United Nations TD/B/EX(49)/2

United Nations Conference on Trade and Development

Distr. General
12 May 2010

Original: English

Trade and Development Board
Forty-ninth executive session
Geneva, 8-9 June 2010
Item 2(a) of the provisional agenda

Follow-up to the Third United Nations Conference on the Least Developed Countries (LDCs) and preparations for the Fourth United Nations Conference on the Least Developed Countries: Key development challenges facing the LDCs*

In Quest of Structural Progress: Revisiting the Performance of the Least Developed Countries**

Note by the UNCTAD secretariat

Executive summary

Until the recent global crises, LDCs as a group enjoyed a protracted period of improved performance in the areas of economic growth, macroeconomic stability, trade and investment, resource flow and balances. However, this robust performance was relatively skewed and fragile and as such could not catalyse a breakthrough for structural progress. Changes have been particularly lagging in the areas of investment in productive sectors, trade diversification, infrastructure development, science and innovation capacity-building. In order to accelerate a transition towards structural progress, there is a need to revisit the development approaches in LDCs and development partners, particularly in the light of their recent development experiences and the challenges brought about by the fuel, food and financial crises. A new vision of the development paths for LDCs needs to include a facilitating macroeconomic framework, innovative meso-level interventions and a new set of international support measures addressing the specific needs of an increasingly heterogeneous LDCs group.

* This document was submitted on the above-mentioned date because the provisional agenda was approved by the Trade and Development Board on 15 April 2010.

** This is an abridged version of the report of the UNCTAD Ad hoc Interdivisional Task Force on LDC-IV. It has been prepared for the executive session of the Trade and Development Board, Geneva, 8 June 2010.

I. Introduction

A. Background and objectives

1. Forty-nine LDCs currently host 12 per cent of the world's population, half of which live in extreme poverty, but account for less than 2 per cent of world's gross domestic product (GDP) and around 1 per cent and 0.5 per cent of world trade in goods and services, respectively. Their development prospects are constrained by several socio-economic and geophysical structural impediments, which have made them extremely vulnerable to external shocks as well as to the adverse consequences of environmental change. The recent devastating earthquake in Haiti and earlier the tsunami in Samoa have pointedly brought out the vulnerabilities of the LDCs. Indeed, since the creation of the LDC category in early 1970s only two countries have graduated, while the initial number (25 States) has doubled.

2. In order to articulate any future international development agenda in support of the LDCs, it becomes pertinent to discern the structural changes that have manifested in these countries since the adoption of the Brussels Programme of Action in 2001. The present exercise is essentially a strategic retrospect on the performance of the LDCs in the current decade. The findings are to contribute in evolving a collaborative development vision for an accelerated structural transformation of the LDCs.

B. Methodology and scope

3. The analytical approach of the present document is anchored in the concept of "structural progress". In this regard the terms "structural transformation" and "structural change" (in the positive sense) have been used interchangeably. The choice of this defining concept is informed by the fact that an LDC remains an LDC because of a varying set of structural handicaps or constraints. Structural progress constitutes irreversible advances of catalytic nature that help obliterating these handicaps or constraints in the LDCs.

4. Structural progress may be defined as an intertwined phenomenon that brings in new and complementary elements aiming at, inter alia, accelerating economic growth, augmenting capital formation, increasing skills for productivity growth, enhancing domestic resource inputs and improving the ability to deal with external shocks. These elements of structural progress seek to enhance productive capacity and quality of jobs, improve the composition of outputs and facilitate equitable poverty reduction. Structural change could also lead towards an export specialization that is more conducive to attaining the countries' development goals. From these perspectives, structural progress may be measured both as a process and as a set of outcomes.

5. Identifying structural progress may prove to be a challenging task given the existing large differences among and across the LDCs. Moreover, the paramount goal of structural progress goes beyond the Millennium Development Goals (MDGs), and beyond the objectives of progress toward graduation from LDC status.

6. The scope of the present report is circumscribed by the mandate of UNCTAD in the areas of trade and development and interrelated issues. In undertaking its analyses, the report has drawn on the accumulated wisdoms available in various UNCTAD flagship publications as well as other relevant literature. For consistency reasons, wherever possible, the analyses have been based on United Nations data sources.

7. Seven building blocks of the document attempt to highlight the role of structural progress in their respective areas.

II. Trends in selected macroeconomic indicators

A. Economic growth performance

8. The LDCs experienced their strongest growth performance ever in 2005 and 2006 and their growth rates surpassed the goal of 7 per cent mentioned in the Brussels Programme of Action. Due to their higher population growth, LDC performance in per capita terms has been more modest. However, LDCs' high growth performance during the past decade was not broad-based and large differences persist among the LDC groups (see table 2.1).

9. Oil-exporting LDCs grew at 9.1 per cent during 2001–2009, while manufacture and mineral LDCs grew at 5.7 per cent and 5.4 per cent, respectively. Thanks to the oil exporters, the growth rates of African LDCs were above the group's average. The commodity boom of the recent past fuelled the growth performance of non-manufacturing industries (extractive and construction activities). The modest performance of the fuel- and mineral-exporting LDCs in 2009 and the recent performance of the agriculture and food exporters is closely linked to the swings in the global demand and prices.

Table 2.1
Real GDP and real GDP per capita growth rates of LDCs
(Annual average growth rates)

	Real GDP					*Real GDP per capita*				
	2001–2009	*2001–2006*	*2007*	*2008*	*2009 (est.)*	*2001–2009*	*2001–2006*	*2007*	*2008*	*2009 (est.)*
LDC total	**7.1**	**6.9**	**8.4**	**7.0**	**4.1**	**4.6**	**4.4**	**5.9**	**4.6**	**1.7**
LDC Africa and Haiti	7.7	7.5	9.1	7.9	3.5	4.8	4.6	6.2	5.0	0.7
LDC Africa and Haiti less oil exporters	5.9	5.5	6.5	6.7	4.2	3.0	2.6	3.7	3.9	1.5
LDC Asia	6.0	5.7	7.0	5.2	5.5	4.2	3.9	5.2	3.5	3.7
LDC islands	6.2	7.5	6.4	4.4	0.0	3.8	5.2	3.8	2.0	-2.3
Other developing countries	6.3	6.4	7.6	5.4	1.5	4.9	5.0	6.3	4.1	0.3
LDCs according to export specialization										
Agri and food exporters	8.2	8.6	9.8	6.6	8.4	5.0	5.2	6.4	3.4	5.0
Fuel exporters	9.1	9.1	11.3	8.2	2.7	6.9	6.8	9.2	6.1	0.7
Manufacture exporters	5.7	5.5	6.3	5.8	4.3	3.8	3.5	4.4	4.0	2.6
Mineral exporters	5.4	5.5	5.0	5.6	3.1	2.6	2.6	2.3	2.8	0.4
Service exporters	6.6	5.8	7.9	7.8	5.1	3.8	3.1	5.1	4.9	2.2

Source: UNCTAD Globstat and IMF World Economic Outlook October 2009.

10. The export-led growth model that many LDCs have followed has had varied results, since as few as seven LDCs (Angola, Bangladesh, Cambodia, Chad, Equatorial Guinea, Sudan and Yemen) alone accounted for 74 per cent of total LDCs' exports in 2008, and oil-exporting LDCs alone accounted for 62 per cent of total LDC exports. The sustainability of

the growth prospect of LDCs is endangered by the relatively high occurrence of conflicts, natural disasters and market volatility.

B. Changes in GDP composition

11. The GDP of LDCs remain dominated by services (43 per cent), followed by industrial activities (31 per cent), which are mostly linked to mining, and lastly by agriculture whose weight has been falling over time to reach 26 per cent of GDP in 2006-2008 (see table 2.2). These averages mask the large differences amongst the LDCs and the individual GDP components. The share of manufacturing in GDP has been stagnant over the past 18 years. Marginal progress has only been recorded by Asian LDCs, driven by their specialization in low technology manufactures (primarily textiles). Compared to the previous decade, half of the LDCs have experienced a deindustrialization process, measured by the declining share of manufactures in total output, and for 18 LDCs the share of agriculture in GDP has increased.

Table 2.2
GDP composition by sectors
(Percentage of total value added)

	1990–1992	*2000–2002*	*2006–2008*
LDC			
Agriculture	36	30	26
Industry	21	25	31
of which Manufacturing	10	10	10
Services	43	44	43
African LDCs			
Agriculture	37	32	28
Industry	21	25	32
of which Manufacturing	9	8	8
Services	42	43	40
Asian LDCs			
Agriculture	33	27	23
Industry	21	26	29
of which Manufacturing	11	12	13
Services	44	45	47
Island LDCs			
Agriculture	28	21	22
Industry	14	14	14
of which Manufacturing	7	7	6
Services	58	64	64

Source: UNCTAD Globstat.

12. This sectoral pattern of growth indicates the failure to develop productive capacities and to modernize the economy in a way that would have led to a structural transition towards more manufacture-based economies. Furthermore, the resulting sluggish structural change observed does not adequately respond to labour market demands.

C. Resource balances

1. Fiscal resources

13. Revenue from taxes has increased in the LDCs from 13 per cent of GDP in 2001 to 16.3 per cent of GDP in 2007, the latest available year. Available data reveal that LDCs are still relying more on taxes raised from international trade than on domestically-raised taxes. Taxes on international trade accounted for 5 per cent of GDP in 2007, up from 3.5 per cent in 2001.

(a) In spite of the large trade liberalization efforts undertaken by the LDCs during the late 1980s and 1990s, import-related income still accounted for 35 per cent of LDCs' tax revenue in 2007, while taxes on exports accounted for a mere 1.7 per cent;

(b) Taxes of income, profit and capital gains have remained stable after 2001, accounting for a quarter of the share of total taxes, and accounting for 15 per cent of government revenue in 2007;

(c) The share of taxes on goods and services – which includes taxes on general sale and turnover, valued added tax and taxes on services and extractive activities – in total tax revenue has only marginally increased over time: from 23 per cent in 2001 to 25.6 per cent in 2007.

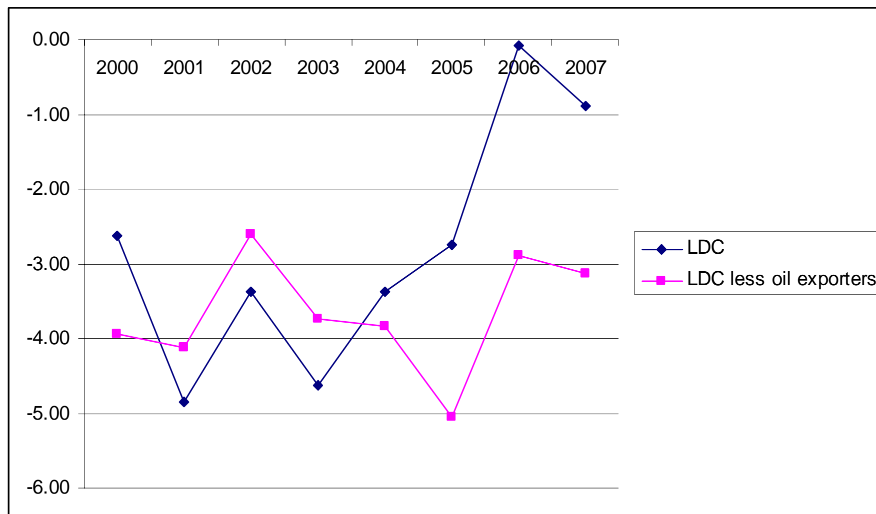
2. Current account and operating balances

14. LDCs have managed to improve their macroeconomic position from the 2000s onward due to a drastic rebalancing viewed as necessary under the conventional consensus. The commodity price-driven export boom and, in some cases, the buoyant remittance flow from expatriate workers, led to significant improvement in their current account balance from -4.8 per cent of GDP in 2001 to -0.9 per cent of GDP in 2007 (see figure 2.1). The exclusion of the oil exporters shows that the current account balance of the remaining LDCs did not improve much over time, although it has a positive upward sloping trend. While the Asian and island LDCs have experienced a current account surplus since the mid-2000s, their African counterparts are still faced with a current account deficit.

15. The available scatter data on six LDCs[1] indicate that their fiscal balance has improved during the past decade.

[1] Benin, Burkina Faso, Cambodia, Madagascar, Mali and Niger.

Figure 2.1
Current account balances for LDCs and non-oil exporting LDCs
(Percentage of GDP)

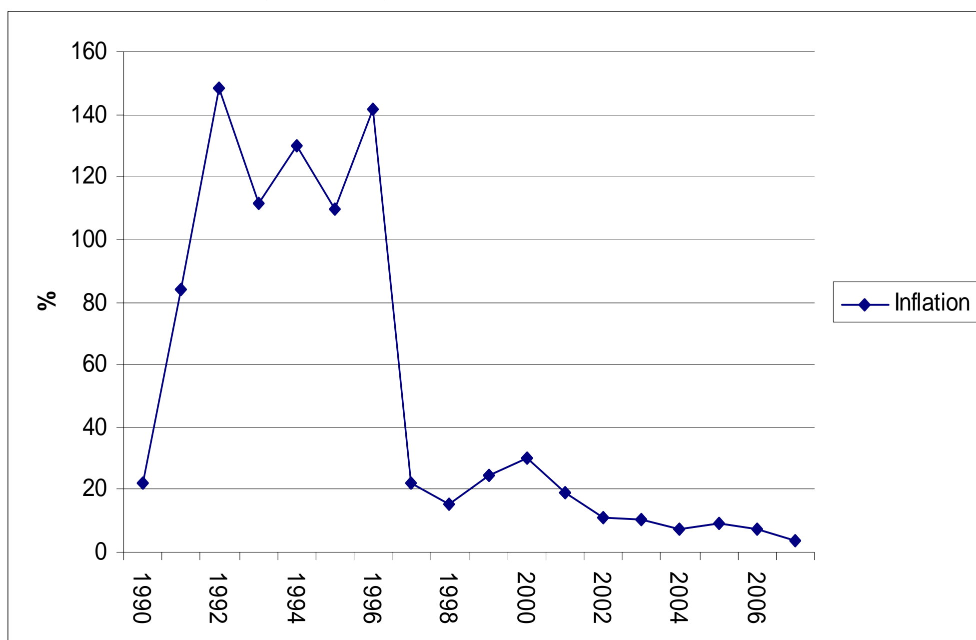


Source: UNCTAD Globstat.

D. Inflation

16. The very high average inflation rates of the 1990s in LDCs dropped drastically by the beginning of 2000s. This contributed to a stabilization of domestic prices, attracted foreign investors and reduced the cost of borrowing, thus providing a climate more suitable for sustained economic growth and job creation.

Figure 2.2
Inflation in the LDCs (1990-2007)



Source: World Bank, World Development Indicators.

E. Employment and poverty

17. During the past decade, available data indicate that the LDCs have not experienced the social improvements and employment advances that the rapid growth rates would have led to expect. Information on 13 LDCs suggests that agricultural employment still accounts for between one third and 80 per cent of total employment, depending on the country and its specialization. Industrial employment, on the other hand, does not seem to account for more than 10 per cent of total employment.

18. Estimates on the evolution of poverty rates during the past decade have given conflicting messages. One study found that poverty has been falling since 1995 much more and faster than was ever thought, introducing for the first time the possibility of seeing the LDCs meet the MDG on poverty.[2] On the other hand, UNCTAD found that progress in reducing extreme poverty has been slow, much slower than that required to achieve the MDGs, and that there has been no acceleration in poverty reduction after 2000.[3]

19. While the group average of the "Gini" coefficient has remained stable around 0.4 throughout, many growth-virtuous countries experienced some deterioration of income distribution.

F. Crises and thereafter

20. Throughout the 2000s the LDCs have been exposed and hit by three different crises: the fuel, food and financial/economic crises. The financially poor LDCs have fended off the first two crises through temporary increases in government fiscal deficit and by cutting back on other expenses – mostly linked to social services – to pay their fuel and food bills. The six oil-exporting LDCs[4] have been the only ones to benefit from the (temporary) increases in oil prices, while invariably all LDCs – even the food-exporting countries – have been hit at various degrees by the increases in the price of food and fuel. Rising food and fuel prices not only affected government finances, but also jeopardized incomes and savings of poor households.

21. As a result of the recent global financial/economic crisis, many of the poorest countries believed that they would be the hardest hit. A study concluded that due to this crisis the number of poor in LDCs was to rise by 6.1 million in Africa and by 1.2 million in Asia by 2010.[5]

22. The International Monetary Fund (IMF) reported that sub-Saharan Africa's real GDP growth was better than expected (at 1.6 per cent), and it forecast a strong recovery up to 4.3 per cent by 2010. Some argue that such a performance could be explained by their improved macroeconomic management, well-capitalized and less leveraged banks, diversification of export markets toward emerging economies, continued flow of remittance income, quick introduction of counter-cyclical policies and safety net programmes. However, this indication of improved resilience to shocks should not obfuscate the fundamental challenge of implementing structural progress in the LDCs.

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[2] Pinkovskiy M and Sala-i-Martin X (2010). African poverty is falling … much faster than you think! NBER Working Paper No. 15775.

[3] UNCTAD (2008). *The Least Developed Countries Report: Growth, Poverty and the Terms of Development Partnership*. United Nations Publication. Sales No. E.08.II.D.20. New York and Geneva.

[4] Angola, Chad, Equatorial Guinea, Sudan, Timor-Leste and Yemen.

[5] Karshenas M (2009). The impact of the global financial and economic crisis on LDC economies. UN-OHRLSS Technical Report. New York.

23. Questions remain as to why the apparent improvement in the LDCs' macroeconomic situation and resilience to withstand possible external shocks have not led to an allocation of resources to more productive sectors and, thus, to structural progress.

III. Structural Progress in LDCs: Varying Experience

24. The growing heterogeneity among LDCs points to the need for a differentiated examination of the structural progress or lack thereof in the group. Few globally available indicators allow a meaningful measurement of improvements in LDCs' capabilities. Two of these indicators are the gross rate of secondary school enrolment and the rate of Internet penetration. Simultaneous examination of different indicators reveals that less than a third of all LDCs demonstrate meaningful improvements in capabilities.

25. In their quest for development, most LDCs aim to improve their export specialization, through increased competitiveness of existing activities, or diversification into new activities. Improved specialization often leads to socio-economic benefits, notably through a pattern of intersectoral linkages with poverty-reducing and welfare-enhancing effects. Natural endowments and cultural/educational assets are common determinants of economic and export specialization among LDCs. A detailed analysis of changes in the export specialization of LDCs during the past decade points to the following broad patterns, with varying manifestation across the countries:

(a) Six countries have continued to specialize in agriculture or forestry (primarily for export) and have not experienced major structural changes: Burkina Faso, Burundi, Guinea-Bissau, Malawi, Solomon Islands, Somalia and Timor-Leste;

(b) Seven LDCs have maintained a combination of activities ranging from agriculture, fisheries or minerals to light manufacturing and/or services (Afghanistan, Benin, Ethiopia, Liberia, Mali, Mauritania and Uganda);

(c) Six countries continue to exploit their mineral endowment and have not recorded much change in their export specialization: Central African Republic, Democratic Republic of the Congo, Guinea, Niger, Sierra Leone and Zambia;

(d) Five LDCs are completely or in the process of being completely specialized in hydrocarbons (Angola, Chad, Equatorial Guinea, Sudan and Yemen). In none of these economies has the rapid specialization in oil exports brought widely shared benefits for the population;

(e) Four countries have soundly progressed toward specialization in textiles (clothing, garments and other textile products), a sector that often accounts for more than half of total exports of goods and services (Bangladesh, Cambodia and Lesotho);

(f) Manufacturing and service activities dominate the economies of Bhutan, Mozambique and Togo;

(g) The export sector of nine countries is sizeably dominated by the tourism industry (Comoros, Gambia, Maldives, Rwanda, Samoa, Sao Tome and Principe, Senegal, the United Republic of Tanzania and Vanuatu);

(h) Djibouti and Eritrea have specialized in port and transport-related services;

(i) Four countries demonstrated, up to 2008 or 2009, a balanced mix of primary, manufacturing and service-related activities (Haiti, Lao People's Democratic Republic, Madagascar and Myanmar).

(j) Finally, two countries (Kiribati and Tuvalu) remain emblematic examples of economies dominated by “rental income”, i.e. revenue arising from assets that were inherited from unique geographical or exotic features, as opposed to endogenous productive capacities.

26. Only 12 of the 49 LDCs stand out as having improved their specialization fairly rapidly, albeit with uneven consequences for the standards of living. These are the countries that have increased their export specialization in textile and tourism. By the end of the period considered, three sectors seem to be dominating the export revenue of 18 LDCs: hydrocarbons, textiles and tourism, with varying economic consequences. With hydrocarbons, countries have experienced rapid increases in per capita income levels, which were not underpinned by growth in domestic capabilities. In the case of low technology manufacture and textiles, some structural progress is observed as a result of expanded employment opportunities. Lastly, the effect of the dominance of tourism has shown that it could lead to spectacular income increases and social advances, but the overall improvements in living standard depend on the spillover effects on the remaining sectors of the economy.

A. Structural progress, graduation from LDC status and the MDGs

27. While genuine structural progress almost certainly implies progress toward thresholds of graduation from LDC status, the reverse is not true, because rapid advances in per capita income (a key graduation factor) may take place while the graduating country remains highly vulnerable economically. At the same time, structural progress will probably coincide with improvements in meeting the MDGs, while advances under the MDGs do not warrant structural progress. Only the latter stands out as a criterion of true significance for durable socio-economic betterment.

28. Only three countries are presently in the process of graduating from LDC status, while 10 others have demonstrated significant progress toward LDC graduation thresholds, and seven countries can be regarded as potential graduation cases in the long run (see table 3.1). To qualify for graduation, an LDC must have met the graduation thresholds under at least two of the three criteria (per capita income, the human assets index and the economic vulnerability index), through at least two consecutive triennial reviews of the list. The United Nations has stressed the importance of securing a smooth transition for countries that will be graduating from LDC status, during the three-year transition period that precedes the loss of LDC status.

Table 3.1
The graduation prospects of 20 LDCs

Countries graduating From LDC status (graduation date)	*Countries having already met one graduation threshold and pursuing progress under a second graduation threshold in the not-too-distant future*	*Countries showing signs of progress towards one or two graduation thresholds in the long run*
Equatorial Guinea (*to be determined*)	Angola	Cambodia
Maldives (*2011*)	Bangladesh	Comoros
Samoa (*to be determined*)	Bhutan	Lao People’s Democratic Republic
	Kiribati	Mauritania
	Lesotho	Solomon Islands
	Myanmar	Timor-Leste
	Nepal	Yemen

Countries graduating From LDC status (graduation date)	*Countries having already met one graduation threshold and pursuing progress under a second graduation threshold in the not-too-distant future*	*Countries showing signs of progress towards one or two graduation thresholds in the long run*
	Sao Tome and Principe Tuvalu Vanuatu	

Source: UNCTAD, based on continuous monitoring of the evolution of the LDCs with respect to the inclusion criteria.

IV. Integrating in the Global Economy: Trade Performance of LDCs

A. Differential trade performance

1. The role of trade

29. During the current decade, LDCs' trade performance has boomed thanks to buoyant international prices and the increasing volumes of exported goods, which were driven by the expanding international demand. Their total trade increased from slightly more than half of their GDP (2000–2002) to about 70 per cent of GDP in 2006–2007 (see table 4.1), but it still accounts for less than 1 per cent of world trade. The decade has been marked by robust import and export growth rates, the latter growing faster (at 20 per cent per annum during the period considered) than the former. Thanks to the trade surplus of the oil exporters, the LDC group has experienced a shrinking trade deficit, which masks the deterioration of the trade balance of the remaining countries. Given the geographical features of the island LDCs, it is not surprising to find that their GDP is overly reliant on trade (in services).

Table 4.1
LDCs' trade in merchandise goods and services
(Percentage of GDP)

		LDC groups				
Variables	*Periods*	*LDCs*	*African LDCs*	*African LDC less oil exporters*	*Asian LDCs*	*Island LDCs*
Total trade	2000-2002	54.7	58.1	50.3	48.8	119.5
	2006-2007	70.1	76.7	61.9	57.6	112.5
Exports	2000-2002	23.8	25	19.4	21.8	47.4
	2006-2007	34.4	38.7	24	26.7	40.1
Imports	2000-2002	30.9	33.1	30.9	27	72
	2006-2007	35.7	38	37.9	30.8	72.4

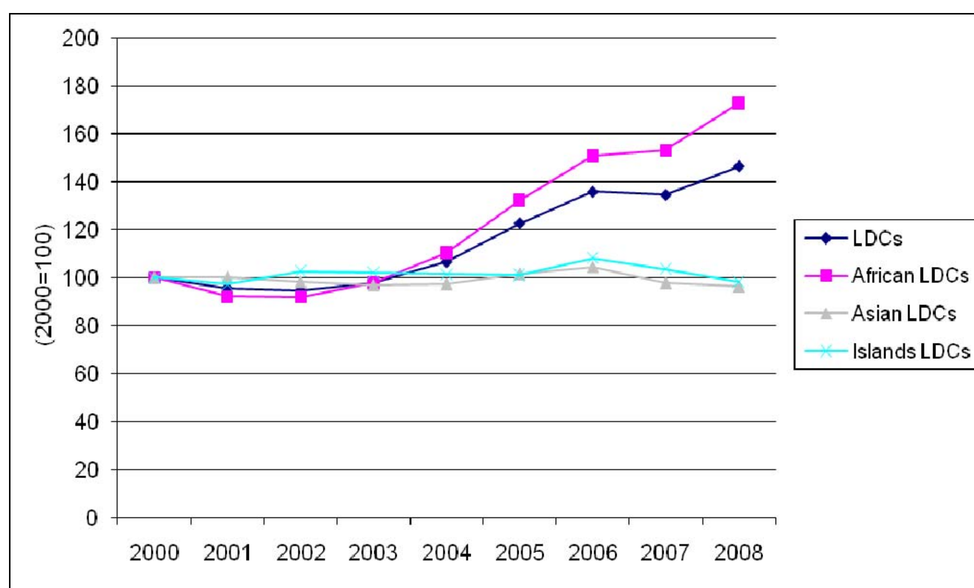
Source: UNCTAD Globstat

2. Terms of trade

30. The net barter terms of trade for the LDCs as a group has shown a marked improvement from 2000 to 2008 (see figure 4.1). This positive result is driven by the performance of the African LDCs, whose terms of trade are closely related to the trend in commodity prices. The stagnation of the terms of trade for Asian and island LDCs during

the 2000s, compared to the improved terms of trade for the LDC as a group, can be explained by changing nature of the LDCs' comparative advantage away from manufactures and services, towards commodities.

Figure 4.1
Terms of trade indices



Source: UNCTAD Globstat.

3. Product composition

31. LDCs' exports are heavily concentrated on a few products (see section V). Such an export concentration has always been an adverse structural feature of the LDCs. The recent trend in commodity prices has reinforced this trend by increasing the weight of those commodities and discouraging economic diversification. As shown in table 4.2, the LDCs have increased their export concentration in fuels, moving from some 40 per cent of total exports in 2000-2002 to 59.4 per cent in 2007-2008, while the export share of manufactures has decreased from 29 per cent in 2000-2002 to 19 per cent in 2007–2008. The above trend is due to the rapid increase in the price of commodities, which has boosted exports in fuels and minerals, and by the increased international competition in low technology, labour-intensive manufactures and the resulting fall in prices.

32. Compared to the increase of merchandise trade, LDCs' service exports increased at a more modest level (0.5 per cent): from $7.6 billion in 2001 to $18.5 billion in 2008. In 2008, service exports (mostly tourism) accounted for 3.6 per cent of LDCs' GDP. Some LDCs, mainly the small and insular ones, are more dependent on service receipts than others.

4. LDC trade and the financial crisis

33. The shrinking in global demand due to the global financial crisis paired with the drying up of trade finance caused a sharp contraction of international trade in goods and services, which did not spare the LDCs (see section II). According to one study, the export value from LDCs declined by over 43 per cent during the first two quarters of 2009,

compared to the first half of 2008.[6] Some products were more affected than others during the crisis, either due to a price downturn (for fuels and minerals) and/or to a reduction in the volume of demand. Excluding fuels and minerals, which are subject to price volatility, LDCs' exports declined by 13.5 per cent. The crisis and the related export decline seem to have bottomed out in the first quarter of 2009. The market for primary commodities was one of the first to rebound.

Table 4.2
Composition of LDCs' merchandise exports by main categories
(Percentage of total exports)

Variables	*Periods*	*LDC groups*				
		LDCs	*African LDCs*	*African LDC less oil exporters*	*Asian LDCs*	*Island LDCs*
Primary commodities less fuels	2000-2002	30.2	40.4	72.9	14.2	62.6
	2007-2008	21.2	22.2	72.6	17.5	75.7
Fuels	2000-2002	39.5	48	5.3	27.2	0.1
	2007-2008	59.4	70.5	6	27.3	0.9
Manufactures	2000-2002	29.1	10.2	20.2	57.8	33.4
	2007-2008	18.6	6.3	20.2	54.7	21.4
of which textiles	2000-2002	24.5	7.7	14.4	50.2	15.7
	2007-2008	14.3	3.2	10.8	47.1	0.6

Source: UNCTAD Globstat.

34. The trade impacts of the crisis on LDCs were exacerbated by their export concentration, stronger competition in market of labour-intensive, low value added manufactures, laying off of expatriate workers in the affected developed and developing countries, and lower flow of tourists. However, remittance flows from expatriate workers turned out to be more resilient than merchandise export receipts.

B. Changing market destination and the rising importance of the South

35. Total merchandise exports among developing countries between 2001 and 2007 have more than tripled, growing from $752 billion to $2.4 trillion. LDCs' exports to the South have expanded considerably in value terms and their marginal share in South–South trade has increased from 1.7 per cent in 2001 to 2.4 per cent in 2007. As highlighted in table 4.3, the markets of developing economies represent 50 per cent of LDCs' total exports (mostly fuel and minerals), up from less than 40 per cent in 1995-1996. Although the export share of LDCs to developed countries decreased from some 60 per cent in 1995-1996 to 47.8 per cent in 2007–2008, these more mature markets continue to absorb the vast majority of LDCs' manufactured goods, from 67 per cent in 1995-1996 to 75.8 per cent in 2007-2008.

[6] International Trade Centre (ITC) (2010). ITC trade map factsheet: LDC trade recovery in 2009. www.intracen.org

Table 4.3
Export destination of LDCs products by sector

	Developed countries		*Developing countries*		*of which China*	
Variables	*1995-1996*	*2007-2008*	*1995-1996*	*2007-2008*	*1995-1996*	*2007-2008*
All products	59.6	47.8	38.8	50.3	4.1	23
Primary commodities	56.5	41.3	38.8	56.9	5	28.1
Primary commodities less fuels	56.3	42	37.8	53.5	1.6	10
Manufactures	67	75.8	27.6	22.9	0.6	1.4

Source: UNCTAD Globstat.

36. In 2008, China overtook the European Union (EU) as the main importer of LDC products, purchasing roughly 23 per cent (mainly fuels and minerals) of LDC exports against 21 per cent for the EU (mainly manufactures). Other developing economies such as India and Thailand currently play a greater weight in LDC exports than in the past.

37. Seventy-three per cent of the total value of LDC exports to developing countries was granted duty-free status, which resulted mostly from the favourable treatment of their exports of fuel and minerals. While the average tariff faced by LDCs in developing countries was 12 per cent in 2006, agricultural exports were subject to far higher rates than non-agricultural goods.[7] These figures illustrate the wide dispersion of product treatment affecting South–South trade. This leaves much room for improving LDCs' market access in developing countries.

C. Participation in the international trading system

38. Market access conditions for LDCs have improved over the years through the provision of trade preferences by both developed and developing countries (particularly Brazil, China, India and the Russian Federation), although rounds of multilateral and regional agreements have led to preference erosion for LDCs. Benefits from the conclusion of the WTO Doha Round remain unresolved. The major outstanding issues include duty-free, quota-free access for all products from all LDCs, simplification of rules of origin, dealing with non-tariff measures and standards, waiver for granting preference in services and fast-tracking of the LDC accession process.

39. The number of South–South regional agreements has drastically increased in the last decade. Between 1990 and 2003, 70 new South–South trade agreements were signed, 30 of which were between neighboring African countries.[8] While Asian regionalism has focused on trade facilitation, regional agreements within African LDCs have mostly lowered trade protection measures among members.[9] The Economic Partnership Agreements between five main African regional arrangements and the EU, if implemented, will further liberalize EU–African trade, but on a reciprocal basis.

[7] WTO (2010). Market access for products and services of export interest to LDCs. WT/COMTD/LDC/46/Rev.1.

[8] Yang Y and Gupta S (2005). Regional trade arrangements in Africa: past performance and the way forward. IMF Working Paper WP/05/36.

[9] Borgatti (forthcoming). Economic integration in sub-Saharan Africa. In: Jovanovic M, ed. *International Handbook of Economic Integration.* London, Edward Elgar.

40. Experience suggests that improved market access alone is not sufficient to stimulate domestic productive capacity in a way that could lead to structural change in the LDCs. Along with the rebalancing of the role of external and domestic demands, specific supply-side policies are needed to reduce domestic constraints and enhancing existing production possibilities.

V. The State of Commodity Dependence

A. Increased commodity dependence

41. The latest available data indicate that LDCs, as a group, became increasingly commodity dependent from 2000–2008, with primary commodities rising in relative importance over manufacture exports. This outcome was largely the result of the rise in primary commodity prices during this period and the increase in their export volumes due to international demand (see section IV).

42. The dependence on a few commodities (or even on a single commodity export) has traditionally been a prominent feature of LDCs' commodity export structure. Available evidence points toward a pattern of increased export concentration, with a few commodities accounting for the bulk of export earnings. The Herfindahl-Hirschmann concentration index suggests that trade concentration had increased from 0.33 in 2000 up to 0.54 in 2008. However, this aggregate picture masks significant variations among regions. The overall increase in the degree of export concentration was essentially due to the African LDCs, whose index rose by 0.73 in the period 2000–2008, while the Asian LDCs exhibited a pattern of decreasing export concentration.

43. Another measure of the level of trade concentration is given by the export share of only the largest export categories. Table 5.1 shows that 14 out of 23 countries increased their dependence on a single export commodity (as a share of total commodity exports) in the latter period. Although driven by price factors, this finding corroborates the view that LDCs as a group have become increasingly commodity dependent in terms of export earnings, which entails greater exposure to price volatility.

B. Internal and external constraints

44. At the domestic level, horizontal and vertical diversifications towards the production of higher value added products have been structurally impaired by a number of supply-side constraints. These included: deficiencies in infrastructure; the paucity of support services; rudimentary technology; lack of access to credit; and untapped economies of scale.

45. To tackle these supply-side issues, an integrated programme of supply-side responses must be composed of:

(a) Enhanced institutional capacities – in the light of structural problems and in the aftermath of the recent financial and economic crisis, there may be a pressing need for more direct forms of state intervention in economic management;

(b) The pooling and alignment of funding – the two key challenges that LDCs face include aligning aid flows to the priorities expressed in LDCs' national development strategies and strengthening domestic resource mobilization;

(c) Increased effectiveness in the regional economic integration processes, with the objective of overcoming the constraints of small domestic markets and exploiting untapped economies of scale, including in technological development.

46. Domestic policies geared to export diversification in the LDCs are unlikely to be effective without complementary action at the multilateral level aimed at tackling both sets of constraints. In this connection, it is somewhat expedient to distinguish between market access conditions (discussed in section IV) and actual market entry barriers stemming from the structural characteristics of supply chains and markets. The latter include important structural (sunk costs, economies of scale, etc.) and behavioural (e.g., abuse of market power by incumbent firms) barriers.

47. Moreover, private sector standards, in interplay with the ongoing process of corporate concentration in the commodity sector, are creating asymmetrical market power in several commodity chains. Particularly in the context of vertically coordinated demand-driven agrifood chains, private standards have become de facto mandatory requirements having exclusionary effects.

Table 5.1

Changes in dependence on a single commodity export between 2000-2002 and 2006-2008

	2006-2008			2000-2002			Increase in share in 2006-2008	
		Share of			Share of			
Country	Commodity	Total merchandise exports (1)	Total commodity exports (2)	Commodity	Total merchandise exports (3)	Total commodity exports (4)	Total merchandise export (1-3)	Total commodity export (2-4)
Angola	333 - Crude petroleum	95.57	96.39	333 - Crude petroleum	89.34	89.62	6.23	6.76
Benin	263 - Cotton	46.08	53.60	263 - Cotton	58.53	62.92	*-12.45*	*-9.32*
Burkina Faso	263 - Cotton	31.62	57.92	263 - Cotton	59.59	72.49	*-27.98*	*-14.58*
Burundi	971 - Gold, non-monetary	38.15	51.57	*071 - Coffee and coffee substitutes*	62.95	63.62	*-24.80*	*-12.05*
Chad	333 - Crude petroleum	61.13	63.79	*263 - Cotton*	74.55	80.65	*-13.41*	*-16.86*
Equatorial Guinea	333 - Crude petroleum	84.76	88.56	333 - Crude petroleum	86.17	89.17	*-1.42*	*-0.61*
Guinea	285 - Aluminium ores	60.11	70.16	285 - Aluminium ores	51.51	66.29	8.61	3.87
Guinea-Bissau	057 - Fruits and nuts	98.43	98.90	*333 - Crude petroleum*	60.67	61.57	37.76	37.32
Liberia	231 - Natural rubber	21.01	55.48	*247 - Wood in the rough or roughly squared*	10.23	45.04	10.78	10.44
Malawi	121 - Tobacco, unmanufactured	59.07	66.81	121 - Tobacco, unmanufactured	59.67	67.12	*-0.59*	-0.31
Mali	971 - Gold, non-monetary	74.74	77.81	971 - Gold, non-monetary	65.52	69.32	9.22	8.48
Mauritania	281 - Iron ore	52.14	53.86	281 - Iron ore	55.53	70.91	*-3.38*	*-17.05*
Mozambique	684 - Aluminium, refined	58.81	64.51	684 - Aluminium, refined	38.53	42.78	20.28	21.73
Niger	286 - Uranium or thorium ores	50.15	57.44	286 - Uranium or thorium ores	35.27	40.53	14.88	16.91
Sudan	334 - Petroleum oils	88.92	90.32	334 - Petroleum oils	63.75	70.36	25.17	19.96
Zambia	682 - Copper, refined	68.14	76.76	682 - Copper, refined	51.75	61.05	16.40	15.71
Lao People's dem. Rep.	682 - Copper, refined	38.16	50.78	*248 - Wood simply worked*	21.34	45.92	16.82	4.87
Myanmar	343 - Crude natural gas	45.37	51.13	343 - Natural gas	17.95	27.31	27.43	23.82
Yemen	333 - Crude petroleum	80.40	83.91	333 - Crude petroleum	92.15	92.86	*-11.75*	*-8.94*
Comoros	075 - Spices	63.95	99.97	075 - Spices	93.73	99.84	*-29.78*	0.14
Maldives	034 - Fish, fresh, chilled or frozen	78.42	78.55	034 - Fish, fresh, chilled or frozen	24.99	42.76	53.42	35.80
Sao Tome and Principe	072 - Cocoa	62.40	66.65	072 - Cocoa	88.75	91.28	*-26.35*	*-24.63*
Solomon Islands	247 - Wood in the rough or roughly squared	66.73	70.06	247 - Wood in the rough or roughly squared	52.88	65.81	13.85	4.25

* in 2000, 2002 and 2008, Petroleum oils or bituminous minerals > 70 % oil + Petroleum oils, oils from bitumin. materials, crude

Source: UNCTAD Globstat. Data based on 3-digit SITC, rev. 3.

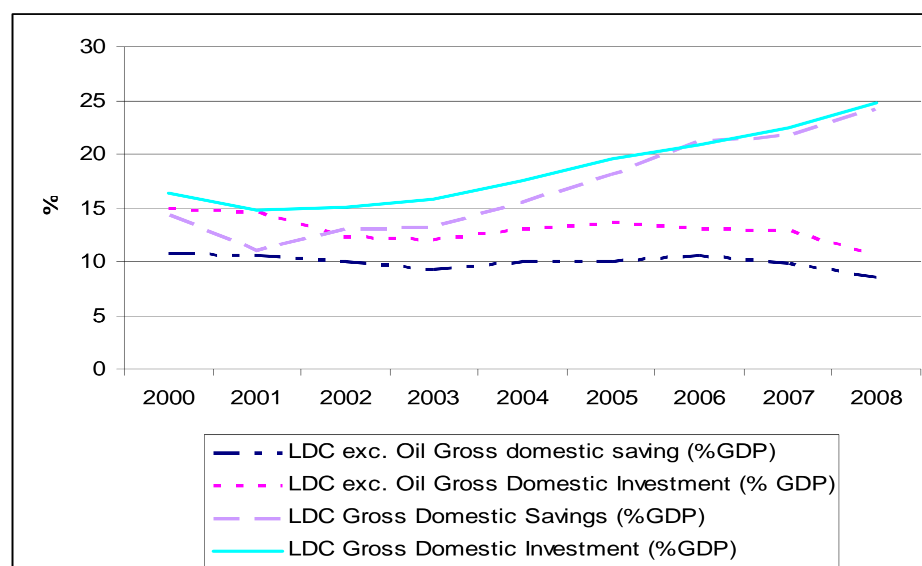
VI. Investment Promotion and Foreign Direct Investment (FDI) Flow

A. Aggregate investment trend

48. Although between 2000 and 2008, the LDCs as a group experienced a substantial increase in their gross domestic investment (from 16.4 per cent to 24.8 per cent of GDP) along with improved gross domestic savings (from 14.3 per cent to 24.2 per cent of GDP), their gross fixed capital formation as share of GDP increased by 4 percentage points, equivalent to half the increase in gross domestic investment. Whenever the export–investment nexus worked, domestic investment rose. It seems that such a nexus only worked for oil-exporting LDCs (see figure 6.1).

49. During the 2000s, LDCs as a group drastically reduced their resource gap – which measures their dependence on foreign savings – from 7 per cent of GDP in 2000–2002 to 1.6 per cent in 2006. At the same time, however, some of the most vulnerable LDCs increased their reliance on foreign savings to finance domestic investment and domestic consumption, highlighted by an increase in their resource gap. This raises questions on the future sustainability of the non-oil and mineral-exporting LDCs' growth performance as well as on the effective impact on domestic investment and savings for the natural resource-dependent LDCs.

Figure 6.1
Domestic investment and savings in LDCs and non-oil exporting LDCs
(Percentage of GDP)



Source: World Bank, World Development Indicators, 2010, online.

B. The FDI inflow

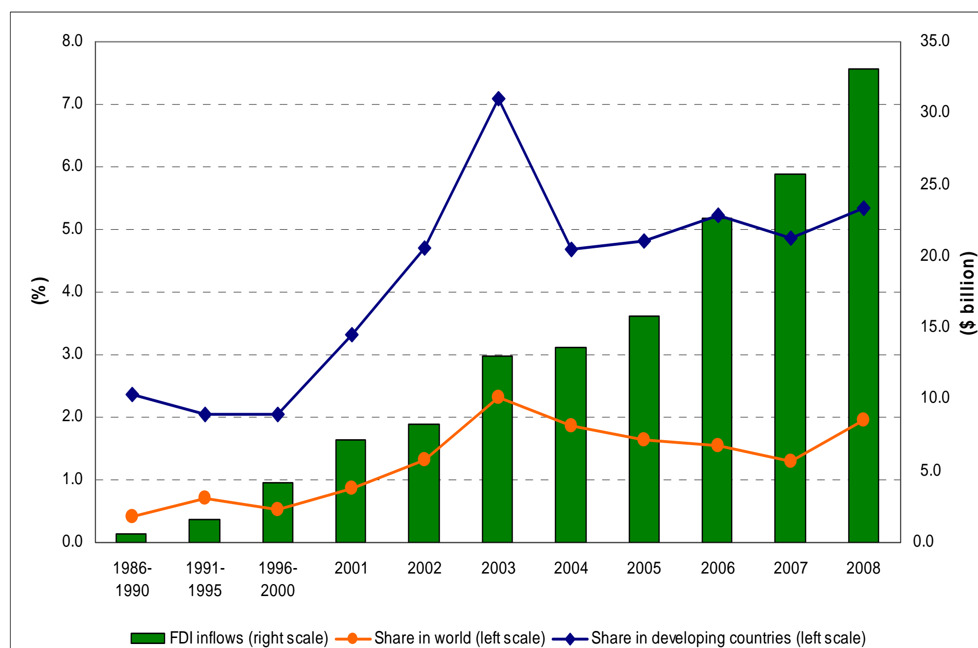
50. Since the 1980s, LDC governments have pursued proactive foreign investment promotion policies, which have led to an increase in FDI flows to LDCs. These grew at an annual rate of 25 per cent to reach $33 billion by 2008, compared to $7.1 billion in 2001.

However, the FDI flows to LDCs accounted for a meagre 2 per cent of the world total in 2008 (see figure 6.2).

Figure 6.2

FDI inflows into the LDCs and their share in world inflows and developing country-inflows, 1986–2008

(Billions of dollars and percentage)



Source: UNCTAD, FDI/Transnational Corporation (TNC) database.

51. The particular combination of geographical, historical and structural forces in LDCs, and African LDCs in particular, has traditionally attracted FDIs into enclaves of export-oriented primary production. Such FDIs tend to be more volatile than those to the manufacturing sector. Moreover, FDI in the LDCs continued to remain concentrated in a handful of countries (seven LDCs accounted for more than half of total FDI inflows to LDCs in 2008).

52. Concurrently, FDI mainly targeted extraction industries and investment in oil-exporting countries in Africa during the 2000s, accounting for more than 60 per cent of total inflow. However, some of the sectors such as food, beverages and tobacco have been targeted as important sectors by foreign investors during the 2000s. High investment was observed in some labour-intensive service sectors (transport, storage, communications, and hotels and restaurants).

53. In 2008, the bulk of FDI was in the form of greenfield and expansion projects prospecting for reserves of base metals and oil, in addition to some investments in infrastructure. Large services FDI projects were mainly through mergers and acquisitions. Among the components of investment, reinvested earnings comprise a major share of FDI inflows in the case of natural resource-exporting countries, because of long-term commitments and relatively large profits in mining and extraction.

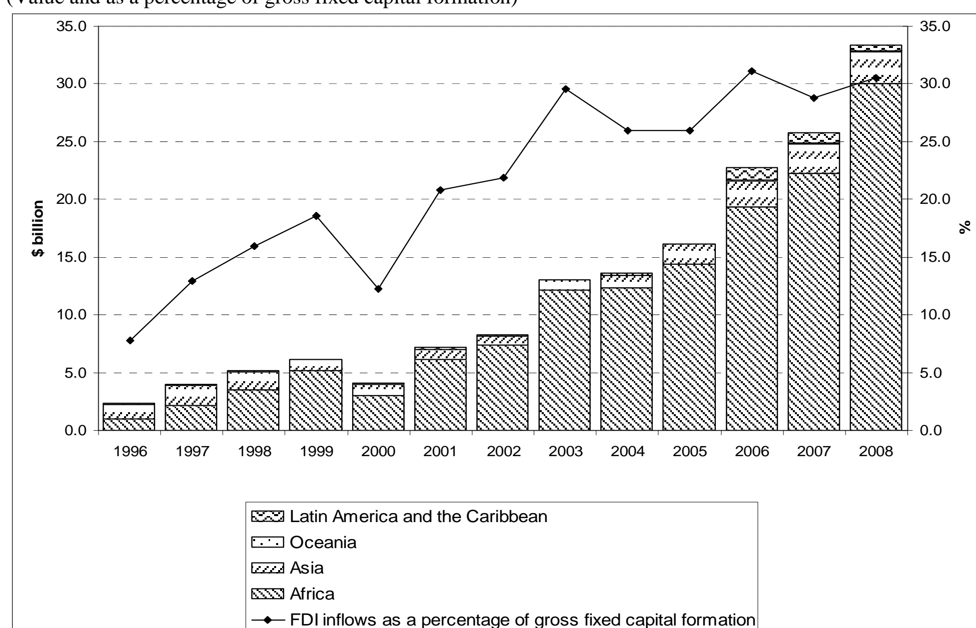
54. Although developed countries were the main source of FDI for LDCs during the 2000s, LDCs also increasingly attracted FDI from developing countries such as China, India, Malaysia and South Africa, as well as from the Russian Federation. While the biggest Chinese investors are state-owned enterprises, Chinese private investors also became

increasingly active players in Africa. In addition, regional investments within Africa have also recently been on the rise.

C. FDI and domestic investment

55. Although the share of FDI flows in gross fixed capital formation increased in the last 15 years to reach some 30 per cent, up from some 12 per cent in 2000 (figure 6.3), profit remittances on FDI have soared, reaching a capital outflow of $12.2 billion by 2006. The overall net effect on the domestic economy is thus unpredictable and likely to be country-based.

Figure 6.3
FDI inflows to LDCs, 1996-2008
(Value and as a percentage of gross fixed capital formation)



Source: UNCTAD, FDI/TNC database.

56. It is conventionally assumed that foreign affiliates can contribute to the growth of domestic firms and investment ("crowding in") through vertical inter-firm linkages with such firms, or through the creation of subnational or subregional clusters of interrelated activities. But existing evidence[10] on crowding in is not conclusive, and generally for it to occur, a high share of domestic capital formation is needed to offset possible "crowding out" effects. UNCTAD research finds that FDI is crowding in domestic investment, i.e. a dollar of FDI leads to an increase of investment by more than one dollar in the most of LDCs countries. However there are differences in terms of the impact in LDCs in Africa and Asia. While neutral effects seem to prevail in Africa, the crowding in effect dominates in manufacture-exporting Asian LDCs.

57. Differences in the effects of FDI on domestic investment between those two groups of economies imply that national development strategies and investment policies such as

[10] Udomkerdmongkol M and Morrissey O (2008). Political regime, private investment and foreign direct investment in developing countries. UNU WIDER Paper No. 2008/109.

policies strengthening linkages between foreign affiliates and domestic firms should be coordinated to ensure maximized synergies between FDI and domestic investment.

D. Future outlook

58. FDI flows to LDCs are likely to decline in the future because of the lower expectation of profitability by TNCs during the recovery from the global financial crisis and continued volatility in the global demand for and prices of oil and minerals. In this context, the decline in FDI inflows to LDCs in 2009 is a matter of grave concern.

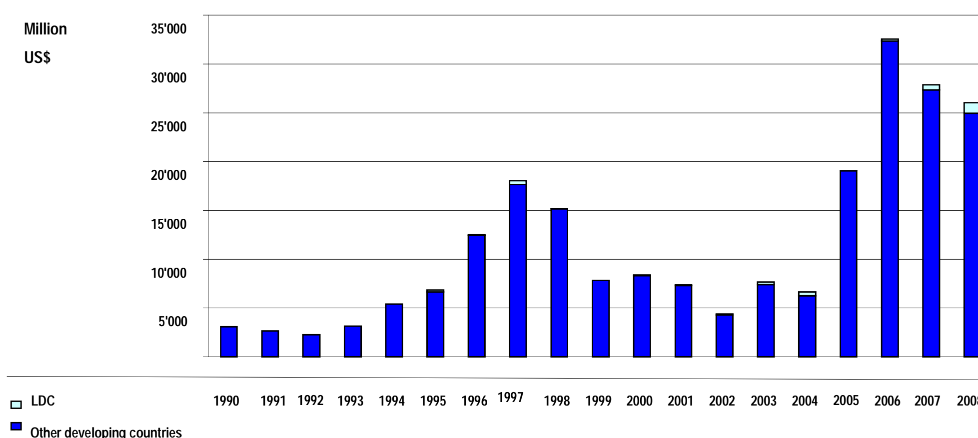
59. Although most LDCs have been making efforts to improve the investment environment over the years, they do not seem to have managed to attract FDI in productive sectors. Some oil-producing countries in Africa are seeking to ameliorate their policies to increase linkages with the domestic economy and therefore better benefit from FDI in the oil industry. Even though many LDCs have paid increased attention to policy initiatives at the bilateral, regional and multilateral levels in order to enhance their investment absorption through their international integration measures, there is a clear need to revisit the role of domestic investment.

VII. Building Capacities for Structural Progress: Transport Infrastructure; Science, Technology and Innovation (STI); and Information and Communication Technology (ICT)

A. Investment in transport infrastructure, connectivity and electricity

60. Weak infrastructural provisions, particularly trade-related ones, have been considered to be one of the main obstacles towards structural progress in LDCs, particularly in landlocked LDCs. The reduced share of LDCs in global private sector investment in transport infrastructure between the 1990s and the 2000s grew from $0.7 billion (0.9 per cent) to $2.7 billion (1.9 per cent) (see figure 7.1). The number of projects in the LDCs also increased from 12 out of 337 (1990s) to 31 out 441 (2000s). During the 2000s, investments in seaports in LDCs grew by more than 27 times to reach $1.8 billion (5.4 per cent).

Figure 7.1
Project investment in transport infrastructure, 1990-2008



Source: UNCTAD secretariat, based on data from World Bank and PPIAF, PPI Project Database, http://ppi.worldbank.org.

61. Table 7.1 reveals that, according to UNCTAD's Liner Shipping Connectivity Index (LSCI), LDCs are among the least connected countries, because national trade volumes tend to be lower and lower levels of development make ports less attractive for transhipment and transit cargo. However, investment in port infrastructure and the introduction of private sector operations made several LDC seaports more attractive as ports of call for international liner shipping companies.

Table 7.1
Average LSCI rankings of country groups, 2009

	Developed countries	*Economies in transition*	*Developing countries*	*LDCs*	*Grand total*
Africa			70	104	89
Asia	70	136	60	108	69
Europe	63	100			68
Latin America and the Caribbean	83		92	124	92
North America	86				86
Pacific	79		92	132	103
Grand Total	**68**	**106**	**76**	**109**	**81.5**

Source: UNCTAD calculations, based on data provided by Containerization International Online.

62. The average number of container shipping companies providing services to and from LDCs is one third of the global average, meaning that importers and exporters from LDCs have fewer choices when contracting containerized maritime transport. Empirically, the lower level of competition is closely correlated with higher freight rates and higher transaction costs for foreign trade. The global average per country of direct liner shipping service connections remained stable between 2006 and 2009, while it declined by 20 per cent in LDCs.

63. Power availability is an important precondition for development. UNCTAD analysis shows that an increase in electricity production is closely correlated with an increase in the manufactures share of merchandise exports. This finding implies that energy infrastructure is as important as transport infrastructure for trade development, employment generation and economic growth.[11]

B. STI

64. The building of a sound STI capacity in the LDCs is a prerequisite for long-term economic growth and poverty reduction. Policymakers in the LDCs have been increasingly implementing policies and strategies during the 2000s to build STI capacity, based on the conventionally understood technological transfers, with limited results. UNCTAD argues that to reverse this trend, the focus of those policies should be on proactive technological learning by domestic enterprises and on commercial innovation. This calls for the adoption and adaptation of existing technology to the local characteristics.

65. Analyses based on six selected LDCs show no distinguishable improvement in STI capacity over the last decade in these countries. For example, according to UNESCO data,

[11] UNCTAD (2006). *The Least Developed Countries Report*: *Developing Productive Capacities*. United Nations publication. Sales No. E.06.II.D.9. New York and Geneva.

expenditure on research and development (R&D) as a share of GDP has either decreased or slightly increased from a low base, accounting for less than 0.5 per cent of these countries' respective GDP. There are no clearly distinguishable trends, other than that R&D expenditures have been at insufficient levels. Furthermore, there has been no improvement during 1996–2006 in LDCs in terms of the supply of scientific professionals, while there is some stability in the numbers.

66. Between 2007 and 2009 UNCTAD conducted Science, Technology and Policy Reviews (STIP) Reviews in order to assess ground-level developments in three LDCs: Angola, Lesotho and Mauritania. These reviews reaffirmed the need for policy to be integrated and tailored to national development strategies. The key challenges for improving technology absorption are: lack of resources, limited technology flow in public–private partnerships, inadequate ICT and staffing in key institutions, lack of technical training facilities and brain drain.

67. Patents represent improved scientific and innovation capacities of a country. However, according to United States Patent and Trademark Office data, during 1989–2008 only 32 out of 3 million patents originated in the LDCs and, during the last five years, no more than 9 out of 1 million.

C. ICTs

68. Improved access to ICTs represents one of the most positive developments in the LDCs in the past decade. Improvements have been particularly significant in the case of mobile telephony (see table 7.2). Further exploitation of mobile telephony and of other ICT-type of improvements would be beneficial to the domestic structural transformation.

Table 7.2
Mobile telephone subscriptions per 100 inhabitants in LDCs, 2000 and 2007
(Number of LDCs with a certain penetration level)

Number of subscriptions per 100 inhabitants	*2000*	*2007*
Less than 1	41	2
1-10	7	14
10-30		28
More than 30		5
Data not available	1	
Total	**49**	**49**

Source: UNCTAD analysis of data from the International Telecommunication Union's World Telecommunication/ICT Indicators database.

69. Microenterprises in the agriculture and fisheries sectors in Africa and Asia now use mobile phones to obtain weather information and market prices, and to sell and purchase inputs as well as to negotiate prices. Most recently, mobile phones have become a tool for making financial transactions and providing insurance, and they represent a source of income for small vendors in developing countries.

70. However, the rural/urban divide in ICT access persists; less than one per cent of rural households in some LDCs has access to such ICTs. Even when ICT infrastructure is available, its use is often constrained due to inadequate supportive infrastructure (electricity).

71. According to the International Telecommunication Union, in 2009, the average price of a mobile cellular monthly price basket amounted to 5.7 per cent of per capita income. In developed economies the ratio was 1.2 per cent and in developing countries, 7.5 per cent.

72. In other areas, such as fixed telephony, Internet access and broadband connectivity, LDCs still remained very far behind other countries in 2008. In fixed telephony, there was less than one fixed line per 100 inhabitants, 24 Internet users per 1,000 LDC inhabitants, and in broadband connectivity, the world average penetration level was some 200 times higher than in the LDCs.[12]

VIII. Foreign Aid Inflow and Debt Scenario

A. Trends in aid flow

73. One important aspect of investment financing in support of diversification and structural change in LDCs is their foreign exchange requirement for imports of capital goods (as well as other forms of development financing). Chart 8.1 shows that in spite of a steady increase in official development assistance (ODA) flows since 1998, both including and excluding debt relief, total net disbursed ODA flows to LDCs have remained well below the committed levels during the course of the last 10 years. In 2008, the real net official disbursements to LDCs excluding debt relief amounted to some $21.5 billion, against some $10.5 billion in 2000–2001. The record gap between real committed and effectively disbursed ODA ($6.7 billion) for 2008 reflects the impact of the financial crisis on the donors' financial accounts. Such a gap, which is likely to be reproduced again in 2009, is also likely to negatively affect the budget balance of the aid-dependent, agricultural-exporting LDCs, for which real net ODA disbursements accounted for one fifth of GDP in 2006–2008.

74. The increase in ODA inflows to LDCs needs to be assessed against the rapid building up process of international reserves13 (from $15 billion in 2000 to $43 billion in 2006), which has reduced the availability of external resources for productive capacity and structural changes.

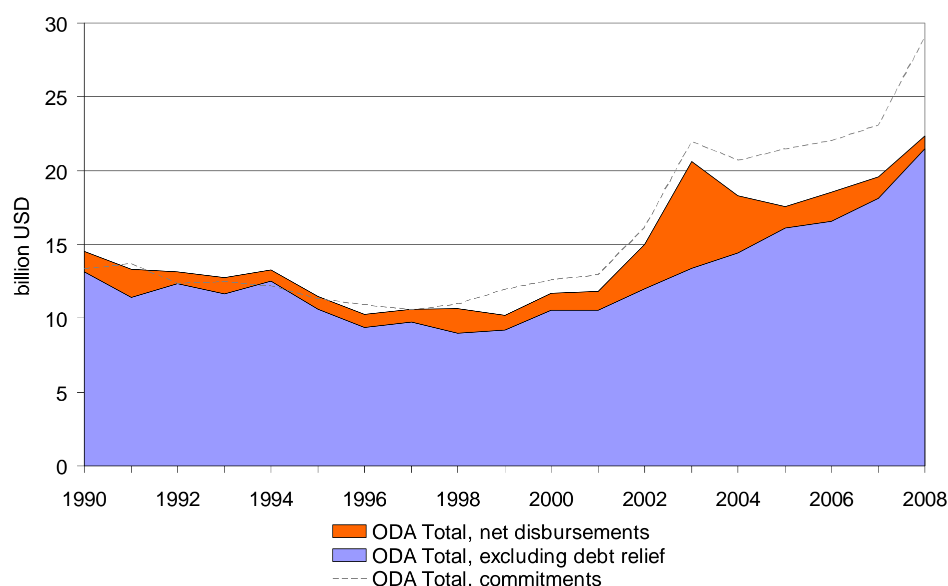
[12] UNCTAD (2009). *Information Economy Report 2009: Trends and Outlook in Turbulent Times*. United Nations Publication. Sales No. E.09.II.D.18. New York and Geneva.

[13] UNCTAD (2008).

Chart 8.1

ODA and debt relief to LDCs

(Disbursements, in constant 2007 USD)



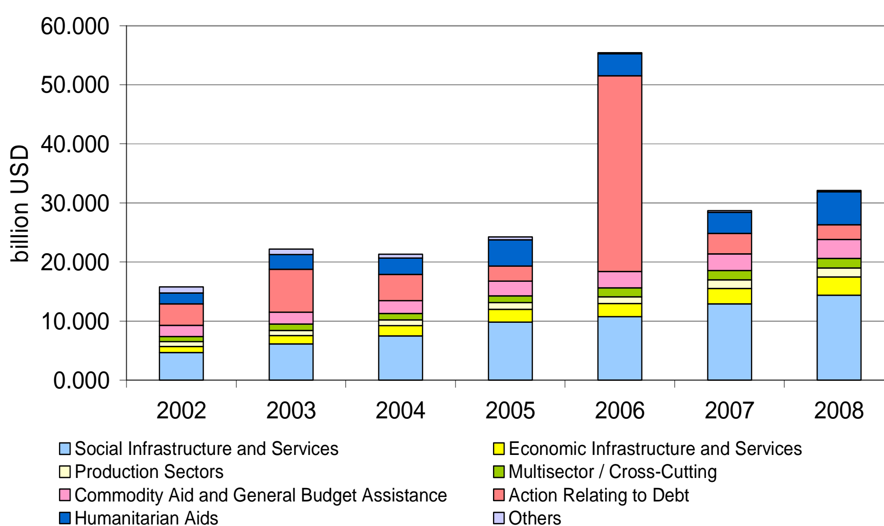
Source: OECD.

75. The developmental role of aid, in the form of enhancing productive capacity, creating employment, increasing domestic value added and contributing to structural change, seems to have been neglected in favour of overemphasizing social expenditures in the LDCs (see chart 8.2). In 2008, the share of disbursements going to economic infrastructure and production sectors amounted to 19 per cent, against some 43 per cent going to social infrastructure and services. However, in order to achieve structural change, increases in ODA for social infrastructure and services must be accompanied by increases in ODA for economic infrastructure and productive sectors.

Chart 8.2

Composition of ODA to LDCs

(Net disbursements, in constant 2007 USD



Source: OECD.

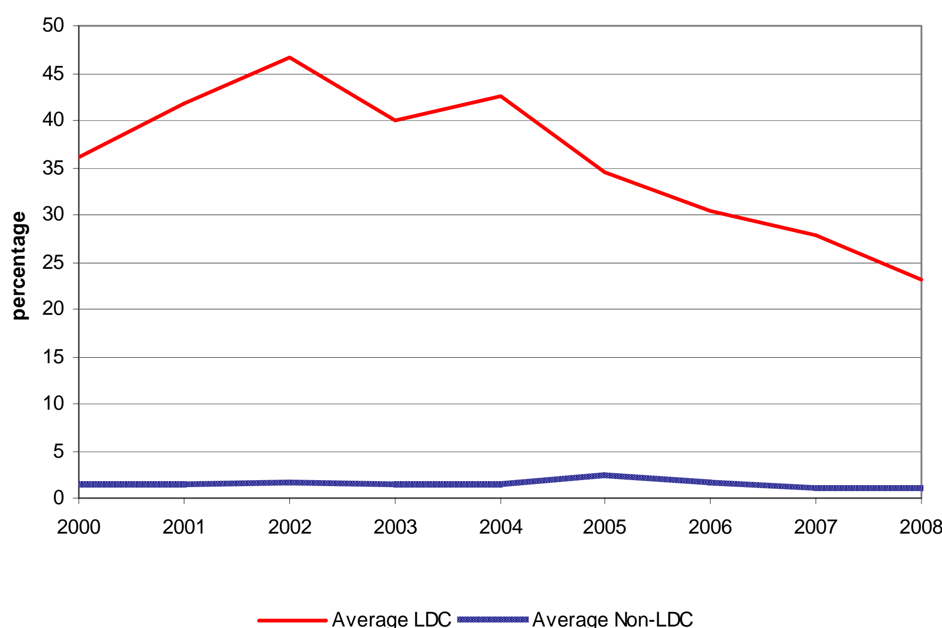
76. Although aid dependency is still high in LDCs compared to non-LDCs (chart 8.3), the overall trend for LDCs in the recent past has been encouraging (table 8.1). Aggregate figures masks the large differences that exist within the group: those economies that moved into manufacturing have decreased their aid dependence, which only accounts for some 3 per cent of their GDP. On the other hand, the agricultural- and mineral-exporting LDCs have experienced an increase in their dependency during the past decade, relying on ODA for some 20 per cent of their GDP. The net ODA/GNI (gross national income) ratio for the group in 2008 is projected to decline from 10.5 per cent (1990–1999) to about 7.9 per cent. This decreasing trend remains most perceptible for the African LDCs.

Table 8.1
Net ODA as per cent of GNI

	Time periods			
	1990-1999	*2000-2005*	*2007*	*2008 (projected)*
LDC	10.5	9.7	8.3	7.9
African LDCs	13.3	12.8	9.4	8.5
Asian LDCs	6.0	5.2	5.9	6.5
Island LDCs	15.2	17.9	14.8	12.7

Source: World Bank, World Development Indicators, online.

Chart 8.3
LDCs and non-LDCs: share of aid to government expenditure

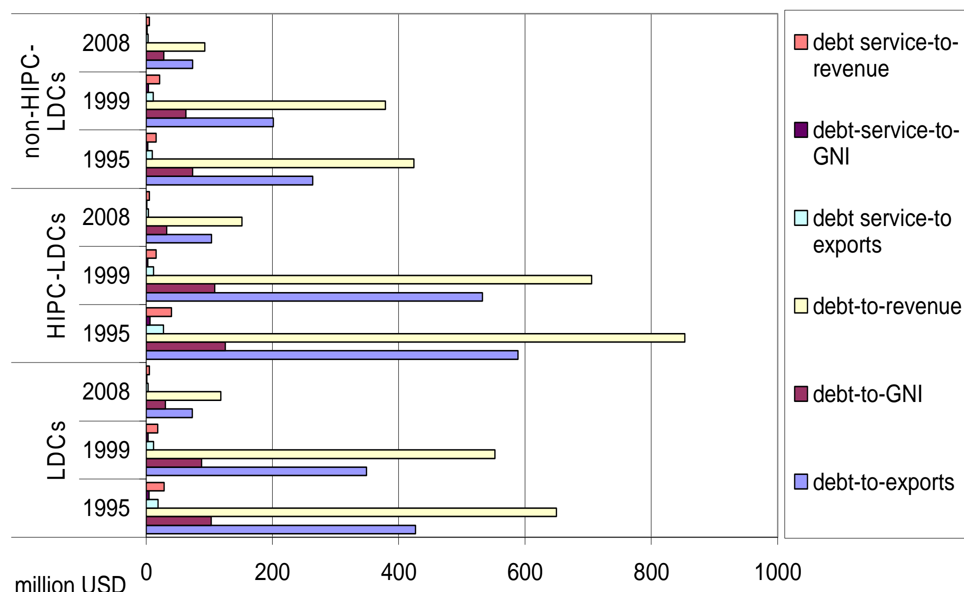


B. Debt scenario

77. Thirty-one LDCs are highly indebted poor countries (HIPC). Debt stock reductions associated with the HIPC and multilateral debt reduction initiatives coupled with robust international growth of the previous years led to an impressive improvement in debt indicators between 2003 and 2007 for developing countries in general and LDCs in

particular. Chart 8.4 shows that all debt-related indicators of LDCs as a group and HIPC-LDCs in particular have improved: debt service-to-revenue, debt service-to-GNI, debt service-to-exports, debt-to-revenue, debt-to-GNI and debt-to-exports.

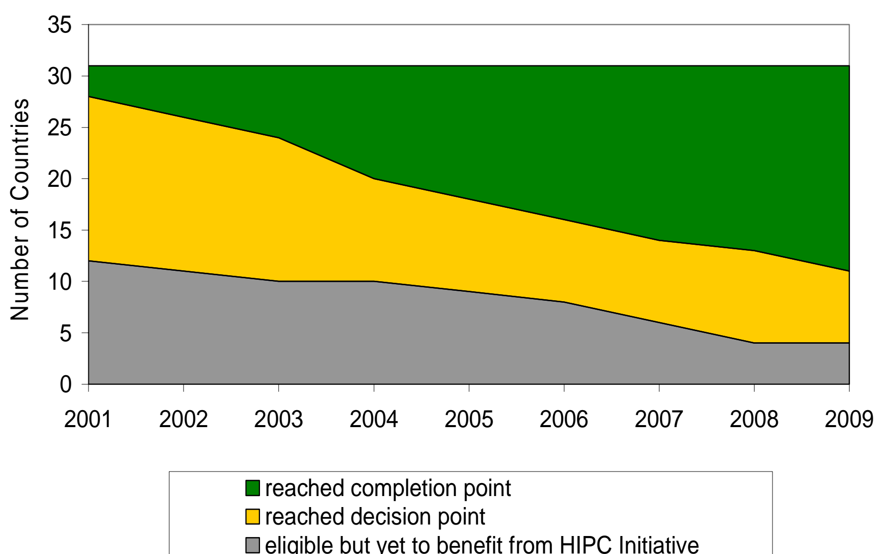
Chart 8.4
Debt indicators for LDCs, HIPC-LDCs, non-HIPC-LDCs



Source: World Bank Development Indicators.

78. Furthermore, the number of LDCs reaching the completion point and benefiting from debt write-offs rose consistently during the current decade (see chart 8.5), contributing to the improvement of their debt indicators. Some LDCs have experienced dramatic improvements in their debt indicators in the 2000s. For example, Mozambique, Sierra Leone and Zambia managed to decrease their external debt stock as a percentage of their GNI from more than 180 per cent in 2000 to less than 45 per cent in 2007.

Chart 8.5
HIPC-LDCs: status over time



C. Crisis: aid flow and debt

79. HIPCs are affected by the global economic and financial crisis through a number of channels. Completion point countries are facing an average current account deficit of 8 per cent of GNI and the average current account deficit of decision point and pre-decision point countries exceeds 10 per cent of GNI. According to the IMF, the number of low-income countries, mostly LDCs, facing higher debt vulnerabilities remains significant. The relatively stable debt outlook for low-income countries hinges on the critical assumption that the crisis has no adverse long-term effect on economic growth. Continued and increased access to highly concessional finance is therefore needed to maintain debt sustainability beyond the completion point.

IX. Concluding Remarks

80. The global economic growth of the 2001–2008 period buoyed up many developing countries, particularly among the LDCs. Many of them experienced robust economic growth in a context of relative macroeconomic stability, with low inflation and improved resource balances, including sustained FDI and ODA inflows. However, it is doubtful whether this performance was the reflection of structural (catalytic, irreversible) progress in most LDCs. The group, during this period, was severely struck by the fuel and food crises, which affected their trade balance, but they demonstrated better resilience to the financial crisis than other developing countries. Overall, the opportunities and risks emanating from globalization forces entailed a greater international exposure of the LDCs, without convergence with more advanced economies for a large majority of them.

81. The marginal position of LDCs in world investment, trade and income remained more or less unchanged. Pockets of improvement cannot hide the structural weaknesses of these countries, the majority of which remain far away from LDC graduation thresholds and from meeting MDG targets. In most LDCs, structural progress failed to take place because opportunities to enhance capabilities and improve economic specialization were missed, while, inter alia, infrastructural development and science and technological capacities were insufficient to allow the economies to rise in relevant international value chains.

82. In order to accelerate structural progress, and in some cases reverse the deindustrialization process, there is a need to revisit the development approaches pursued by the LDCs and their development partners, particularly in light of the lessons from recent global crises. The LDCs should undertake a prudent and strategic mix of macroeconomic, trade and investment measures, and achieve a balance between market reforms and policy interventions. Specifically, this will entail creating an enabling macroeconomic framework to facilitate structural progress, with active use of public expenditure, monetary policy and exchange rate management. Strategic interventions through trade and investment policies will be necessary to guide FDI and other external resources to productive capacity-building with employment linkages. A new generation of international support measures is desirable given the growing diversity of needs among LDCs, notably in areas such as infrastructure development and technological capacities. This implies the creation of sector-specific investment funds as well as special adaptation measures such as debt moratoria.

United Nations TD/B/EX(49)/2/Corr.2

United Nations Conference on Trade and Development

Distr.: General
8 June 2010

English and French only

Trade and Development Board
Forty-ninth executive session
Geneva, 8–9 June 2010
Item 2(a) of the provisional agenda

Follow-up to the Third United Nations Conference on the Least Developed Countries (LDCs) and preparations for the Fourth United Nations Conference on the Least Developed Countries: Key development challenges facing the LDCs

In Quest of Structural Progress: Revisiting the Performance of the Least Developed Countries

Note by the UNCTAD secretariat

Corrigendum

1. Paragraph 25

(a) Six countries *should read* (a) Seven countries

(e) (Bangladesh, Cambodia and Lesotho) *should read* (Bangladesh, Cambodia, Lesotho and Nepal).

United Nations

TD/B/EX(49)/2/Corr.1

United Nations Conference on Trade and Development

Distr.: General
8 June 2010

English only

Trade and Development Board
Forty-ninth executive session
Geneva, 8–9 June 2010
Item 2(a) of the provisional agenda

Follow-up to the Third United Nations Conference on the Least Developed Countries (LDCs) and preparations for the Fourth United Nations Conference on the Least Developed Countries: Key development challenges facing the LDCs

In Quest of Structural Progress: Revisiting the Performance of the Least Developed Countries

Note by the UNCTAD secretariat

Corrigendum

1. Paragraph 32

The first sentence *should read*

32. Compared to the increase of merchandise trade (25.2 per cent), LDCs' service exports increased at a more modest level (15.2 per cent): from $7.6 billion in 2001 to $18.5 billion in 2008.