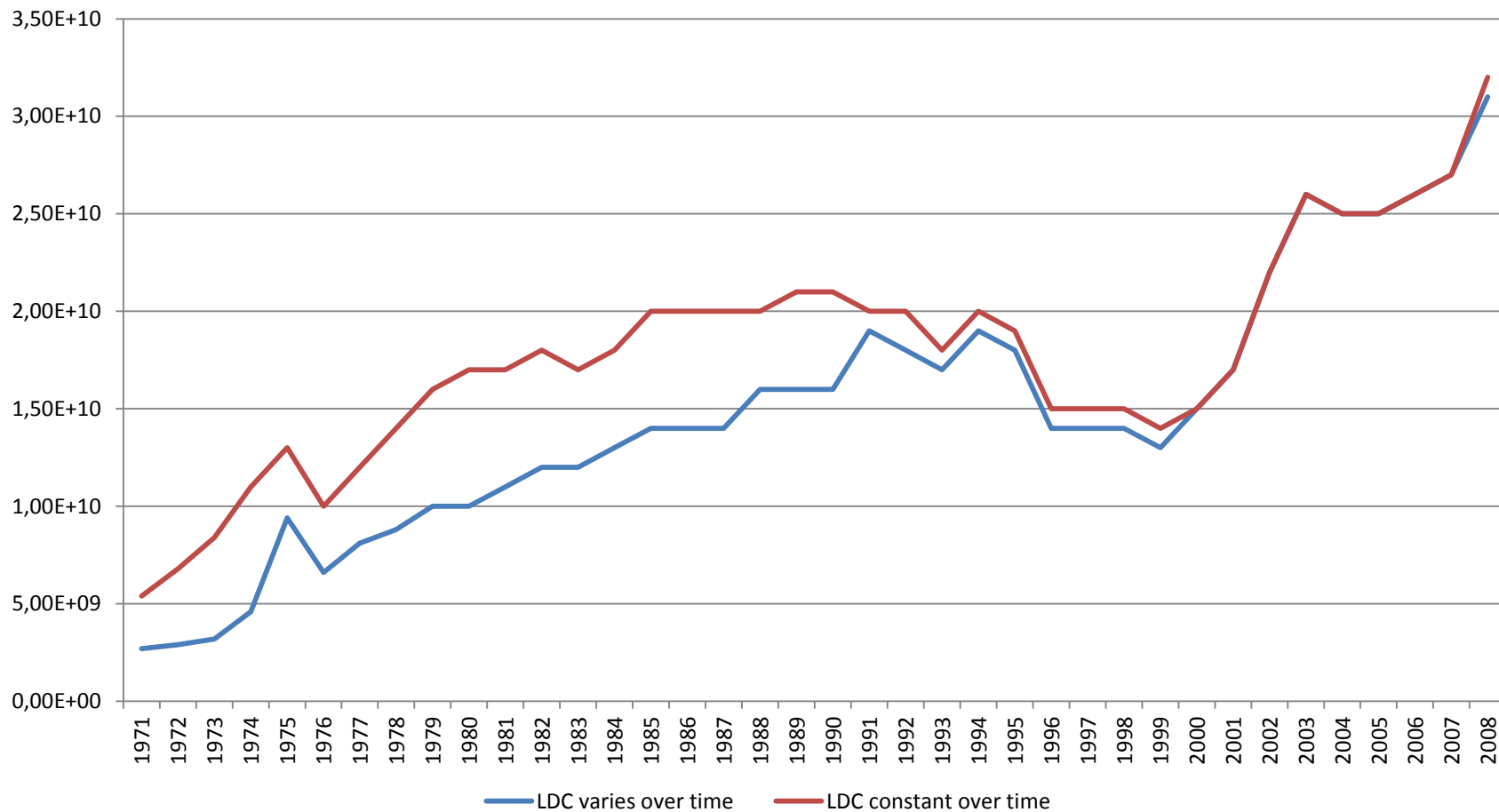
- *The target: what impact the category has on ODA allocation?*
  - Does the preference given to LDCs in ODA allocation results only from their features or also from their membership in the category?
  
- *ODA flows to LDCs: how effective?*
  - Impact of ODA on average economic growth: the structural 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



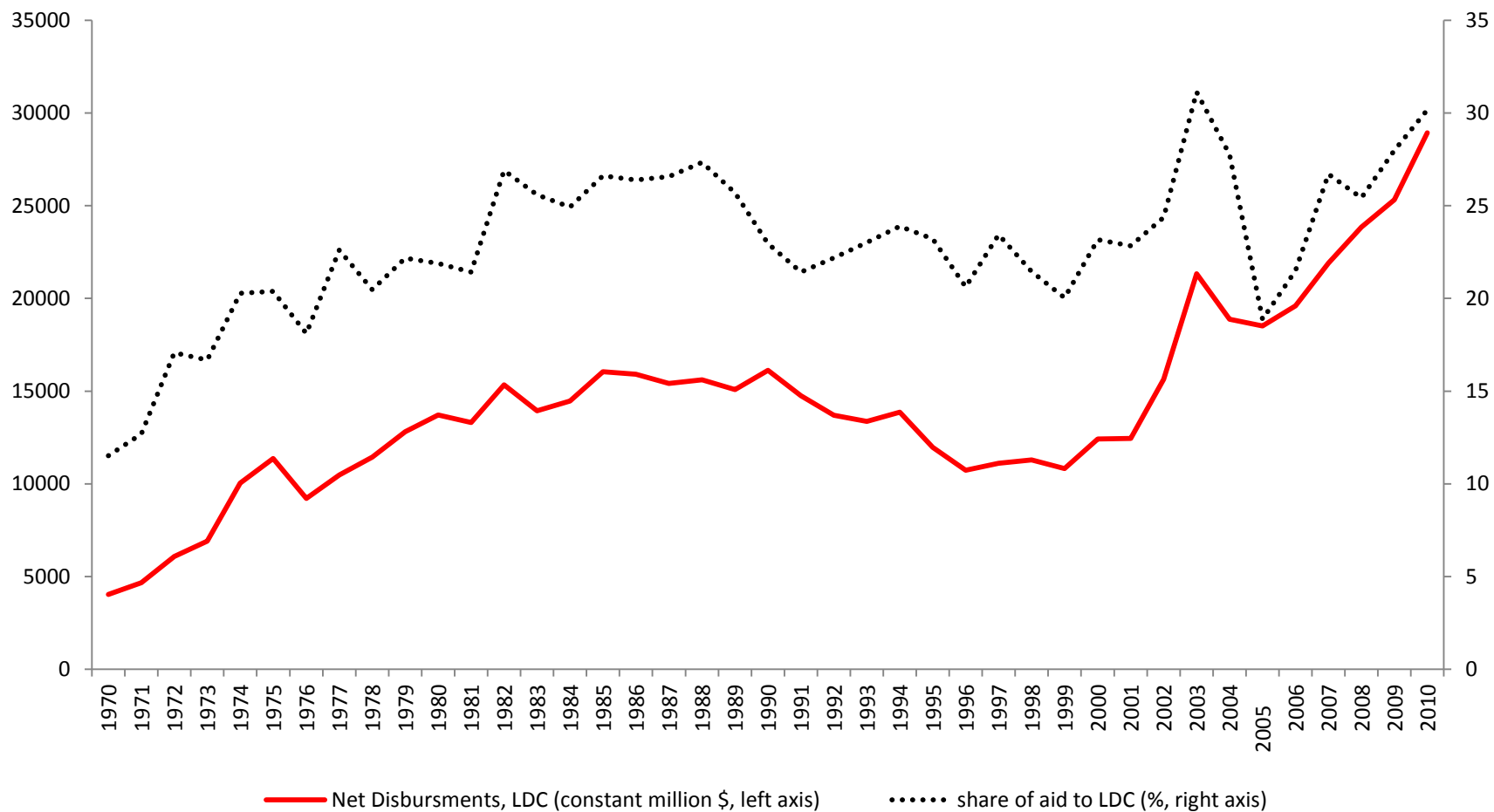
## External assistance to LDCs (I): possible impact of the target...

- **Levels:** aid pc or aid to GDP higher in LDCs than in other DgCs:  
2005-09: 40\$ pc vs 10\$ pc or ODA/GDP: 6.6% vs 0.3%
- **Trends:** ODA flows to LDCs far from the 0.15-0.2 target, but a reversal in the last decade after a decline in the previous one (see graphs)
- ....

# Evolution of net ODA (to GNI) to current LDCs and to all previous LDCs

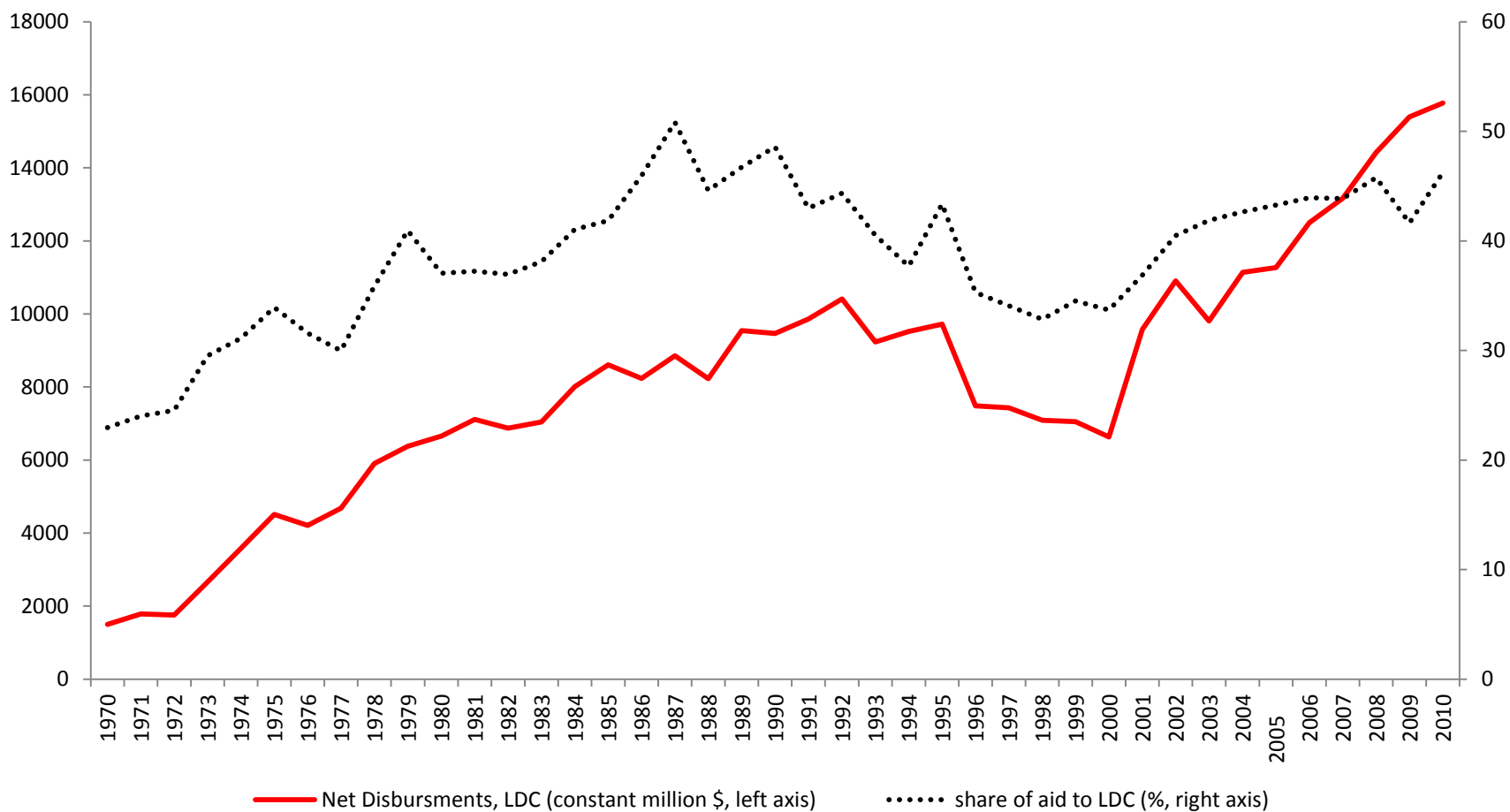


# Bilateral ODA to LDCs, net disbursements 1970-2010 (2010 \$), and relative share of LDCs

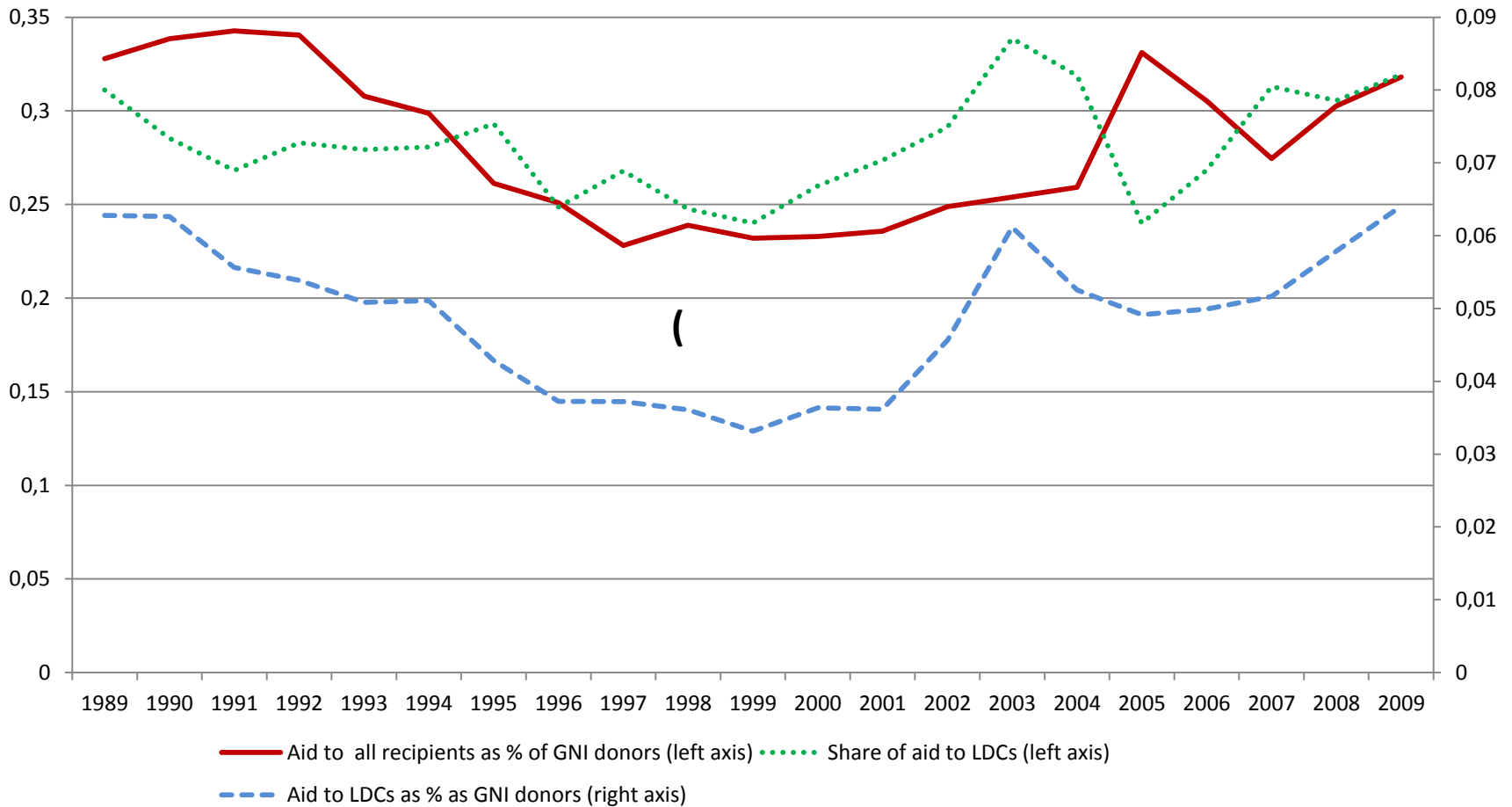




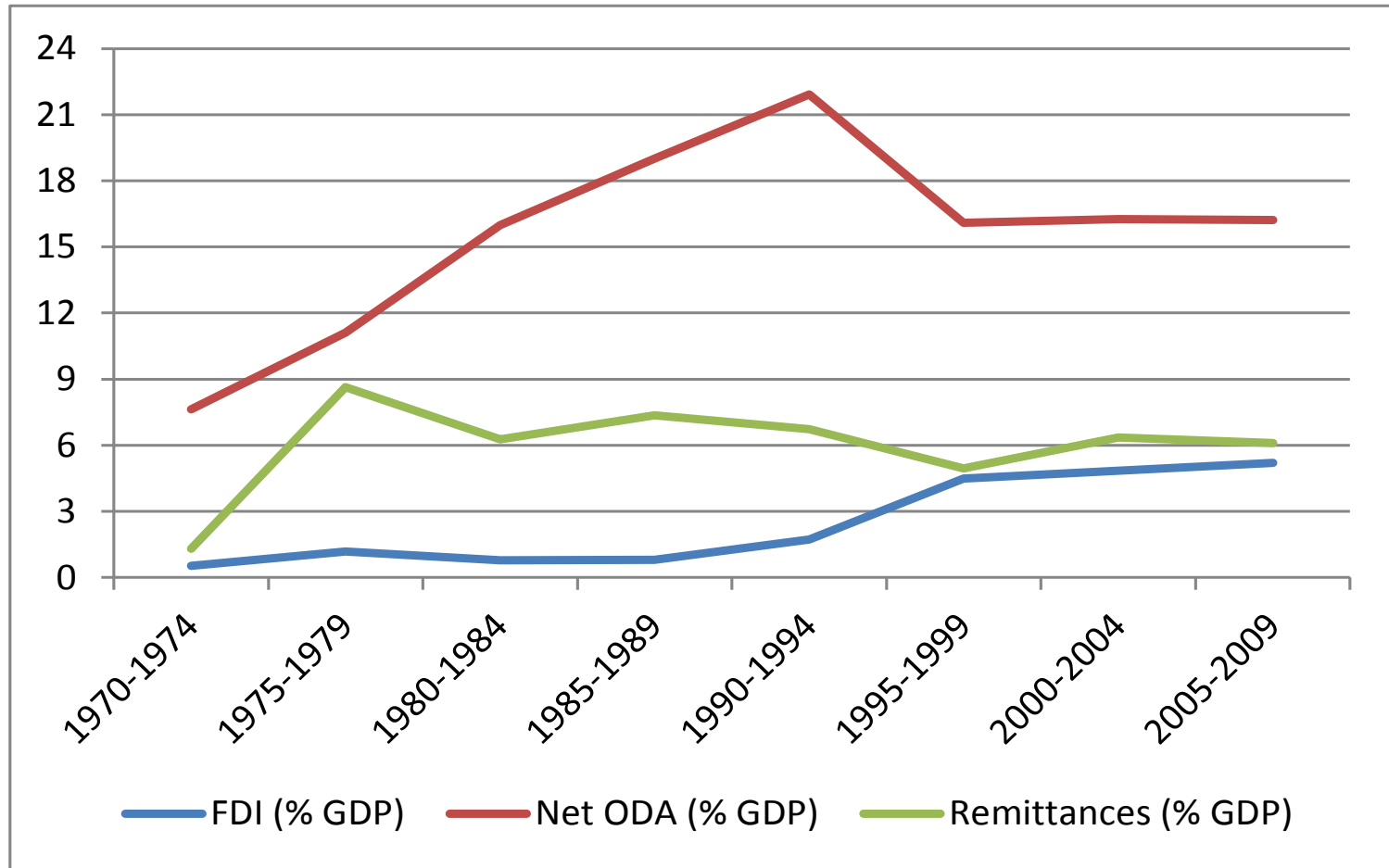
# Multilateral ODA to LDCs, net disbursements 1970-2010 (2010 \$), and relative share of LDCs



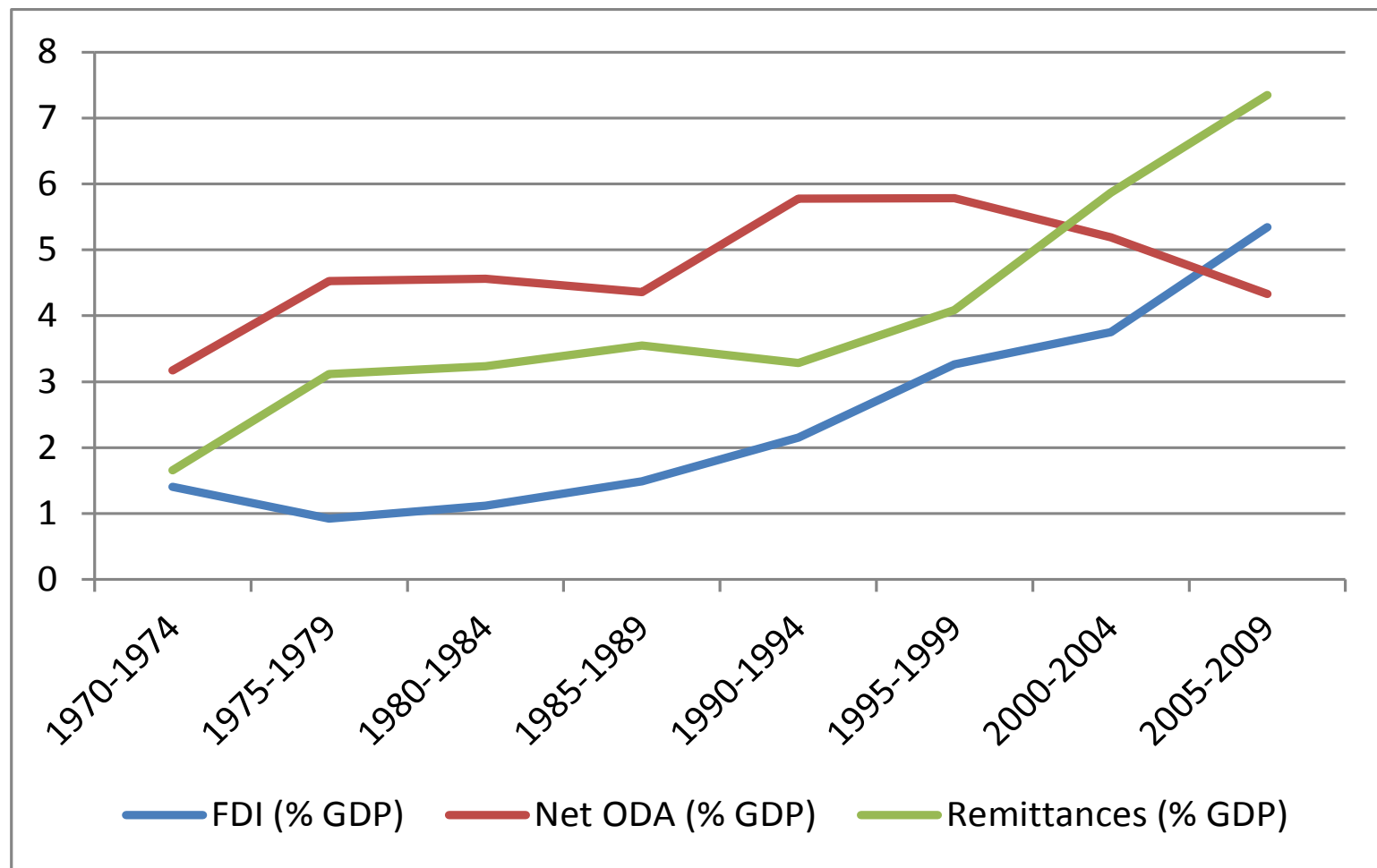
## Trends in average ratio (to GNI) of total ODA to LDCs and to all developing countries, and relative share of LDCs



## ODA to LDCs, compared to other inflows



## ODA to other developing countries, compared to other inflows





## External assistance to LDCs (I): ...possible impact of the target

- **Diff-diff**: comparing how aid to GDP has moved when a country is newly included to how it has moved in previous LDCs or to other developing countries suggests a **positive effect**, but no control for other factors
- **Econometric assessment** of the impact of the category membership, allowing to control for the traditional factors (GNIpc, Pop.) as well as for structural handicaps: significant **impact, although not during the 1990s**, and not affected by the inclusion of structural features in the model, also significant (EVI)
- Aid preference for LDCs results **both** from their features, and membership as well.

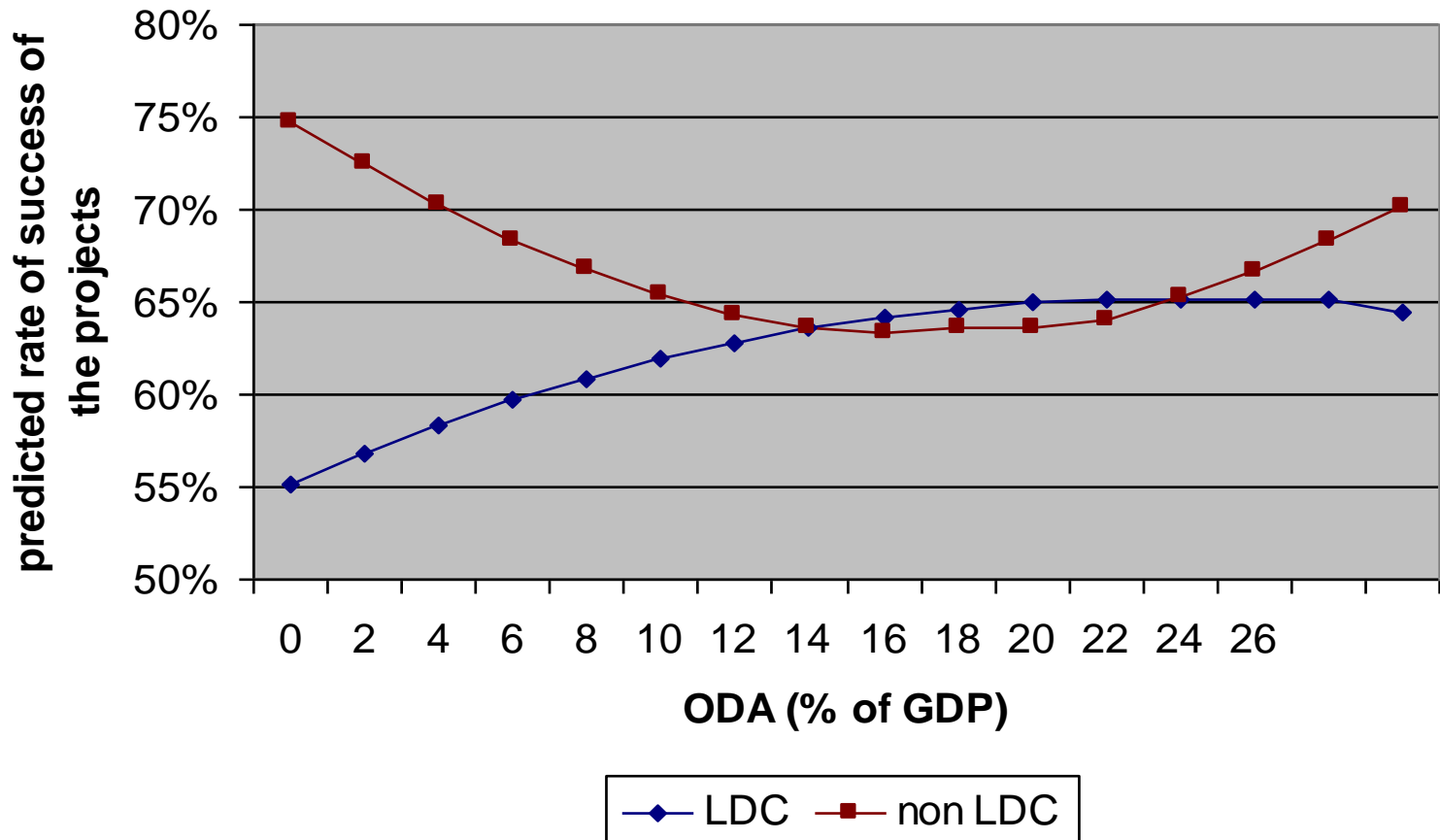


## External assistance to LDCs (II): higher effectiveness

- The structural **vulnerability** (higher in LDCs) is indeed a factor of lower growth, but also a factor of **higher marginal aid effectiveness**,
- It makes effectiveness higher in LDCs due to the **stabilizing impact of aid**, that dampens the effects of shocks (in particular export instability)
- Confirmed by the measurement of this impact at the country level, and by the average impact of aid on the stability of the rate of growth
- Also supported by the examination of the factors determining the **rate of success of WB projects** (depending on export instability) (graph)
- Following evidence of increasing returns of aid in LDCs instead of decreasing returns elsewhere, supporting the « **big push** » view



**Fig.A2. Rate of success of World Bank projects : initial handicap, but higher absorptive capacity in LDCs**





## External assistance to LDCs (III): consistent policy improvements

- **Aid allocation: using LDCs identification criteria as allocation criteria.**  
Besides GNIpc, HAI and EVI are criteria relevant to make the allocation of aid between countries more effective, equitable, stable and transparent (instead of the alone CPIA)  
Likely to increase aid flows towards LDCs, and to sustain them to graduating but still vulnerable countries
- **Aid orientation: structural effectiveness to be looked for,**  
by using aid to enhance human capital (fungibility and trade-off issues) and to lower structural vulnerability (competitive diversification, regional integration)



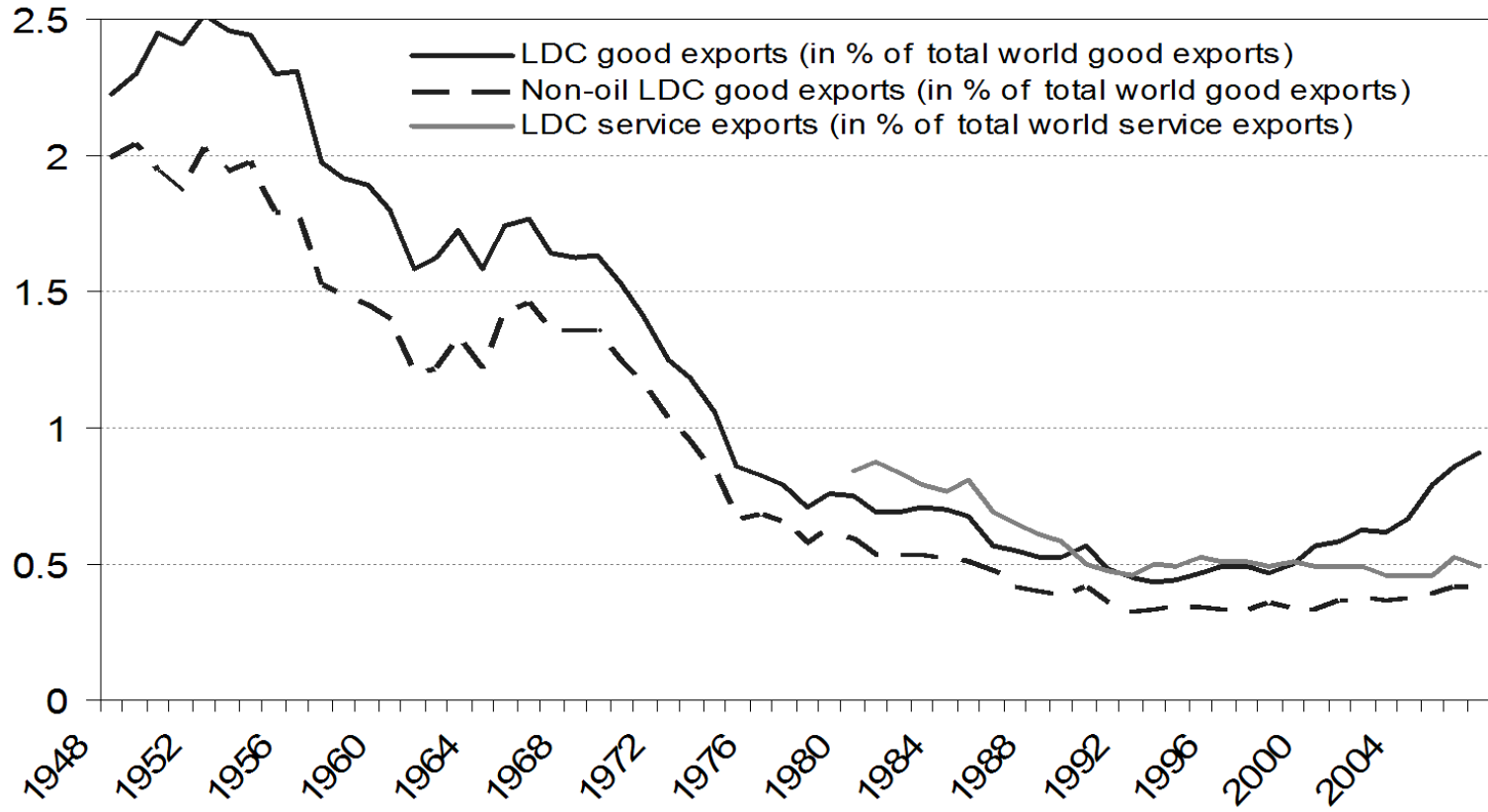


### **III. LDC in world trade: a reversal of marginalization? (brief)**

**Part to be treated by Jim de Melo**

- 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

## trade marginalization of LDCs





### 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 so 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 preference 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*



### III. LDCs in world trade : policy lessons

- Duty free quota free, as EBA, to be supplied on other markets and **rules of origin** reformed
- Improvement required in productive conditions and transportation: role of « **aid for trade** » both for expanding exports and for supporting competitive diversification
- **Regional integration** crucial to make the LDCs (generally small) both more open and less vulnerable: need to give a regional dimension to aid for trade, and EIF as well



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

- Deep marginalisation in global governance
- Not present at the **G20**, although strongly affected by its decisions: need of representation
- Marginal influence in **BWI**, although main clients: LDC voice to be enhanced
- A priori stronger influence at **WTO**, but weak real power of enforcement when dispute settlements are favourable to LDCs (cotton)



Thanks



## Trends in average ratio of *bilateral* ODA to LDCs and to all developing countries, and relative share of ODA to LDCs

