BANGLADESH

Statement

by

H.E. Mr. M. Morshed Khan, MP
Hon'ble Foreign Minister
Government of the People's Republic of Bangladesh
at the High-level Meeting

on the Mid-term Comprehensive Review of the Implementation
of the Programme of Action
for the Least Developed Countries for the Decade 2001-2010

New York, 18 September 2006

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Mr. Chairman,

I will make my statement short.

This Mid-term Review of the Programme of Action is extremely important for all of us, especially to take stock why the LDCs are yet to achieve the target growth rate of 7% per year and increase the GDP-investment ratio of 25%. As the Programme of Action correctly identified, achievement of high growth rates would remain elusive for the LDCs unless there are substantial increase in investments. The average GDP growth rate has been less than 3% since we adopted the Programme of Action in 2001 and investments have also remained very low.

For the LDCs, therefore, the primary constraint is the lack of capital. There was an expectation that there would be increased capital flow, development assistance and FDI, into the LDCs to make up for the investment-savings gap. But the reality has been otherwise. Some relevant figures will prove the point. The Official Development Assistance to LDCs in 2004, the most recent data available, amounted to $ 23.8 billion or $35.7 per person living in the LDCs. This is less than 10 cents a day, which certainly is not sufficient to complement income or boost savings rate.

During the same year, the LDCs returned almost $ 6 billion in servicing their debts. Another $8 billion dollar left the LDCs in terms of net factor income of foreign companies and individuals operating in LDCs. The last source of outflow is perhaps the trickiest one - the LDC holdings of foreign exchange reserves. The LDCs collectively held over $ 28 billion in foreign reserves, in dollars and euros, which is essentially a very low interest loan from the poorest countries to their rich benefactors. Between 2003 and 2004, LDC foreign exchange reserves increased nearly $ 5.5 billion, a net outflow. If we deduct these outflows from the ODA and the FDI, net capital injection into LDCs is less than $ 5 billion a year or only 2 cents per day for every LDC citizen. This is certainly not enough to make a dent in the perpetual savings-investment gap in the poorest countries of the world.

Lack of capital is one side of the coin - the other is the lack of market access. Since the adoption of the Programme Action, Doha Development Round of trade negotiations began with a big bang, but soon bit a gridlock without any consensus on special and differential market access for the LDCs. Even when the tariff barriers are low, LDC exports face substantial non-tariff and para-tariff barriers, which essentially prevent any substantive growth in export. In the WTO negotiations, there have also been attempts to pit LDCs against each other, giving selective preferences to selective LDCs. This must stop and all LDC exports must receive same treatment - duty free and quota free market access.

The third problem is the volatility in income. In a globalized world, economic downturn in one country can have significant adverse effects on it trading partners. The LDCs unfortunately have no effective insulation against the so called "contagion effects". More importantly, the magnitude of shocks can be very different for rich and poor countries, as it can be for rich and poor households. There are also other external shocks, like the oil price hike, which disproportionately affect the LDCs. Then there are weather related income shocks, on account of flood or drought, which erodes domestic savings and impedes investment. We need to take into account the asymmetric effects of different economic shocks on LDCs, especially against the backdrop of pro-cyclical capital flows into the LDCs.

Mr. Chairman,

How do we tackle these challenges and put the Programme of Action on track to increase investment and growth? Please allow me to share some of my thoughts on these issues:

a. Firstly; we need an innovative solution to deal with the burden of foreign exchange reserves on LDCS. The $28 billion reserve that the LDCs are currently holding is, in fact, an unfair tax on the LDCs given that they cannot use it to finance their development efforts. One solution could be that the LDCs are allowed to borrow against their own reserves at zero interest rate differentials. Currently, the LDCs are charged a substantial mark-up to borrow against their own foreign exchange reserves. The reserve currency countries must commit themselves to this arrangement.

b. Secondly, we need to ensure that capital flow to the LDCs is counter-cyclical. Lending and assistance to the LDCs must increase when there is an economic downturn. Counter-cyclical capital flows would smooth investment growth and make income less volatile in the LDCs.

c. Thirdly, we must device new strategies and mechanisms to strengthen the LDC capacities to manage their weather-related risks. The international community needs to address this in all earnestness and look into the possibilities of introducing weather insurance and weather derivatives in the LDCs.

d. Fourthly, we need to revisit the WTO rules, especially the principle of "single under-taking," to expeditiously grant the exports from LDC duty-free and quota free access to the developed-markets, pending agreements on agricultural subsidies or MAMA. This Is an imperative to resuscitate the Doha Development Round

e. Fifthly, we need to step up our efforts to identify and eliminate the key supply-side constraints that prevent the LDC private sectors from becoming globally competitive. It is time that the international community takes concrete measures to fully activate " Aid for Trade" and the "Enhanced Integrated Framework", not only to remove the capacity constraints but also to identify and address the prod ems of non-tariff and para-tariff barriers iî the developed countries that impede LDC exports. "Aid for Trade" or "Enhanced Integrated Framework" should focus on the problems in both developed economies and the LDC.

f. Finally, there needs to be some monitoring and evaluation mechanism, under the auspices of the United Nations, to ensure implementation of the Brussels Programme of Action and the commitments made by the developed countries.

Thank you.