LDC Performance and Structural Change: A Set of Issues

By

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The view expressed are those of the author and do not necessarily reflect the views of UNCTAD
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Focus of the presentation

- Performance
- Structural change
- Interpretation
The long term performance of LDCs: an overview

LDC stagnated in terms of income, trade and FDI inflows during the past 38 years.
How inclusive and broad-based have been the positive signals of the 2000s? Concerns remain

- 7 LDCs account for 74% of total LDCs exports (Angola, Bangladesh, Cambodia, Chad, Equatorial Guinea, Sudan and Yemen)
- Oil exporting LDCs account for 62% of total LDCs exports
- Growth was not equally shared:
  - Oil-exporting LDCs grew at 10.2% during 2000-08
  - Agriculture-exporting LDCs grew at 7.5%
  - Services-exporting LDCs grew at 7%
How have the recent crises affected the LDCs’ economies?

Quite a lot

• How much the external crises (food, fuel and financial) have inhibited the LDC performance?
• Extent of the financial and economic crisis
  – Export value in 2009 declined by 43% wrt 2008
  – N. of poor expected to increase by 6.1 billion in African LDC and by 1.2 million in Asian LDC by 2010
  – Real GDP slowed to 3.8% in 2009, down from 9% in 2007 and 7.3% in 2008
How pervasive have been the conflicts and natural disasters in deterring the development in LDCs?

Significantly

• At least 18 LDCs are acutely disaster-proned
• Numerous natural disasters (tsunami, earthquakes, droughts, cyclones..) occurred in the 2000s
• Only 1/3 of LDC has not experienced conflicts
• Conflicts are highly associated with low human development and low economic growth
• Have the natural disasters and conflicts exposed the fragility of the LDC developmental process?
How to deal with growing heterogeneity of LDC group?

No easy solution

• Diversities in terms of:
  – Per capita income (6’605US$ for Equatorial Guinea vs 152US$ in Burundi)
  – Population (160 million people in Bangladesh vs 10 thousand in Tuvalu)
  – Export specialization (5 oil vs 6 agriculture)
  – Geographical location (17 landlocked vs 11 sealocked)

• BUT common structural handicaps (low economic diversification, bottlenecks in production, trade and CA deficits, poor infrastructure,, shortage of skills, dependence on external resource flows..)
How to assess structural progress beyond the LDC criteria?

Needed for a better understanding of the problems

• How to re-organize the LDC criteria or MDG targets to reflect structural change?
• What is structural change?
  – Intertwined phenomenon that brings in new and complementary elements aiming at at least the following in the medium term:
    • Accelerating pro-poor growth
    • Balanced integration in the global economy
    • Increasing skills for productivity growth
    • Augmenting domestic resource inputs
    • Increasing the ability to deal with external shocks
How to assess structural progress in specific areas

- Other indicators needed, maybe based on:
  - GDP composition – eg. More manufacturing
  - Trade – eg. Export diversification
  - Aid dependence – eg. Improved quality aid to productive sectors
  - Low investment – eg. More domestic private investment
  - Low human assets – eg. Improve secondary education, primary health care
  - High vulnerability - ???
## Long term structural change in the GDP performance of LDCs – Not much progressive change (% of GDP)

<table>
<thead>
<tr>
<th>Category</th>
<th>80-82</th>
<th>90-92</th>
<th>2000-02</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>66.3</td>
<td>36.9</td>
<td>30.7</td>
<td>26.9</td>
</tr>
<tr>
<td>Industry</td>
<td>11.3</td>
<td>20.5</td>
<td>25.2</td>
<td>30.6</td>
</tr>
<tr>
<td>of which manufacturing</td>
<td>6.0</td>
<td>9.8</td>
<td>9.7</td>
<td>9.8</td>
</tr>
<tr>
<td>Services</td>
<td>22.4</td>
<td>42.6</td>
<td>44.2</td>
<td>42.5</td>
</tr>
<tr>
<td>of which wholesale, retail trade</td>
<td>8.0</td>
<td>15.2</td>
<td>15.5</td>
<td>15.2</td>
</tr>
<tr>
<td>Final consumption expenditure</td>
<td>92.9</td>
<td>91.9</td>
<td>87.6</td>
<td>80.6</td>
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<tr>
<td>Gross capital formation</td>
<td>19.7</td>
<td>15.6</td>
<td>19.3</td>
<td>23.9</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>15.2</td>
<td>15.1</td>
<td>22.5</td>
<td>28.5</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>27.4</td>
<td>22.6</td>
<td>29.4</td>
<td>33.4</td>
</tr>
<tr>
<td>Trade balance</td>
<td>-12.2</td>
<td>-7.6</td>
<td>-6.9</td>
<td>-4.9</td>
</tr>
<tr>
<td>Tax (n=12)</td>
<td>..</td>
<td>13.1</td>
<td>12.0</td>
<td>13.8</td>
</tr>
</tbody>
</table>
Evolution of Export Concentration Index
### Structural change in manufactured exports
(according to technological categories)

<table>
<thead>
<tr>
<th>Items</th>
<th>ODC</th>
<th>LDC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary products</td>
<td>21.8</td>
<td>23.3</td>
</tr>
<tr>
<td>Resource-based manufactures</td>
<td>13.7</td>
<td>14.3</td>
</tr>
<tr>
<td>Low technology manufactures</td>
<td>22.8</td>
<td>16.3</td>
</tr>
<tr>
<td>Medium technology manufactures</td>
<td>19.3</td>
<td>20.3</td>
</tr>
<tr>
<td>High technology manufactures</td>
<td>19.7</td>
<td>22.5</td>
</tr>
</tbody>
</table>
**Evolution of ODA net disbursement flows to LDCs**

ODA inflows are highly concentrated, mostly to post-conflict LDCs.
Heterogeneity in performance

- Some countries have performed better than others
- Even those LDCs that have graduated, or are close to do so, did not achieve structural change, thus remaining vulnerable
How to distill the lessons from the 2000s and reflect them in the future work programme of LDC IV?
Looking into the past to build the future

• Inappropriate development model pursued
• Inadequate domestic reforms to mitigate historical institutional deficits
• Lack of
  – Domestic resources to undertake investment programs
  – Adequate ODA flows, resulting in underfinance of physical and social infrastructure programs
Looking into the past to build the future, #2

• Ineffective international support measures, including trade-related measures (eg. market access)
• High recurrence of conflicts, destroying the limited achievements
• High export product concentration and dependency on volatile global markets, affecting remittances, commodity exports, tourism
Looking into the past to build the future, #3

- High vulnerability to natural disasters, washing away scarce achievements
- Underdeveloped domestic financial markets, impeding access to credit
Thank you