UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

# THE LEAST DEVELOPED COUNTRIES 1998 REPORT

## OVERVIEW

by the Secretary-General of UNCTAD

UNITED NATIONS

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UNCTAD/LDC (1998) (Overview)

This Overview can also be found on the Internet,
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# Introduction

*Events of the last twelve months have demonstrated yet again the strengths and weaknesses of the globalization process, and have also confirmed the need for effective governance and management of the world economy. During 1997 world output expanded at an annual rate of 3.2 per cent, improving on the 3.0 per cent growth in 1996. Rapid growth in trade was shared by all the regions of the world, recording an impressive 9.5 per cent increase in 1997. Trade in manufactured goods increased as a share of global goods trade to around 75 per cent. 1997 was also the year when the Asian financial crisis pushed the East Asian miracle economies into recession, with large falls in real output being recorded for the first time in recent decades. It was also the year when the adverse effects of El Niño were felt in many of the world's least developed countries, a vivid reminder of their continuing vulnerability to the vagaries of the weather and unpredictable natural disasters.*

*This year, 1998, marks the fiftieth anniversary of the founding of the multilateral trading system under the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). It is an occasion to remember the achievements of GATT in liberalizing world trade through successive rounds of multilateral tariff reductions and the contribution this process of freer trade has made to the economic growth and prosperity of the world economy. The expansion of markets and the provision of a rules-based system for trade between nations have together provided a powerful driver of world economic growth: world trade has expanded and international integration has proceeded apace. At the same time, the membership of WTO has increased to 132 members, two-thirds of whom are developing countries. This serves as a reminder, if any were needed, that a truly multilateral trading system requires the full involvement and participation of both developed and developing economies in the rule-making process that affects them all. To be fully credible, such a system also needs to accord due recognition to the special needs and conditions of its poorer member States.*

*As the new millennium approaches, it is timely to consider the opportunities and challenges of translating the reality of a globalizing and interdependent world economy into a sustained improvement in the standard of living in the* *world's least developed economies. The main focus of this year's* Least Developed Countries Report *is an analysis of how different aspects of the multilateral trading system affect opportunities and constraints for least developed countries (LDCs) to enhance their participation in the world economy. The* Report *also examines the evolving interface between trade issues and the development objectives of LDCs. It analyses, in particular, several aspects of the multilateral trading system which traditionally have not been the main focus of concern for LDCs, but which are rapidly becoming important as these countries attempt to diversify their economies and enhance their involvement in the global economy. These issues include the extension of the multilateral framework to cover trade and the environment, and trade in services. The* Report *focuses on two other issues: the implementation of WTO agreements by LDCs and how implementation by the developed countries is likely to affect LDCs, and how the process of accession could be expedited for the 19 LDCs which are not members of WTO while ensuring that they enjoy the same rights and concessions as current LDC members. The* Report *also identifies areas where specific concessions and provisions in multilateral agreements may be beneficial to LDCs and areas in which LDCs should develop a proactive agenda which systematically puts forward their concerns and interests in the global trading system.*

## Globalization, trade and development

The success of the international trading system in fostering ever-stronger economic linkages between national economies has highlighted the uneven sharing in the benefits of the globalization process. Furthermore, this has generated a new set of management and governance issues which impact on the everyday lives and well-being of the majority of the world's population, particularly in LDCs, where the people continue to live in conditions of relative poverty and hardship. That globalization does not benefit everyone equally is now widely acknowledged. LDCs are often the least able to take advantage of the opportunities that globalization presents, and globalization may lead to an increase in inequality in these countries. *The Least Developed Countries 1996 Report* drew attention to the rising inequality in the world distribution of income that has accompanied globalization. The *Report* pointed out that the differential in per capita incomes between the countries with the poorest 20 per cent of the world's population (a group that consists mainly of LDCs) and the richest 20 per cent has widened as globalization has proceeded, and that many of the LDCs were becoming further marginalized from the mainstream of the world economy. Not only have LDCs' growth rates lagged behind those in other developing countries but also their share of world exports and imports has fallen sharply. LDCs have attracted a negligible share of global flows of foreign investment and remain heavily dependent upon official development assistance to finance a large share of their investment.

This growing polarization among countries has been accompanied by increasing income inequality within countries, and poverty remains a harsh reality for significant segments of the population in many LDCs. Some 1.3 billion people – nearly a quarter of the world's population – continue to live in extreme poverty. In the year 2000, four-fifths of the people of the world will be living in developing countries, and the number in absolute poverty will still be growing.

The question of whether the international community can manage the globalization process in a way that facilitates the integration of LDCs in the world economy and at the same time offers a more equal sharing in its benefits is at the centre of the current development policy debate. Finding an answer to that question is increasingly being seen as a shared challenge and responsibility for those charged with the management of the world's economies, and this will require the active involvement and participation of all members of the international community, not least the LDCs, whose economic future is ever more closely linked to global trends over which at present they have little control or influence.

How should the international community respond, particularly to the needs of LDCs? Certainly, trade liberalization within the multilateral system will continue to perform an important role as an engine of global growth. At the same time, however, there needs to be a general recognition that an ongoing expansion in world trade is insufficient to ensure that developmental imperatives and goals are met. As President Mandela reminded the GATT Anniversary Conference, "trade does not of itself or in itself bring about a better world". What is needed is an improved system of governance of the global economy, which acknowledges, more openly than has perhaps been the case so far, that market liberalization is a good servant but a poor master of economic development.

## An emerging trade and development consensus

There is already evidence of the emergence of what is increasingly being called the "post-Washington consensus" on economic development policy. The new consensus reflects a better understanding of the limitations of market forces and what is needed to make markets work better. The cornerstone of the Washington consensus which dominated development policy thinking and practice for much of the 1980s and 1990s was the belief that good economic performance depended upon liberalizing markets and getting prices right. Once these reforms were in place, private markets could be relied upon to allocate resources efficiently and to deliver robust economic growth. What is increasingly being acknowledged, however, is that this prescriptive policy package was incomplete and potentially harmful to the achievement of sustainable and poverty-reducing economic growth in the developing and least developed countries. Markets are often imperfect or incomplete and need to be supported and managed by public policy if they are to function effectively. This is most clearly seen with respect to income distribution and economic growth. The liberalization paradigm rightly asserted that sustained long-term economic growth is a necessary condition for achieving a significant improvement in the living standards of the poor, but the assumption that the benefits of faster economic growth would trickle down automatically to all socio-economic groups has been contradicted by the mounting evidence of rising inequalities in many low-income countries, even where growth performance has improved significantly. Recent research has confirmed that public policy can provide the essential intervention which allows the benefits of faster economic growth to be shared more equitably. The emergence of the post-Washington consensus on development policy has, therefore, re-established the proper role of public policy as a complement to economic liberalization and reform, which enables the market mechanism to function more effectively as an instrument of development policy.

The new consensus also recognizes that the goals of development extend beyond the relatively narrow objective of economic growth, to include distribution and poverty reduction, social development and environmentally sustainable development. There is also a recognition that the achievement of these wider developmental goals should be built on a more inclusive and participatory process of policy-making whereby all groups in society, in particular those disadvantaged groups whose voice was seldom heard in the past, participate in a variety of ways in making decisions that affect all their livelihoods.

The emergence of a broader perception of the goals of development, and a less doctrinaire and more inclusive approach to the formulation of the development policy agenda, points the way to what might be achieved by the incorporation of the same principles and ideas into the arena of international economic policy debate and negotiation. There are already encouraging signs of a greater readiness on the part of the advanced countries and the major international institutions to adopt a broader vision on matters of international economic policy and global governance and to work for shared and cooperative goals which address directly the needs of the developing and least developed countries and their people. The Director-General of WTO reflected this shift in perception in an address shortly after the fiftieth GATT/WTO Anniversary Celebration in May 1998, when he said,

> "… we must stop viewing the world through a narrow lens, and begin to look at the various challenges we face as pieces of a larger puzzle demanding broader, more integrated solutions ... many perfectly reasonable people are legitimately concerned about signs of worsening environmental degradation, unacceptable levels of poverty, human rights abuses in certain countries, or a lowering of labour standards … More than ever before trade – and the rules of the trading system – intersect with a broad array of issues and concerns which have a powerful impact on people's day-to-day lives …"

Thus, despite the lack of a broad consensus on negotiating approaches and strategies on the built-in agenda and new issues, it is possible to discern the beginnings of a “Geneva consensus”, that is, an increasing acknowledgement that trade should be seen less as an end in itself, and more as a means of achieving more sustainable and equitable growth and development. Sharpening such a consensus and translating it into an operational programme of implementation will be a major intellectual and political challenge for the United Nations Conference on Trade and Development (UNCTAD), LDCs and the international community.

In part, this willingness to extend and widen the international trade policy agenda has come about as a response to the changing patterns of international exchange flows. In the rich countries of the Organisation for Economic Co-operation and Development (OECD), the balance of economic activity has swung from manufacturing to services, with the effect of shifting manufacturing to the developing countries, where lower labour costs can provide a comparative advantage. The nature of manufacturing is also changing with the emergence of a global structure of production. Today, trade is increasingly integrated with investment flows as multinational corporations using global networks coordinate international production. These structural changes in the pattern of world trade underscore recent contentions that GATT/WTO needs to shift its emphasis from the traditional concern with trade liberalization matters to “new” trade-related issues, such as trade in services, international investment and technology flows, competition policy and the environment.