

Impact of support measures to the least developed countries (I). A preface to *Out of the trap**

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The purpose of a previous book, *Caught in a trap* (Guillaumont, 2009), was to examine the rationale of the category of the least developed countries (LDCs), created in 1971 by the United Nations. The purpose of this present book *Out of the trap*¹ is to look for the development impact of country membership in the category and related international support measures.

1. Guillaumont, P., *Out of the trap. Supporting the least developed countries*. Economica-Ferdi, 2019, 324p., (Authors: Arcand J-L, Audiguier C., Boussichas M., Brunelin S., Carrère C., Chauvet L., Cortez A-L., Drabo A., Feindouno S., Goujon M., Guillaumont P. (Edr), Jeanneney Guillaumont S., Kilama E., Korachais C., Lenzi T., de Melo J., Mollerus R., Wagner L.).

* The main points of this preface are developed in Guillaumont (2018a, 2018b).

► Reminding the origin and the rationale of the category

The category of LDCs was created to identify developing countries that, for structural reasons, justified special treatment from the international community. Since the beginning, the LDCs have been identified on the basis of three criteria: per capita income or product, education or human capital, and economic structure. The definition of these three criteria has evolved over time (see *Caught in a trap* and an updated summary of their evolution in appendix A1). Anyway, the idea has been to identify those poor countries facing handicaps to their economic growth that were structural and independent of their present will. Poor countries so identified were more than others likely to stay poor. They were seen as caught in a poverty trap. The category of LDCs in its institutional context reflected the thesis of a low-level equilibrium that was at the heart of the early theory of (under) development.

The specifics of LDCs and their differences from other developing countries were covered in the previous book. That book stressed not only their lowest level of average income, but also their lowest average growth between 1970 and 2000, their lowest level of human capital (education, health) and their stronger economic vulnerability. LDCs have thus been progressively defined as poor countries facing low human capital and strong structural economic vulnerability.

► The complementarity of the handicaps and the criteria

The identification of LDCs was based on a significant hypothesis, insufficiently highlighted. To be included on the list of LDCs, a country had to meet the three criteria with no possibility of substitution between them. The underlying hypothesis was that, if a low-income country faced only one of the two kinds of structural handicaps, it could overcome the other one: it was

not caught in a trap. Econometric analysis for the previous book showed the mutual reinforcement of the two types of obstacles in limiting the rate of growth. The hypothesis of complementarity between the two categories of barriers to growth thus gained some consistency.

This underlying theory incorporated the widely accepted idea that human capital has an essential role in economic growth, besides other factors whose identification was more difficult and thus more debatable. While the choice of the index of human capital as a criterion for LDC identification (as well as for the econometric test) did not raise major problems, the choice of the index to reflect handicaps due to economic structure changed significantly over time: the share of manufacturing value added in GDP was initially retained in 1971, followed in 1991 by an economic diversification index, then in 2000 by an economic vulnerability index, which itself underwent various modifications.

► The category of LDCs - From economic growth to sustainable Development

One of the changes in the definition of the index of economic vulnerability, in 2012, seems to have modified the meaning given to the category. The amendment was to introduce a new component in the index, representing the share of the population living in low coastal areas below an altitude of 5 meters), with the view to capture the risk associated with climate change and sea level rise. Although limited and partial, this new component of the vulnerability index appeared valid enough to present LDCs as poor countries facing significant obstacles to their *sustainable development* and not only to their economic growth (CDP, UNDESA 2015). If this vision were to be strengthened, it would involve an adaptation of the vulnerability criterion.

Moreover, a new meaning of the LDCs might

lead to reconsidering the hypothesis of complementarity between structural obstacles and thus the inclusion criteria. It is remarkable that in many recent official documents of the United Nations, the reference to LDCs is often associated with poor and vulnerable countries. The recent emphasis in international discussions on climate vulnerability and political fragility indeed pushes for expanding the concept of structural vulnerability. Such expansion could require reconsidering the concept of LDCs and the corresponding perimeter of the category (Guillaumont 2018b).

► From inclusion to graduation

A striking feature of the category's evolution came in 1991, when 20 years after its creation the exit conditions were defined - the so-called graduation rules. The way the graduation criteria have been defined, very carefully indeed, has somewhat weakened the scope of the complementarity hypothesis. If one takes for granted that the two categories of structural handicaps to growth are complementary, it would have been enough for one of the two handicaps to be lifted so that the country could be seen as able to get out of the category. But the rule was cautiously established that, to graduate, the country must cease to fill not one but two of the three inclusion criteria. This reason contributed, with others, to slow graduation from the list of LDCs. Accordingly, the number of LDCs - 25 initially and 45 in 1991 - at the time graduation conditions were established, increased to 49 in 2009 and began to decline in 2011 to 47 in 2018.

► The puzzle of the category effectiveness

The evolution of this number illustrates the major issue this book seeks to address. The category of the least developed countries was created to legitimize a special treatment from the international community to help them to move out of the trap. It was therefore intended to reduce

the number of LDCs. But the increase in number until recently does not mean the category has been ineffective or useless. Until 1991, the inclusion of new LDCs without graduation prospects was on request, and only after that date were inclusion and graduation on the basis of objective criteria. And because of the asymmetry between inclusion and graduation criteria, LDCs could improve their situation without becoming eligible for exiting from the list. Above all, LDCs by definition face structural obstacles to growth that special treatment can compensate for only in part, and still be effective.

Such is the puzzle of the effectiveness of international measures focused on LDCs. These measures are specific to LDCs, which more than others are assumed to face structural handicaps. The impact of the measures and the impact of handicaps should then be disentangled. The relative weight of these two categories of impact could even evolve over time. It is possible that the handicaps are gradually reduced and the measures gradually strengthened. If that were the case, the effectiveness of the category's membership should appear more clearly now than in the past.

Out of the trap assesses the effectiveness of the measures to help LDCs move out of the category. It supplements *Caught in a trap*, completed almost a decade ago, and thus has 10 more years before a diagnosis of support measures. Starting our research on LDCs we thought the logic of the category had been underestimated and the effectiveness overestimated. We now have better estimates of both, dampening such an opposition.

► The new international environment for LDCs

The evolution of the international environment could have changed both the impact of the category and its perception. Between the adoption

by the United Nations of the Millennium Development Goals (MDGs) in 2000 and the Sustainable Development Goals (SDGs) in 2015 the recognition of specific needs of LDCs has progressed. While the MDGs referred only 3 times to the category of LDCs (United Nations General Assembly 2000), the SDGs referred to them 43 times (United Nations General Assembly 2015). Indeed, the progressive recognition of the special situation of LDCs in the context of the universality of SDGs has increased the category's visibility (Guillaumont 2018a).

On the agreed measures for the development of LDCs, progress is also evident in the United Nations Conferences on the least developed countries: in Paris in 1981, in Brussels in 1991 and 2001 and in Istanbul in 2011 (see appendix A2 for a summary of the issues addressed by the final reports of the four conferences). The Istanbul Conference, which adopted the Istanbul Program of Action - coming after the program of action adopted 10 years earlier - proposed a strong mobilization in favour of LDCs. Over time the measures proposed for supporting them have been gradually strengthened, and they gradually produced their effects.

Moreover, during the past 15 years, global economic conditions have experienced real instability - with an upward trend in the prices of primary commodities in the first decade of the millennium, but also severe financial and economic crises in developed countries. This instability in the global economy adds to the difficulty of estimating the impact of the measures in favour of LDCs, particularly for countries exporting primary products, with the price of fuels very unstable.

► Three set of measures

Three set of international support measures, assessed in this book, have been implemented or proposed. They are clearly summarized in the *Handbook on the Least Developed Country Cate-*

gory prepared by the Secretariat of the CDP, UNDESA. Support measures and special treatment related to trade include preferential market access given through duty free-quota free access such as the Everything but Arms provided by the EU to LDCs or through special rules for LDCs in the nonreciprocal Generalized System of Preferences. They also include special and differential treatment (more flexibility) related to World Trade Organization obligations and support measures for capacity-building in trade, such as the Integrated Framework for Trade-related Assistance to least developed countries, enhanced a decade ago.

A second set of measures is related to official development assistance (ODA). But these measures appear at the bilateral level more as a target or a goal than as an outcome. At the multilateral level, they appear as special windows or rules of allocation for LDCs, and rules for international comparisons of the ODA.

Third are other forms of support by the UN system to LDCs for travel to the UN or for contributions to the UN ordinary budget or peacekeeping operations.

Complicating the puzzle of the category's effectiveness is the diversity of these support measures linked to category membership, to heterogeneity in how compulsory they are, and to time frames. To address this difficulty, the book mixes analyses of global impact with an examination of the specific impact of the main groups of measures, more easily captured as such "intermediate variables" as aid or trade.

► Outline of the book

The book has eight chapters in four parts.

The first part is dedicated to the overall performance of the least developed countries. A first chapter examines whether an impact of the ca-

tegrity on the results they obtained for growth, poverty reduction, and structural transformation can be assessed. A second chapter tries to assess the “performance” of the LDCs through their policy indicators and to answer whether a policy performance weaker than that of other developing countries may be partly responsible for the observed results.

The second part is devoted to foreign aid received by LDCs. A chapter examines the overall flow of assistance to LDCs, compared with the international objectives. Did membership in the category have an impact on the amounts of aid received? Was aid particularly effective in LDCs? Another chapter focuses on multilateral assistance to LDCs and looks for its specifics.

The third part is dedicated to the support provided to LDCs through trade. A chapter assesses trade measures by the international community for LDCs, beyond market access. Another chapter estimates to what extent these measures as well as the market access could have slowed or even reversed the marginalization of non-oil exporting LDCs in world trade over nearly half a century.

The fourth part deals with two major challenges that LDCs face today. The first is that of their graduation, recognized as a goal since the Istanbul Conference. The history of graduation, in its various phases (criteria, decision process, implementation) informs limits of the category’s effectiveness and consistency, as well as some ways to enhance consistency. A last chapter examines the place of LDCs in global governance: Has the category of LDCs proven effective in institutional terms?

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Table of contents

Preface

Reminding the origin and the rationale of the category	vii
The complementarity of the handicaps and the criteria	viii
The category of LDCs—From economic growth to sustainable development	viii
From inclusion to graduation	ix
The puzzle of the category effectiveness	ix
The new international environment for LDCs	ix
Three set of measures	x
Outline of the book	xi
Acknowledgements	xi
References	xiii

About the authors **xix**

Main conclusions and recommendations **1**

Economic growth, poverty reduction and structural transformation in the least developed countries: The puzzle of the impact of category membership	1
Policy performance: Is it weaker in the least developed countries?	3
Global aid flows to the least developed countries: What effectiveness of the aid target?	3
Multilateral assistance to the least developed countries: To what extent is it specific?	4
Trade-related measures for the LDCs: What has been done?	5
Trade marginalization of LDCs and its reversal: What impact of international support?	6
Graduation from the category of least developed countries: Rationale, achievement and prospects	7
Least developed countries and global economic governance	9
Revisiting the category and its criteria to enhance its consistency and effectiveness	10
Note	10

Part 1

Impact on growth and policy performance

Chapter 1

Economic growth, poverty reduction and structural transformation in the least developed countries:

The puzzle of the impact of category membership

Have the least developed countries been locked into a low-income trap over the past half century?	13
Interpreting economic growth in the least developed countries during the 2000s	18
Assessing the impact of category membership: An elusive counterfactual	30
The pattern of least developed country growth: From structural handicaps to structural transformation	36
Conclusion	50
Notes	51
References	52

Chapter 2

Policy performance: Is it weaker in the least developed countries?

Introduction	55
Governance indicators in LDCs: how they depend on structural factors	56
Assessing economic policies in LDCs: two relevant indicators	69
Conclusion	82
Appendix A2.1. The Country Policy and Institutional Assessment (CPIA) index	84
Appendix A2.2. The Worldwide Governance Indicators	86
Appendix A2.3. The Doing Business indicators (DB)	87
Appendix A2.4. Supplementary tables	89
Notes	97
References	98

Part 2

Impact and effectiveness of foreign aid

Chapter 3

Global aid flows to the least developed countries: What effectiveness of the aid target?

Introduction	103
Resolutions and trends: actual flows far below the targets	103
Assessing the effect of belonging to the LDC category on aid inflows	117
Grounds for giving an aid preference to LDCs: ethics and effectiveness	124
Beyond the target: for consistency in aid policy to LDCs	129
Conclusion	134

Appendix A3.1. Aid, GDP, Population, EVI and HAI for LDCs, average 2010–14	135
Notes	137
References	138

Chapter 4

Multilateral assistance to the least developed countries: To what extent is it specific?

Introduction	141
Multilateral support to LDCs in perspective	141
Multilateral support of United Nations organizations to LDCs	145
Multilateral support from international financial institutions	149
Conclusion: impact of LDC status on multilateral LDC assistance	150
Appendix A4.1. Expenditures on operational activities for development by recipient and entity: 2015	152
Appendix A4.2	154
Notes	155
References	156

Part 3

Support through trade

Chapter 5

Trade-related measures for the LDCs: What has been done?

Introduction	161
Special and differential treatment in WTO agreements: How have LDCs been differentiated?	161
Access, use and effectiveness of special and differential treatment for LDCs	170
Accession to the WTO: has it been made easier for LDCs?	178
Trade capacity building: the Integrated Framework and its enhancements	182
Concluding remarks	186
Notes	187
References	188

Chapter 6

Trade marginalization of LDCs and its reversal: What impact of international support?

Introduction	193
Global trends in LDC exports: impact of specific goods and services	195
Looking for specific factors in LDCs' trade trends: Lessons from gravity models	198
Diversification of LDCs' exported products	206
Developed country policies impacting LDCs' market access	209
Beyond market access: international support and LDC policies impacting their exports	216

Conclusions	225
Appendix A6.1. LDCs' Top 30 exported products and adjusted market access	228
Notes	231
References	233

Part 4

Graduation and governance

Chapter 7

Graduation from the category of least developed countries: Rationale, achievement and prospects

Introduction: a short story of the LDCs' graduation	239
Graduation constrained by the rules: impact of the asymmetry between inclusion and graduation criteria	242
LDC graduation trends and prospects: back to the category rationale	249
Impact of graduation: assessments and monitoring	264
Conclusion	277
Appendix A7.1. Some country evolutions with regard to the set of criteria	280
Appendix A7.2. The issue raised by the reference group and how it could have been addressed	284
Appendix A7.3. Resistance to graduation from the LDC category over a quarter of century has dampened during the last decade	285
Appendix A7.4. Ranking of LDCs, graduated LDCs and reference group according to the Least Development Index	287
Notes	288
References	291

Chapter 8

LDCs and global economic governance

Introduction: LDCs—affected by global governance or influencing it?	293
LDCs and global governance on general issues	296
The LDCs and global governance on major specialized issues	301
Conclusion	312
Notes	313
References	318
Evolution of the inclusion and graduation criteria	320
Evolution of the programmes of action	322



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