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THE LEAST DEVELOPED COUNTRIES REPORT 2002

Escaping the Poverty Trap

Part One, Chapter 1

UNITED NATIONS

EMBARGO
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Part One

Recent Economic Trends and UNLDC III Development Targets

Recent Economic Trends

Chapter

1

A. Overall growth trends

The real GDP of the LDCs as a group grew by an annual average of 4.5 per cent over the three years from 1997 to 2000. This represents an improvement over the period 1990–1996, when LDCs grew at an annual average of 2.8 per cent, and it compares favourably with the average of 3.3 per cent for other developing countries (table 1). The overall growth rate of the LDCs during the late 1990s is somewhat lower when Bangladesh, which accounts for about a quarter of the economic size of the LDC group, is omitted. But excluding Bangladesh, the increase in the real growth rate between 1990–1996 and 1997–2000 is actually greater — from 2.0 per cent to 4.2 per cent per annum. The improvement in the overall growth rate is particularly marked in African LDCs.[1]

This improved growth performance for the LDCs as a whole is encouraging. However, recent growth rates are less adequate when viewed in real per capita terms, as population growth rates are very high in most LDCs. Real GDP per capita in the LDCs grew at 2.1 per cent per annum during 1997–2000. This was higher than the average for other developing countries (1.9 per cent). But excluding Bangladesh, real GDP per capita in the LDCs as a group grew at only 1.6 per cent per annum during 1997–2000. This implies that the gap in per capita incomes between LDCs and other developing countries was not reduced during 1997–2000. Furthermore, real GDP per capita grew at only 1.5 per cent per annum in African LDCs plus Haiti, and at only 0.8 per cent per annum in island LDCs (table 1).

Real GDP per capita in the LDCs grew at 2.1 per cent per annum during 1997–2000... but the performance of the LDCs was very mixed.

The performance of the LDCs was also very mixed. Focusing on trends in real GDP per capita by country, it is apparent that during 1997–2000, real GDP per capita actually declined in 13 out of 42 LDCs for which data are available (table 2). There are three Pacific small island States in this group, as well as a number of countries that have experienced armed conflict. There are a further 11 LDCs in which growth in real GDP per capita was less than 2 per cent per annum. Eighteen grew at 2 per cent per annum or more during 1997–2000, and 11 of these achieved growth rates of over 3 per cent per annum. Per capita GDP growth is by far the highest in Equatorial Guinea, where it is based on expansion

TABLE 1. LDCS' REAL GDP AND PER CAPITA GDP GROWTH RATES, 1990–1996 AND 1997–2000

(Annual average growth rate, percentage)

	Real GDP growth		Real GDP per capita growth	
	1990–1996	*1997–2000*	*1990–1996*	*1997–2000*
Least developed countries	2.8	4.5	0.3	2.1
LDCs (excluding Bangladesh)	2.0	4.2	-0.2	1.6
African LDCs	1.5	4.1	-0.7	1.5
Asian LDCs	4.5	5.0	2.6	3.0
Island LDCs	3.9	3.6	1.9	0.8
Other developing countries	3.5	3.3	2.3	1.9

Source: UNCTAD secretariat estimates based on World Bank, *World Development Indicators 2001,* CD-ROM, and *2002,* on-line data.

Note: Real GDP is measured in constant 1995 dollars. No data available for Afghanistan, Democratic Republic of the Congo, Liberia, Myanmar, Somalia, Sudan and Tuvalu.

TABLE 2. REAL GDP AND REAL GDP PER CAPITA GROWTH RATES IN THE LDCS, BY COUNTRY, 1997–2000
(Annual average growth rate, percentage)

	Real GDP growth	Real GDP per capita growth
High-growth economies (11)		
Equatorial Guinea	19.4	16.2
Maldives	8.4	5.7
Mozambique	7.6	5.4
Samoa	5.3	4.7
Rwanda	6.9	4.2
Bhutan	7.0	3.9
Cape Verde	7.0	3.9
Bangladesh	5.2	3.4
Burkina Faso	5.9	3.3
Lao People's Democratic Republic	5.7	3.2
Uganda	6.0	3.1
Moderate-growth economies (7)		
Senegal	5.3	2.4
Yemen	5.2	2.4
Gambia	5.5	2.3
Central African Republic	4.1	2.3
Mali	4.7	2.2
United Republic of Tanzania	4.6	2.1
Benin	4.8	2.1
Slow-growth economies (11)		
Nepal	4.1	1.7
Madagascar	4.5	1.3
Angola	4.1	1.2
Guinea	3.4	1.0
Mauritania	4.3	1.0
Cambodia	3.2	0.9
Malawi	3.0	0.8
Niger	4.2	0.7
Ethiopia	3.1	0.6
Sao Tome and Principe	2.7	0.4
Haiti	2.2	0.1
Regressing economies (13)		
Chad	2.6	-0.2
Djibouti	1.3	-0.6
Burundi	1.3	-0.6
Lesotho	0.8	-0.7
Kiribati	1.9	-0.9
Zambia	1.2	-1.0
Vanuatu	1.8	-1.4
Togo	1.2	-1.8
Comoros	0.6	-1.8
Sierra Leone	-2.1	-4.1
Eritrea	-1.6	-4.3
Guinea-Bissau	-5.6	-7.5
Solomon Islands	-5.2	-8.3

Source: UNCTAD secretariat estimates based on World Bank, *World Development Indicators 2002,* on-line data.

of oil production and exports. There are also three Asian LDCs in the high growth group (Bangladesh, Bhutan and Lao People's Democratic Republic), four African LDCs (Burkina Faso, Mozambique, Rwanda and Uganda), and three island LDCs (Cape Verde, Maldives and Samoa).

A key issue is the sustainability of the recent improvement in economic performance. Economic growth rates in the LDCs have been quite volatile in the past. During the period 1990–2000, the standard deviation of the annual real per capita GDP growth rates of the LDCs for which data are available was, on average, 20 per cent higher than in other developing countries.[2] Amongst the LDCs, economic growth rates were much more volatile in the African LDCs than in the Asian LDCs. The standard deviation of the annual real per capita growth rates during 1990–2000 in the former group of countries was three time higher than in the latter. Volatility in the island LDCs was also higher, but somewhat lower than in the African group.

While aggregate exports of LDCs are at record levels, more than one third of the LDCs actually experienced a sharp contraction of their trade during 1997–2000.

The latest data show that GDP declined in real terms in 4 out of 42 LDCs for which data are available, between 1999 and 2000. But this finding, which is based on World Bank on-line data, is very sensitive to the GDP deflator used, and this has been subject to revision in many LDCs during the late 1990s. In nominal terms, GDP declined between 1999 and 2000 in 29 out of 42 LDCs.

B. Trends in external trade

External factors remain an important determinant of economic trends in LDCs. Merchandise exports of LDCs as a group were at a record level in 2000. They stood at $31.3 billion in that year, up from $23 billion in 1997, an increase of 36 per cent.[3] Imports increased as well, but less sharply. They rose from $36.7 billion in 1997 to $40 billion in 2000, an increase of 9 per cent (table 3).

However, behind this impressive overall trade performance, there are significant differences amongst the LDCs. In fact, while aggregate exports of LDCs are at record levels, a closer look reveals that more than one third of them actually experienced a sharp contraction of their trade during 1997–2000.

TABLE 3. LDCs'[a] MERCHANDISE EXPORTS AND IMPORTS, 1997–2000
($ millions)

	1997	1998	1999	2000	Change from 1997 to 2000	
	Value				*Value*	*%*
Exports by:						
Total LDCs	23 045	22 183	24 720	31 337	8 291	36.0
Oil exporters	6 432	5 518	8 116	12 400	5 969	92.8
Non-oil commodity exporters	9 915	9 558	9 151	9 169	-746	-7.5
Manufactures and/or services exporters	6 699	7 107	7 453	9 768	3 069	45.8
Imports by:						
Total LDCs	36 667	37 555	38 233	39 954	3 287	9.0
Oil exporters	5 933	6 328	6 168	6 969	1 037	17.5
Non-oil commodity exporters	14 144	14 325	14 221	14 202	58	0.4
Manufactures and/or services exporters	16 590	16 903	17 844	18 783	2 193	13.2

Source: UNCTAD secretariat estimates based on UN COMTRADE data.

a Not including Eritrea and Tuvalu.

For analytical purposes, it is useful to distinguish: (i) oil-exporting LDCs (which at the end of the 1990s comprised Angola, Equatorial Guinea, Sudan and Yemen); (ii) non-oil commodity exporters, which comprise over half of all LDCs (mostly in Africa); and (iii) exporters of manufactures and/or services, which include garment exporters (e.g. Bangladesh).[4] With this disaggregation, it is apparent that the increase in merchandise exports of the LDC group is concentrated in oil exporters and manufactures and/or services exporters.

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Exports of the LDC oil exporters increased by 92.8 per cent between 1997 and 2000. As a consequence, the four oil-exporting LDCs together accounted for 40 per cent of total LDC exports in 2000. The increase was partly due to the surge in oil prices in 2000, and partly due to increased production capacity related to recent investments in Equatorial Guinea and Sudan. Equatorial Guinea started producing oil at the beginning of the 1990s. Oil exports are estimated to have been $320 million in 1998 and $490 million in 1999, and production is estimated to have doubled between 1999 and 2000. Sudan became a net oil-exporting country with the opening of a 1,600 km pipeline in August 1999. Oil exports are estimated to have been $200 million in 1999 and $1 billion in 2000 (ITC, 2001).

Merchandise exports from the LDCs that export mainly manufactures and/or services increased by 46 per cent between 1997 and 2000, and by as much as 30 per cent from 1999 to 2000. This continued a positive upward trend which was apparent throughout the 1990s in the LDCs that export textiles and garments. By 2000, exports from this group of countries constituted almost a third of total LDC exports. Asian LDCs are prominent in this group. The growth of manufactured exports in the 1990s in Bangladesh, Cambodia, the Lao People's Democratic Republic, Myanmar and Nepal has been helped by low labour costs and proximity to other East Asian developing countries which have served as both a source of investment and end markets.

In contrast to these groups, the export performance of the primary commodity exporters, located mainly in Africa, was erratic and uncertain. Between 1997 and 2000, the value of merchandise exports for this group dropped by 7.5 per cent (table 3). Overall, exports dropped in 19 of the 26 non-oil commodity exporters between 1997 and 2000.

Trends in world commodity prices are an important factor leading to this weak performance. Between 1997 and 2001, copper prices fell by 27 per cent, cotton prices by 39 per cent and coffee prices by 66 per cent.

Trends in world commodity prices are an important factor leading to this weak performance. Between 1997 and 2001, copper prices fell by 27 per cent, cotton prices by 39 per cent and coffee prices by 66 per cent (table 4); the price of gold declined by around 18 per cent, the price of food declined by 31 per cent, the price of agricultural raw materials declined by 20 per cent, and the price of minerals, ores and metals declined by 17 per cent.

The adverse economic consequences of falling world non-fuel primary commodity prices in net oil-importing LDCs was initially offset by low oil prices during the period 1997–1999. Moreover, food prices have been falling along with the general fall in primary commodity prices, which has also helped to cushion the blow of declining prices as many LDCs are net food importers (Herrmann and David, 2001). But after oil prices reached an extreme low in 1999 (approximately $10 a barrel), they climbed sharply in 2000, averaging over $30 in the first three quarters of that year. Although oil prices have since fallen back, there has not been a return to the low levels of oil prices that prevailed in the period 1997–1999 and helped underpin economic growth in that period.

TABLE 4. CHANGE IN PRICE INDICES OF SELECTED PRIMARY COMMODITIES OF IMPORTANCE TO THE LDCs, 1997–2001

	1997 *Index*	1998	1999	2000	2001
All foods	100	87	71	69	69
Cocoa	100	104	71	56	70
Coffee	100	82	64	48	34
Fish meal	100	109	65	68	80
Rice	100	101	82	67	57
Sugar	100	79	55	72	76
Tea	100	104	97	104	83
Wheat	100	79	74	76	80
All agricultural raw materials	100	89	80	82	80
Cotton	100	82	66	74	61
Tobacco	100	94	88	85	85
Minerals, ores and metals	100	84	82	92	83
Copper	100	72	70	83	73
Gold	100	89	84	84	82
Memo item: Crude petroleum	100	68	95	147	127

Source: UNCTAD secretariat estimates based on UNCTAD *Commodity Price Bulletin*.

C. Trends in external finance

1. Overall picture

Economic performance in LDCs is also affected by trends in external finance. Trends in the 1990s were dominated by two major tendencies: declining levels of aid and rising levels of private capital inflows, in particular FDI. Previous World Bank estimates indicated a significant decline in total long-term capital inflows into LDCs as a whole during the decade as aid had been falling faster than private capital flows had been rising. But estimates of private capital flows to some LDCs in the late 1990s were revised upwards in the latest version of Global Development Finance statistics.

Private capital inflows in the period 1997–2000 were more than double the levels of the early 1990s, with a particularly strong surge in 1999.

According to these new estimates, long-term capital flows to the LDCs as a whole in 1999 were $15 billion. This was the highest level of any year in the 1990s. They fell by 11 per cent in 2000 to $13.3 billion. But taking the two years together, average annual long-term net capital inflows into the LDCs were higher in nominal terms in 1999–2000 than the average annual inflows in 1989–1993 and in 1994–1998 (table 5).

The driving force for higher capital inflows for the group as a whole has been increasing private capital inflows. Official net resource flows (including both concessional and non-concessional finance) to the LDCs have continued to decline. According to World Bank statistics, they were 22 per cent less in nominal terms in 2000 than during the period 1989–1993. However, private capital inflows in the period 1997–2000 were more than double the levels of the early 1990s, with a particularly strong surge in 1999. As a consequence, private capital flows to the LDCs constituted as much as 35 per cent of aggregate net resource flows to the group as a whole in 1999 and 28 per cent in 2000. Net FDI

TABLE 5. LONG-TERM NET CAPITAL FLOWS TO LDCS,[a] BY TYPE OF FLOW, AND AGGREGATE NET TRANSFERS, 1989–1993, 1994–1998, 1999 AND 2000

(Current $ millions, annual average)

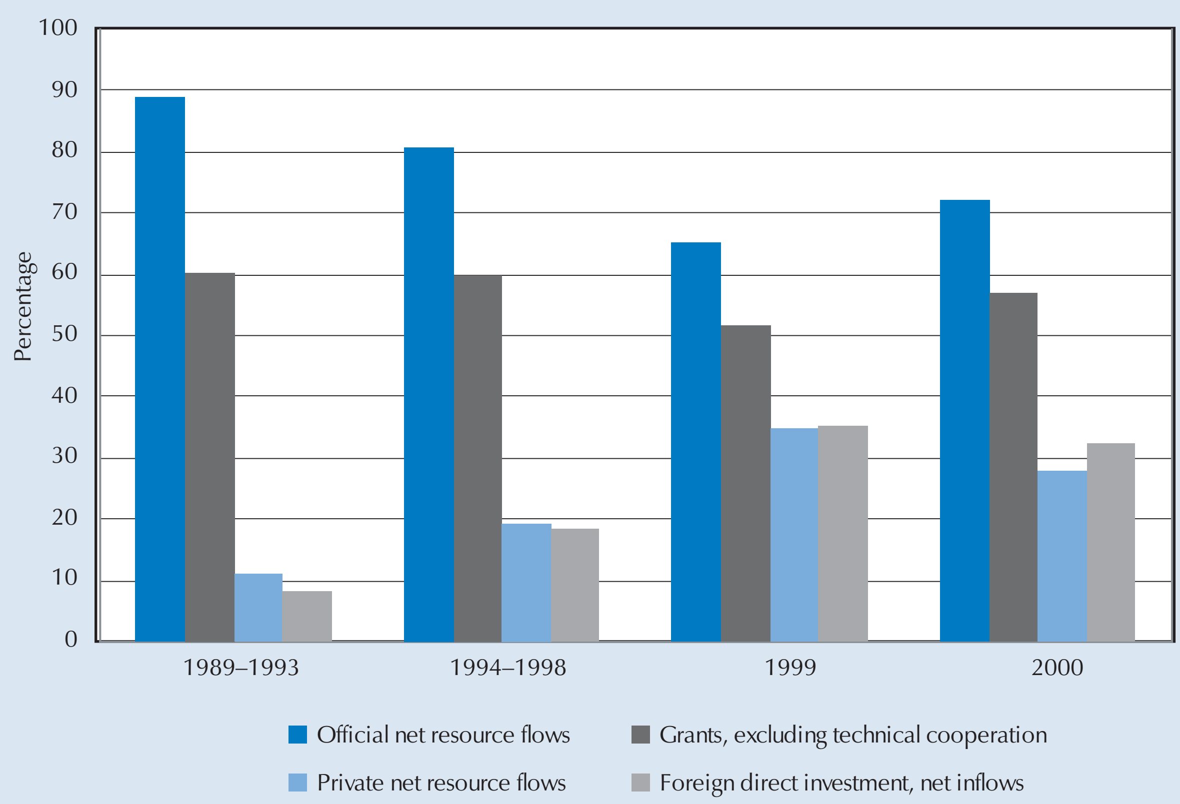
	1989–1993	1994–1998	1999	2000
Aggregate net resource flows	13 933	13 308	15 039	13 331
Official net resource flows	12 396	10 719	9 817	9 630
Grants, excluding technical cooperation	8 392	7 958	7 753	7 578
Official debt flows	4 004	2 761	2 064	2 053
Bilateral	1 009	-36	-439	-327
Multilateral	2 995	2 797	2 503	2 379
Private net resource flows	1 538	2 589	5 222	3 701
Foreign direct investment, net inflows	1 132	2 432	5 276	4 315
Portfolio equity flows	0	40	4	3
Private debt flows	406	666	-58	-617
Private, publicly guaranteed	419	686	-78	-598
Private non-guaranteed	-13	-20	20	-19
Aggregate net transfers	12 162	11 396	12 979	11 358
Interest payments on long-term debt	1 110	1 150	1 149	980
Profit remittances on FDI	661	762	910	993
Memo item:				
IMF, net concessional and non-concessional flows	-57	210	-6	-152

Source: UNCTAD secretariat estimates based on World Bank, *Global Development Finance 2002,* on-line data.

a All LDCs, except Afghanistan, Kiribati and Tuvalu, for which no data are available.

CHART 1. COMPOSITION OF LONG-TERM CAPITAL FLOWS TO LDCS, 1989–1993, 1994–1998, 1999 AND 2000

(Percentage of aggregate net resource flows)



Source: Same as for table 5.
Note: Same as for table 5.

is estimated to have comprised 35 per cent of aggregate net resource flows in 1999 and 32 per cent in 2000 (chart 1).

However, real long-term capital inflows per capita to LDCs fell by 21 per cent between 1990 and 2000.

Four qualifications must be made to place this overall picture in perspective. Firstly, in real per capita terms long-term net capital flows to the LDCs continue to decline. Using the index of manufactured exports from industrial countries as a deflator, real long-term capital inflows per capita to LDCs fell by 21 per cent between 1990 and 2000.

Secondly, although they have been receiving more FDI, the LDCs remain excluded from international bank finance and bond issues. Private debt flows to LDCs have been negative for every year since 1995 except 1999, thus indicating that repayments of existing debt to private creditors have been in excess of new loan disbursements.

As with the external trade trends, there are major variations amongst the LDCs, and the increase in capital flows is highly concentrated. If one looks at trends in individual countries, it is apparent that aggregate net resource flows were lower in 1999–2000 than in 1994–1998 in 33 out of 46 countries for which data are available.

Thirdly, as with the external trade trends, there are major variations amongst the LDCs, and the increase in capital flows is highly concentrated. If one looks at trends in individual countries, it is apparent that aggregate net resource flows were lower in 1999–2000 than in 1994–1998 in 33 out of 46 countries for which data are available. In only nine LDCs were the levels of capital inflows higher in both 1999 and 2000 than in 1994–1998 — Angola, Bangladesh, Burkina Faso, Equatorial Guinea, Eritrea, Mozambique, Sudan, Uganda and the United Republic of Tanzania. It is also apparent that, in 2000, 47 per cent of net FDI flows to all LDCs went to the four oil-exporting LDCs — Angola, Equatorial Guinea, Sudan and Yemen. It is also worth noting that the major source of the upward revision of private capital flows to the LDC group in 1999 is Angola, where private capital flows are revised upwards in the latest Global Development Finance database by $2.5 billion from the previous estimates. This statistical adjustment is equivalent to 17 per cent of total capital inflows to the LDCs in 1999.

Fourthly, the LDCs still attract a relatively low share of aggregate net resource flows going to all developing countries. This occurs in spite of high levels of aid. In 2000, they received 28 per cent of the official net resource flows going to all developing countries, but only 1.7 per cent of the private resource flows and 2.6 per cent of the net FDI inflows. Overall, they received 5.2 per cent of aggregate net resource flows to the developing countries (table 6).

TABLE 6. LDCS' SHARE OF NET RESOURCE FLOWS TO ALL DEVELOPING COUNTRIES, BY TYPE OF FLOW, 1989–1993, 1994–1998, 1999 AND 2000

(Percentage)

	1989–1993	1994–1998	1999	2000
Aggregate net resource flows	10.3	4.6	5.6	5.2
Official net resource flows	23.2	24.0	20.8	27.5
Private net resource flows	1.9	1.1	2.4	1.7
Foreign direct investment, net inflows	2.9	1.8	2.9	2.6

Source: As for table 5.

Note: The sample of LDCs is the same as in table 5.

2. Trends in aid flows

The sharp decline in aid flows to LDCs which began at the start of the 1990s was halted during the period 1998–2000. Indeed net ODA disbursements to LDCs from all donors rose slightly in 2000 to $12.5 billion.

Nevertheless, in real per capita terms, aid from all donors in 2000 was 30 per cent lower than in 1994.

A more detailed account of aid flows to the LDCs can be obtained from statistics compiled by the OECD's Development Assistance Committee (DAC).[5] These data show that the sharp decline in aid flows to LDCs which began at the start of the 1990s was halted during the period 1998–2000. Indeed estimates for 2000 show that net ODA disbursements to LDCs from all donors rose slightly in that year to $12.5 billion. But, nevertheless, in nominal terms, aid to LDCs was 26 per cent lower in 2000 than in 1994. In real per capita terms, aid from all donors in 2000 was 30 per cent lower than in 1994 (table 7).

The main source of aid to LDCs is DAC member countries, which together supplied 98 per cent of net ODA disbursements to the LDCs in 2000. Aid flows from DAC member countries is mainly in the form of bilateral grants (which are estimated to have constituted 66 per cent of net ODA disbursements to LDCs in 2000) and contributions to multilateral organizations. Data on bilateral aid commitments by DAC member countries indicate that the trend away from providing aid for economic infrastructure and services (particularly transport and communications, and energy) and production sectors (agriculture, industry, trade and tourism) on the one hand, and towards social infrastructure and services (particularly education, and government and civil society) on the other, continued in the late 1990s. Indeed, in 1998–2000, bilateral aid commitments for social infrastructure and services constituted one third of total bilateral aid commitments to the LDCs, exceeding the commitments to economic infrastructure and services, production sectors, and multisectoral and cross-cutting initiatives such as gender and environment (table 8), which together received only 23 per cent of total bilateral aid commitments. This is a significant shift from the early 1980s, when only 11 per cent of total bilateral aid commitments were focused on social infrastructure and services, and 45 per

Table 7. Net ODA inflows into LDCs from all donors, 1994–2000

	1994	1995	1996	1997	1998	1999	2000
Net ODA *(current $, million)*	16 825.5	17 241.7	14 084.6	13 035.8	12 806.2	12 325.0	12 477.8
Net ODA per capita *(current $)*	29.3	29.3	23.5	21.2	20.4	19.2	19.0
Real net ODA *(1999 $, million)*	16 652.3	15 404.7	12 827.9	12 884.8	12 896.2	12 325.0	13 256.4
Real net ODA per capita *(1999 $)*	29.0	26.2	21.4	21.0	20.5	19.2	20.2

Source: UNCTAD secretariat estimates based on OECD/DAC Statistical Reporting System, on-line data.

Table 8. Bilateral ODA commitments from DAC donors to LDCs by sector as a percentage of total bilateral ODA commitment

(Percentage)

	1994–1997	1998–2000
Social infrastructure and services	32.1	34.3
Economic infrastructure and services, production sectors and multisectoral/cross-cutting issues	31.4	23.2
Commodity aid/ general programme assistance	12.6	13.9
Action relating to debt	11.7	15.7
Emergency assistance	7.9	9.1
Other	4.3	3.8
Total	100.0	100.0

Source: UNCTAD secretariat estimates based on OECD *International Development Statistics 2002,* CD-ROM.

cent on economic infrastructure, production sectors, and multisectoral and cross-cutting issues.[6] Emergency assistance and debt relief have also become significant elements of bilateral aid commitments, constituting 25 per cent of total aid commitments by DAC member countries in 1998–2000.

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Closer analysis of the pattern of emergency aid and debt relief disbursements in 2000 indicates that 41 LDCs received some form of emergency aid in that year. Moreover, for 10 LDCs, emergency aid exceeded 15 per cent of net ODA from all donors. Those countries were the following: Afghanistan, Angola, Burundi, the Democratic Republic of the Congo, Eritrea, Ethiopia, Mozambique, Sierra Leone, Somalia and Sudan. Net debt forgiveness by DAC member countries in 2000 was equivalent to 15 per cent or more of net ODA disbursements in seven LDCs — Central African Republic, Guinea-Bissau, Mozambique, Myanmar, Togo, the United Republic of Tanzania and Zambia.

Finally, it is worth stressing that technical cooperation remains an important form of aid to the LDCs. Technical cooperation provided by DAC member countries is estimated at $2.1 billion in 2000.

3. Trends in foreign direct investment

The UNCTAD FDI/TNC database also provides a more detailed picture of FDI inflows. Over the past decade, global FDI flows have been steadily increasing — from $209 billion in 1990 to more than $1.3 trillion in 2000. A number of developing countries have participated in this surge. However, according to latest estimates, only 0.5 per cent of global FDI flows have been invested in the 49 LDCs (UNCTAD, 2000; UNCTAD, 2001).

The top 10 LDC recipients of FDI accounted for over 86 per cent of FDI inflows into all LDCs in the period 1998–2000.

Absolute levels of FDI inflows to the LDCs rose in the 1990s, particularly between 1994 and 1999. However, as noted above, there has been a strong concentration in a small number of countries. The top 10 recipient LDC countries in 1999 were Angola, Bangladesh, Cambodia, Lesotho, Mozambique, Myanmar, Sudan, Uganda, the United Republic of Tanzania and Zambia. Together these countries accounted for over 86 per cent of FDI inflows into all LDCs in the period 1998–2000 (table 9). This is even more concentrated than the pattern in all developing countries, where, for example, in 2000, 73 per cent of all FDI inflows were concentrated in the top 10 recipient developing countries (UNCTAD, 2001). Moreover, the UNCTAD FDI/TNC database indicate that the four oil-exporting LDCs accounted for over 50 per cent of all FDI in LDCs in both 1999 and 2000.

Table 9. FDI inflows into LDCs by group, 1997–2000

($ millions and percentage)

	1997	1998	1999	2000
Total LDCs	2 976.3	3 678.7	5 176.3	4 414.3
Oil-exporting LDCs	391.1	1 242.5	2 633.1	2 046.0
Top ten recipient LDCs[a]	2 115.0	3 165.2	4 495.1	3 764.4
Rest of LDCs	861.3	513.5	681.2	649.8
Share of top ten recipient LDCs (%)	71.1	86.0	86.8	85.3
Share of rest of LDCs (%)	28.9	14.0	13.2	14.7

Source: UNCTAD, FDI/TNC database.

a Based on the top ten recipients in 1999: Angola, Sudan, Uganda, Myanmar, Lesotho, Zambia, United Republic of Tanzania, Bangladesh, Cambodia and Mozambique.

There was a global downturn in FDI inflows in 2000, and LDCs were not immune to this trend. According to UNCTAD statistics, there was a 15 per cent decline in FDI inflows to LDCs, from $5.2 billion in 1999 to approximately $4.4 billion in 2000 (ibid.). Different groups of countries were, however, affected differently. FDI inflows to African LDCs declined by 18.4 per cent in 2000, although FDI inflows remained high in the oil-exporting African LDCs — Angola, Equatorial Guinea, and Sudan — in that year. LDCs in South and South-East Asia with export-oriented manufacturing sectors have also continued to attract FDI, although there was a sharp fall after the financial crisis of 1997. Overall, FDI flows to Asia increased by 35.5 per cent in 2000, mainly in textiles and garments and in some services sectors. FDI inflows declined by 56 per cent in Haiti, the only LDC in the Latin American and Caribbean region. In the Pacific, there was a 44 per cent increase in FDI inflows in 2000, associated with increased investment in tourism in some island LDCs (table 10).

There was a global downturn in FDI inflows in 2000, and LDCs were not immune to this trend. There was a 15 per cent decline in FDI inflows to LDCs in 2000.

D. Trends in external debt

High levels of external debt continue to impede economic performance in many LDCs. As at the end of 2000, the LDCs as a group had a total debt stock of $143.2 billion. This was a reduction of $4.4 billion from the beginning-of-year balance, and a reduction of $9.3 billion (or 6.1 per cent) from the debt stock at the beginning of 1999. Debt stocks fell owing to debt forgiveness grants (which were particularly important in 1999), and changes due to cross-currency valuation (which were particularly important in 2000) which together counterbalanced a small increase in debt owing to new loans. The major source of new debt in the LDCs is official loans, particularly multilateral loans. Excluding IMF credit, multilateral loans were equivalent to 115 per cent of net official debt flows in 2000. Net bilateral debt flows were negative in that year.

The external debt burden is falling. But at the end of 2000, the LDCs as a group had a total debt stock of $143.2 billion. Debt service payments amounted to $4.6 billion in 2000.

The levels of debt stocks are lower in relation to GDP and exports as well as in absolute terms. Total debt stocks for the LDCs as a group were equivalent to 105 per cent of GDP in 1995, but fell to 84 per cent in 1999 and 78 per cent in 2000. There was little change in the level of debt service payments. For all LDCs, they amounted to $4.7 billion in 1999, and $4.6 billion in 2000. As a ratio of exports of goods and services, debt service payments were 9.6 per cent in 2000, down from 11.8 per cent in 1999 (see table 11).

Behind these aggregate statistics, there is a much more mixed situation. Between 1999 and 2000, for a sample of 42 LDCs for which data are available,

TABLE 10. FDI INFLOWS INTO LDCS, BY REGION ,1990–2000

($ millions)

	1990	1997	1998	1999	2000	Annual average % change 1990–2000	Annual average % change 1999–2000
Total LDCs	573.5	2 976.3	3 678.7	5 176.3	4 414.3	18.0	-14.7
Africa	482.5	2 170.3	3 206.7	4 773.8	3 893.5	23.2	-18.4
Asia	52.6	717.0	428.5	340.0	460.6	6.3	35.5
West Asia	-130.9	-138.5	-266.1	-328.7	-200.9	..	..
South, East and South-East Asia	183.5	855.5	694.6	668.7	661.5	17.2	-1.1
Latin America and the Caribbean	8.0	4.0	10.8	30.0	13.2	..	-56.0
Pacific	30.5	85.1	32.7	32.5	46.9	0.9	44.2

Source: UNCTAD, FDI/TNC database.

TABLE 11. EXTERNAL DEBT BURDEN INDICATORS FOR THE LDCS, 1995, 1999 AND 2000

(Percentage)

	Total debt stocks/ GDP			Total debt service paid/exports[a]			Total debt stock/ exports[a]			Present value of debt/exports[b]
	1995	*1999*	*2000*	*1995*	*1999*	*2000*	*1995*	*1999*	*2000*	*1998–2000*
Afghanistan	..	..	..	..	..	..	..	..	..	..
Angola	219.4	178.0	114.9	12.0	18.7	15.1	295.4	206.7	127.4	170
Bangladesh	42.0	36.0	33.1	14.2	9.2	9.1	290.1	211.2	180.3	120
Benin	80.3	72.4	73.7	6.8	10.0	12.6	221.0	242.0	263.4	253
Bhutan	34.4	42.1	40.7	10.9	5.1	4.2	117.3	132.6	126.5	111
Burkina Faso	53.8	61.7	60.8	11.2	15.5	17.3	292.1	387.8	421.8	210
Burundi	115.7	158.4	159.7	27.6	45.6	37.2	828.5	1791.9	1910.9	985
Cambodia	69.3	75.1	74.1	0.7	2.9	2.0	205.8	197.9	152.5	158
Cape Verde	43.7	55.7	58.6	5.0	10.0	7.5	112.0	163.5	152.2	128
Central African Republic	84.3	86.5	90.6	7.8	12.1	9.0	471.5	589.4	556.4	356
Chad	62.7	73.0	79.3	4.1	11.0	9.3	235.0	388.8	394.3	222
Comoros	99.5	102.6	114.8	1.6	5.7	5.0	347.5	421.8	428.9	296
Dem. Rep. of the Congo	234.6	..	..	1.4	..	..	747.9	..	..	797
Djibouti	57.4	51.2	47.4	5.5	4.1	5.5	133.0	112.4	106.9	71
Equatorial Guinea	177.9	31.1	18.5	2.2	0.4	0.2	309.7	19.2	10.5	13
Eritrea	6.4	39.0	51.2	0.1	1.6	1.1	12.3	121.8	104.0	75
Ethiopia	178.3	85.5	85.8	19.1	16.4	13.9	1276.3	586.7	548.1	343
Gambia	111.8	107.5	111.7	14.7	8.6	7.0	235.9	185.9	176.2	217
Guinea	87.8	102.7	112.5	25.0	15.6	15.3	454.3	428.6	389.4	286
Guinea-Bissau	353.7	416.2	436.9	51.7	15.7	8.6	3035.8	1608.9	1305.1	1321
Haiti	31.0	29.0	28.9	50.2	8.8	8.0	424.1	209.2	224.4	132
Kiribati	..	..	..	..	..	..	..	..	..	..
Lao People's Dem. Rep.	122.8	174.2	146.2	6.3	7.7	8.1	521.5	527.8	484.1	243
Lesotho	73.7	80.3	79.6	6.1	10.9	12.1	102.4	135.0	131.9	91
Liberia	..	..	..	..	..	..	..	..	..	..
Madagascar	136.8	127.8	121.2	7.6	17.1	7.7	564.9	510.9	388.4	333
Malawi	157.0	152.0	160.1	25.6	12.7	11.7	484.8	506.7	543.3	314
Maldives	57.2	39.1	37.2	3.4	4.0	4.3	48.1	49.4	44.2	32
Mali	119.9	123.8	128.7	13.3	13.7	12.1	455.2	413.6	367.7	209
Mauritania	219.9	263.9	267.4	22.9	28.4	25.9	459.8	681.3	645.1	319
Mozambique	311.8	175.2	190.1	34.5	18.5	11.4	1585.5	1092.1	927.8	187
Myanmar	..	..	..	19.2	6.0	4.7	441.5	371.8	327.6	248
Nepal	55.1	59.0	51.4	7.05	7.9	6.5	200.5	219.4	184.7	113
Niger	84.4	81.3	89.7	16.7	11.2	9.2	475.9	545.7	534.6	345
Rwanda	80.0	66.8	70.8	20.4	25.9	24.7	1040.9	1063.8	896.2	628
Samoa	110.0	80.6	83.6	4.2	5.1	10.8	157.2	151.6	250.8	115
Sao Tome and Principe	539.7	683.1	679.6	23.4	29.1	31.7	2493.8	2168.2	2273.2	1307
Senegal	85.8	78.0	77.1	16.7	14.3	14.4	228.7	224.0	213.4	151
Sierra Leone	136.0	187.3	200.2	61.5	29.5	48.0	912.8	1686.4	1434.7	800
Solomon Islands	48.5	51.6	56.6	3.83	4.82	6.72	75.1	72.9	114.8	53
Somalia	..	..	..	..	..	..	..	..	..	..
Sudan	244.7	160.9	136.7	10.0	6.7	3.2	2551.6	1897.7	829.8	1319
Togo	112.7	107.4	117.6	6.0	8.9	6.1	302.1	302.5	294.7	199
Tuvalu	..	..	..	..	..	..	..	..	..	..
Uganda	62.1	53.9	55.2	20.0	22.1	23.7	523.3	445.1	506.1	138
United Rep. of Tanzania	141.1	95.0	82.5	17.9	16.2	16.2	571.7	658.1	555.7	395
Vanuatu	20.4	30.2	32.4	1.5	1.1	1.4	37.3	36.0	42.3	20
Yemen	165.7	74.1	65.8	3.1	3.9	3.8	203.0	135.3	95.7	99
Zambia	200.3	188.6	196.8	181.6	45.8	18.7	481.3	611.8	578.1	537
LDCs[c]	104.6	83.9	78.4	20.1	11.8	9.6	414.5	332.0	264.9	234

Source: UNCTAD secretariat estimates based on World Bank, *Global Development Finance 2002*, on-line data, and *World Development Indicators 2001*, CD-ROM.

a Exports of goods and services.

b The ratio is based on the net present value of debt in the year 2000 and average annual exports of goods and services during 1998–2000.

c Weighted average based on 43 LDCs. No data are available for Afghanistan, Democratic Republic of the Congo, Kiribati, Liberia, Somalia and Tuvalu.

Twenty-nine LDCs had an unsustainable external debt in 2000.

the ratio of debt stocks to GDP declined in 18. Total arrears on long-term debt declined in only 8 LDCs between 1999 and 2000. Moreover, 29 LDCs had an unsustainable external debt in 2000, if sustainability is measured according to one of the criteria of the enhanced HIPC Initiative, namely a ratio of the net present value of debt stocks to exports of 150.

Most of the debt is owed to official creditors, and multilateral debt remains particularly important. It is for this reason that the Enhanced HIPC Initiative is so important to the LDCs with unsustainable external debts. Some of the improvements in the debt situation of LDCs are related to actions taken in

TABLE 12. RATIO OF DEBT SERVICE PAID TO GOVERNMENT REVENUE AND SOCIAL EXPENDITURE IN SELECTED HIPC-LDCS,[a] 1998, 1999 AND 2000

(Percentage)

Country	Date of decision point	Debt service paid/govt. revenue (%) 1998[b]	1999[b]	2000[c]	Debt service paid/social exp. (%) 1999[b]	2000[c]
Countries reaching decision point in first half of 2000						
Mauritania	Feb. 00	35	30	39	95	100
Mozambique	Apr. 00	23	12	5	23	8
Senegal	Jun. 00	27	18	18	57	63
Utd. Rep. of Tanzania	Apr. 00	29	20	16	67	44
Uganda	May 00[d]	16	13	13	32	22
Simple average		*26*	*19*	*18*	*55*	*47*
Countries reaching decision point in third quarter of 2000						
Benin	Jul. 00	17	17	14	57	50
Burkina Faso	Jul. 00	18	15	17	38	40
Mali	Sep.00	17	20	18	82	65
Simple average		*17*	*17*	*16*	*82*	*65*
Countries reaching decision point in end 2000, 2001 and 2002						
Chad	May 01	29	23	29	16	17
Ethiopia	Nov. 01	9	11	10	47	21
Gambia	Dec. 00	12	25	16	83	59
Guinea	Dec. 00	34	35	36	155	167
Guinea-Bissau	Dec. 00	63	15	32	9	15
Madagascar	Dec. 00	42	25	19	68	46
Malawi	Dec. 00	22	21	27	31	49
Niger	Dec. 00	9	11	12	18	20
Rwanda	Dec. 00	7	25	17	63	42
Sao Tome and Principe	Dec. 00	84	21	53	25	63
Sierra Leone	Mar. 02	18	77	44	247	213
Zambia	Dec. 00	24	23	24	76	99
Simple average		*29*	*26*	*27*	*70*	*68*

Source: UNCTAD secretariat estimates based on IMF/IDA (2001).

Notes: *a* The list includes all HIPC-LDCs which had reached decision point/completion point by the end of September 2001.
b Debt service paid.
c Debt service due after the full use of traditional debt service mechanism and assistance under the Enhanced HIPC Initiative.
d Completion point.

the context of that Initiative. However, the full effects of the Initiative had still not been achieved in the year 2000, even for countries that had reached decision point in that year. Estimates of debt service payments in 2000 for 20 HIPC-LDCs which have reached decision point or completion point show that debt service exceeded 20 per cent of government revenue in 8, and exceeded 20 per cent of social expenditure in 7. Indeed, in 14 of these countries, debt service payments in 2000 were equivalent to 40 per cent or more of government social expenditure (table 12).

In 14 out of 20 HIPC-LDCs which have reached decision point or completion point, debt service payments in 2000 were equivalent to 40 per cent or more of government social expenditure.

E. Conclusion

The economic performance of LDCs as a group was much better in the late 1990s than in the early 1990s. Economic growth for the whole group was higher in 1996–2000 than it was in the period 1990–1997, and exports in 2000 were at a record level. Private capital inflows, though they slumped in 2000, remain at higher levels than the early 1990s.

However, within this positive aggregate picture, economic trends have been very diverse. Divergence is increasing amongst the LDCs, particularly between LDCs which export manufactures and services, and LDCs which export non-fuel primary commodities. The latter have been particularly adversely affected by the recent decline in commodity prices. The level of merchandise exports and of private capital flows to the LDCs as a group in 1999 and 2000 was also highly dependent on the situation of the four LDCs which export oil — Angola, Equatorial Guinea, Sudan and Yemen.

The economic performance of LDCs as a group was much better in the late 1990s than in the early 1990s... But growth in the LDCs remains highly dependent on commodity prices and trends in external finance.

Important concerns must also be expressed regarding the sustainability of recent trends. Growth in the LDCs remains highly dependent on commodity prices and trends in external finance. The year 2001 is likely to have been a difficult year in many LDCs. Global economic conditions deterioriated in the first part of the year and the events of 11 September added much uncertainty to an already weak global economy. World trade, which grew by 12 per cent in volume terms in 2000 slowed down sharply in 2001, some initial estimates suggesting that it grew by only 2 per cent (WTO, 2001). This was due to a major slowdown of demand in Western Europe and stagnation of imports into the United States. The travel and tourism industry, which is important for a number of LDCs, particularly island LDCs, was especially hard hit in the aftermath of the events of 11 September. Preliminary estimates also suggest that FDI inflows to developing countries declined steeply in 2001 (UNCTAD, forthcoming).

Demand for primary commodities is not expected to increase substantially in 2002–2003. Moreover, the experience of Yemen, where there was a surge of net FDI inflows in the early 1990s, suggests that there is a danger that aggregate FDI flows to LDCs could fall sharply in future as known oil resources are exploited. The consequences of the current economic and political conjuncture for future aid flows to the LDCs remain unclear. But the most likely trend is towards increased concentration of aid flows amongst the LDCs. If recent commodity price trends persist, and assuming that other things are equal, there is a danger that growth rates in many LDCs in the near future will return to the weak performance of the early 1990s, a period when the commodity terms of trade also fell sharply.

If recent commodity price trends persist, there is a danger that growth rates in many LDCs will return to the weak performance of the early 1990s, a period when the commodity terms of trade also fell sharply.

Notes

1. Throughout this report (unless otherwise specified) African, Asian and island LDCs are as follows: African LDCs: Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda, United Republic of Tanzania and Zambia. Haiti is normally included in the African LDC group unless otherwise stated. Asian LDCs: Afghanistan, Bangladesh, Bhutan, Cambodia, Lao People's Democratic Republic, Myanmar, Nepal and Yemen; island LDCs: Cape Verde, Comoros, Kiribati, Maldives, Samoa, Sao Tome and Principe, Solomon Islands, Tuvalu and Vanuatu.
2. This is based on 43 LDCs using data from IMF World Economic Outlook on-line database, December 2001.
3. These statistics are based on UN COMTRADE data. They diverge slightly from WTO estimates, which indicate the same pattern and trend, but estimate the total merchandise exports of LDCs in 2000 at $34 billion.
4. The countries classified as exporters of manufactures and/or services are: Bangladesh, Cambodia, Cape Verde, Comoros, Djibouti, Gambia, Haiti, Lao People's Democratic Republic, Lesotho, Madagascar, Maldives, Mozambique, Myanmar, Nepal, Samoa, Senegal, Tuvalu and Vanuatu. For further details on classification, see Part Two, annex to chapter 3.
5. OECD/DAC estimates of aid flows diverge somewhat from World Bank estimates of official resource flows (see UNCTAD, 2000: box 2). Trends are similar, but the OECD/DAC statistics suggest that the decline in aid since the early 1990s has been more marked than the World Bank estimates imply.
6. For discussion of long-term trends, see UNCTAD (2000, table 14).

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