



The Least Developed Countries: The Tyranny of a Definition

By Sarath Rajapatirana

THE FIFTY LEAST DEVELOPED COUNTRIES



SOURCE: United Nations Conference on Trade and Development, *Statistical Profiles of the Least Developed Countries* (Geneva: UN, 2005) available through www.unctad.org.

Every three years, the Committee for Development Policy (CDP) of the United Nations designates a group of least developed countries (LDCs), which today form a group of fifty states (see table 1 on page 3). In theory, these countries are the poorest of the poor, “highly disadvantaged in their development process . . . and facing more than other countries the risk of failing to come out of poverty.”¹ As such, the United Nations Conference on Trade and Development (UNCTAD), the lead agency charged by the UN to work with the LDCs, has sought to secure various forms of special treatment for them, in particular preferential market access to developed countries.

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Unfortunately, this experiment has not been successful. The number of LDCs has more than doubled since the concept was first adopted in 1971, and many of the original designees have

lower per-capita income today than thirty-five years ago. Only one of them—Botswana—has graduated from the list; another, Cape Verde, is scheduled for graduation in 2007.

Part of the problem is that the criteria by which the UN designates LDCs are intellectually flawed despite repeated efforts to refine them (in 1999, 2000, and 2003). As a result, the LDC category obscures far more than it reveals about the needs of the countries it encompasses. In fact, the LDCs represent neither a well-defined group of the poorest countries in the world, nor do they include a majority of the world's poorest people. Rather, the LDCs are an incredibly diverse group of states—varying in their history, geography, and problems—that are poorly suited to UN's one-size-fits-all approach.

That approach, furthermore, has been at best ineffective and at worst detrimental to the economic development of the LDCs. UNCTAD, in effect, has tried to make the LDCs into its wards, contributing to the specious belief that these countries are simply too poor to reform. As a result, the LDCs have been abetted and encouraged by UNCTAD in their failure to address the misguided policies—in particular, domestic overregulation, weak property rights, skewed trade regimes, and lack of democracy—that have stunted their growth. It is telling that the CDP recently attempted to designate Zimbabwe as an LDC, despite the fact that the country's devastation is almost entirely the product of its government's own policy choices, not external structural factors.

It is time to acknowledge that the thirty-five-year experiment in designating LDCs has failed to advance their interests and should be discontinued. In fact, the only entity that is served by the LDC concept at this point is the UNCTAD bureaucracy itself, which uses the process as one of the reasons to justify and perpetuate its existence. Neither the World Bank nor the International Monetary Fund nor any of the regional development banks formally recognize the LDC category or treat the LDCs differently from other developing countries.

The best approach for the LDCs would be to dispense with the pretense that they form an intellectually justifiable category, to put an end to the UN's triennial review process and the six-year graduation process, and to begin to address these countries' individual needs on a case-by-case basis. Because it may be politically infeasible to terminate the LDC concept or wrench these countries from the UN bureaucracy entirely, however, responsible governments should at least push for a radical reform in the way LDCs are treated.

The Designation and Graduation of LDCs

The United Nations applies three criteria, every three years, to designate LDCs: gross national income, the Human Assets Index, and the Economic Vulnerability Index.² To qualify as an LDC, a country must satisfy all three criteria. To qualify for graduation, a country must pass two of the three thresholds in two consecutive triennial reviews.³

During the latest triennial review in March 2006, a country had to have an average per-capita income from 2002–2004 that was below \$745 to qualify as an LDC and over \$900 to graduate. Additionally, a country with at least twice the threshold LDC income of \$745 in the 2002–2004 period could graduate, even if it did not pass the other two metrics. Because income level is just one criterion, however, there are many countries with per-capita incomes of less than \$745 that nonetheless are not considered LDCs. India, for instance, with its average per-capita income of \$543, is not on the list, even though it has a quarter of the world's poor, while Equatorial Guinea, with a per-capita income of \$3,393, has been included.

To make matters worse, the methodologies that the United Nations uses to estimate a country's per-capita income, human resource assets, and economic vulnerability are problematic.⁴ As a result, the entire LDC edifice rests on a shaky quantitative foundation.

To determine a country's per-capita income, the UN uses per-capita gross national income (GNI) as calculated by the World Bank's Atlas method.⁵ This measure suffers from a number of limitations: it ignores the presence of non-tradable goods in national income, differences in domestic and foreign inflation rates with specific trading partners (other than G8 countries like France, Germany, Japan, Great Britain, and the United States), and changes in the value of the domestic currency in relation to the U.S. dollar. For many LDCs, additionally, there are no reliable data on factor incomes such as foreign remittances—a critical variable in developing countries, which often have large diasporas that send money home from abroad. In 2003, for instance, worker remittances in Nepal amounted to 14 percent of GDP and 23 percent in Haiti.

In light of these problems, a better methodology for estimating per-capita income would be the purchasing power parity (PPP) method, which does not suffer from many of the Atlas method's weaknesses enumerated above. Ethiopia, which had an average per-capita income of \$100 for 2002–2004 according to the Atlas method, had an average per-capita income of \$701 in PPP terms for the same period (see table 2 on page 4).

TABLE I
LEAST DEVELOPED COUNTRIES: POPULATION, AREA, AND INFRASTRUCTURE

Country	Population (in thousands)	Area (in thousands sq. km.)	Location ¹	Telephone Intensity ²	Highway Intensity ³
Afghanistan	28,513	648	LL	861	232
Angola	10,978	1,247	O	296	233
Bangladesh	141,340	144	O	39	7
Benin	7,250	113	O	429	83
Bhutan	2,185	47	LL	1,131	21
Burkina Faso	13,574	274	LL	436	137
Burma	42,720	679	O	80	197
Burundi	6,231	28	LL	1,193	27
Cambodia	13,363	181	O	805	91
Cape Verde	415	4	IS	398	5
Central African Republic	3,742	623	LL	3,168	969
Chad	9,538	1,248	LL	2,416	4,809
Comoros	651	2	IS	2,160	3
Dem. Rep. of Congo	58,317	2,345	O	2,851	—
Djibouti	466	23	O	3,001	63
Equatorial Guinea	523	28	O	2,970	—
Eritrea	4,447	121	O	748	139
Ethiopia	67,851	1,127	LL	66	297
Gambia, The	1,546	11	O	743	12
Guinea	9,246	246	O	1,088	49
Guinea-Bissau	1,388	36	O	2,690	80
Haiti	7,656	28	IS	219	27
Kiribati	160	0.8	IS	6,336	—
Lao PDR	6,068	237	LL	461	25
Lesotho	1,865	30	LL	997	28
Liberia	3,390	111	O	4,073	170
Madagascar	17,501	587	IS	478	102
Malawi	11,906	118	LL	335	23
Maldives	339	0.03	IS	994	—
Mali	11,956	1,240	LL	504	679
Mauritania	2,998	1,031	O	905	1,242
Mozambique	18,811	802	O	341	141
Nepal	27,070	141	LL	77	35
Niger	11,360	1,267	LL	1,273	21
Rwanda	7,954	26	LL	1,229	26
Samoa	177	3	IS	2,416	9
Sao Tome and Principe	181	1	IS	4,073	5
Senegal	10,852	196	O	125	46
Sierra Leone	5,883	28	O	4,320	837
Solomon Islands	523	72	IS	1,188	80
Somalia	8,304	638	O	285	245
Sudan	39,148	2,506	O	32	580
Tanzania	36,918	945	O	284	130
Timor-Leste	1,019	15	IS	—	35
Togo	5,556	57	O	471	24
Tuvalu	11	0.03	IS	40,743	0
Uganda	26,404	236	LL	467	130
Vanuatu	202	12	IS	4,387	48
Yemen	20,024	528	O	53	69
Zambia	10,462	753	LL	323	—

SOURCE: World Development Indicators, World Bank

NOTES: 1. LL - Landlocked, IS - Island nation, O - Other (nations that have ocean or sea access) 2. Number of people per phone land-line 3. Square km. of land per km. of paved highway

TABLE 2
LDCs: GROSS PER-CAPITA INCOME, ATLAS AND PPP METHODS (CURRENT US\$)

Country	Method	2002–04	Country	Method	2002–04
Angola	Atlas	743.3	Liberia	Atlas	120.0
Angola	PPP	1,791.7	Madagascar	Atlas	263.3
Bangladesh	Atlas	406.7	Madagascar	PPP	794.0
Bangladesh	PPP	1,852.5	Malawi	Atlas	150.0
Benin	Atlas	386.7	Malawi	PPP	592.2
Benin	PPP	1,062.0	Maldives	Atlas	2,200.0
Bhutan	Atlas	690.0	Mali	Atlas	273.3
Burkina Faso	Atlas	296.7	Mali	PPP	923.8
Burkina Faso	PPP	1,125.5	Mauritania	Atlas	480.0
Burundi	Atlas	93.3	Mauritania	PPP	1,934.0
Burundi	PPP	648.0	Mozambique	Atlas	236.7
Cambodia	Atlas	316.7	Mozambique	PPP	1,084.9
Cambodia	PPP	2,146.0	Nepal	Atlas	233.3
Cape Verde	Atlas	1,443.3	Nepal	PPP	1,433.3
Cape Verde	PPP	5,380.8	Niger	Atlas	183.3
Central African Rep.	Atlas	273.3	Niger	PPP	765.9
Central African Rep.	PPP	1,111.0	Rwanda	Atlas	206.7
Chad	Atlas	226.7	Rwanda	PPP	1,195.8
Chad	PPP	1,107.8	Samoa	Atlas	1,566.7
Comoros	Atlas	473.3	Samoa	PPP	5,427.1
Comoros	PPP	1,890.4	Sao Tome and Principe	Atlas	353.3
Dem. Rep. of Congo	Atlas	100.0	Senegal	Atlas	520.0
Dem. Rep. of Congo	PPP	641.0	Senegal	PPP	1,566.8
Djibouti	Atlas	870.0	Sierra Leone	Atlas	186.7
Djibouti	PPP	2,077.3	Sierra Leone	PPP	516.6
Equatorial Guinea	Atlas	—	Solomon Islands	Atlas	550.0
Equatorial Guinea	PPP	6,822.2	Solomon Islands	PPP	1,709.5
Eritrea	Atlas	176.7	Somalia	Atlas	—
Eritrea	PPP	960.7	Sudan	Atlas	453.3
Ethiopia	Atlas	100.0	Sudan	PPP	1,703.1
Ethiopia	PPP	701.4	Timor-Leste	Atlas	466.7
Gambia, The	Atlas	273.3	Togo	Atlas	270.0
Gambia, The	PPP	1,759.6	Togo	PPP	1,469.7
Guinea	Atlas	383.3	Uganda	Atlas	236.7
Guinea	PPP	2,109.8	Uganda	PPP	1,390.5
Guinea-Bissau	Atlas	143.3	Vanuatu	Atlas	1,226.7
Guinea-Bissau	PPP	678.6	Vanuatu	PPP	2,855.4
Haiti	Atlas	415.0	Yemen	Atlas	510.0
Haiti	PPP	1,805.1	Yemen	PPP	793.1
Kiribati	Atlas	916.7	Zambia	Atlas	353.3
Lao PDR	Atlas	353.3	Zambia	PPP	844.4
Lao PDR	PPP	1,770.1			

SOURCE: World Development Indicators, World Bank 2006.

NOTE: There are no PPP estimates for Bhutan, Kiribati, Liberia, Maldives, Sao Tome and Principe, and Timor-Leste. There are no Atlas estimates for Equatorial Guinea and Somalia for the 2002–2004 period.

To determine a country's level of human development, the UN uses the Human Assets Index (HAI), which in turn comprises four subindexes that are aggregated, with equal weight given to each subindex. They are: (a) average calorie intake as a percentage of minimum calorie requirements, (b) the mortality rate of children at five years and under five, (c) the

gross school enrollment ratio, and (d) the adult literacy rate.

There are several problems related to the HAI and its use. First, the equal weight it assigns to each of its four indicators makes it an artificial measure of human resources. In effect, it presumes that societies count a dollar spent on literacy as the equivalent of a dollar

spent on health care, despite the fact that preferences for these assets vary among different societies depending on their unique circumstances and needs.

Second, each of the subindexes is treated independently by the HAI, while in real life they are highly dependent on each other. For example, a high mortality rate for children is often associated with a low adult literacy rate for women.

Third and finally, in most of the poorest countries, data on these metrics are weak, if not altogether absent; consequently, the use of the HAI creates a sense of precision where none actually exists.

The final criterion for LDCs—economic vulnerability—is measured by the Economic Vulnerability Index (EVI), which is even more troublesome than the HAI. The EVI is computed by aggregating two broad indexes, the exposure index and the shock index, with each assigned an equal weight. The exposure index has four components: population size; remoteness; merchandise export concentration; and the share of agriculture, forestry, and fisheries in GDP. The shock index has three sub-categories: homelessness due to natural disasters, the instability of agriculture production, and the instability of exports of goods and services.

Like the HAI, the EVI mistakenly treats several indicators that are closely correlated, both negatively and positively, as though they were independent of each other. For example, the degree of exposure of an economy determines the nature of shock to the economy. Thus, shocks and exposures are highly correlated; one index could be used for both.

More broadly, however, there is a problem with the very notion of an index that purports to measure “economic vulnerability.” Many economic activities are intrinsically uncertain, and there is a limited extent to which effective public policy can reduce this: for instance, a predominantly agricultural economy is more exposed to shock, particularly if its irrigated area is small.

Given these methodological flaws, the resulting list of LDCs has little internal coherence, with wide diversity in size, location, and endowments. Thirty-three LDCs are in sub-Saharan Africa, sixteen in Asia, and one in the Americas. Bangladesh is the largest in population, with 141 million, while Tuvalu is the smallest, with only 11,000 persons.⁶ Sixteen are landlocked, twelve are remote islands, and twenty-two are littoral (see table 1).

None of this is to deny that the LDCs have some features in common. But, as we shall see below, these similarities tend to be broadly shared among all developing

countries, rather than uniquely among the LDCs. Certainly, they offer an insufficient basis for the one-size-fits-all approach that the UN has adopted toward these countries.

Poor Excuses for Poor People

When pressed about the analytic weaknesses in the LDC framework, defenders of the category often fall back on a broader argument about these countries’ exceptionalism. The claim, in brief, is that LDCs constitute a group of countries that are simply too poor to reform on their own. In particular, the countries’ past colonial history, isolation, ethnic fractionalization, and weak human resources are all cited as reasons for assistance over and above what other developing states might receive.

Putting aside the fact that neither geography nor history is an explicit part of the matrix for designating LDCs, there are several flaws with this argument. With respect to history, it is true that former colonial status has been found to be an important determinant of future development. Former British colonies have typically enjoyed better property rights and legal systems, as well as greater political stability, while the former French colonies in sub-Saharan Africa have been characterized by greater political upheaval, authoritarian regimes, and corrupt governments. Some researchers have proposed a partial explanation for this in British common law, with its emphasis on precedent, adaptation, and bottom-up feedback, in contrast to French civil law, with its top-down, state-centric approach. Additionally, former colonies with a high degree of ethnic fractionalization tend to do worse today on a range of development outcomes, including literacy, infant mortality, corruption, and government service delivery.

The problem, however, is that the colonial experience of the LDCs is not monolithic. Afghanistan, Ethiopia (except for a five-year period under Italy), and Bhutan, for instance, were never formally colonized by a foreign power. Some countries, such as Chad, Haiti, and Senegal, were French possessions; while others, including Zambia and Sudan, fell under the British sphere of influence. The Democratic Republic of Congo was Belgian, and Eritrea was briefly controlled by Italians. There is no clear pattern of colonial history that can be said to define the LDCs, any more than for the rest of the developing world.

The same is true when it comes to ethnic fractionalization. Many of the LDCs, for instance, have balkanized populations—Sudan, Congo, and Rwanda being three of the most obvious examples. But then, so do many other

states that are not LDCs, such as India and Nigeria. Other LDCs, meanwhile, such as Cambodia, Tuvalu, and Vanuatu, are near-homogenous. Once again, it is difficult to see a constant at work here.

As for geography, advocates of the LDCs typically point to several variables to justify their special status. LDCs, for instance, are predominantly in the tropics, increasing the incidence of disease and constraining economic growth. But several of the best performers among the developing countries are also located in the tropics, such as Singapore, Taiwan, and (as of late) India. Clearly, a tropical climate need not condemn a country to poor development.

The same can be said of being landlocked, as sixteen of the fifty LDCs are. Although transportation costs for these countries may be higher compared to states with direct access to the sea, Botswana—one of the best performing countries in sub-Saharan Africa and the only LDC to graduate from the list—is landlocked.

Another twelve of the LDCs are small islands, many in remote locations. Although these countries must confront high transportation costs and the inability to achieve economies of scale in the production of non-tradable goods, it is not clear that either factor is a real constraint. Singapore, Hong Kong, and several Caribbean islands—such as Trinidad and Tobago, Jamaica, St. Lucia, and Barbados—are small, yet they have developed rapidly. Similarly, countries in remote locations such as New Zealand, Fiji, and Tahiti have enjoyed high levels of income by turning their remoteness to their advantage and adopting sound economic policies to overcome the disadvantages of high transport costs.

Rewarding Failure

If neither history nor geography has prevented LDCs from joining the developed world, what factors are to blame? Unsurprisingly, LDCs suffer from many of the same problems that have inhibited growth across the developing world, including poor governance and bad economic policies.

Consider, for instance, governance in the LDCs, which is characterized overwhelmingly by the absence of democracy (see table 3 on page 7). Freedom House's annual comparative survey, which ranks countries according to the political rights and civil liberties their citizens enjoy, finds that LDCs received median scores of 4.5 and 4.4 respectively from 1995 to 2005 (with 1 being the most free, and 7 the least).⁷ By contrast,

the world averages for advanced countries during this period were 1.2 and 1.5, and 3.6 and 3.7 for developing countries. It is no accident that the only LDC ever to graduate prior to 2006, Botswana, is also one of Africa's few stable democracies.

The restrictive nature of the economic policy regimes in LDCs is another important reason why they remain poor. Individual businesses are highly constrained by the absence of clear property rights and government overregulation, which together inhibit private investment and overall economic efficiency. Instead of encouraging LDCs to overhaul their economic policies and embrace greater political freedom, however, the UNCTAD has downplayed these issues.

Specifically, LDCs have been given differential treatment in international trade—a practice whose origins can be traced back to 1968, when UNCTAD recommended the creation of a Generalized System of Tariff Preferences (GSP) under which developed countries would grant preferential access to developing country exports. In 1979, the General Agreement on Tariffs and Trade (GATT)—the predecessor of the World Trade Organization—made GSP a permanent provision allowing preferential market access for developing countries, limited reciprocity in multilateral trade negotiations, and the use of trade policies as an instrument of development policy, implicitly accepting that multilateral free trade was not fully consistent with economic development.⁸ Since then, UNCTAD has been the main advocate and sponsor of special and differential treatment for developing countries in general, and LDCs in particular.

Because trade preferences under GSP were extended to all developing countries, it did not initially prove of any special value to LDCs. Later, however, some developed countries granted special access to LDCs at the behest of UNCTAD. Thus the QUAD group of countries (Canada, Japan, the European Union, and the United States) have extended duty-free and quota-free access to LDCs under different programs. The EU has also introduced a measure for LDCs, plus another twenty-seven countries, under its Economic Partnership Agreements.

The net effect of UNCTAD's advocacy is that LDCs have been encouraged to seek trade preferences rather than to pursue the internal policy reforms that they desperately need. The trade preferences that LDCs have been awarded, furthermore, are ineffective at best—a mere band-aid for the problems these countries face, with no benefits in the long run.⁹

TABLE 3
FREEDOM STATUS INDEX

Countries	Average 1995–2005			Countries	Average 1995–2005		
	PR	CL	Status (2005)		PR	CL	Status (2005)
Afghanistan	6.6	6.7	NF	Malawi	2.9	3.3	PF
Angola	6	5.7	NF	Maldives	6	5.3	NF
Bangladesh	3	4	PF	Mali	2.3	2.7	F
Benin	2.2	2.1	F	Mauritania	5.8	5.3	NF
Bhutan	6.7	6	NF	Mozambique	3	4	PF
Burkina Faso	4.5	4	PF	Nepal	3.5	4.1	PF
Burma	7	7	NF	Niger	4.8	4.4	PF
Burundi	6.1	6	PF	Rwanda	6.8	5.7	NF
Cambodia	6.1	5.6	NF	Samoa	2	2.1	F
Cape Verde	1	1.8	F	Sao Tome and Principe	1.2	2	F
Central African Republic	4.1	4.6	NF	Senegal	3.2	3.8	F
Chad	6	4.9	NF	Sierra Leone	4.4	4.7	PF
Comoros	5	4	PF	Solomon Islands	2.2	2.7	PF
Dem. Rep. of Congo	6	6	NF	Somalia	6.5	7	NF
Djibouti	4.6	5.5	PF	Sudan	7	7	NF
Equatorial Guinea	6.9	6.6	NF	Tanzania	4.4	4	PF
Eritrea	6.6	5	NF	Timor-Leste	4.3	3.2	PF
Ethiopia	4.6	4.9	PF	Togo	5.7	5	NF
Gambia, The	5.9	5	PF	Tuvalu	1	1	F
Guinea	6	5	NF	Uganda	5	4.3	PF
Guinea-Bissau	3.7	4.5	PF	Vanuatu	1.2	2.7	F
Haiti	5.4	5.4	NF	Yemen	5.2	5.7	PF
Kiribati	1	1	F	Zambia	4.5	4	PF
Lao PDR	7	6	NF	LDC Average	4.5	4.4	—
Lesotho	3.4	3.7	F	Developing Countries Average	3.6	3.7	—
Liberia	5.4	5.4	PF	Advanced Economies Average	1.2	1.5	F (1)
Madagascar	2.3	3.8	PF	World Average	3.4	3.5	—

SOURCE: www.freedomhouse.org

NOTES AND CLARIFICATIONS: “PR” stands for “Political Rights,” “CL” stands for “Civil Liberties,” and “Status” is the Freedom Status. Political Rights and Civil Liberties are measured on a one-to-seven scale, with one representing the highest degree of freedom, and seven the lowest. “F,” “PF,” and “NF,” respectively, stand for “Free,” “Partly Free,” and “Not Free.” Beginning with the ratings for 2003, countries whose combined average ratings fall between 3 and 5 are “Partly Free,” and those between 5.5 and 7 are “Not Free.” Several countries became independent, split into two or more countries, or merged with a neighboring state. Scores for these countries are given only for the period of their existence as independent states.

Trade preferences are problematic for several reasons. First, they operate on the demand side through market access, while the main problems in LDCs are on the supply side, related to such issues as weak policy and institutional environments and inadequate infrastructure.

Second, preferences can only help countries with effective supply facilities and supply chains. Most LDCs, alas, lack the supply facilities needed to increase export volumes and take advantage of preferences.

Third, preferences are a value-declining asset. As other exporters gain easier access with lower protection, as is likely to happen with international trade negotiations such as the Doha Development Agenda or with bilateral trade agreements with competing exporters, the value of access declines. Thus, trade

preferences only provide a short-term respite over competitors, which could have a comparative advantage in the particular product but are disadvantaged in U.S. and EU markets due to high protection.

Fourth, the largest part of the revenues from trade preferences (the difference between the domestic market price in the preference-giving developed country and the duty-free price for the export from the LDCs) is captured by developed country importers rather than LDC exporters.¹⁰ Meanwhile, given domestic supply problems, the pass-through of the revenues from LDC exports to farmers and labor is restricted by weaknesses in trade facilitation, institutional arrangements, and the nature of the policy regimes in which competition within the LDCs is limited.

There is even evidence to suggest that trade preferences can inflict harm. Many studies have shown that preferences delay and discourage domestic policy reforms such as the reduction of internal barriers that act as a tax against exports.¹¹ Moreover, valuable political capital is wasted when LDCs direct their national efforts to preserving preferences, rather than working to address supply-side issues such as poor infrastructure. Preferences can also be harmful by providing a temporary incentive for LDCs to produce goods in which they have no long-term comparative advantage.

A New Approach

Given the diversity of LDCs with respect to their endowments, history, geography, and infrastructure, it simply does not make sense to treat them all alike. Add to that the UN's poor stewardship of them over the past thirty-five years, and there is a powerful case to be made in favor of abolishing the LDC designation altogether and instead dealing with these countries on the basis of their individual needs.

Of course, such a draconian measure—no matter how intellectually justifiable—would no doubt prove unpalatable in many quarters. Therefore, it is perhaps more productive to consider how LDC methodologies might be reformed and improved. A good place to start would be to simplify the present muddled criteria, replacing them with a simple cap of \$1,500 per-capita income, using the PPP method, as the sole criterion. This would reduce the current group of fifty countries by half (see table 2).¹²

Rather than treating these newly designated LDCs as an undifferentiated mass, furthermore, developed country governments might put a new emphasis on evaluating their individual needs. Small countries subject to natural disasters, such as the South Pacific islands, for example, would receive a different set of prescriptions than large countries in sub-Saharan Africa that suffer from human resource problems, like HIV/AIDS.

There should also be a newfound focus on policy reforms—especially those that liberalize LDC economies in trade, regulation, and their domestic financial sector. Once again, however, the precise approach would differ according to an individual country's circumstances.

There also needs to be greater attention in LDCs to the consistent relationship between economic development and democracy.¹³ Most of the LDCs, particularly in sub-Saharan Africa, have been marked by authoritarianism,

with devastating consequences for property rights, ethnic harmony, and internal stability. Without movement toward greater political freedom, LDCs are condemned to remain poor.

The overarching point here, however, is that the problems faced by LDCs are overwhelmingly inside their own borders, not at the borders of the countries that are importing goods from them. Nonetheless, by virtue of being grouped into an artificial category, they have been encouraged to seek ineffective trade preferences, rather than to adopt the internal political and economic reforms they so badly need. Instead of perpetuating this flawed arrangement, it is time to reconsider the LDC concept—and put an end to the tyranny of a definition.

AEI research fellow Vance Serchuk is editor for the Development Policy Outlook series. AEI editor Scott R. Palmer worked with the author and Mr. Serchuk to edit and produce this Outlook.

Notes

1. UN Conference on Trade and Development, "UN Recognition of the LDCs," available at www.unctad.org/Templates/Page.asp?intItemID=3618&lang=1.

2. This paper uses the definitions for the three criteria employed at the most recent triennial review, which took place in March 2006.

3. Two new elements have recently been introduced in the graduation procedure for LDCs. They are: "(i) a country will graduate six years after the CDP in its triennial review identifies a country that meets the criteria for graduation for the first time (i.e., finds it eligible) and three years after the subsequent triennial review (where it is found to qualify) by the CDP; and (ii) during the three year period before effective graduation (after the relevant decision is taken by the General Assembly), a transition strategy should be prepared to smooth the transition process." UN Committee for Development Policy, *Report of the Expert Group Meeting on Improving the Criteria for Identification of Least Developed Countries* (New York: UN, February 9–10, 2005), 20.

4. The UN has changed some of the categories in the 2006 review of what was earlier called the Human Resource Weakness Index and now is called the Human Assets Index; similarly, a few elements have been changed in the Economic Vulnerability Index. However, the methodology, application, and computation remain very much the same as in 2003.

5. Previously, the UN used gross domestic product (GDP) rather than GNI. The latter excludes net factor incomes from abroad and is therefore not a good measure of income.

6. While no country with a population over 75 million is technically supposed to be an LDC, Bangladesh has remained

on the list. This is because the decision to use population as a metric was adopted after Bangladesh had already been designated as an LDC, and the country has been a key ally of UNCTAD, lobbying hard not to be excluded.

7. Only ten out of the fifty LDCs are classified by Freedom House as “free,” while seventeen countries are classified as “not free,” and the rest as partially free.

8. The contracting parties of the GATT adopted the Enabling Clause provision to give permanent status to the GSP entitled “Differential and More Favorable Treatment, Reciprocity and More Fuller Treatment of Developing Countries,” thereby creating a permanent waiver to the most favored nation clause. This allows countries to grant preferential tariff treatment. Many developed countries have adopted preference schemes, including Australia, Canada, the EU, Great Britain, Japan, and the United States.

9. This is not to deny that there could be some short-term gains. For example, Cambodia’s garment industry grew from virtually nothing in 1996 to 200 factories and 150,000 jobs by 2001. This rapid development could not have happened without preferences granted to Cambodia. But with the end of the quota regime that sustained the industry, problems are anticipated. See Cambodia Ministry of Commerce, *Integration and Competitiveness Study* (Phnom Penh, Kingdom of Cambodia: Ministry of Commerce, 2001).

10. Marcelo Olarreaga and Caglar Ozden, “AGOA and Apparel: Who Captures the Tariff Rents in the Presence of Preferential Market Access,” *World Economy* 1, vol. 28, 2005.

11. See Eric Reinhardt and Caglar Ozden, “The Perversity of Preferences: The GSP and Developing Country Trade Policies, 1976–2000” (working paper series 2955, World Bank, Washington, D.C., 2003). The authors show that countries that have been removed from GSP adopt more liberal trade policies than those that remain eligible for preferences.

12. Since the PPP estimates are currently available for only thirty-seven countries, the group of countries that could remain in the LDC category has been estimated by extrapolating the ratio of countries with income higher than \$1,500 to the fifty countries that are LDCs. The estimate captures the spirit of the recommendation rather than provide an exact number.

13. Robert J. Barro, “The Rule of Law, Democracy and Economic Performance,” *2000 Index of Economic Freedom* (Washington, D.C.: Heritage Foundation and Dow Jones & Company Inc., 2000). Barro posits a nonlinear relationship in which development is fostered by democracy; after a certain level of growth, however, this relationship wanes due to a bias toward consumption by the larger middle class. Since LDCs are at the early stages of such a transition, one would expect the relationship between democracy and development outcomes to be clear and positive.