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The Least Developed Countries Report 2013

Growth with employment for inclusive and sustainable development

Chapter 1

Recent Trends and Outlook for the LDCs

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A. Introduction

The performance of the least developed countries (LDCs) in terms of economic growth has been weaker by a full two percentage points in the past five years (2009–2013) than during the previous boom period (2002–2008). It has also been below the target rate of 7-per-cent annual growth established in the Istanbul Programme of Action (IPoA) for the Least Developed Countries for the Decade 2011–2020. This chapter analyses recent macroeconomic trends in the LDCs and assesses some of the factors behind their weaker performance.

The performance of the LDCs in terms of economic growth has been weaker by a full two percentage points in the past five years (2009–2013) than during the previous boom period (2002–2008).

The chapter shows that with the global economy still struggling to return to a strong and sustained growth path, the external environment faced by the LDCs has been less propitious in the past five years than in the previous period. The recent slowdown of world trade to a near standstill has weakened the demand for LDC imports, most notably in the case of developed countries, but also in emerging economies, which are affected by weak demand in developed countries as well. In addition to weaker demand for their exports, the LDCs have been faced with heightened volatility of commodity prices and capital flows. In particular, the international prices of many commodities have declined from their peaks of 2011, adversely affecting those LDCs which are characterized by high levels of commodity dependence. External financing has also been volatile recently, and less available than in the previous period.

Apart from the recent slower growth of their real GDP, the LDCs' investment and savings rates have continued to be insufficient for robust economic growth and rapid poverty reduction, and are also below the rates of other developing countries (ODCs). In addition, the process of structural change in most LDCs has advanced only very slowly, and in some cases has stalled. For the LDCs as a group, the share of agriculture and services in gross domestic product (GDP) declined somewhat during the first decade of the century, while the share of industry expanded. Within industry, however, manufacturing has stagnated, but non-manufacturing activities have expanded strongly. Critically, the share of the manufacturing sector in GDP has diminished in half of the LDCs over the period concerned. Thus, LDCs are still characterized by weak development of manufacturing industries, high levels of commodity dependence, heavy dependence on external financing and inadequate integration into the global economy.

Structural weaknesses of the LDCs are likely to remain unchanged, given that the prospects for the global economy continue to be fraught with uncertainties and risks and that slow growth is likely to persist at least through 2015.

These structural weaknesses of the LDCs are likely to remain unchanged, given that the prospects for the global economy continue to be fraught with uncertainties and risks and that slow growth is likely to persist at least through 2015. The outlook for the LDCs is accordingly not very good. Even if the downside risks do not materialize, the GDP growth rate in these countries will be lower than the IPoA target, and as such insufficient for substantial progress to be made in development and poverty reduction. Responding effectively to the employment challenge — the main topic of this Report — will be even more difficult for the LDCs given the current outlook.

This chapter is organized into three sections. Section B provides a brief analysis of recent trends in the global economy and their implications for the LDCs. Section C looks at recent economic performance in the LDCs. Where data are available, the section identifies the overall pattern for the LDCs as a group, regional differences between African, Asian and island LDCs, and variations among individual LDCs. Section D discusses the short-term outlook for the global economy and the LDCs.

B. Recent trends in the global economy and implications for the LDCs

1. Global growth and international trade

As pointed out in the *Trade and Development Report 2013* (UNCTAD, 2013a) of the United Nations Conference on Trade and Development (UNCTAD), the global economy is still struggling to return to a strong and sustained growth path. More than five years after the start of the global financial crisis the growth of the global economy has still not returned to pre-crisis levels. Economic activity in many countries, and particularly in developed economies, continues to suffer from the impacts of the financial and economic crisis that began in 2008, resulting from busts in the housing and financial markets of the major developed countries. Weak growth may also be due to the current macroeconomic policy stance, characterized by fiscal consolidation in many countries, both developed and developing.

More than five years after the start of the global financial crisis the growth of the global economy has still not returned to pre-crisis levels.

The growth rate of world output, at around 3.2 per cent in 2012 and 2013, was about one and a half percentage points lower than in the period 2002–2008 (table 1).[1] In addition, the global economy has been decelerating continuously since 2010. While the coordinated macroeconomic effort of policymakers in many countries to support growth in the wake of the financial crisis resulted in a vigorous rebound that year, the withdrawal of fiscal stimulus while the private sector was still very weak led to strong deceleration in 2011. Deceleration has continued since then in both developed and developing countries, although the growth rate in the former has been substantially lower than in the latter.

Slow growth in the United States and Japan, and recession in the European Union, means that developing countries continue to be the main growth drivers, accounting for about two thirds of global growth in 2011–2013. In several developing countries, growth has been driven more by domestic demand than by exports since external demand has been weak, especially in developed economies (UNCTAD, 2013a). The growth in LDCs, at an average 5 per cent since 2009, has been substantially lower than in the boom period of 2002–2008, when it reached 7.5 per cent. In per capita terms, real GDP growth rate in the LDCs has hovered at around 3 per cent from 2009 to date, or two percentage points lower than in the previous period.

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Economic activity in developed countries in 2013 has begun to show signs of divergence, and has been characterized by the *World Economic Outlook* of the International Monetary Fund (IMF) (International Monetary Fund, 2013) as a "three-speed" recovery. The continuing difficulties in the European Union of resolving the sovereign debt crisis while the private sector goes through

Table 1. Real GDP and real GDP per capita growth rates for LDCs, advanced economies, emerging and developing economies and world, selected years

	Real GDP Growth						Real GDP per capita growth					
	2002–2008	*2009*	*2010*	*2011*	*2012*	*2013*	*2002-2008*	*2009*	*2010*	*2011*	*2012*	*2013*
LDCs	7.5	5.0	5.6	4.5	5.3	5.7	5.0	2.6	3.3	3.2	2.9	3.4
Advanced economies	2.5	-3.5	3.0	1.6	1.2	1.2	1.8	-4.1	2.5	1.1	0.8	0.8
Emerging and developing economies	7.6	2.7	7.6	6.4	5.1	5.3	6.1	1.3	6.2	5.5	3.7	4.0
World	4.7	-0.6	5.2	4.0	3.2	3.3	3.3	-1.8	4.0	3.0	1.9	2.1

Source: UNCTAD secretariat calculations based on IMF, *World Economic Outlook* database, April 2013.
Notes: The LDCs' growth is calculated as the weighted average of each country's real growth (base year 2000); data for 2012 are preliminary and are forecasted for 2013.

the process of deleveraging have resulted in economic contraction for two consecutive years. The policy stance, characterized by expansionary monetary policy coupled with fiscal austerity, has not provided the necessary support in what has been termed a "balance-sheet recession". Some observers (Koo, 2011) find remarkable similarities between the Japanese experience of the past two decades and the recent problems faced by many advanced countries, particularly in Europe.

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Experience shows that economies need a long time to recover from the balance-sheet recession caused by financial crisis, as the private sector must pay down its debt in the process of deleveraging (Reinhart and Rogoff, 2009). That process could go on for many years and could well induce a sort of "debt trauma", whereby the private sector remains reluctant to borrow money even after its balance sheet is fully repaired. Until the private sector is both willing and able to borrow again, the economy will operate at less than full potential. A clear policy direction which is suggested by this characterization is that fiscal support of the aggregate demand is needed to overcome the adverse effects of the balance-sheet recession.

In the United States, the economic situation has started to improve, slowly but steadily. Growth rates of around 2 per cent in the past couple of years have been the result of an accommodative monetary and fiscal policy. In contrast with the European insistence on early fiscal consolidation, the United States fiscal policy supported the process of private-sector deleveraging with fiscal deficits on the order of 10 per cent of GDP. Fiscal consolidation began only in the spring of 2013, when the fiscal drag on the economy had less chances of derailing the incipient recovery. Japan, in turn, has been radically changing the policy mix since early 2013, providing a strong fiscal stimulus in conjunction with monetary policy expansion aimed at reviving economic growth and curbing deflationary trends. While the full impact of these policies cannot be ascertained at the time of writing, early signs in terms of growth rebound are positive.

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International trade in goods has not returned to the rapid growth rate of the pre-crisis years. Like the growth of real GDP, it rebounded strongly in 2010 and has been decelerating continuously since then. Trade in goods measured by volume expanded by 5.3 per cent in 2011 and by only 1.7 per cent in 2012. Most of that slowdown was due to lethargic economic activity in developed countries, particularly in Europe. As a result, exports from developing countries increased by 6.0 per cent in 2011 and just 3.6 per cent in 2012. This downward trend in international trade highlights the vulnerabilities of developing countries, and particularly of the LDCs, given their export-led strategy, at a time of lacklustre growth in developed countries. With a view to responding effectively to that adverse trend, *Trade and Development Report 2013* (UNCTAD, 2013a) explored the options for a gradual shift in the relative importance of sources of growth towards a greater emphasis on domestic sources.

2. Recent trends in financial flows

Private capital flows have become unstable and uneven; large inflows to many emerging economies in 2011 and 2012 turned into sudden outflows in the second quarter of 2013.

As with international trade, private capital flows recovered quickly in 2010, helped by sharp cuts in interest rates and unorthodox monetary expansion (known as quantitative easing) in many developed countries. However, they have lost their pre-crisis momentum and have become unstable and uneven. In terms of magnitude, McKinsey Global Institute (Lund et al., 2013) reports that cross-border capital flows remain 60 per cent below their pre-crisis peak. Regarding instability, large capital inflows to many emerging economies in 2011 and 2012 turned into sudden outflows in the second quarter of 2013, as the first signs of a probable reversal of quantitative easing emerged in developed countries. This demonstrates how unstable these flows are and how easily they could derail years of painstaking work to create stable macroeconomic conditions in developing countries.

The crisis in developed countries, however, did not have a sizeable impact on total flows of workers' remittances to developing countries. While the growth rate of remittances slowed down, the total amount continued to grow throughout the period 2009–2012. This points to their countercyclical nature, which is in contrast to other types of private capital flows. In the case of the LDCs, moreover, some two thirds of the total amount of remittances comes from other developing countries (UNCTAD, 2012a). Since their economies continued to grow at a reasonable pace, there is no reason for remittances to the LDCs to decelerate significantly.

While the growth rate of remittances slowed down, the total amount continued to grow throughout the period 2009–2012.

Flows of foreign direct investment (FDI), in contrast, are proving to be less resilient than remittances. According to UNCTAD's *World Investment Report 2013* (UNCTAD, 2013b), global FDI fell 18 per cent in 2012; FDI recovery is on a bumpy road and may take longer than expected. In the case of the LDCs, however, FDI increased in 2011 and 2012, following two years of stagnation. Finally, flows of official development assistance (ODA) from member countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) declined in both 2011 and 2012, reflecting a more conservative fiscal policy stance in developed countries.

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As a result of these diverse trends, developing countries and economies in transition continue to make substantial net financial transfers to developed countries. In 2012, these net outflows were estimated at $845 billion, down from $1 trillion in 2011. The LDCs, however, received positive net transfers on the order of $17 billion in 2012 (United Nations, 2013).

3. Recent trends in commodity prices

Commodity prices are particularly important for many LDCs, given the predominance of commodities in these countries' total exports. After a precipitous fall in 2008 and early 2009, commodity prices have recovered strongly on the back of four different factors. First, the demand for many commodities remained buoyant, reflecting the shift from export- to investment-led growth in China in response to the global crisis (Akyüz, 2013). Second, accommodative monetary policy has flooded the developed economies with liquidity at a time when investment opportunities there have been scarce. In response, inflows of financial capital to commodity markets have intensified, driving up commodity prices. Third, the "Arab Spring" that began in 2011 resulted in disruptions of oil production in several producing countries, most notably in North Africa and the Middle East, driving up the price of oil despite increasing supply capacity in North America. Lastly, weather disruptions, including the worst drought in the United States in more than half a century, kept food prices high throughout the period (United Nations, 2013). For all these reasons, commodity prices have stayed high and have played a major role in supporting the growth of real GDP in the LDCs in the past four years. Recent commodity price trends, however, reflect a slight drop from the peaks of early 2011, possibly because of the slower growth of the world economy (table 2).

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It is important to emphasize that most commodity prices are still substantially higher than the average prices during the commodity price boom of 2002–2008. This is particularly the case for food and oil prices, both of which have been fluctuating within a narrow band very close to their respective peaks of 2011 and 2012. Prices of other commodities, most notably some metals and ores, have been declining recently due to weaker demand, the uncertain outlook for global economic activity and improved supply prospects.

Table 2. Price indices for selected primary commodities of importance to LDCs, 2008–2013
(Price indices, 2000=100)

	2008	2009	2010	2011	2012	2013		Standard deviation	% change
						Q1	*Q2*	*2000–2012*	*2000–2012*
All food	***236***	***216***	***232***	***273***	***269***	***260***	***253***	***66.8***	***169.0***
Wheat	288	197	204	276	275	280	272	67.3	175.5
Rice	344	289	256	271	285	280	270	91.0	184.7
Sugar	156	222	260	318	263	227	214	79.4	163.4
Fish meal	274	298	409	372	377	452	441	106.5	277.4
Coffee, Arabicas	163	166	228	321	220	182	174	73.4	120.4
Coffee, Robustas	252	183	200	275	263	260	246	75.4	162.6
Cocoa beans	291	325	353	336	269	249	260	81.5	169.5
Tea	109	127	125	140	141	129	107	24.2	40.6
Agricultural raw materials	***198***	***163***	***226***	***289***	***223***	***216***	***202***	***59.9***	***122.6***
Tobacco	120	142	144	150	144	147	146	23.4	44.0
Cotton	121	106	175	258	150	152	157	49.0	50.4
Non-coniferous woods	154	154	161	158	153	150	160	23.8	53.2
Minerals, ores and metals	***332***	***232***	***327***	***375***	***322***	***332***	***303***	***109.5***	***221.9***
Iron ore	83	100	184	210	161	186	157	..	..
Aluminium	166	107	140	155	130	129	118	30.5	30.4
Copper	384	283	416	487	438	437	410	152.1	338.5
Gold	312	349	440	562	598	584	507	174.2	498.1
Crude petroleum	***344***	***219***	***280***	***368***	***372***	***372***	***352***	***106.5***	***272.1***

Source: UNCTADstat, *Commodity Price Bulletin*, August 2013.

4. Recent developments in special and differential treatment of the LDCs

International support measures have been specifically designed and adopted by the international community to help the LDCs promote development and poverty reduction and reduce their marginalization and vulnerability in today's global economy. Some of these measures have been stipulated as provisions in multilateral agreements aimed at giving the LDCs flexibility in implementation or in meeting obligations. The preparatory negotiations for the Ninth Ministerial Conference of the World Trade Organization (WTO), to be held in December 2013 in Bali, have taken up several issues of interest to the LDCs, such as duty-free, quota-free access, services waivers, rules of origin and cotton-related issues. Although at the time of writing the outcome of the negotiations was not known, there has been progress in several of these areas.

The WTO Council on Trade-related Aspects of Intellectual Property Rights (TRIPS) adopted in June 2013 a decision to extend the time period allotted for the LDCs to implement the TRIPS Agreement.

One concrete result concerns the special and differential treatment of the LDCs in the area of intellectual property rights (IPRs). The WTO Council on Trade-related Aspects of Intellectual Property Rights (TRIPS) adopted in June 2013 a decision to extend the time period allotted for the LDCs to implement the TRIPS Agreement. This Agreement (art. 66.1) states that in view of the special needs and requirements of the LDCs, their economic, financial and administrative constraints, and their need for flexibility to create a viable technological base, the LDCs shall not be required to apply the provisions of the Agreement for a period that can be extended by the TRIPS Council. In practice, this means the LDCs are not obliged to implement many of the Agreement's provisions until 1 July 2021, or until they cease to be an LDC, whichever is earlier. The importance of the decision lies in the fact that the LDCs retain their policy space and continue to benefit from this international support measure in order to overcome their productive capacity constraints and develop their technological capabilities.

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On the negative side, it is important to emphasize that the world crossed a key threshold in relation to climate change in May 2013, when the concentration of carbon dioxide reached 400 parts per million (ppm) in two separate measurements, one at a Hawaii measurement station and the other in Switzerland. The global average is expected to exceed the 400 ppm mark within a year. Unfortunately, this event has not received due media coverage, despite the fact that the impacts of climate change are already being felt in the increased frequency of extreme weather events in many parts of the world. At the current rate of increase of carbon dioxide emissions into the atmosphere, the goal of staying below the 450-ppm threshold is unlikely to be achieved. Given the direct link between the carbon dioxide concentration in the atmosphere and the Earth's temperature, the average world temperature will likely rise by more than two degrees Celsius by the end of the century, causing irreversible changes in the global climate.

The world crossed a key threshold in relation to climate change in May 2013, when the concentration of carbon dioxide reached 400 parts per million.

Regrettably, the LDCs are more vulnerable to climate change than other countries, and are expected to bear the greatest burden of adjusting to its effects (UNCTAD, 2010). The recent crossing of the 400-ppm threshold should provide a wake-up call to the international community to change the course of events while the alterations to climate are still reversible. It should also be taken up by the LDCs themselves, which should renew their efforts to place the issue higher on the agenda of the international community and to devise national strategies to respond to this enormous challenge.[2]

C. Recent economic performance of the LDCs

1. Trends in the real economy

Despite the slow global recovery, real GDP growth in the LDCs has picked up somewhat, from 4.5 per cent in 2011 to 5.3 per cent in 2012. As was the case in other developing countries, more robust domestic demand in the LDCs partially compensated for feeble external demand (UNCTAD, 2013a). IMF forecasts for 2013 point to a similar growth rate for the LDCs, in the 5-to-6 per cent range. It is worth repeating that these growth rates, although much higher than in developed countries, are a full two percentage points lower than the LDCs' performance during the boom period, and are also below the target rate of 7-per-cent annual growth established in the IPoA (table 3).

Despite the slow global recovery, real GDP growth in the LDCs has picked up somewhat, from 4.5 per cent in 2011 to 5.3 per cent in 2012.

The real GDP growth rates of different groups of LDCs continued recent trends, with African LDCs lagging behind their Asian and island counterparts. These trends have now been in place for four consecutive years, unlike in the

Table 3. Real GDP and real GDP per capita growth rates for LDCs, by groups, selected years

	Real GDP Growth						Real GDP per capita growth					
	2002–2008	*2009*	*2010*	*2011*	*2012*	*2013*	*2002-2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Total LDCs	***7.5***	***5.0***	***5.6***	***4.5***	***5.3***	***5.7***	***5.0***	***2.6***	***3.3***	***3.2***	***2.9***	***3.4***
African LDCs and Haiti	*7.5*	*4.2*	*4.9*	*4.4*	*4.8*	*5.6*	*4.8*	*1.5*	*2.2*	*3.4*	*2.1*	*3.0*
Asian LDCs	*7.5*	*5.9*	*6.4*	*4.6*	*5.8*	*5.7*	*5.5*	*4.1*	*4.7*	*2.9*	*4.1*	*4.0*
Island LDCs	*4.9*	*2.7*	*5.5*	*6.8*	*5.7*	*5.8*	*2.7*	*0.6*	*2.9*	*4.5*	*3.5*	*3.6*
Food and agriculture exporters	5.2	6.1	6.3	5.4	2.0	5.1	2.7	3.2	3.4	2.5	-0.8	2.2
Fuel exporters	9.2	3.0	4.0	-1.1	2.2	3.9	6.2	0.2	1.2	5.5	-0.5	1.1
Manufactures exporters	6.2	5.3	5.9	6.5	6.0	6.1	4.8	4.1	4.8	5.4	4.7	5.1
Mineral exporters	5.6	4.0	6.1	5.9	5.7	7.1	2.8	1.2	3.3	3.1	2.9	4.2
Services exporters	8.7	7.8	6.1	6.0	5.7	5.0	5.9	5.2	3.5	3.5	3.1	2.4
Mixed exporters	7.8	4.5	6.0	5.2	6.7	6.6	5.2	1.9	3.4	2.6	4.4	4.3

Source: UNCTAD secretariat calculations based on IMF, *World Economic Outlook* database, April 2013.
Notes: The LDCs' growth is calculated as the weighted average of each country's real growth (base year 2000); data for 2012 are preliminary and are forecasted for 2013.

previous period, when the African LDCs had been growing at the same pace as the Asian LDCs. In addition, the growth rates of African LDCs' real GDP per capita show a larger lag due to their higher population growth rate.

There were 15 LDCs with growth rates exceeding 6 per cent, but also 10 with growth rates below 3 per cent.

In terms of growth performance of groups based on export specialization, the fuel-exporting LDCs continued to record growth rates below those of other groups. One of the reasons is undoubtedly their extreme dependence on just one export product (ranging from 76.2 per cent of total exports in the case of Yemen to 96.6 per cent in the case of Angola), which means that any disruption of production and any price variation has a disproportionate influence on the performance of the economy as a whole. Food and agriculture exporters also registered low growth rates in 2012, in part because of erratic weather patterns. The performance of other groups of LDCs has been much more stable in the past four years, with only slight variations from one year to another.

The heterogeneous performance of LDC groups has been reflected not only in real GDP growth rates, but also in the growth rates of individual countries. In effect, there were 15 countries with growth rates exceeding 6 per cent, but also 10 countries with growth rates below 3 per cent. Given the high population growth rate, the latter countries had stagnant or negative growth in per capita terms. This has severe consequences for their poverty reduction, for their achievement of the Millennium Development Goals (MDGs), and more broadly for their human development. Three LDCs were in a recession in 2012, since they had negative growth rates of real GDP.

31 LDCs had an investment rate below the 25-per-cent benchmark, and the rate in several LDCs was even below the 10-per-cent mark.

The heterogeneity in real GDP growth rates among the LDCs is a consequence of wide disparities in other macroeconomic indicators. Most notably, and most importantly for economic growth, the rates of gross capital formation differ widely across individual LDCs (annex table 4). The IPoA has identified a gross capital formation rate of 25 per cent of GDP as a prerequisite for attaining real GDP growth rates of 7 per cent. Seventeen LDCs managed to reach, or even exceed, that benchmark in 2011. However, 31 others had an investment rate below the 25-per-cent benchmark, and the rate in several LDCs was even below the 10-per-cent mark. Given the close relationship between investment and economic growth, these countries' growth prospects are not very bright.

The gross domestic savings rate was lower than the gross capital formation rate in 40 of the 48 LDCs in 2011, which means that they had to rely on external financing to close the gap between investment and domestic savings.

In addition, the gross domestic savings rate was lower than the gross capital formation rate in 40 of the 48 LDCs in 2011. In other words, these countries had a negative external resource gap, which means that they had to rely on external financing to close the gap between investment and domestic savings. This makes these LDCs not only dependent on external financing, but also vulnerable to fluctuations in different sources of external financing. Given that some such sources are less stable and predictable than others (see section 3 below on trends in external finance), the structure of external financing of individual countries is important for mitigating that vulnerability.

While the average gross capital formation rate for LDCs was equivalent to 22 per cent of GDP in 2011, in developing countries excluding the LDCs it represented 32.8 per cent, almost 11 percentage points higher. The LDCs thus lag substantially behind other developing countries in creating potential for future growth.[3] Moreover, the gross domestic savings rate in other developing countries was 35.9 per cent of GDP, 15 percentage points higher than in the LDCs. As a consequence, other developing countries on average do not depend on external financing for investment and hence are much less vulnerable to external shocks than the LDCs.

The fact that most energy-exporting LDCs are located in Africa also explains the regional differences in gross domestic savings rates. African LDCs, mostly because of the energy exporters among them, had gross domestic savings rates equivalent to 23.8 per cent of GDP in 2011, in contrast to Asian LDCs, whose rate was only 15.1 per cent. Thus, African LDCs on average have higher gross domestic savings rates than gross capital formation rates. Within that group, however, there are pronounced differences. Asian LDCs, in turn, have a negative external resource gap equivalent to six percentage points of GDP. The data for island LDCs reveal a very high gross domestic savings rate of 38.6 per cent of GDP and a low gross capital formation rate of 15.4 per cent. These averages are due mostly to Timor-Leste, a large energy producer with characteristics atypical of small island developing States (SIDS).

The share of agriculture in GDP decreased in 33 LDCs and increased in 14 of them between 1999–2001 and 2009–2011.

Going beyond macroeconomic indicators to examine developments over a decade allows us to explore the extent and direction of the process of structural change in the LDCs (annex table 5). The evidence shows that the share of agriculture in GDP decreased in 33 LDCs and increased in 14 of them from 1999–2001 to 2009–2011.[4] During the same periods, the share of manufacturing increased in only 19 LDCs, stayed the same in 3, and decreased in 25. The share of non-manufacturing activities, in turn, increased in 32 LDCs, stayed the same in 1, and decreased in 14. Finally, the share of services in GDP increased in 28 LDCs, remained unchanged in 1, and declined in 18 of them in the same periods.

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One of the most broadly confirmed stylized facts in economics is that the value added of agriculture in the national economy decreases in relative terms as the country develops. Thus, the fact that the share of agriculture in GDP increased in 14 LDCs over the past decade is a striking finding which reflects a lack of structural change towards higher value added activities, higher productivity, higher incomes and technologically more sophisticated activities in these economies. The data on manufacturing as a share of GDP point in a similar direction, namely, that in the recent past, this critical area of economic activity lost part of its previous share in GDP in more than half of the LDCs. Given that manufacturing played the main role in the industrialization and development of developed countries and in the first- and second-tier newly industrialized countries (NICs), economic growth that results in a decreasing share of manufacturing in the LDCs does not bode well for their development prospects.

The share of services in GDP increased in 28 LDCs, remained unchanged in 1, and declined in 18 of them.

The fact that non-manufacturing activities within industry (mining and quarrying, electricity, gas, water and sanitary services, and construction) now constitute a larger share in GDP in more than two thirds of the LDCs points to a process of greater specialization based on static comparative advantage. This apparent shift away from manufacturing towards activities based on the LDCs' existing comparative advantage is probably a result of the commodity price boom. Similarly, the falling share of services in the GDP of 18 LDCs is also a sign that there has been little structural change in many LDCs even at a time when their economic growth was higher than in any other decade.

For the LDCs as a group, the average share of agriculture declined from 31.4 per cent of GDP in 1999–2001 to 25.6 per cent in 2009–2011 while the share of manufacturing stayed the same, at around 10 per cent of GDP.

For the LDCs as a group, the average share of agriculture declined from 31.4 per cent of GDP in 1999–2001 to 25.6 per cent in 2009–2011. The share of manufacturing stayed the same, at around 10 per cent of GDP. Once again, however, there are notable regional differences. While the share of manufacturing in African LDCs decreased slightly, from an already low value of 8.0 per cent of GDP to 7.5 per cent, its share in Asian LDCs increased from 12.7 per cent to 15.2 per cent. The data for non-manufacturing activities reflect exactly the opposite movement. In the African LDCs, the share went from 16.5 per cent to 27.3 per cent of GDP, while in the Asian LDCs it stayed the same, at 12.1 per cent. The data thus confirm the existence of two different strategies of economic development, one based mostly on extractive industries and the other on labour-intensive manufacturing. On average, the share of services declined somewhat in the African LDCs and increased in the Asian LDCs.

For the LDCs as a group, over the period between 1999–2001 and 2009–2011 — characterized by the most rapid economic growth in decades — there was little structural change of the type that results in strong increases in productivity, incomes, technological intensity and high value added.

More generally, the trends suggest that for the LDCs as a group, over the period between 1999–2001 and 2009–2011 — which was characterized by the most rapid economic growth in decades — there was little structural change of the type that results in strong increases in productivity, incomes, technological intensity and high value added. Overall, the share of both agriculture and services has been declining slowly in these countries, while that of industry is expanding. Within industry, however, manufacturing stagnated, while non-manufacturing activities expanded vigorously over the 10-year period. Much of the increase of industrial value added is concentrated in mining industries and in the exploitation of crude oil, gas and hydroelectric power, rather than in manufacturing. The overall lack of a dynamic process of structural change is characteristic mainly of the African LDCs. The Asian LDCs, in turn, are following the path of other successful East and South-East Asian economies, although at a slower pace.

2. Trends in current account and international trade

The current account deficit for the LDCs as a group widened substantially, from $10.5 billion in 2011 to $28.8 billion in 2012.

According to available preliminary data, the current account deficit for the LDCs as a group widened substantially, from $10.5 billion in 2011 to $28.8 billion in 2012. Most of the increase was due to the African LDCs and Haiti, where the deficit rose from $9.2 billion to $26.1 billion over the same two years. In terms of GDP, the current account deficit of the African LDCs widened from 5.0 per cent in 2011 to 13.2 per cent in 2012. Asian LDCs also recorded a larger deficit, expanding from $3.2 billion to $4.3 billion in the same period. The surplus of island LDCs, by contrast, shrunk from $1.9 billion to $1.6 billion, although this is due entirely to the surplus of Timor-Leste. Excluding the data from that country, this group of LDCs registered a deficit of some $300 million in 2012. Only seven LDCs, mostly energy exporters, recorded a current account surplus in 2012.

The deterioration of the LDCs' current account was mainly due to a strong worsening of the merchandise trade balance, from a $3.7-billion deficit in 2011 to a much larger one of $18.5 billion in 2012.

The deterioration of the LDCs' current account was mainly due to a strong worsening of the merchandise trade balance, which expanded from a $3.7-billion deficit in 2011 to a much larger one of $18.5 billion in 2012 for the LDCs as a group. The surplus of African LDCs plummeted from $22.2 billion to $11.9 billion, while the deficit of Asian LDCs widened from $24.5 billion to $29.0 billion in the same period.

The terms of trade for the LDCs as a group continued to improve in the three years since their sharp deterioration of 2009.

The terms of trade for the LDCs as a group continued to improve in the three years since their sharp deterioration of 2009 (chart 1). In 2011 and 2012 they reached a higher level than during the previous peak of 2008, just before the adverse impact of the crisis was felt. However, the terms of trade for regional groups reveal pronounced differences. The African LDCs have benefited from an unprecedented improvement in their terms of trade with the rest of the world. High commodity prices are the most important factor in these positive developments. However, despite their favourable terms of trade, their real GDP growth rate has been lower than that of the Asian and island LDCs.

The terms of trade for the Asian LDCs also improved somewhat in 2012, although both that year and during the boom period of 2002–2008 they were below the levels of 2000. A similar evolution can be seen in the terms of trade of the island LDCs, which have worsened since 2000 and deteriorated somewhat in 2012 from the previous year's levels. Comparing the LDCs as a group with other developing countries, we see that the terms of trade improved significantly in the former from 2000 to 2012 but improved only slightly in the latter.

Box 1. Graduation of Samoa from LDC status

The IPoA adopted at the Fourth United Nations Conference on the Least Developed Countries (LDC-IV) in Istanbul, Turkey, in 2011 is the international community's main document on the LDCs for the decade 2011–2020. Its overarching goal is to overcome the structural challenges faced by LDCs in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the LDC category. More specifically, national policies and international support measures should focus on enabling half the number of LDCs to meet the criteria for graduation by 2020 (United Nations, 2011, paras. 27-28).

The LDC category is a United Nations grouping of countries based on three criteria: a) income; b) human assets; and c) economic vulnerability. Each country needs to meet graduation thresholds in at least two criteria in order to graduate.[1] The decision on graduation is made by the United Nations Economic and Social Council based on recommendations from the Committee for Development Policy (CDP). The main novelty of the IPoA is its explicit inclusion of targets for graduation. A prospect of graduation can be a powerful motivating force for pursuing more rapid structural change and development of productive capacities in the LDCs, as well as an opportunity for addressing the employment challenge analysed in this Report.

Within that context, the news that Samoa will graduate from LDC status is indeed cause for celebration. It also constitutes recognition of the progress made by LDCs over the past decade and should motivate other LDCs to focus their efforts on reaching graduation thresholds. Samoa was among the 25 countries included in the first group of LDCs when the category was formally established by the United Nations in 1971. By 2012, Samoa stood at 242 per cent of the graduation threshold for per capita income, with an estimated per capita GNI of $3,220 that year, when the threshold was $1,190. Economic progress was steady in the first decade of the twenty-first century, albeit without spectacular growth: real GDP growth rates were negative in 2008 and 2009, and the years that followed the tragic tsunami of September 2009 were ones of slow recovery. The two main factors in Samoa's rise above the graduation line were: (a) the successful specialization of the economy in international services, notably tourism; and (b) the multiplier impact of a steady flow of remittances (equivalent to 82 per cent of total exports in 2011) and ODA inflows.

The steady progress with respect to the human asset criterion over the past 20 years has been the other main factor in the country's graduation. At 141 per cent of the graduation threshold in 2012, the country is the LDC with the highest human capital status. Samoa's situation with respect to the economic vulnerability criterion is of a different nature: at 63 per cent of the graduation threshold in 2012, the economy is among the 30 per cent most vulnerable LDCs. As indicated by the disaster victim ratio — a new component of the Economic Vulnerability Index (EVI) — Samoa was much affected by natural disasters in the past two decades, twice more than comparable small island developing States. According to another new component of the EVI, the ratio of low-lying areas, Samoans are 72 per cent more exposed to sea-related risks than other LDCs. Despite the increased vulnerability to natural shocks overall, 2012 was a year of slightly improved performance under this indicator: the country was seen as having scored points in resilience-building, as evidenced by the limited instability in overall exports in the long run.

By virtue of the graduation rule under which a country that has stood above two graduation thresholds in at least two consecutive reviews of the list will qualify for graduation, CDP in March 2006 recommended Samoa's graduation from LDC status. The Economic and Social Council endorsed this recommendation in July 2007, and the General Assembly confirmed that decision through resolution 62/97 of 17 December 2007. In another resolution in September 2010 (64/295), the Assembly decided to defer Samoa's graduation to 1 January 2014, owing to the "unique disruption" caused by the 2009 tsunami. The year 2013 is the third and last year of the country's normal grace period before graduation. Samoa has been actively engaged, with its development partners, in preparing a "smooth transition" to post-LDC life.

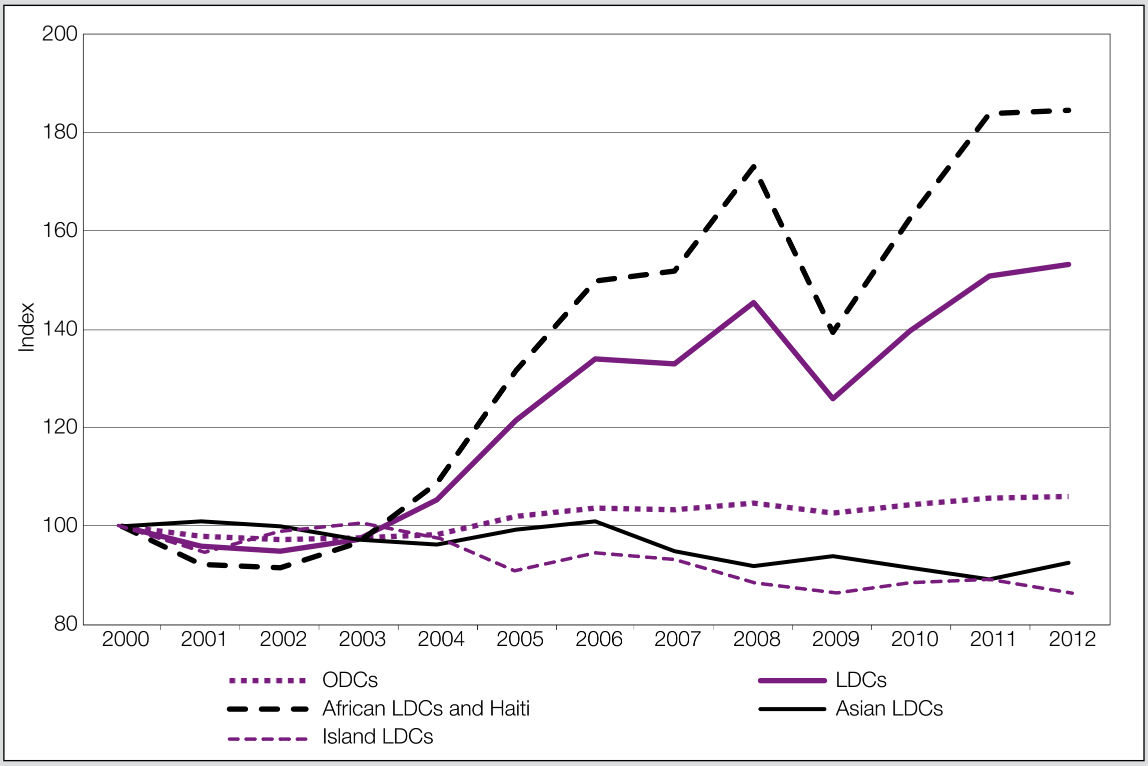
Samoa's relative economic prosperity owes little to LDC-specific benefits, however, as the latter do not involve concessions in the area of trade in services. International tourism and business-related services in 2011 accounted for 78 per cent of the country's total export earnings. Also in 2011, tuna, its largest merchandise export, ranked only fifth among the sources of export earnings, with 2.5 per cent of relevant total receipts. (Exports of wiring sets to Australia and New Zealand for the automobile industry are counted as re-exports, although some value addition does take place in Samoa in the single factory making up this sector.)

As a service-dominated economy, Samoa is not likely to be harmed by its upcoming loss of LDC status. Preferential access to the Australian and New Zealand markets will not be affected either by this change of status or by the possible advent of reciprocal free trade arrangements between South Pacific States and the region's two large preference givers. At the same time, Samoa's exports to the EU are very small, and the EU's smooth transition policy on market access would automatically benefit Samoa for at least three years. Trade-related technical assistance under the Enhanced Integrated Framework (EIF) for LDCs will continue to be received by the country for a number of years after graduation, as will United Nations budget support for Samoan delegations to major United Nations events.

As we celebrate the graduation of Samoa from the LDC category, however, one more country has been added to the list. The latest official addition to the category was South Sudan, which was admitted on 18 December 2012 when the General Assembly endorsed with immediate effect CDP's March 2012 recommendation to add that newly independent country to the list. This is a potent reminder that there are countries and populations in need of special attention from the international community in supporting their development strategies to address their development needs and specific challenges and overcome their structural vulnerabilities.

[1] According to the graduation rule established by the United Nations, a first-time performance above two graduation thresholds makes the country "pre-eligible" for graduation, while "full eligibility" will take place after a second observation of the same performance has been made in the subsequent consecutive triennial review of the list of LDCs.

Chart 1. Terms of trade indices of LDCs, regional groups of LDCs and ODCs, 2000–2012
(Index, 2000=100)



Source: UNCTAD secretariat calculations, based on UNCTADstat database.

Table 4. Exports and imports of merchandise and services in LDCs

	Country groups	2008	2009	2010	2011	2012	Change 2011	Change 2012
				Merchandise trade				
Merchandise exports	LDCs total	167'907.6	127'672.3	162'436.8	203'004.4	204'310.8	25.0	0.6
	African LDCs and Haiti	129'832.7	92'392.6	117'021.8	146'797.3	148'138.5	25.4	0.9
	Asian LDCs	37'690.7	34'974.1	45'030.6	55'613.1	55'512.9	23.5	-0.2
	Island LDCs	384.1	305.6	384.4	594.0	659.4	54.5	11.0
Merchandise imports	LDCs total	162'074.1	153'444.1	169'565.8	206'736.0	222'777.2	21.9	7.8
	African LDCs and Haiti	106'739.0	101'054.3	106'005.5	124'573.6	136'149.6	17.5	9.3
	Asian LDCs	53'758.9	50'907.3	61'828.9	80'180.9	84'552.1	29.7	5.5
	Island LDCs	1'576.3	1'482.6	1'731.4	1'981.5	2'075.5	14.4	4.7
Merchandise trade balance	LDCs total	5'833.46	-25'771.85	-7'128.96	-3'731.63	-18'466.42	47.7	-394.9
	African LDCs and Haiti	23'093.80	-8'661.74	11'016.31	22'223.65	11'988.90	101.7	-46.1
	Asian LDCs	-16'068.21	-15'933.17	-16'798.25	-24'567.76	-29'039.20	-46.3	-18.2
	Island LDCs	-1'192.13	-1'176.94	-1'347.03	-1'387.51	-1'416.11	-3.0	-2.1
		2008	2009	2010	2011	2012	change 2011	change 2012
				Services trade				
Service exports	LDCs total	20'706.6	21'534.9	25'002.2	29'744.1	30'373.3	19.0	2.1
	African LDCs and Haiti	13'719.4	12'834.8	13'839.6	17'443.8	17'756.1	26.0	1.8
	Asian LDCs	6'435.5	8'105.7	10'463.5	11'537.2	11'795.8	10.3	2.2
	Island LDCs	551.7	594.4	699.2	763.0	821.3	9.1	7.6
Service imports	LDCs total	58'895.7	54'536.0	60'550.4	71'904.7	74'847.8	18.8	4.1
	African LDCs and Haiti	49'099.4	44'298.4	47'905.4	57'091.7	59'228.1	19.2	3.7
	Asian LDCs	8'804.6	8'941.1	11'018.9	12'672.0	13'398.7	15.0	5.7
	Island LDCs	991.7	1296.5	1626.1	2141.0	2221.0	31.7	3.7
Service trade balance	LDCs total	-38'189.2	-33'001.1	-35'548.2	-42'160.5	-44'474.6	-18.6	-5.5
	African LDCs and Haiti	-35'380.1	-31'463.5	-34'065.8	-39'647.9	-41'472.1	-16.4	-4.6
	Asian LDCs	-2'369.1	-835.5	-555.4	-1'134.8	-1'602.8	-104.3	-41.2
	Island LDCs	-440.0	-702.1	-927.0	-1'377.9	-1'399.7	-48.6	-1.6

Source: UNCTAD secretariat calculations, based on UNCTADstat database, July 2013.

The widening of the merchandise trade deficit was driven by developments on both export and import fronts (table 4). With respect to exports, the strong growth of about 25 per cent in both 2010 and 2011 stalled to a mere 0.6 per cent in 2012 for the LDCs as a group. This is in line with the worldwide deceleration of trade in goods mentioned earlier. Exports of goods from the Asian LDCs actually declined in 2012, although by only 0.2 per cent. Those from island LDCs, by contrast, grew by 11 per cent. Imports to the LDCs as a group also slowed, but not as much as exports. While imports expanded 21.9 per cent in 2011, one year later their growth had slowed to 7.8 per cent. Nonetheless, that was enough to worsen the LDCs' merchandise trade deficit substantially.

With respect to exports, the strong growth of about 25 per cent in both 2010 and 2011 stalled to a mere 0.6 per cent in 2012.

Trends in the trade balance of services were broadly the same. The deficit increased from $42.1 billion in 2011 to $44.5 billion in 2012. Exports of services, which expanded by 19 per cent in 2011, had barely advanced one year later (2.1 per cent). The change in the growth rate of services imports was almost as significant, from a robust expansion of 18.8 per cent in 2011 to only a 4.1-per-cent increase in 2012.

The composition of LDCs' merchandise exports reflects the dominant position of fuels, which account for more than half of the total (table 5). However, their predominance is the result of merchandise exports from the African LDCs, whose share is around 65 per cent. In the case of the Asian LDCs, fuels account for only one fifth of the total, whereas manufactured goods, at around 57 per cent of the total, are the main export item. In particular, textile fibres, yarn, fabrics and clothing amount to about half of all merchandise exports from the Asian LDCs.

The composition of LDCs' merchandise exports reflects the dominant position of fuels, which account for more than half of the total.

Exports of ores and metals, at 17.4 per cent, are the second largest export item from the African LDCs, followed by food (8.5 per cent) and manufactured goods (6.1 per cent). The export structure of the island LDCs is dominated by agricultural raw materials (44 per cent) and food (29.5 per cent). Manufactured goods are in third place, with 13.4 per cent.

The largest items in the import structure of the LDCs as a group are food (36.9 per cent) and agricultural raw materials (22 per cent). The fact that their combined imports account for 60 per cent of all LDC imports reflects the neglect of agriculture, a topic which is more broadly discussed in chapters 4 and 5 of this Report. Fuels account for 18 per cent of imports of goods, while the share of manufactured goods is around 15 per cent of the total. Imports of manufactured goods in the LDCs are composed primarily of machinery and transport equipment.

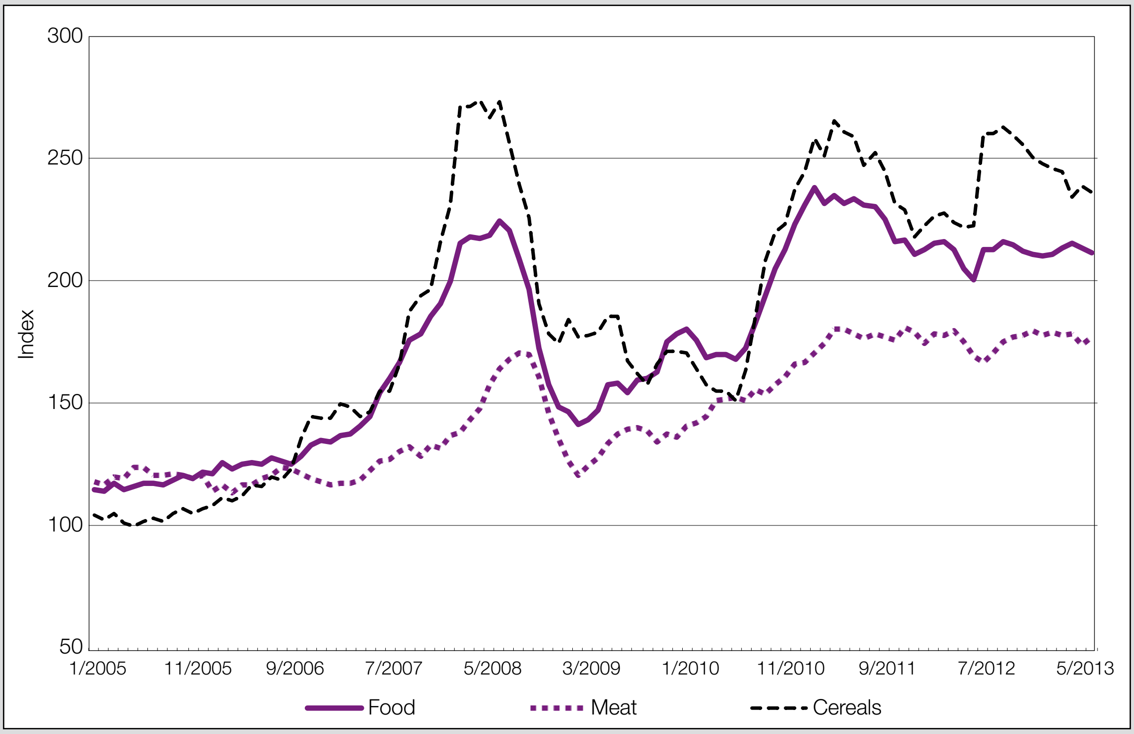
The largest items in the import structure of the LDCs as a group are food (36.9 per cent) and agricultural raw materials (22 per cent).

Table 5. Composition of merchandise exports and imports in LDCs, average 2010–2012
(Percentage of total exports and imports)

	Exports				Imports			
	LDCs	*African LDCs and Haiti*	*Asian LDCs*	*Island LDCs*	*LDCs*	*African LDCs and Haiti*	*Asian LDCs*	*Island LDCs*
All food	8.5	8.5	8.3	29.5	36.9	34.7	40.3	40.2
Agricultural raw materials	3.3	2.7	4.5	44.0	22.0	20.8	23.7	25.4
Fuels	52.8	64.8	22.7	2.0	18.0	17.5	18.6	23.2
Ores and metals	14.3	17.4	6.4	7.7	1.9	1.2	3.1	1.5
Manufactured goods	20.3	6.1	56.9	13.4	14.9	13.9	16.5	14.8
Chemical products	1.4	1.4	1.3	0.9	2.5	2.2	3.1	0.7
Machinery and transport equipment	1.6	1.6	1.4	10.2	61.3	64.0	57.2	53.5
Other manufactured goods	17.4	3.1	54.2	2.2	10.2	10.2	10.2	5.0
Memo item: Textile fibres, yarn, fabrics and clothing	15.9	2.9	49.5	0.3	24.9	23.9	26.8	18.8

Source: UNCTAD secretariat calculations, based on UNCTADstat database, July 2013.

Chart 2. Food, meat and cereal price indices, January 2005-June 2013
(Index, 2002–2004=100)



Source: UNCTAD secretariat calculations, based on FAO *Food Price Index*, July 2013.

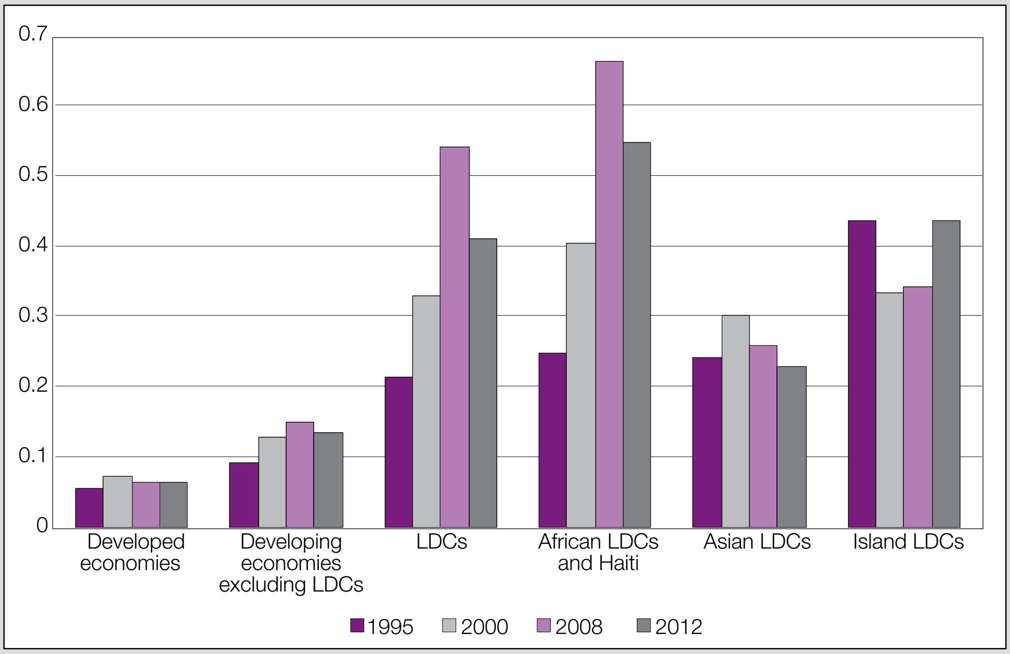
The increasing share of food in total LDC imports points to the impact of changes in international food prices on the LDCs' trade balance. As shown in chart 2, food prices increased sharply in 2007 and 2008, before experiencing a downward correction in 2009 and 2010. Since then, however, they have rebounded rapidly, and in 2011 reached a level higher than in the previous peak during the so-called triple crisis (food, fuel and financial). Unlike other commodity prices, international food prices have not fallen substantially from that peak, and are still more than double those of the 2002–2004 average. In the composite food price index, the price index of cereals is more important for the LDCs than indices of other types of food, given that cereals predominate in LDC food consumption. As shown in chart 2, cereal prices are almost one and a half times higher today than their 2002–2004 average. The persistence of high food prices and the strong dependence of the LDCs on food imports[5] point to a need to reverse the long-standing neglect of agriculture. High prices of food, especially of cereals, remain a major problem for poor people everywhere, and particularly in the LDCs.

The persistence of high food prices and the strong dependence of the LDCs on food imports point to a need to reverse the long-standing neglect of agriculture. High prices of food, especially of cereals, remain a major problem for poor people everywhere, and particularly in the LDCs.

An analysis of concentration indices of LDC exports (chart 3) shows that the long-lasting trend towards higher concentration has recently been reversed. In effect, the concentration index of exports of the LDCs as a group followed a strong upward trend from 1995 to 2008, when it reached a value of 0.54.[6] However, since the onset of the crisis, the concentration of exports as measured by the concentration index for the LDCs as a group has gone down to 0.41. When considered by regional groupings, the African LDCs have the highest concentration index, followed by island LDCs, while that of the Asian LDCs is the lowest of all LDC groups. The index has recently decreased in both African and Asian LDCs, while it has increased in island LDCs.

It is not immediately clear why the concentration of exports from the LDCs as a group has declined in recent years. Commodity prices have remained high, in

Chart 3. Concentration indices of exports of country groups, selected years



Source: UNCTAD secretariat calculations, based on UNCTADstat database.

many cases even higher than in the boom period of 2002–2008, and are thus an unlikely factor of change. In any case, the falling concentration index of exports is a welcome development, as it suggests that the LDCs today have a more diversified export structure than before the crisis.

Private financial flows to the LDCs have been increasing steadily, reaching $56.3 billion in 2012, a 16-per-cent increase over the previous year.

3. Trends in external finance

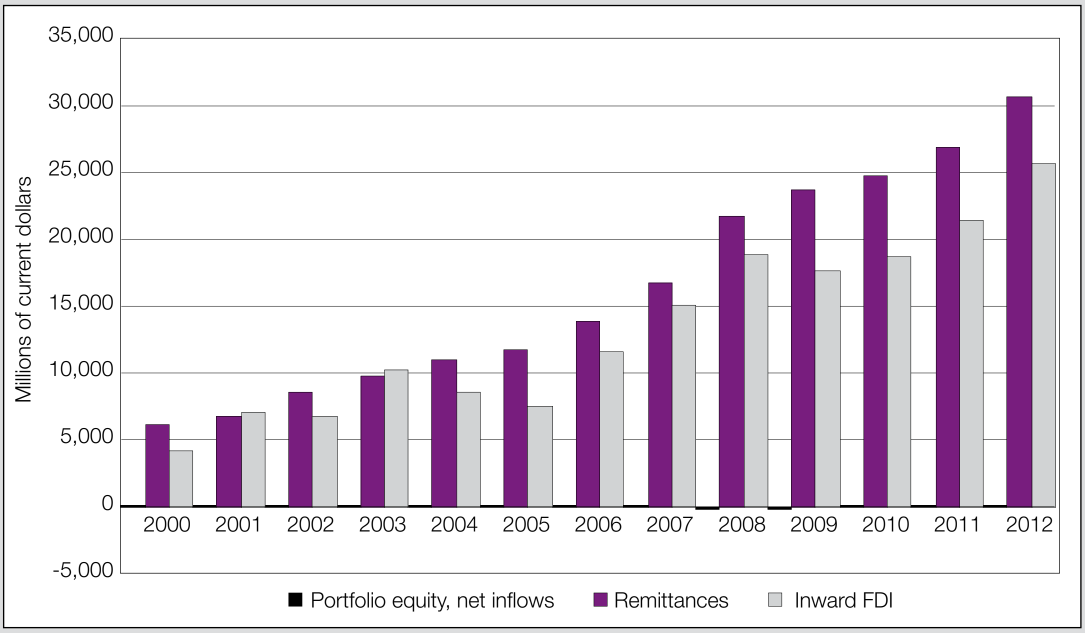
External finance is of particular importance to the LDCs given their low level of domestic savings relative to investment. In the absence of external finance, that gap would have to be closed by a reduction in investment. Availability of external finance, however, makes possible a higher level of investment than could be financed solely by domestic savings. Both the level and the composition of external finance are important, as some forms are more volatile than others. Portfolio investment, for example, is generally much more volatile and more unpredictable than FDI.

FDI inflows to LDCs hit a record high of almost $26 billion in 2012, which is about 20 per cent more than in 2011.

Recent private capital flows to the LDCs have followed the same pattern as those to developing countries in general. The abundance of liquidity in developed countries caused by expansionary monetary policy, coupled with a dearth of opportunities to invest in developed countries where the private sector is undergoing a painful deleveraging process, resulted in a recomposition of investor portfolios, which up to the spring of 2013 had been favouring assets in developing economies. That search for higher yields has also benefited the LDCs. As shown in chart 4, private financial flows to the LDCs have been increasing steadily, reaching $56.3 billion in 2012, a 16-per-cent increase over the previous year.

FDI inflows to LDCs hit a record high of almost $26 billion in 2012, which is about 20 per cent more than in 2011 (annex table 6). Inflows to African LDCs and Haiti rose from $16.9 billion in 2011 to $19.8 billion last year. Asian LDCs

Chart 4. Private financial flows to the LDCs, 2000–2012
(Millions of current dollars)



Source: UNCTAD secretariat calculations, based on UNCTADstat database for the FDI, *World Development Indicators* for portfolio investment and World Bank for remittances.

also saw an increase, from $4.2 billion to $5.6 billion, while the island LDCs suffered a reversal, from $320 million to $235 million. FDI outflows from LDCs increased at a much higher rate of around 66 per cent, to $5 billion in 2012. As a result, net FDI inflows to more than 20 LDCs were negative. These negative net flows were particularly high in Angola, where they totalled $6.9 billion.

The share of investments in extractive industries and related processing activities in total greenfield investments in the LDCs has been declining, from over 80 per cent of the total in 2003–2005 to around 30 per cent in 2012.

The share of LDCs in global FDI inflows grew from 1.3 per cent in 2011 to 1.9 per cent in 2012. A long-standing feature of those inflows is their high concentration in just a few countries. In 2012, five countries had inflows of over $2.0 billion each, namely, Mozambique, Democratic Republic of the Congo, Sudan, Myanmar and Equatorial Guinea. Also on the negative side, the estimated value of greenfield investment projects in LDCs amounted to only $22 billion, the lowest level in six years, due to a pronounced contraction of announced projects in the primary sector and related processing industries. Since the estimated value of greenfield investment projects is indicative of future trends, this does not bode well for the value of FDI inflows in the future.[7]

The share of investments in extractive industries and related processing activities in total greenfield investments in the LDCs has been declining, from over 80 per cent of the total in 2003–2005 to around 30 per cent in 2012 (UNCTAD, 2013b). As a result, manufacturing and services are gaining ground. Investment in transport and logistics includes oil pipelines, petroleum bulk stations and terminals, which are support services for the extractive activities. Financial services represented one fourth of all greenfield projects in the LDCs in 2012, concentrated primarily in retail banking.

The flow of workers' remittances to the LDCs continued to expand in 2012, reaching a new record of $30.5 billion.

The flow of workers' remittances to the LDCs continued to expand in 2012, reaching a new record of $30.5 billion. Remittances to these countries are much more stable than FDI inflows (chart 4), and have risen even during the worst stage of the crisis. With respect to regional distribution, remittances are mostly a feature of Asian LDCs, where they increased from $16.3 billion in 2010 to $17.8

billion a year later (annex table 7). The figures for the Asian LDCs are heavily dominated by flows to Bangladesh, which receives around 40 per cent of all remittance flows to the LDCs. In 2011, Bangladesh took in almost $12 billion in remittances, and some preliminary estimates place the 2012 figure at over $14 billion. Remittances to the African LDCs grew by some $800 million in 2012 over the $8.1 billion received in 2010.

After playing an important countercyclical role during the financial crisis, ODA to the LDCs began to decline.

Remittances are especially important for smaller countries, where they account for a large share of gross national income (GNI). In Samoa, for example, their share of GNI was 23.9 per cent; in Lesotho and Haiti, 23.7 per cent. Workers' remittances also represent a large share of GNI in Nepal, Gambia and Senegal (more than 10 per cent), and in Togo, Guinea-Bissau and Kiribati (between 5 and 10 per cent). For the LDCs as a group, remittances account for 4.4 per cent of GNI. In the African LDCs, the figure is 2.5 per cent, and in the Asian LDCs, 7.4 per cent.

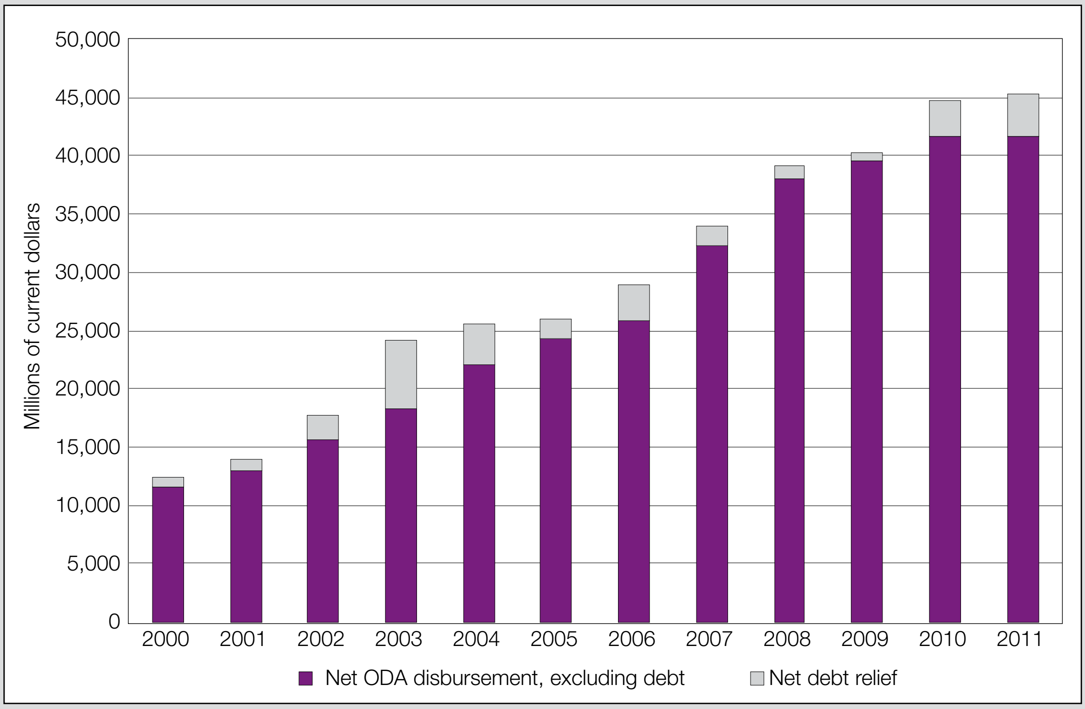
After playing an important countercyclical role during the financial crisis, ODA to the LDCs began to decline in 2011 (chart 5). According to DAC data, the net ODA disbursement from all donors to LDCs, excluding debt relief, fell slightly, from $41.7 billion in 2010 to $41.6 billion in 2011. Preliminary data for 2012 show that bilateral net ODA to the LDCs fell by 12.8% in real terms. If these estimates are confirmed, they would mark the largest decline of ODA to the LDCs since 1997.

The net ODA disbursement from all donors to LDCs, excluding debt relief, fell slightly, from $41.7 billion in 2010 to $41.6 billion in 2011.

Moreover, 2012 was the first time since 1996–1997 that ODA to all developing countries declined for two consecutive years. According to OECD, the decline is part of a broader set of recent austerity measures adopted by policymakers in traditional donor countries. The aid provided by DAC members amounted to 0.29 per cent of their combined GNI, way below the 0.7-per-cent target.

The total external debt of the LDCs expanded in 2012 to an estimated $183 billion, up 6.7 per cent in nominal terms from 2011. The debt-to-GDP ratio grew

Chart 5. Official capital flows to LDCs, 2000–2011
(Millions of current dollars)



Source: UNCTAD secretariat calculations, based on OECD-DAC, *International Development Statistics*, online, August 2013.

slightly, from 26.6 per cent in 2011 to 26.7 per cent in 2012, while the ratio of total debt to exports increased from 78.7 per cent to 82.5 per cent. Both ratios were higher than those in other developing countries. However, average debt service as a percentage of GDP and exports remained lower than for ODCs, since most (more than 80 per cent) of LDC external debt is long-term, on highly concessional terms. The stock of short-term debt was up by $2.5 billion in 2012, an increase of 14 per cent.

The total external debt of the LDCs expanded in 2012 to an estimated $183 billion, up 6.7 per cent in nominal terms from 2011. The debt-to-GDP ratio grew slightly, from 26.6 per cent in 2011 to 26.7 per cent in 2012.

As of mid-2013, there were 2 LDCs in debt distress (Myanmar and Sudan) and 10 at high risk of debt distress.[8] Meanwhile, both Comoros and Guinea have reached the completion point under the Heavily Indebted Poor Countries Initiative (HIPC). As a result of debt cancellation obtained from the Paris Club, the latter two countries are no longer considered to be in debt distress. While a combination of relatively strong growth, prudent macroeconomic management, and debt relief has brought down the debt burden of many LDCs, public debt ratios have been rising in many post-HIPC and Multilateral Debt Relief Initiative (MDRI) countries. The increase in debt-to-GDP ratios following MDRI has been quite significant in Benin, Ghana, Senegal and Malawi, where it is more a reflection of a sharp exchange rate depreciation in 2012 than of new borrowing.

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In general, the LDCs have fewer opportunities and less sources of financing than other developing countries. With few exceptions, their domestic debt markets are not sufficiently developed, especially in the long maturity segment, and funds that can be mobilized domestically for investment are constrained by the limited amount of savings. Developing a domestic debt market is costly in terms of financial and human resources and in most cases takes many years. In the meantime, current account imbalances suggest that external capital will continue to play a key role in financing development for the LDCs.

D. Outlook for the LDCs

According to IMF forecasts, real GDP worldwide will expand by 3.3 per cent in 2013, a slight improvement over the 3.2 per cent of 2012. For the LDCs as a group, IMF forecasts a 5.7-per-cent growth rate for 2013, compared to 5.3 per cent for emerging and developing economies. The growth of the world economy should increase to 4.0 per cent in 2014 and to around 4.5 per cent in the subsequent four years. LDC growth should be around 6 per cent in the medium term (table 6).

For the LDCs as a group, IMF forecasts a 5.7-per-cent growth rate for 2013.

However, these forecasts may be overly optimistic. Five years after the onset of the global crisis, economic conditions remain precarious in most developed countries, with high sovereign debt, high unemployment, a low or negative growth rate of real GDP, and an ongoing deleveraging process in the private sector. In addition, the adjustments currently being implemented in many

Table 6. Real GDP growth rates for LDCs, developing and advanced economies, selected years and forecasts
(Annual weighted averages, percentages)

	2002–2008	2009–2012	2013	2014	2015	2016	2017	2018
Total LDCs	***7.5***	***5.1***	***5.7***	***6.2***	***6.4***	***6.4***	***6.1***	***6.4***
African LDCs and Haiti	7.5	4.6	5.6	6.1	6.3	6.0	5.6	6.0
Asian LDCs	7.5	5.7	5.7	6.2	6.6	6.7	6.8	6.8
Island LDCs	4.9	5.2	5.8	6.2	7.7	8.7	6.3	5.5
Memo Items:								
Advanced economies	2.5	0.6	1.2	2.2	2.6	2.6	2.6	2.5
Emerging and developing economies	7.6	5.4	5.3	5.7	6.0	6.1	6.1	6.2
World	4.7	2.9	3.3	4.0	4.4	4.5	4.5	4.5

Source: UNCTAD secretariat calculations based on IMF, *World Economic Outlook* database, April 2013.
Notes: The LDCs' growth is calculated as the weighted average of each country's real growth (base year 2000); data for 2012 are preliminary and are forecasted for 2013-2018.

developed countries are deflationary in nature. Debtor countries are forced to reduce expenditure, while there is no obligation on the part of creditor countries to expand. The result is a shortfall in demand at the global level. It is not clear when the crisis in the developed countries will be over or how the LDCs will fare if these weaknesses are sustained for several years.

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Another problem, which is structural in nature, is the changing share of labour and capital in total income. Over the past three decades, labour income in the world economy has been rising slower than growth of world output. As a result, the wage share has been declining relative to profits. However, wage income represents a large part of total income, particularly in developed countries (around two thirds of the total), and is therefore the biggest source of demand for goods and services. A reduction of wage share has negative effects on household consumption. To the extent that investment in new capacities is driven by expectations of future demand, lower consumption acts as a disincentive for new investment. Income inequality issues are thus bound to have an impact on the pace of future economic growth, not only in developed but also in developing economies (UNCTAD, 2012c).

For the LDCs, international trade has been the single most important channel of transmission of the recessionary impulses from the developed countries since the start of the crisis. The recent slowdown of world trade will thus have further negative impacts on the prospects of the LDCs.

For the LDCs, international trade has been the single most important channel of transmission of the recessionary impulses from the developed countries since the start of the crisis. The recent slowdown of world trade will thus have further negative impacts on the prospects of the LDCs. While the demand for imported goods in developed countries has been weak at best, the LDCs have avoided a sharp deceleration of growth by relying more on their domestic demand and on South-South trade. Both will be necessary in the future, but the recent deceleration of economic growth in the large emerging economies means that further possibilities for such reorientation are currently limited. In addition, changes in the growth model of China will have repercussions that will differ among individual LDCs according to their specialization pattern (see box 2 below).

The availability of external financing is another precondition for strong growth of real GDP in the LDCs. As the analysis throughout this chapter has suggested, external financing has been subject to strong fluctuations since the beginning of the crisis. Moreover, the prospect of a tighter monetary policy in developed countries over the course of 2014 and 2015 will change the relative profitability of investments between developed and developing countries' assets. This has already begun to provoke some pull-out from the emerging and developing countries as of the second quarter of 2013. Reduction in the interest rate differential between developed and developing countries will make financing the current account deficits more difficult. LDCs with large such deficits should start now to prepare for these future developments. Moreover, countries that peg their exchange rate to the United States dollar can expect their currency to appreciate, making imports cheaper and exporting more difficult.

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The third major factor affecting the external conditions for the LDCs is movements in international commodity prices. Changing international prices have long been recognized as a major external source of a country's vulnerability. IMF projections in WEO 2013 (International Monetary Fund, 2013) suggest continued declines for prices of both oil and non-fuel primary commodities. But the short-term outlook for commodity prices is highly uncertain, not only because of possible supply-side disruptions (energy, food), but also because of demand uncertainties.

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Moving beyond the short term, three main scenarios are possible for the "commodity supercycle" (for details and references see discussion in UNCTAD, 2013a, chapter 2). The most optimistic is that the expansionary phase of the supercycle still has many years to run. A less optimistic scenario is that

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commodity prices have entered a calmer and more stable phase of growth, but will nevertheless remain at their relatively high recent levels. The most pessimistic scenario is that the supercycle has come to an end and that international commodity prices will decrease substantially in the midterm.

While it is impossible to know what the future holds, two unrelated developments will certainly influence the course of international commodity prices. One is the changing growth model in China (see box 2 below), and the other is the new method based on hydraulic fracturing for extracting oil and gas that is remaking world energy markets. Regarding the latter, crude production in the United States increased 14 per cent in 2012 (British Petroleum, 2013). This was a major factor in keeping oil prices from rising sharply, despite a second consecutive year of large oil supply disruptions in many parts of the world, but most notably in North Africa and the Middle East.

Of crucial importance is the fact that North America is forecast to become self-sufficient in energy production by the end of the decade (Citigroup, 2013). As a result, oil prices in the medium term should decrease and are likely to fluctuate within a range that is significantly below recent movements in the vicinity of $100 per barrel. This will have a significant impact on the fuel-exporting LDCs, whose income from oil could be substantially reduced. Preparing for such a scenario should start now and should provide buffers for a time of lower

Box 2. Changing growth model in China and possible consequences for the LDCs

Chinese growth over the past 30 years has been investment- and export-led. Given that the country possessed surplus labour characteristic of the Lewis model[1], heavy investment in new factories, construction and infrastructure has been possible without incurring diminishing returns. Wages have been kept low thanks to competition from this reserve army of surplus labour even as the economy has grown richer. Exports have increased at rates even higher than GDP growth rates.

However, much of the contribution to growth from shifting resources from agriculture to industry has already occurred in China. Some analysts (for example, Schellekens, 2013) suggest that China has already passed the Lewis turning point at which it is no longer possible to tap into a surplus pool of low-wage labour without raising wages. This suggests that the recent slowdown in growth from more than 10 per cent to 7 per cent is structural in nature.

In addition, in November 2012 the Government announced at the 18th National Congress of the Communist Party of China that it will seek to alter the pattern of growth in the next five years. Domestic sources of growth, particularly consumption, will be emphasized, while exports and investment will receive lower priority. China will also try to move up the value chain. As a result, the structure of production and exports will progressively shift from resource- and labour-intensive activities to more sophisticated and technologically more advanced products.

One of the factors relevant for LDCs is the expected lower resource intensity of future Chinese production. The pattern of Chinese import demand may change, moving away from commodities, which would have major consequences for international commodity prices. In effect, just as Chinese demand for commodities caused an upsurge of prices in the previous decade, weaker demand is likely to have the opposite effect on prices (Akyüz, 2010).

A second factor is that the income elasticity of China's imports is expected to rise as the country becomes richer (Schellekens, 2013), which will open up new opportunities for exporters from other countries. In particular, the demand for protein-based food will continue to grow, offering the potential for LDCs to increase their livestock production and exports.

A third factor is the increase in China's labour costs and its intention to move towards more sophisticated and technologically advanced goods, which will create opportunities for LDCs in many tradable sectors where Chinese producers previously dominated international markets. Thus, labour-intensive manufacturing industries in the LDCs could become competitive internationally, and could even supply such goods to the Chinese domestic market.

In short, China's rebalancing towards more consumer-led growth and away from investment- and export-led growth will produce both winners and losers. For the LDCs, this presents opportunities but also potential risks. As to which countries would be able to benefit from that shift, this is a matter not only of endowments and the current structure of economic activities but also of policies.

1 The Lewis model is a dual-sector model in development economics, named after Sir W. Arthur Lewis, winner of the Nobel Memorial Prize in Economics, who first analysed it. The model explains the growth in developing economies in terms of a labour transition from the subsistence (agriculture) sector to the capitalist (modern) sector. Its main characteristic is the existence of surplus labour in the subsistence sector. Hence, when the capitalist sector expands, labourers move from the subsistence sector to the capitalist sector, holding down wages. This makes it possible to earn extra profits in the capitalist sector and reinvest them in capital stock until the surplus labour from the subsistence sector has been completely absorbed.

prices. In addition, resources from oil exports should be used for diversification of economic activities so as to decrease vulnerability to and dependence on oil-related shocks.

In addition to longer-term shifts related to changes in the Chinese growth model, the outlook for the global economy is also clouded by the prospect of downside risks linked to current trends in emerging economies. Some analysts fear that because of the credit and property bubbles created by the response to the global crisis in 2008, some major emerging economies, in particular China, are now displaying symptoms similar to those of the sub-prime crisis in the United States five years ago (Akyüz, 2013). If there is a crisis in the Chinese banking system, for example, the country's growth could decelerate substantially at a time when there are no other countries or regions to support world demand. Even if the banking crisis hypothesis is less likely in China because of its ownership structure, a slowdown in emerging economies in general and in China's growth in particular could have adverse consequences for the global economy.

The policy mix in many countries has been turning towards fiscal austerity...

Finally, the policy mix in many countries has been turning towards fiscal austerity. This is the case not only in developed countries but in developing countries as well. One of the key findings of a review of public expenditures and adjustment measures in 181 countries (Ortiz and Cummins, 2013) is that fiscal contraction is most severe in the developing world. Overall, 68 developing countries are projected to cut public spending by an average 3.7 per cent of GDP during the period 2013–2015. Moreover, one fourth of them will reduce such expenditure to below pre-crisis levels. These authors accordingly characterize the current global conjuncture as the "age of austerity".

... overall, 68 developing countries are projected to cut public spending by an average 3.7 per cent of GDP during the period 2013–2015.

Against this background, the outlook for the LDCs in the short to medium term is not very good. Even if none of the downside risks materialize and the IMF growth rate forecasts prove accurate, the growth of the LDCs as a group will be below the 7-per-cent IPoA target. In that scenario, responding effectively to the employment challenge, whose future magnitude is analysed in chapters 2 and 3, will be even more difficult in the LDCs.

Against this background, the outlook for the LDCs in the short to medium term is not very good.

Notes

1 The growth rates reported in tables 1, 3 and 6, as well as annex tables 2 and 3, are from the International Monetary Fund. As such, they may differ, at times even substantially, from those reported by individual LDCs. The IMF data have been used instead of the data reported by countries themselves in order to ensure consistency and to present forecasts for individual LDCs and different groups of countries.
2 For the Agenda for Action and concrete proposals on the financing of climate change adaptation and mitigation in the LDCs, see UNCTAD (2010), chapter 7.
3 The data for ODCs are heavily biased by China's very high capital formation rate. When that country is excluded, the difference between ODCs and LDCs is closer to five percentage points of GDP. A similar caveat applies to the savings rate.
4 The data for Timor-Leste for 1999–2001 are not available, so it is not possible to determine whether there was a change in the structure or not.
5 For data on food security and dependency on commodities in general in developing countries, see UNCTAD's *The State of Commodity Dependence 2012* (UNCTAD, 2012b).
6 The concentration index of exports is also called the Herfindahl-Hirschmann index. It normalizes the values to a range, from 0 (the most diversified exports) to 1 (the most concentrated exports).
7 Owing to the data collection method applied in the greenfield project database, the announced values of projects tend to overestimate the actual, realized investment values, since not all announced projects are realized.
8 A borrower in debt distress is one that is already experiencing repayment difficulties.

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