



SELECTED SUSTAINABLE DEVELOPMENT TRENDS IN THE LEAST DEVELOPED COUNTRIES 2018





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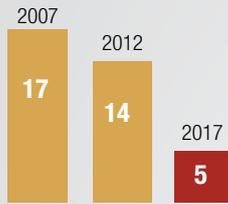
Comprehensive and updated economic and social statistical data on the least developed countries can be accessed in the following UNCTAD publication: *Statistical Tables on the Least Developed Countries – 2017*, available at: http://unctad.org/en/PublicationsLibrary/ldcr2017stats_en.pdf.

This publication has not been formally edited.

UNCTAD/ALDC/2018/1

SLOWDOWN IN GROWTH TOOK LDCs FARTHER AWAY FROM SDG TARGETS

Fewer LDCs meeting 7% GDP growth target



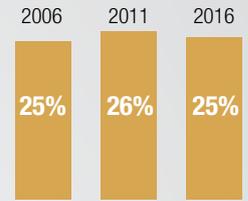
SDG target 8.1
at least 7% GDP growth per annum in the LDCs

LDC share of global exports **falling**



SDG target 17.11
double the LDCs' share of global exports by 2020

Industry's contribution to GDP **stagnant**

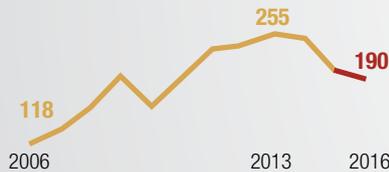


SDG target 9.2
double industry's share of GDP in the LDCs



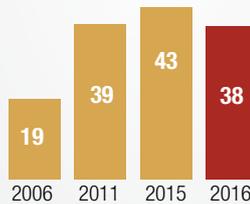
FALLING EXPORTS AND FDI, AND STAGNANT AID FLOWS CONSTRAIN LDCs' ACCESS TO DEVELOPMENT FINANCE

LDCs total export revenues (\$ billion)



Weak global demand and low commodity prices have shrunk LDC export revenues by **-4.6%**

FDI inflows to LDCs (\$ billion)



FDI inflows to LDCs fell in 2016 (**-13%**, compared with a decline of 2% worldwide)

Net ODA disbursements to LDCs (\$ billion)



Aid flows to LDCs remain far below the SDG targets, and levelled-off in 2016 (**+0.5%** in real terms)



POLICY IMPLICATIONS

Targeted support to the LDCs needs to accompany the moderate global rebound, if SDGs are to be met

Structural transformation is critical for LDCs to embark on a sustainable development path

Transformational energy access is key to unlock higher-productivity activities



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Foreword

This document is a contribution to the United Nations system's efforts to follow up and monitor the implementation of Agenda 2030 for Sustainable Development, since it reviews recent progress against selected targets and indicators related explicitly to the 47 least developed countries (LDCs). Its conceptual starting point can be traced to paragraph 27 of the Agenda, and the stated commitment to “build strong economic foundations for all our countries (... and) strengthen the productive capacities of least developed countries in all sectors, including through structural transformation”.

In line with the above, the document presents a brief assessment of recent economic trends and progress towards selected Sustainable Development Goals (SDGs) targets and indicators in the LDCs.¹ In doing so, it highlights some of LDCs' key development challenges, which stem from their own domestic conditions, but also from the specific terms of their interdependence within the global economy. Far from providing a full-fledged country-specific assessment, this document emphasises predominantly the latter international dimension, consistently with the view, expressed in paragraph 3 of the Nairobi Maafikiano, that “while each country has primary responsibility for its own economic and social development, the support of an enabling international environment is integral to the success of national efforts” (UNCTAD, 2016a).

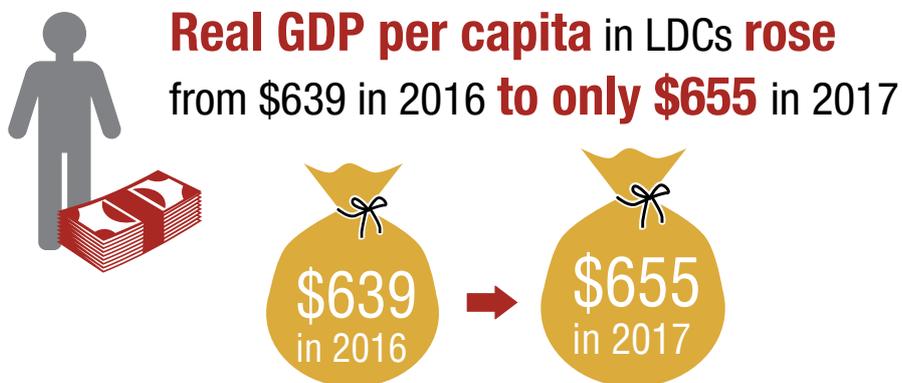
The structure of the document is as follows. Section A discusses the performance of LDCs in terms of broad macroeconomic trends and inclusive growth, while section B delves into their implications for industrialization and structural transformation. Section C tackles key trade-related issues and balance of payment vulnerabilities; while section D is devoted to the mobilization of development finance, through different sources. Finally, section E summarizes LDCs' outlook for the near-term future.

SELECTED SUSTAINABLE DEVELOPMENT TRENDS IN THE LEAST DEVELOPED COUNTRIES 2018



A. Economic growth

“Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the LDCs” (Agenda 2030 target 8.1)



but fell in 9 countries in 2017.

5 LDCs attained SDG target 8.1* in 2017:

Bangladesh
Djibouti
Ethiopia
Myanmar
Nepal



*at least +7% GDP growth per annum in the LDCs

After weathering reasonably well the aftermath of the 2009 great recession, in the 2015-2016 biennium the LDCs bore the brunt of the global trade slowdown and of the anaemic recovery associated with insufficient global demand and mounting levels of inequality (UNCTAD, 2017a). In 2016 the LDC combined gross domestic product (GDP) experienced its lowest real growth rate since the beginning of the century (3.8 per cent), with as many as 14 LDCs (out of 45 for which individual country data is available) suffering a deterioration of real GDP per capita.² Preliminary data for 2017 and projections thereafter suggest that some improvements are indeed taking place, with LDC growth rate back at 5 per cent in 2017 and a projected 5.4 for 2018. The picking up of the global economy, however, may well take some time to consolidate and touch a greater number of countries. Moreover, a number of risk factors, including unresolved flaws in the prevailing economic policy framework, as well as heightened policy uncertainties, loom large on this tepid recovery (UNCTAD, 2017a; World Bank, 2017).

The above situation can be traced to the prevailing conditions of the world economy, and most notably to:

1. the anaemic recovery of developed economies, where aggregate demand has remained stifled by austerity measures, high levels of inequality, and uncertain “animal spirits” on the part of investors, notwithstanding expansionary monetary policies and bullish financial markets;
2. the slowdown of other (i.e. non-LDC) developing countries (especially outside the East Asian region), with several so-called “emerging economies” becoming increasingly vulnerable to trade and financial shocks; and
3. the consequences of the strategic reorientation towards domestic-led growth in China, which has affected world demand for key commodities (UNCTAD, 2017a; Akyüz and Yu III, 2017).

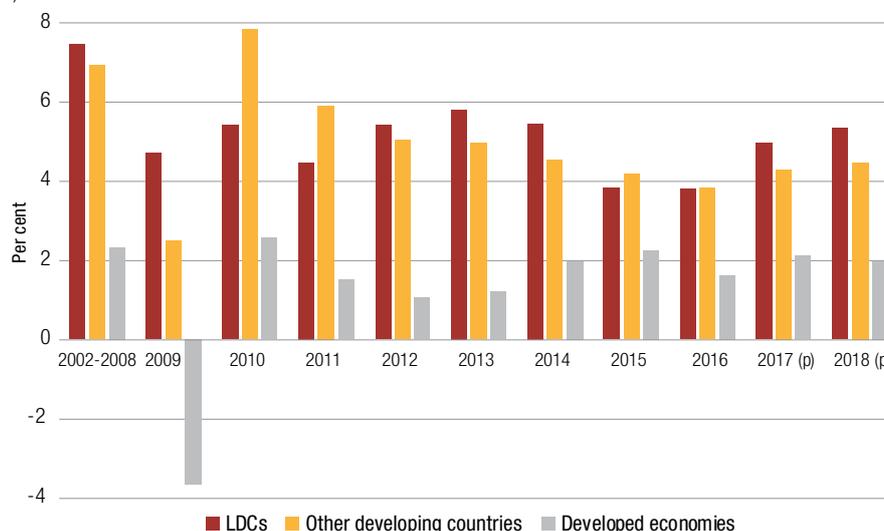
Unless these issues are tackled through adequate and concerted policy efforts, there is a risk that a protracted lukewarm recovery will render it difficult for LDCs to generate and mobilize sufficient resources to strengthen their productive capacities, and foster economic diversification. This might also prolong — or possibly even worsen — the divergence between LDCs and other developing countries (ODCs), as the two groups of countries have displayed broadly similar rates of GDP growth since 2010, with LDCs experiencing a slower expansion in per capita terms.

If the 2015-2016 biennium witnessed a generalized downward levelling of GDP growth rates across LDCs, the timing and magnitude of this slowdown, as well as the pace of the ensuing rebound, varied across economies and regions, depending on structural socio-economic features, as well as idiosyncratic factors (Table 1). In African LDCs and Haiti — by far the largest and more numerous subgroup of LDCs — real GDP growth rate peaked in 2013 (+5.7 per cent), declined in the two following years (bottoming down at +2.9 per cent in 2016), and recovered thereafter. Though on the positive side the rebound is expected to somewhat strengthen in 2018, GDP growth rates will likely continue to fall short not only of their 2002-2008 average, but also of their 2010-2014 levels. In Asian and Island LDCs, conversely, growth rates bottomed slightly earlier (already in 2015) but also witnessed an earlier and more pronounced rebound, particularly in the case of Asian LDCs.

Figure 1

Real GDP growth by country groups

(Constant 2005 dollars)



Source: UNCTAD secretariat calculations based on data from IMF, World Economic Outlook database (accessed January 2018).

Notes: Calculation is based in applying GDP constant national currency growth to GDP current 2005 dollar and chained. (p) = projected.

Table 1

Dynamics of real GDP and real GDP per capita in LDCs, 2002–2018

	Annual percentage growth of real GDP										
	2002–2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
LDCs	7.5	4.7	5.4	4.5	5.4	5.8	5.5	3.9	3.8	5.0	5.4
African LDCs and Haiti	8.0	4.1	4.9	4.7	4.8	5.7	5.4	4.3	2.9	4.1	4.4
Asian LDCs	6.7	5.6	6.3	4	6.5	6.2	5.7	3.1	5.3	6.4	6.8
Island LDCs	4.0	7.3	7.3	6.9	4.3	2.8	3.5	3.4	4.4	3.9	5.1
	Annual percentage growth of real GDP per capita										
LDCs	5.0	2.5	3.2	3.3	3.0	3.6	3.3	1.7	1.6	2.5	3.2
African LDCs and Haiti	5.0	1.5	2.2	3.8	1.9	3	2.7	1.7	0.4	1.5	1.8
Asian LDCs	5.2	4.3	4.9	2.5	4.9	4.7	4.3	1.8	3.7	4.2	5.7
Island LDCs	1.8	5.2	5.2	4.5	1.8	0.4	0.9	1.0	1.9	1.4	2.6
	Real GDP per capita relative to ODCs (percentage)										
LDCs	18.0	18.2	17.6	17.3	17.1	17.1	17.1	16.9	16.7	16.7	16.7
African LDCs and Haiti	17.8	17.9	17.1	16.9	16.6	16.5	16.4	16.2	15.9	15.6	15.4
Asian LDCs	17.9	18.3	18	17.6	17.8	17.9	18.1	17.9	18.1	18.3	18.7
Island LDCs	50.7	49.8	49.2	48.9	48	46.4	45.3	44.4	44.1	43.4	43.1
	Real GDP per capita relative to developed countries (percentage)										
LDCs	1.3	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.7
African LDCs and Haiti	1.3	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Asian LDCs	1.3	1.5	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.9	1.9
Island LDCs	3.6	4.2	4.3	4.4	4.5	4.5	4.4	4.4	4.4	4.4	4.5

Source: UNCTAD secretariat calculations, based on data from IMF, World Economic Outlook database (accessed January 2018).

Notes: Data for 2017 and 2018 are forecasts.

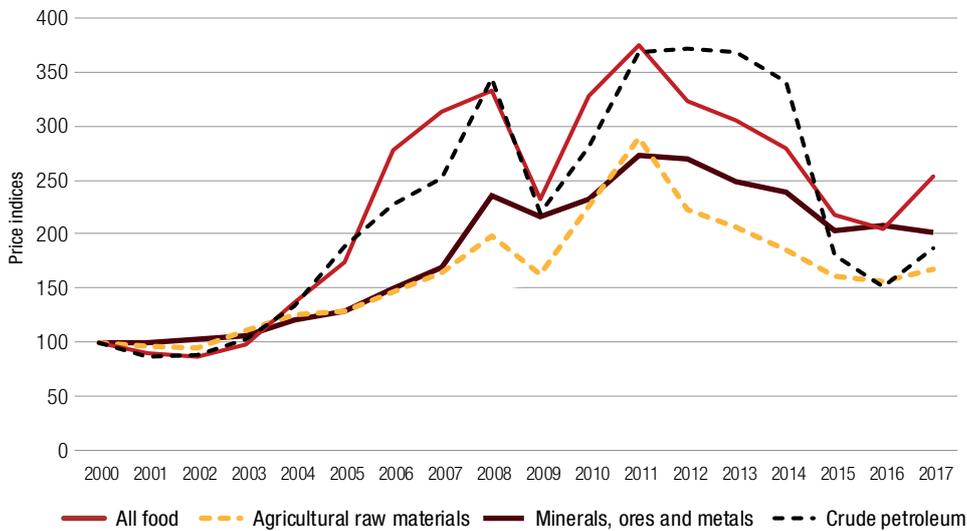
The above pattern is largely consistent with the fact that African LDCs typically display a higher reliance on raw materials and primary commodities exports, with fuels accounting on average for nearly half of their merchandise exports revenues. Such heightened levels of export concentration on a narrow range of primary commodities expose countries to large exogenous shocks and ensuing boom-bust cycles, through reductions in the direct contribution of commodity industries to GDP, lower public revenues, as well as through contractions in export revenues and possibly FDI inflows (UNCTAD, 2013a, 2016b).

Against this background, international prices for most primary commodity categories have trended upwards since the late 2016, but this modest recovery barely made a dent to the significant drop experienced since 2011, particularly in the case of crude petroleum and minerals, ores and metals (Figure 2). Moreover, while the modest increase in commodity prices is projected to continue throughout 2018, large price swings are unlikely given slack supply capacities (United Nations, 2017). In this context, the price index for crude petroleum — accounting alone for roughly 30 per cent of LDCs' combined merchandise exports — fell by nearly 50 per cent in 2015, and witnessed another decline of roughly 15 per cent in 2016, before rebounding by

approximately 20 per cent in 2017. International prices for minerals, ores and metals have followed a similar trend, declining by 22 per cent in 2015, then again by 6 per cent in 2016, to bounce back by 24 per cent in 2017. More generally, the price instability and volatility underscored by these trends represent by themselves a complex challenge for commodity-dependent developing countries, as they make macroeconomic policy conduct more difficult.

Growth performances across individual LDCs have continued to display wide (albeit somewhat declining) variation in 2017, as they did in the earlier biennium. Three of the 45 LDCs for which data is available suffered full-fledged recessions (i.e. negative real GDP growth), mainly because of idiosyncratic shocks, such as internal conflict/insecurity situations: this is the case of Yemen (-2.0 per cent), South Sudan (-6.3 per cent), and Burundi (where a virtual stagnation in 2017 followed two consecutive years of recession).³ At the other end of the spectrum, several LDC economies have featured among the world's most dynamic economies, and attained in 2017 the SDG 8.1 target of seven per cent GDP growth rate.⁴ This is the case of Bangladesh (+7.1 per cent), Djibouti (+7.0 per cent), Ethiopia (+8.5 per cent), Myanmar (+7.2 per cent), and Nepal (+7.5 per cent). Though slightly missing the SDG target, various

Figure 2
Evolution of commodity price indices, 2000–2017
 (2000=100)



Source: UNCTAD secretariat calculations based on data from UNCTADstat database (accessed January 2018).

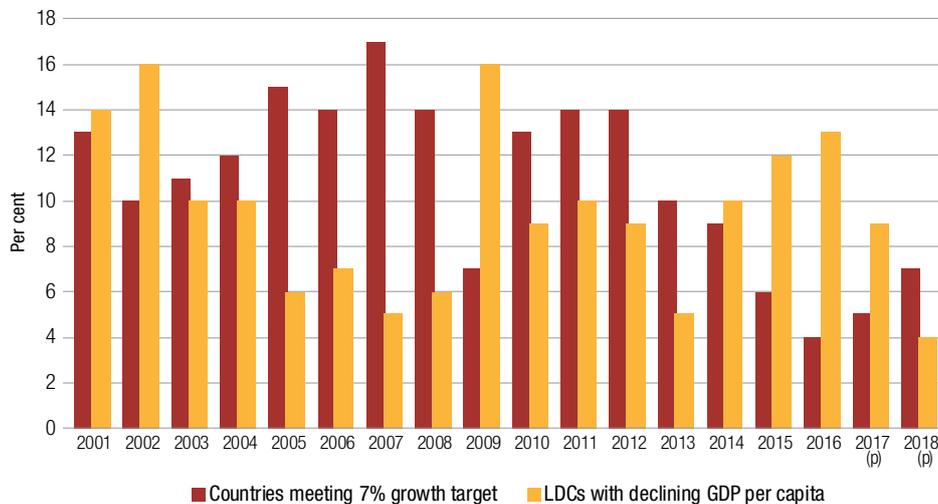
other LDCs posted real GDP growth in excess of six per cent: namely Burkina Faso, Cambodia, Guinea, Lao People’s Democratic Republic, Rwanda, Senegal and Sierra Leone.

Notwithstanding some encouraging performers, it is sobering to note that in 2017 only five of the 45 LDCs for which data is available achieved the SDG 8.1 target. This represents only a marginal improvement over 2016: the year with the smallest number of LDCs meeting the seven per cent growth target since its first adoption in the 2001 Brussels Programme of Action for the LDCs (Figure 3).⁵ This situation raises even more concerns,

considering that the number of LDCs achieving the above-mentioned objective is projected to remain well below pre-crisis levels also for 2018.

Considered in conjunction with LDCs’ comparatively rapid demographic growth — on average 2.4 per cent per year in 2017 — this faltering dynamism is mirrored in the sluggish rise of real GDP per capita, which, for the LDCs as a group, went from \$639 in 2016 to \$655 in 2017 (at current prices). This implies for 2017 a real growth rate of GDP per capita reaching barely 2.5 per cent, higher than in 2016 (1.6 per cent) but roughly half of its pre-crisis level (and lower than in the 2012-2014

Figure 3
Number of LDCs meeting the 7 per cent GDP growth target, and with declining GDP per capita, 2001–2018



Source: UNCTAD secretariat calculations based on data from IMF, World Economic Outlook database (accessed January 2018).

Notes: For the sake of preserving comparability over time, the chart refers only to the 45 current LDCs for which data is available.

(p) = projected.

window). These trends of real GDP per capita underpin LDCs' continued divergence from ODCs in the post-2009 period, as well as their very modest catching up vis-à-vis developed economies (Table 1). Asian LDCs represent somewhat an exception to this trend, having proved capable of matching the performance of ODCs in terms of GDP per capita. Even in their case, however, meaningful income convergence remains elusive.

Looking at the performance of individual countries, the generalized slowdown of LDC economies over the last two-three years has been accompanied by an increase in the number of LDCs experiencing gradual deteriorations in the average standards of living, as measured by real GDP per capita. In 2017, as many as nine LDCs were in this situation, including two countries where the decline exceeded three per cent: Afghanistan (-7 per cent) and Yemen (-4.8 per cent).

B. Structural transformation

“Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry’s share of employment and gross domestic product, in line with national circumstances, and double its share in LDCs”
(SDG target 9.2)



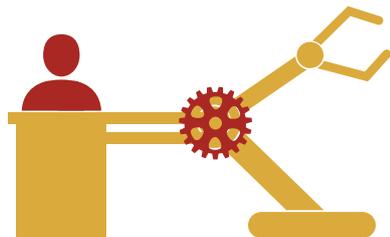
The **share of industrial sector** in GDP **fell in 2017** in more than **half** of the **LDCs**



- taking them even further **away from SDG target 9.2**



The **share of real manufacturing** value-added in GDP **fell** from 2006 to 2016 in **all LDCs**



Except in Bangladesh, Myanmar, Lao PDR and Uganda

The uneven and somewhat erratic growth trends discussed above are accompanied by sluggish structural transformation, with many LDCs falling short of the inclusive and sustainable industrialization envisaged in SDG target 9.2. Although there have been some encouraging signs, notably in terms of rising output per worker and manufacturing value added, in many instances economic expansion has failed to provide the foundations for sustained structural transformation.⁶ This concern is confirmed by the evolution of the sectoral composition of output for LDCs as a group, between 2000 and 2016 (the latest year for which data is available). Although value added (measured in constant 2010 dollars) rose visibly in both agriculture and industry, these sectors experienced a slight contraction of their relative contribution to GDP: from 30 to 25 per cent in the case of agriculture, and from 28 to 25 per cent in the case of industry. Services, conversely, increased their weight from 41 per cent to nearly 50 per cent of GDP. This sector conflates, however, widespread traditional activities such as trade or transport, with circumscribed pockets of high-productivity services, such as finance or information and communication technologies.

Notwithstanding a considerable heterogeneity across individual LDCs, these sobering considerations seem to apply also at country level. If the importance of agriculture declined in more than two thirds of the LDCs for which data is available — in line with the long-established stylized facts — only in a handful of cases this coincided with a significant expansion of the industrial sector; more often than not, services enjoyed by far the largest relative expansion (Figure 4). In fact, more than half of the LDCs in Figure 4 actually display a shrinking of the industrial sector's weight over the period considered, including nearly all the LDCs where agriculture increased its share of GDP.

Although SDG 9 refers to industry as a whole, disentangling its various components — namely mining and quarrying; manufacturing; electricity, gas and water supply; and construction — is of fundamental importance. Accordingly, Figure 5 focuses only on what is commonly regarded as the main engine for “sustainable industrialization” and catching up growth: the manufacturing sector. On the positive side, between 2006 and 2016 real manufacturing value added (MVA) increased in nearly all LDCs, with some of the top performers (typically those experiencing the sharpest growth accelerations) reaching annual growth

rates exceeding 7 per cent. On the negative side, though, in most countries this was accompanied by a relative decline in the manufacturing share of total value added, pointing to a widespread risk of premature de-industrialization among LDCs.

The evidence presented above validates UNCTAD's views that, even during phases of rapid economic growth, LDC economies have often struggled to foster the emergence of high-productivity activities in the manufacturing and specialized services sectors (UNCTAD, 2010, 2013b, 2014). This situation, coupled with the capital-intensive nature of extractive industries underpinning much of the pre-crisis boom, has failed to generate sufficient employment outside (mainly small-holder) agriculture, leaving the growing labour force to be re-absorbed mainly through the expansion of (often low-productivity) services. This pattern of structural change has resulted in widespread underemployment and informality. It has also implied that labour reallocation fostered only a modest upward convergence of productivity levels across sectors, contributing only weakly to overall productivity growth (McMillan et al., 2014).

LDCs' infrastructural gaps and supply-side bottlenecks play a key — though by no means exclusive — role in constraining productivity growth and dampening prospects for economic diversification. Modern energy provision deserves explicit mention in this respect, not only because it is the specific object of SDG 7, but more fundamentally because it is identified as a major constraint for 42 per cent of LDC firms, and LDC countries nowadays account for the majority of people lacking access to electricity worldwide (UNCTAD, 2017b).⁷ If reaching the SDG target of universal access to modern energy certainly entails daunting challenges for the LDCs and the international community at large, accelerating the current rate of progress in that direction also brings enormous development opportunities, particularly if one moves beyond a narrow focus on household necessities, to cater for productive energy uses. Doing so might open transformative opportunities for rural non-farming activities, as well as reduce the competitiveness wedge LDC producers face, and foster the emergence of higher value added activities in urban and peri-urban centres. In this respect, a closer integration of energy policies and broader development strategies promises to better harness the mutually supportive relation between structural transformation and modern energy provision (UNCTAD, 2017b).

C. International trade and current account

“Significantly increase the exports of developing countries, in particular with a view to doubling the LDCs’ share of global exports by 2020”
(SDG target 17.11)

In 2016 **LDCs accounted** for barely

0.92% of global exports;

roughly the same level as in 2007



SDG target 17.11 is not being met

In 2016, in LDCs, exports of goods and services

were \$190 billion and imports \$287 billion.



1. Trade in goods and services⁸

After a global trade slowdown of historical magnitude in 2016, worldwide trade flows witnessed a modest but accelerating rebound in real terms during the course of 2017. According to UNCTAD's estimates, worldwide volume growth rates over the previous year attained roughly 4 per cent for the first three quarters of 2017. International trade flows are expected to continue picking up, but significant downside risks continue looming (UNCTAD, 2017a; United Nations, 2017; World Bank, 2017). The stalemate on the Doha Development Agenda — whose conclusion is called for in the 2030 Agenda for Sustainable Development — and the risk of renewed protectionism only add a further dimension to policy uncertainties.⁹

More fundamentally, even the expected modest expansion in world trade is unlikely to reverse LDCs' long-standing marginalization in the international trade arena (Figure 6); all the more so if it is coupled with a protracted slack in global demand, and with tepid pickup in commodity prices. If between 2005 and 2013 LDCs' share of global exports of goods and services had climbed up gently — from 0.75 per cent to 1.09 per cent, respectively — much of these gains have evaporated in the last few years. In 2016 LDCs accounted for barely 0.92 per cent of the total; roughly the same level as in 2007.¹⁰ Moreover, even though their share of world exports remains higher with respect to merchandise goods than services, nearly all the relative decline in LDC weight in world total exports can be traced to the former element. Only three years away from the 2020 timeline, this worrying situation underscores the difficulties in meeting the SDG 17.11

target of doubling LDCs share of global exports, particularly in a context of rather modest rebound of international commodity prices.¹¹

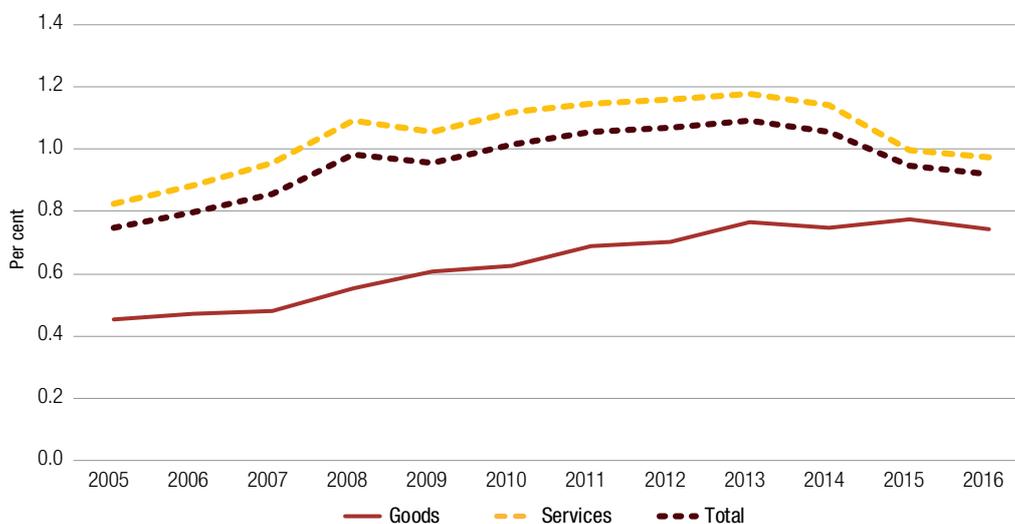
For the LDCs as a group, exports of goods and services for 2016 were estimated at approximately \$190 billion, with a decline of \$10 billion (or 4.6 per cent) compared to 2015; the third consecutive contraction from the peak of 2013, when LDC nominal export revenues totalled \$255 billion (Table 2). This downward trend stemmed from a simultaneous contraction of merchandise goods exports — which fell from \$161 billion in 2015 to \$154 billion in 2016 — and a more modest decline in LDC services exports (from nearly \$38 billion to \$36 billion).

The fall in total export revenues has however been more than offset by the parallel decline of imports of goods and services, which shrank from \$300 billion in 2015 to \$287 billion in 2016, leading to a slight reduction of LDCs' combined trade deficit. Between 2015 and 2016, the latter declined from \$101 billion to less than \$98 billion. On a longer-term horizon, however, LDCs' combined trade deficit has been widening significantly in the wake of the financial crisis. It rose from \$45 billion in 2009 to \$98 billion in 2016, pointing to the association between the weak development of domestic productive capacities and structural deficits in the trade balance.

Since 2013, when the decline of commodity prices caused a decline in African LDCs' and Haiti's commodity exports, a common feature across LDC groupings has been the simultaneous occurrence of negative trade balances for both goods and services. Beyond this commonality, however, regional trends appear to be largely driven by differences in trade structures

Figure 6

LDCs' share of global exports, 2005–2016



Source: UNCTAD secretariat calculations based on data from UNCTADstat database (accessed January 2018).

Notes: The series reported here are compiled on the basis of the IMF Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6).

Table 2

LDC exports and imports of goods and services, 2005–2016, selected years

(Millions of current dollars)

		2005	2010	2013	2014	2015	2016	% change 2015– 2016
Total trade in goods and services								
Exports	LDCs	95 918	191 21	255 244	251 242	199 099	189 967	-4.6
	African LDCs and Haiti	66 945	138 833	183 183	174 694	126 772	117 595	-7.2
	Asian LDCs	28 549	51 495	70 814	75 254	71 144	71 136	0.0
	Island LDCs	424	882	1 247	1 294	1 183	1 236	4.5
Imports	LDCs	108 181	220 802	313 045	336 459	300 453	287 651	-4.3
	African LDCs and Haiti	72 955	151 564	210 742	223 036	190 965	175 219	-8.2
	Asian LDCs	34 334	66 412	99 242	110 355	106 379	109 451	2.9
	Island LDCs	892	2 826	3 061	3 068	3 109	2 981	-4.1
Trade balance	LDCs	-12 262	-29 593	-57 801	-85 217	-101 354	-97 684	-3.6
	African LDCs and Haiti	-6 01	-12 732	-27 559	-48 342	-64 193	-57 624	-10.2
	Asian LDCs	-5 784	-14 917	-28 427	-35 101	-35 234	-38 315	8.7
	Island LDCs	-468	-1 944	-1 814	-1 775	-1 926	-1 745	-9.4
Total trade in goods								
Exports	LDCs	83 887	166 789	218 373	212 68	161 413	153 634	-4.8
	African LDCs and Haiti	59 101	124 75	161 066	152 136	104 457	96 523	-7.6
	Asian LDCs	24 608	41 689	56 743	59 942	56 411	56 587	0.3
	Island LDCs	178	350	564	602	545	524	-4.0
Imports	LDCs	79 852	159 362	231 883	249 673	227 348	218 866	-3.7
	African LDCs and Haiti	50 237	102 634	147 286	155 708	135 972	126 231	-7.2
	Asian LDCs	28 966	55 453	82 686	91 97	89 521	90 896	1.5
	Island LDCs	649	1 274	1 91	1 996	1 855	1 739	-6.3
Trade balance	LDCs	4 034	7 427	-13 51	-36 992	-65 935	-65 233	-1.1
	African LDCs and Haiti	8 864	22 116	13 78	-3 572	-31 514	-29 708	-5.7
	Asian LDCs	-4 358	-13 765	-25 943	-32 027	-33 111	-34 309	3.6
	Island LDCs	-471	-924	-1 346	-1 393	-1 31	-1 215	-7.2
Total trade in services								
Exports	LDCs	12 032	24 421	36 871	38 562	37 686	36 333	-3.6
	African LDCs and Haiti	7 844	14 083	22 117	22 559	22 314	21 072	-5.6
	Asian LDCs	3 942	9 806	14 071	15 312	14 734	14 549	-1.3
	Island LDCs	246	532	683	692	638	713	11.8
Imports	LDCs	28 329	61 441	81 162	86 786	73 105	68 785	-5.9
	African LDCs and Haiti	22 718	48 93	63 456	67 328	54 993	48 988	-10.9
	Asian LDCs	5 368	10 959	16 556	18 385	16 858	18 555	10.1
	Island LDCs	243	1 552	1 151	1 073	1 254	1 242	-0.9
Trade balance	LDCs	-16 297	-37 02	-44 291	-48 224	-35 419	-32 451	-8.4
	African LDCs and Haiti	-14 873	-34 847	-41 339	-44 769	-32 679	-27 915	-14.6
	Asian LDCs	-1 427	-1 152	-2 484	-3 074	-2 124	-4 006	88.6
	Island LDCs	3	-1 02	-468	-381	-616	-530	-14.1

Source: UNCTAD secretariat calculations, based on data from the UNCTADstat database (accessed January 2018).

and composition, as well as considerations related to individual countries' size.

In the case of African LDCs and Haiti, the dominant development has arguably been the three-year-long decline in the exports of merchandise goods, associated with falling commodity prices: considering goods only, exports revenues shrank by more than a third, from \$161 billion in 2013 to \$96 billion in 2016. Albeit with some lag, this has implied a compression of merchandise imports, which retrenched from a peak of \$156 billion in 2014 to \$136 billion in 2015, and finally \$126 billion in 2016. Trade in services has followed a similar trend, albeit suffering a milder decline, resulting in a further shrinking of the trade balance. For what pertains to Asian LDCs, exports of both goods and services were stable in 2016 — after the sizable slump of the previous year — while the broadening trade deficit can be largely ascribed to the rising import bill. In the case of island LDCs, finally, merchandise exports have suffered a further decline from the 2014 peak, falling by 4 per cent year-on-year (from \$545 million in 2015 to \$524 million in 2016). Yet, as prices for sensitive imports such as food and fuels remained low, the shrinking of the import bill and the dynamism of services exports contributed to a 9-per-cent reduction in the overall trade deficit.

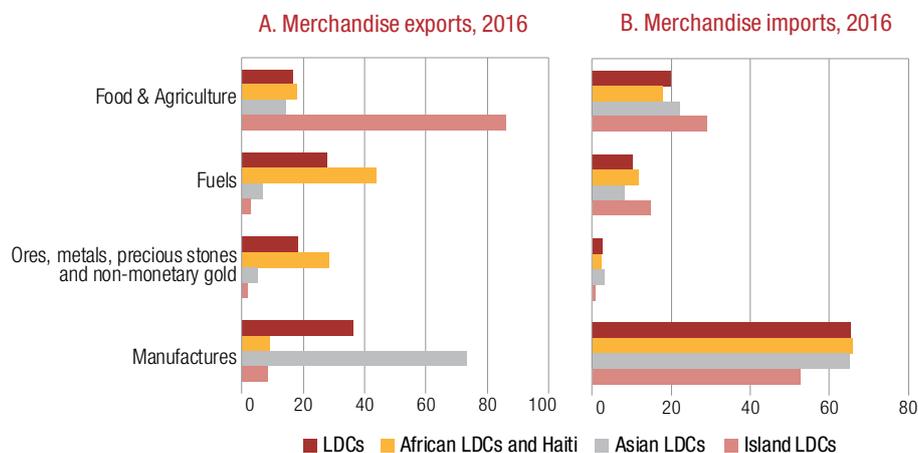
The above trends point to the long-standing flaws in the terms of LDCs' integration into the global market, as underpinned by the structural occurrence of trade deficits among LDCs — in 2016 as many as 43 of the 46 LDCs for which data is available recorded one — as well as their lopsided trade specialization patterns, summarized in Figure 7. On the merchandise export side, LDC export composition continues to

be heavily skewed towards primary commodities, typically exported as raw material embodying limited domestic value addition.¹² The notable exception to this pattern is the Asian LDCs, which account for over three quarters of LDC manufactured exports, thanks to their comparative advantage in labour-intensive and resource-intensive manufactures (Figure 8). In other regions, however, primary commodity dependence is extremely widespread. Among African LDC and Haiti, for instance, fuels and minerals accounted respectively for 44 and 28 per cent of merchandise exports in 2016; food and agricultural exports, similarly, represented as much as 86 per cent of merchandise exports originating in island LDCs. On the import side, conversely, LDCs across all regions rely heavily on international trade for their access to manufactured goods — which account for roughly two thirds of the total merchandise imports bill — as well as other sensitive products such as food and fuels. In light of this pattern, import compression may entail wide-ranging negative effects on LDCs' productive base, thereby undermining the prospects for structural transformation.

Often branded as “commodity dependence trap”, this pattern of trade specialization typical of many LDCs is by itself both a consequence of the sluggishness of productive capacity development, and often a further hindrance to the structural transformation process. Indeed, it implies a heightened balance of payment vulnerability for commodity-dependent developing countries, through a greater exposure to exogenous price shocks, and possibly to the secular decline of primary commodities relative prices, consistently with the Prebisch-Singer hypothesis (UNCTAD, 2013a, 2016b).

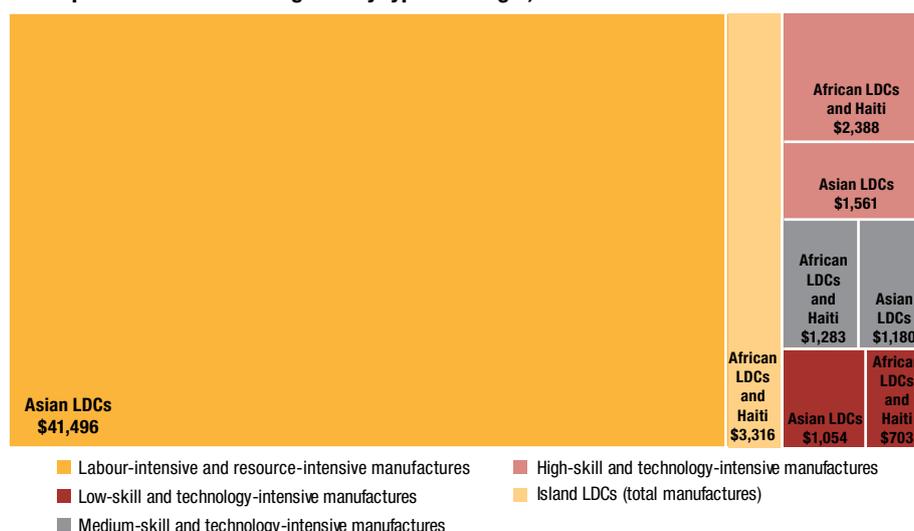
Figure 7

Composition of LDCs' merchandise imports and exports, 2016



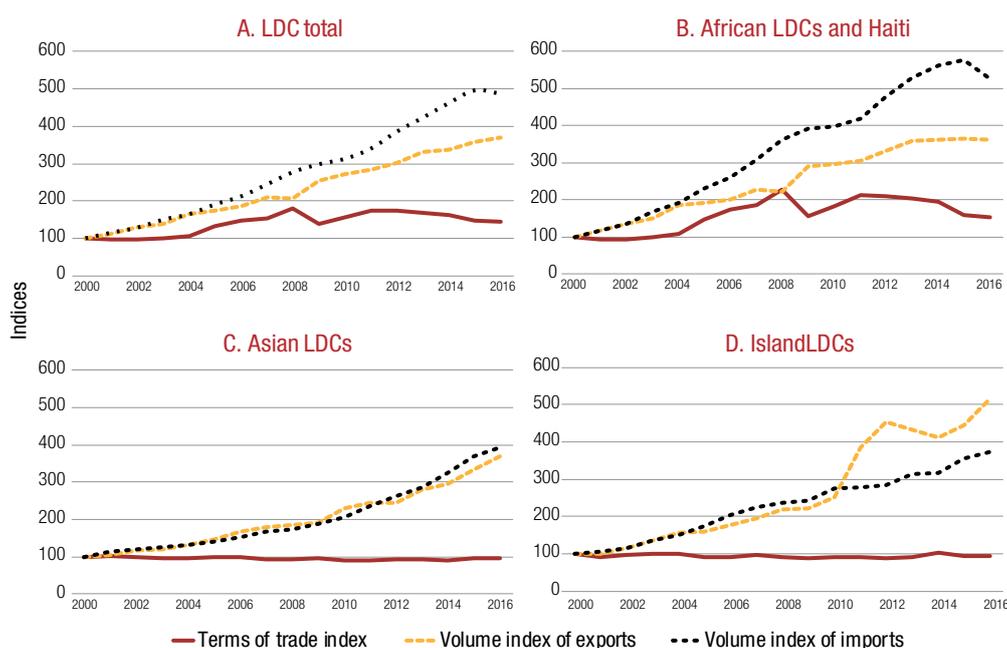
Source: UNCTAD secretariat calculations based on data from UNCTADstat database (accessed January 2018).

Figure 8
Composition of LDCs' exports of manufactured goods by type and origin, 2016



Source: UNCTAD secretariat calculations based on data from UNCTADstat database (accessed January 2018).

Figure 9
Terms of trade, exports and imports volume indices for LDCs. 2000–2016



Source: UNCTAD secretariat calculations based on data from UNCTADstat database (accessed January 2018).

The above interpretation of the evidence is vindicated by the evolution of terms of trade and exports/imports volume indices across LDC groupings (Figure 9). Despite the impact of the 2009 global financial and economic crisis, LDC merchandise exports have increased significantly in volume terms, to the extent that the corresponding index for the whole LDC group rose from 100 in the year 2000 to 285 in 2011, and 376 in 2016 (Figure 9, panel A). Across African LDCs and Haiti (Figure 9, panel B), however, the expansion

of merchandise imports, in volume terms, has largely outpaced that of merchandise exports. Hence, as long as high commodity prices (especially for fuels) sustained the terms of trade, the group actually posted a trade surplus; but as the positive terms of trade shock waned out, import compression became inevitable. This situation contrasts sharply with the prevailing developments among Asian LDCs (panel C), where merchandise exports and imports grew at a similar pace (at least in volume terms), as well as among

island LDCs, where export volumes clearly outpaced import ones. Both Asian and island LDCs, however, have posted broadly stable or slightly declining terms of trade since the early 2000s, which explains why the sustained boost in export volumes translated only marginally into improved trade balances.

2. Current account balance¹³

The trade-related considerations developed above represent, quantitatively, the main driver of LDCs' current account balance, even though the latter also reflects the evolution of primary income and current transfers (in the case of LDCs, mainly workers' remittances and current international cooperation). In 2017 the LDCs as a group are projected to register a current account deficit of \$50 billion, the second-highest deficit posted so far, at least in nominal terms (Figure 10). This stands in contrast with ODCs, which, as a group, registered a current account surplus. Moreover, projections for 2018 suggest that the combined LDCs current account deficit is expected to expand further, exacerbating possible balance of payment weaknesses and external debt vulnerabilities.

All LDC subgroups appear to have experienced a net current account deficit in 2017. In the case of the African LDCs and Haiti, it amounted to \$40.1 billion, with a 6-per-cent reduction compared with 2016. Asian LDCs, instead, appear to have registered a sharp increase in their combined current account deficit reaching \$10.1 billion, almost double the \$5.3 billion

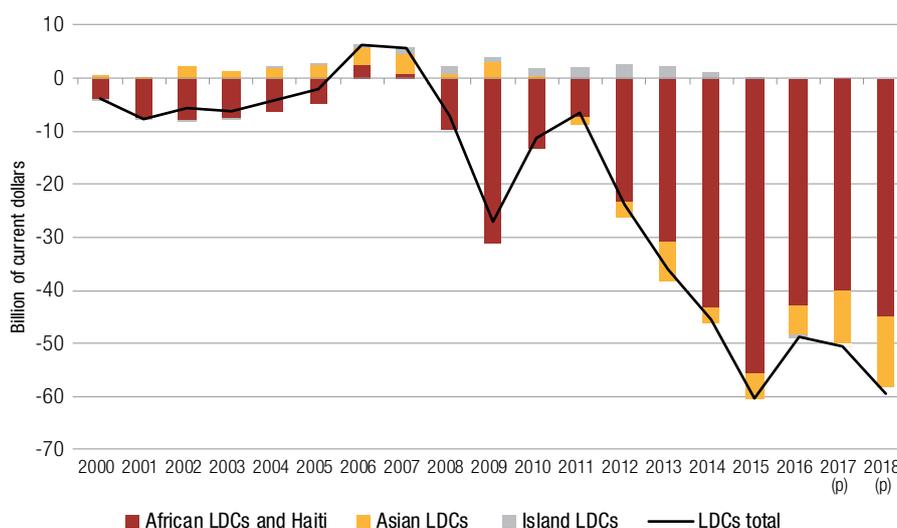
deficit of the previous year. Unlike in the recent past, finally, island LDCs have posted in 2017 a combined current account deficit of \$0.5 billion, which compares with the small surplus of \$0.1 billion in 2015.

Regional aggregates must be interpreted with caution, however, as they hide considerable heterogeneity across individual countries (Figure 11). Only a handful of LDCs, according to estimates of the International Monetary Fund (IMF), recorded current account surpluses in 2017: this includes two relatively large recipient of official development assistance (ODA) flows, namely Afghanistan and South Sudan, as well as Eritrea and Guinea Bissau. All other LDCs recorded current account deficits of variable magnitude, ranging from less than one percentage points of GDP as in Bangladesh and Nepal, to more than 25 per cent of GDP in Bhutan, Guinea, Liberia, Mozambique, and Tuvalu.

The comparison of current account balances in 2017 with the corresponding values for 2016 (as well as previous years not reported in Figure 11) suggests that large year-on-year changes tend to be rather uncommon among LDCs, and typically occur in small-size economies whose dependence on foreign trade is higher. LDCs' current account imbalance, thus, arguably reflect structural issues and/or medium-term trends related to the differentiated decline in export and import flows, influenced especially by the subdued dynamics of commodity prices discussed above.

Figure 10

Current account balance of LDCs, 2000–2018

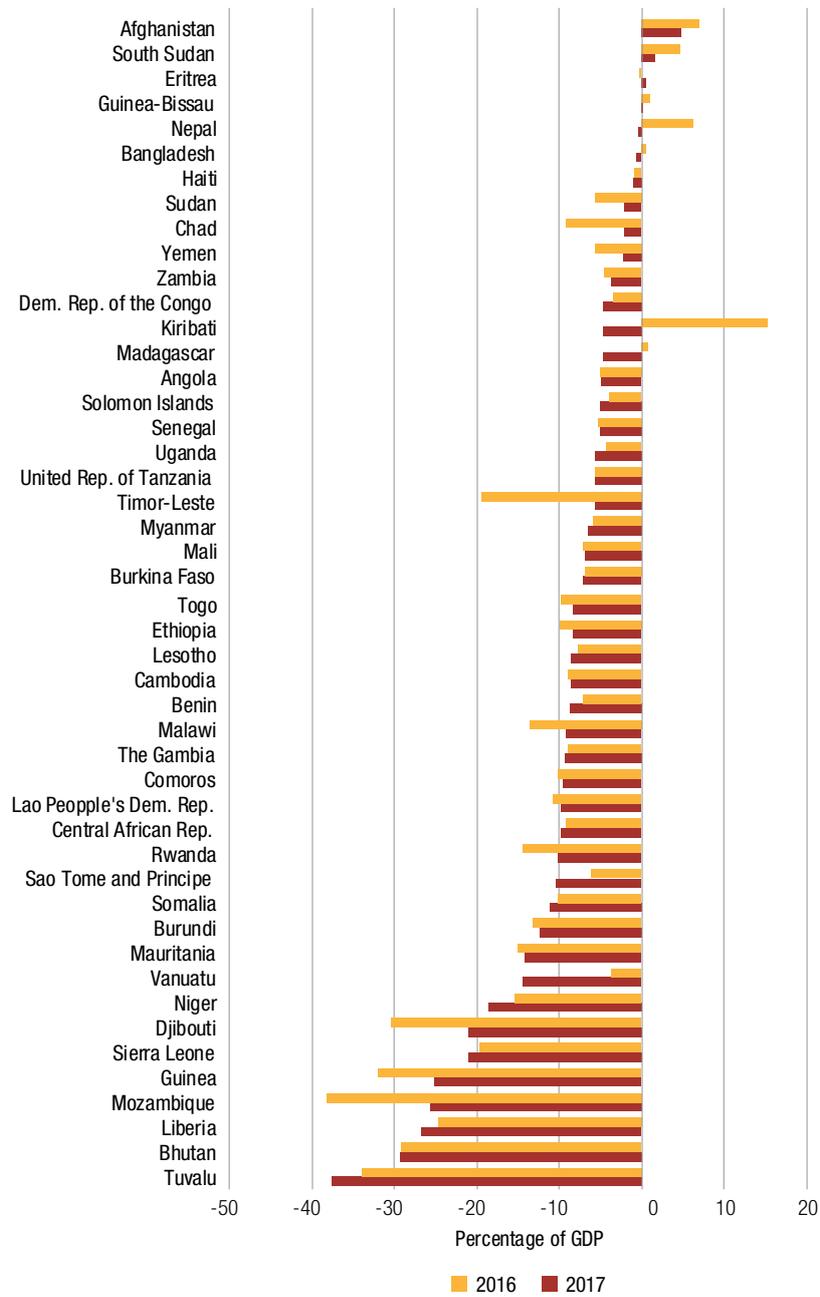


Source: UNCTAD secretariat calculations based on data from IMF, World Economic Outlook database (accessed January 2018).

Note: (p) = projected.

Figure 11

Current account balance as percentage of GDP, 2016–2017



Source: UNCTAD secretariat calculations based on data from IMF, World Economic Outlook, (accessed January 2018).

D. Resource mobilization

“Ensure significant mobilization of resources from a variety of sources (...), in order to provide adequate and predictable means for developing countries, in particular LDCs, to implement programmes and policies to end poverty in all its dimensions” (SDG target 1a)

Net ODA to LDCs

in 2016 was



**\$43.1
billion**



27% of net
ODA disbursed
to developing
countries.

Remittances to LDCs as a group totalled

\$36.9 billion in 2017,
down by 2.6% compared to the
peak of \$37.9 billion
in 2016.



1. Domestic resource mobilization

Domestic resource mobilization has long been identified as a policy imperative for LDCs and developing countries more broadly. It featured as a priority area for action in the IPoA, and has since been recognized as a fundamental route for LDCs to finance their development by the Addis Ababa Action Agenda of the third International Conference on Financing for Development (2015) and the 2030 Agenda for Sustainable Development. In most LDCs, however, efforts to mobilize domestic resources for investment are often undermined by the poor development of domestic financial markets, the narrow tax base and weak tax collection and administration systems, as well as by the pervasiveness of illicit financial flows, notably through trade misinvoicing (UNECA, 2015; UNCTAD, 2016c).

By virtue of national accounting identities, the weaknesses in the development of LDCs' productive capacities, which typically lead to structural trade deficits, is reflected in LDCs' heightened reliance on external sources of funding in order to finance investments in capital accumulation. The external resource gap (that is, the difference between the gross fixed capital formation rate and the gross domestic savings rate) of LDCs as a group averaged 6.9 per cent of GDP in 2015, up from 4.9 per cent in 2014.¹⁴ Consistently with the relatively long-term nature of investment projects, such an increase in the resource gap reflects the relative resilience of the investment ratio (which declined slightly from 26.7 to 26.1 per cent of GDP) vis-à-vis a much larger fall in gross domestic savings, which shrank on average by two percentage points of GDP.¹⁵

There is, however, significant heterogeneity among LDC subgroups, and individual economies, with only a handful of oil-rich and mineral-rich LDCs having gross domestic savings which far outstrip gross fixed capital formation.¹⁶ After increasing steadily to the 2009 financial and economic crisis (when it peaked at 27 per cent of GDP), gross fixed capital formation in

African LDCs and Haiti has levelled off around 26 per cent of GDP, with a slight decline in 2015 (Table 3). The gross domestic savings rate, conversely, has followed a broadly similar trend, but began trending downward already in 2013, thereby widening the resource gap for African LDCs and Haiti to nearly 7 per cent of GDP. Among Asian LDCs, on the other hand, the external resource gap has been on the rise since 2011 and surpassed 7.4 per cent of GDP in 2015, largely as a result of the continued dynamism of capital investments (27 per cent of GDP in 2015) and simultaneous drop in the saving rate. Since the mid 2000s island LDCs as a group have continued facing an external resource surplus (rather than a gap), which attained 14.1 per cent of GDP in 2015. This aggregate figure, however, can be misleading as it reflects exclusively the relatively large savings–investment surplus of Timor-Leste, with all other island LDCs (the Comoros, Kiribati, Sao Tome and Principe, Solomon Islands, Tuvalu and Vanuatu) recording external resource gaps, ranging from 1.8 per cent of GDP in Vanuatu to 83.9 per cent in Kiribati.

In so far as LDCs renew their efforts to boost capital accumulation, in order to accelerate structural transformation and foster economic growth, the presence of an external resource gap is somewhat to be expected, and does not necessarily raise concerns over the medium term. The overall sustainability of this process hinges, however, on its effectiveness in fostering the development of domestic productive capacities, thereby spurring the diversification of the economy towards gradually more sophisticated and higher value-added sectors. Beyond the overall level of indebtedness, the composition of liabilities in terms of maturity and currency denomination, bear key implications for LDCs' debt sustainability and balance of payment equilibrium.

Recent data reported in Figure 12 suggest that levels of external indebtedness have been surging across LDCs, both in terms of debt stocks (relative to gross national income - GNI), and — even more so — in terms of burden of debt services (measures as interest payments relative to exports of goods and services plus primary

Table 3

Gross fixed capital formation, gross domestic savings and external resource gap in LDCs

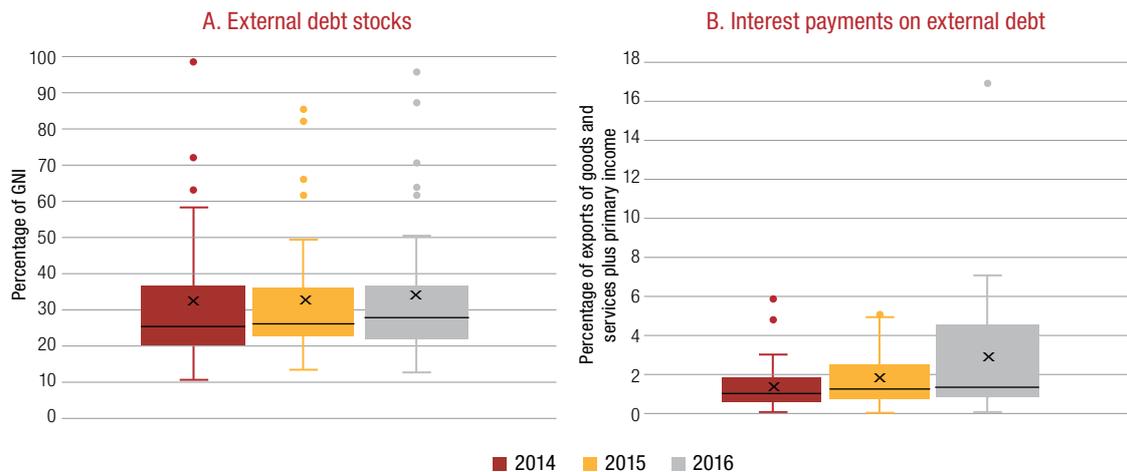
(Percentage of GDP)

	Gross fixed capital formation				Gross domestic savings				External resource gap			
	2002–2008	2013	2014	2015	2002–2008	2013	2014	2015	2002–2008	2013	2014	2015
LDCs (total)	22.3	26.5	26.7	26.1	19.6	22	21.8	19.2	-2.7	-4.5	-4.9	-6.9
African LDCs and Haiti	22.7	26.6	26.7	25.5	21.2	22.6	22.2	18.7	-1.5	-4	-4.6	-6.8
Asian LDCs	22.0	26.5	26.9	27.1	16.4	20.3	21.0	19.8	-5.6	-6.3	-6	-7.4
Islands LDCs	12.3	14.8	17.5	16.5	31.7	41.2	28.5	30.6	19.4	26.4	11.0	14.1

Source: UNCTAD secretariat calculations, based on data from the UNCTADstat database (accessed January 2018).

Figure 12

External indebtedness across LDCs, 2014–2016



Source: UNCTAD secretariat calculations based on data from World Development Indicators database (accessed January 2018).

Notes: Boxplots visually display the distribution of LDC data over their quartiles, highlighting the mean (cross), median (horizontal line), first/third quartile (box), upper/lower extreme (whiskers), and outliers.

income). Between 2014 and 2016, the external debt stock in the median LDC has increased from 25.7 per cent of GNI to 27.8 per cent; simultaneously, external debt service has climbed by roughly 25 per cent in two years, attaining 1.32 per cent of exports of goods and services plus primary income. This situation has raised some concerns especially in the African region, where several countries have experienced sharp rise in their level of external indebtedness (UNCTAD, 2016d).

The seriousness of this issue is confirmed by the latest update of the Debt Sustainability Framework, jointly conducted by the World Bank and the International Monetary Fund. As of January 2018, out of 44 LDCs assessed in this respect:

- Eight displayed low risk of debt distress (Bangladesh, Cambodia, Myanmar, Nepal, Rwanda, Senegal, United Republic of Tanzania, and Uganda);
- 21 displayed moderate risk (Benin, Bhutan, Burkina Faso, Comoros, Democratic Republic of the Congo, Ethiopia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Sierra Leone, Solomon Islands, Timor-Leste, Togo, Vanuatu and Yemen);
- 12 were at high risk of debt distress (Afghanistan, Burundi, Central African Republic, Djibouti, The Gambia, Haiti, Kiribati, Lao People's Democratic Republic, Mauritania, Sao Tome and Principe, Tuvalu and Zambia); and
- Three were in debt distress, namely Chad, South Sudan and Sudan.¹⁷

In other words, approximately one third of LDCs are at higher risk of debt distress or already in that situation. In this context, UNCTAD has long urged the international community to set up an ordered mechanism for debt

resolution (UNCTAD, 2017a). In a context of rising investment needs of the LDCs, however, moving away from debt-creating instruments and prolonged aid dependency is a more fundamental albeit longer-term imperative. This requires LDCs to devise effective ways to mobilize alternative and innovative sources of finance — including where appropriate and possible remittances and diaspora savings — while also stymying illicit financial flows which deprive their economies of much-needed capital (UNCTAD, 2012, 2016c).

2. Official capital flows

LDCs have traditionally financed their external resource gap through a mixture of official development financing¹⁸ — including ODA — and private resource flows, notably foreign direct investment (FDI) and remittances. Private financial flows and portfolio investments tend to play a marginal role in LDC external financing, while FDI and remittances are largely concentrated in a relatively small number of LDCs. This leaves LDCs typically displaying a higher reliance on ODA, as compared to ODCs. Such relevance is explicitly recognized by the IPoA and by SDG target 17.2, which calls on developed countries to “implement fully their official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of gross national income for official development assistance (ODA/GNI) to developing countries and 0.15 to 0.20 per cent of ODA/GNI to least developed countries; ODA providers are encouraged to consider setting a target to provide at least 0.20 per cent of ODA/GNI to least developed countries”.

Against this background, total net ODA disbursed to LDCs in 2016 amounted to \$43.1 billion, representing

an estimated 27 per cent of net ODA disbursements to all developing countries. This implied a 0.5 per cent increase in real terms year-on-year compared to 2015. This trends corroborates the fears of a levelling-off of aid flows to LDCs in the wake of the global recession, to the extent that in 2016 net ODA disbursements to LDCs remained lower – even in real terms – than in 2013 (\$ 43.3 billion) as shown in Figure 13. The levelling-off of ODA flows to LDCs in the wake of the global recession has thus contributed to the gradual shrinking of their magnitude in relation to LDCs’ own economic size, with net ODA accounting for roughly 4.5 per cent of LDCs’ combined GDP in 2016, compared to 7.7 per cent ten years before.

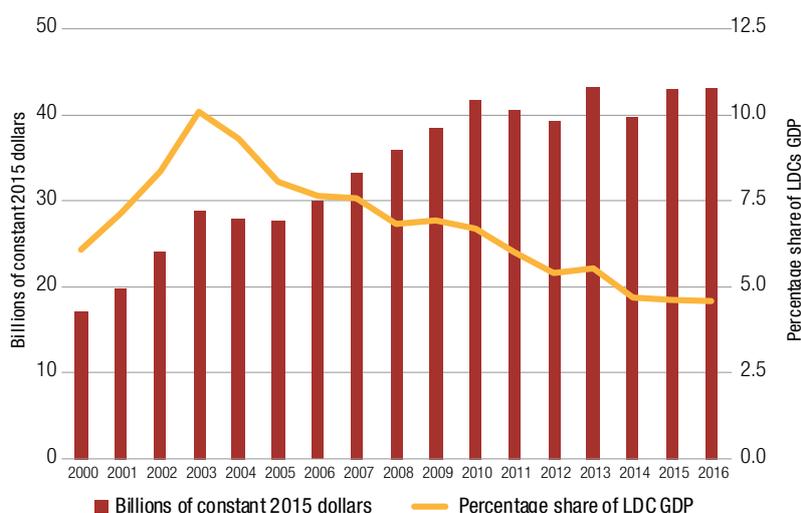
Equally important in the context of the 2030 Agenda for Sustainable Development, ODA disbursements to LDCs remain far below the target of 0.15–0.20 per cent of donor countries’ GNI – a target which had been first adopted in 1981. As shown in Figure 14, only a handful of donor countries appear to have met the SDG 17.2 commitments in 2016: specifically, Denmark, Luxembourg, Norway, Sweden, and United Kingdom provided to LDCs over 0.20 per cent of their own GNI, while the Netherlands met the 0.15 per cent threshold. Averaging over all members of the Development Assistance Committee (DAC), donor countries barely disbursed 0.09 per cent of their GNI to LDCs.¹⁹ Had donor countries instead delivered on their pledges, LDCs should have received additional development assistance worth \$32-53 billion in 2016, which might

have supported much-needed investments and productive capacity development. Moreover, the limited signs of improvement against SDG 17.2 targets appear to corroborate OECD’s own concerns about the fact that “some DAC members backtracked on a commitment to reverse past declines in flows to the poorest countries”.²⁰

It is worth mentioning that aid flows tend to be skewed towards a relatively small pool of LDCs, with the top-ten recipients – which often include countries affected by humanitarian emergencies and conflict situations– accounting for roughly half of total disbursements to the group. In 2016, the ten largest LDC aid recipients encompassed (in declining order): Ethiopia (\$4.1 billion), Afghanistan (\$4.1 billion), Bangladesh (\$2.5 billion), the United Republic of Tanzania (\$2.3 billion), the Democratic Republic of the Congo (\$2.1 billion), Yemen (\$1.9 billion), Uganda (\$1.8 billion) and South Sudan (\$1.6 billion).

While the jury may still be out on a number of thorny issues, from aid effectiveness to the evolving landscape for development finance, this sobering assessment points to some long-standing accountability flaws in the implementation of the global partnership for sustainable development. If developing countries and LDCs can certainly do more to better harness innovative development finance, achieving the 2030 Agenda for Sustainable Development, especially in the LDCs, is likely to hinge on the donor community finally delivering on its long-standing promises.

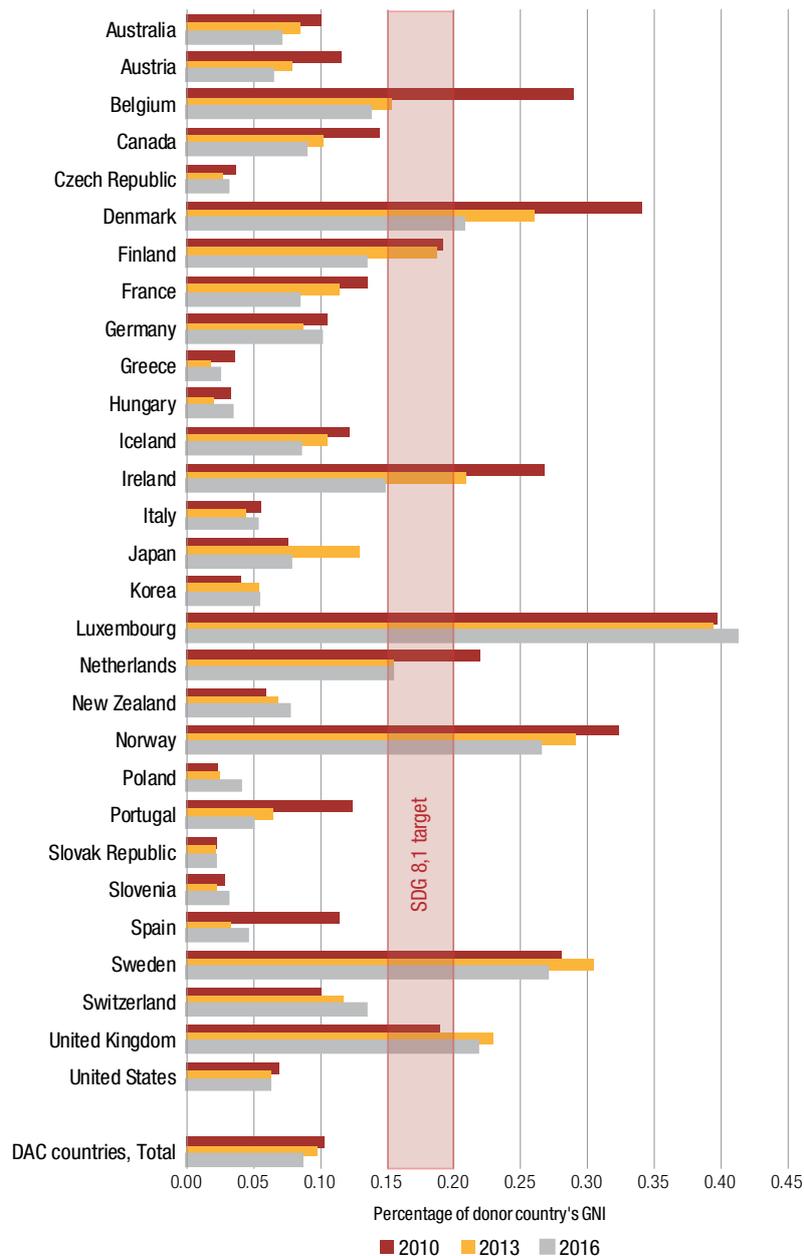
Figure 13
Net ODA disbursements to LDCs, 2000–2015



Source: UNCTAD secretariat calculations based on data from OECD International Development Statistics database (accessed January 2018).

Figure 14

Net ODA to LDCs from individual DAC member countries, selected years



Source: UNCTAD secretariat calculations based on data from OECD International Development Statistics database (accessed January 2018).

3. Foreign direct investment (FDI)

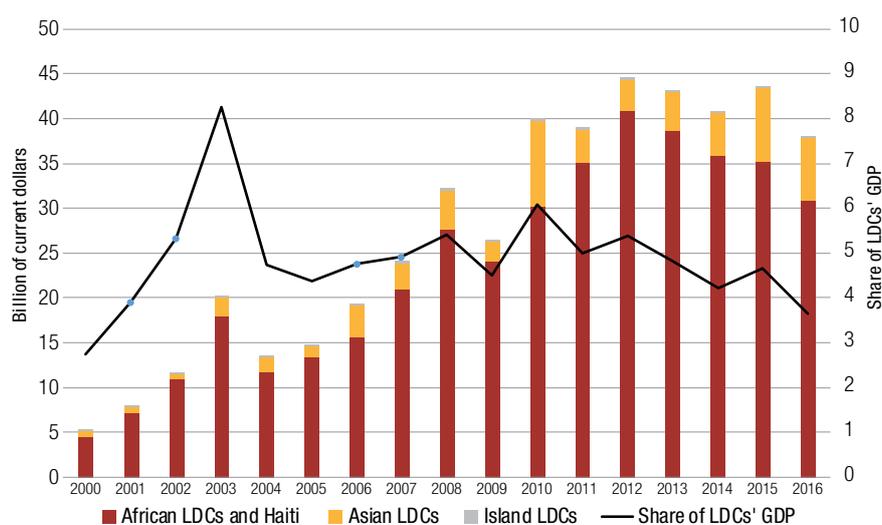
Despite some improvements over the last 15-20 years, LDCs continue to play a relatively marginal role in the global economy, accounting for only 2.2 per cent of global FDI inflows, down from a peak of 3 per cent in the 2013-2014 biennium.²¹ In 2016, inflows of FDI to LDCs as a group attained nearly \$38 billion, down 13 percent from the levels of the previous year. They amounted, on average, to 3.6 per cent of LDC GDP in the same year, with a declining weight in relation to LDCs' combined GDP (Figure 15). Year-on year, the setback suffered by FDI inflows to LDC economies is far greater than the global average (-2 per cent), but comparable to the one

suffered by ODCs (-14 per cent). Despite the reduction in FDI inflows, LDCs' stock of inward FDI has continued its expansion unabated, and is now estimated to be worth \$326 billion (1.2 per cent of the global figure, or 33 per cent of LDC GDP).

African LDCs and Haiti have traditionally accounted for the lion's share of FDI flows to LDCs (81 per cent of the total in 2016), even though the weight of Asian LDCs (18 per cent of the total) has grown since 2010, with the remaining 0.3 per cent going to the island LDCs. This balance has been only marginally changed in the recent past, as the dynamics of FDI inflows did not differ enormously from one group to the other.

Figure 15

FDI inflows to LDC, 2000–2016



Source: UNCTAD secretariat calculations based on data from UNCTADstat database (accessed January 2018).

Once again, regional aggregates hide considerable variations at a country level, both in absolute terms and in relation to the size of the recipient economy. In 2016 the top five FDI destinations among LDCs — Angola (\$14.4 billion), Ethiopia (\$3.2 billion), Mozambique (\$3.1 billion), Bangladesh (\$2.3 billion), and Myanmar (\$2.2 billion) — accounted for two thirds of the total, underscoring a high level of concentration despite the fact that FDI flows to Angola, Mozambique and Myanmar shrank compared to 2015. Beyond these “big players”, FDI inflows represent a sizeable financing flow relative to the size of the economy also in other LDCs such as Liberia (20 per cent of GDP), Sierra Leone (13 per cent), Cambodia (10 per cent of GDP), Djibouti (8 per cent) or Lesotho (7 per cent).

Amid a generalized decline in FDI flows to LDCs, countries witnessing remarkable expansions between 2015 and 2016 include Central Africa Republic (+940 per cent), Guinea (+116 per cent), Nepal (+105 per cent), Sierra Leone (+96 per cent) and Kiribati (+80 per cent); with the exception of Nepal, these represented, however, recoveries from previous setbacks. Countries such as Bangladesh, Burkina Faso, Ethiopia or Rwanda posted more modest year-on-year growth rates for the 2015-2016 period, but more sustained expansions in the longer term. At the other end of the spectrum, countries affected by challenging political and security situations, such as Burundi or Yemen, have recorded sharp declines in FDI inflows.

More broadly, the above trend underscores how foreign investors tend to favour among LDCs resource-rich destinations and countries providing a relatively large and dynamic domestic market. Given the importance

of building strong backward and forward linkages between foreign and domestic firms, it is imperative for LDCs to pursue strategic policies to attract FDI while avoiding a “race-to the bottom”, and to enhance FDI development potential with a view to accelerating structural transformation.

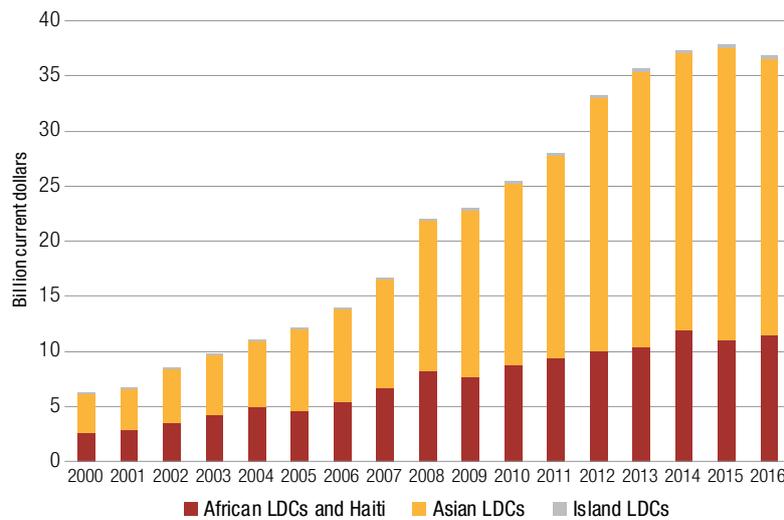
4. Personal remittances

According to World Bank estimates, personal remittances worldwide fell to \$537 billion in 2016 from a historic high of \$554 billion in 2015 (-3.1 per cent). Remittances to LDCs as a group followed a similar trend, totalling \$36.9 billion in 2017, down by 2.6 per cent compared with the 2016 peak of \$37.9 billion (Figure 16). While this amounts to just 6.9 per cent of the world total, remittances are a significant source of external finance in a number of LDCs, and their resilience compared with other financing flows may contribute to ease balance of payment pressure (UNCTAD, 2012).

In absolute terms, the largest recipients of remittances among LDCs included Bangladesh (\$13.6 billion in 2016), Nepal (\$6.6 billion), Yemen (\$3.4 billion), Haiti (\$2.4 billion), Senegal (\$2 billion) and Uganda (\$1 billion). These six countries accounted for as much as three quarters of personal remittances flowing to LDCs, yet the relevance of these financial flows is equally critical, relative to the size of the economy, for a number of other LDCs. In 2016, remittances accounted for as much as 31 per cent of GDP in Nepal, 29 per cent in Haiti, 26 per cent in Liberia, 22 per cent in the Gambia, 21 per cent in the Comoros, 15 per cent in Lesotho, and they exceeded 10 per cent of GDP also in Senegal,

Figure 16

Remittances inflows to LDCs, 2000–2016



Source: UNCTAD secretariat calculations based on data from the World Bank World Development Indicators database (accessed January 2018).

Yemen and Tuvalu. This suggests that they may play a critical role also for a number of island LDCs and other smaller economies.

While remaining a private financial flow, largely used for consumption and human capital accumulation purposes, there is untapped scope in LDCs for better harnessing remittances and diaspora investment to

support productive activities and financial deepening (UNCTAD, 2012). This is likely to depend, however, on a range of factors, including migration possibilities and related arrangements (for instance temporary migration), costs and easiness of transferring funds from host countries to countries of origin, and domestic conditions in countries of origin.

E. The economic outlook for least developed countries

Although LDCs as a group have so far continued to display positive (albeit weakening) rates of economic growth, their resilience to the unfolding conditions at the worldwide level is gradually weakening, and their outlook for the near to medium-term future remains somewhat improving but fraught with uncertainties. Lacking any decisive and coordinated policy action to strengthen global demand, redress the extreme levels of inequality across and within countries, and tackle financial vulnerabilities associated with rising indebtedness and volatile capital flows, the international economic scenario remains lacklustre (UNCTAD, 2017a; Akyüz and Yu Ill, 2017). Globally, economic growth is expected to somewhat strengthen in the coming years, however the moderate improvements expected for 2018 are likely to fall short of the robust and sustained expansion, necessary to support a decisive advance in LDC performance (UNCTAD, 2017a; United Nations, 2017).

Even though real GDP growth for LDCs as a group is forecast to strengthen somewhat to 5 per cent in 2017 and 5.5 per cent in 2018, the modest improvements in the international context fall short of what would be needed to spur growth and structural transformation in the LDCs. Indeed, the projected growth rates in LDCs remain far lower than the IPoA/SDG target of 7 per cent. Most African and island LDCs, in particular, might find it hard to re-embark on the sustained growth trajectory that characterized the pre-crisis period, while growth resumption might be somewhat more in reach for Asian LDCs. Withstanding the slowdown without cutting key investment spending will be critical for LDCs to maintain their economic momentum, and keep tackling their multi-faceted infrastructural gaps.

Meanwhile, in a context of feeble recovery of international trade and moderate commodity prices,

LDCs remain unlikely to find in international trade a meaningful solution to their growth slowdown, and this meagre outcome could further affect FDI flows (which have already deteriorated in 2016). Coupled with the levelling-off of aid flows, as well as workers' remittances, this suggests that the vast majority of LDCs will continue facing sizeable current account deficits, possibly exacerbated by foreign exchange fluctuations (an appreciation of the dollar, or a depreciation of their local currencies), inflating import bills and foreign-denominated debt. If these risks materialize, the increasing pressure on the balance of payment will intensify external financing requirements of the countries concerned. Outbreaks of civil unrest in politically unstable LDCs, humanitarian crises, and adverse environmental shocks will only increase economic vulnerabilities further, hindering investments and jeopardizing the hard-won progress made on the social development front.

Similar prospects for the global economy make it all the more imperative for the international community at large to embark in renewed concerted efforts for a "global new deal", capable of delivering inclusive growth worldwide. At the same time, recent trends suggest that the ongoing tepid recovery alone is unlikely to provide sufficient support for most LDCs to reverse their long-standing marginalization and income divergence, while embarking in a sustainable development path. Redressing such widening global inequalities and leaving no one behind thus requires meeting long-standing commitments towards the LDCs, as well as matching the level of ambition of the SDGs with a corresponding enhancement of the international support measures in favour of the world's most vulnerable countries.

Notes

- 1 Throughout this publication, Equatorial Guinea is accounted for in average figures for country groups (namely LDCs, or African LDCs and Haiti) for the sake of comparability over time, and in consideration of the fact that the country was part of the LDC category until June 2017. National figures, however, are not presented separately since Equatorial Guinea is at present no longer an LDC.
- 2 Things were only marginally better in 2015, with real GDP growth for LDCs as a group reaching 3.9 per cent, but as many as 13 individual LDCs displaying a decline in real GDP per capita.
- 3 Individual country data for Somalia and South Sudan is missing. For the sake of comparison, four out of the 45 covered, recorded a recession in 2015, and six did likewise in 2016.
- 4 The same target also appears in the 2011 Programme of Action for the Least Developed Countries for the Decade 2011–2020 (the Istanbul Programme of Action (IPoA)).
- 5 Including data for Equatorial Guinea would change to some extent the profile of Figure 3, but not fundamentally alter the above reasoning. In particular, Equatorial Guinea met the seven per cent target for the years 2001–2005, 2007–2008, and 2012; however, the country suffered an erosion of real GDP per capita in the late part of the period considered (2009–2010, and 2013–2017).
- 6 The process of structural transformation in the LDCs is analyzed extensively in UNCTAD (2014, 2015).
- 7 The problématique of access to modern energy in the LDCs is addressed in greater detail by the latest Least Developed Countries Report 2017 (UNCTAD, 2017b).
- 8 The subsection is based on data from UNCTADstat database (accessed January 2018). Data for trade in services follow the methodology of the sixth edition of the IMF's balance of payments manual (IMF, 2009).
- 9 It is worth recalling that the 2030 Agenda for Sustainable Development explicitly reaffirms several elements of the Doha Development agenda of specific interest to the LDCs; this includes special and differential treatment (Target 10.a), duty free quota free market access as well as preferential rules of origin (target 17.12), flexibilities in the area of trade-related intellectual property rights (target 3.c), and a broader commitment to increase Aid for Trade (target 8.a).
- 10 For the sake of comparison, LDC share of global imports are slightly higher, at 1.4 per cent in 2016, but have followed a broadly similar trend. Including in the computations Equatorial Guinea (which was still an LDC at the time of the adoption of SDGs) would increase only marginally LDCs quota of global exports (to 0.95% in 2016) but also accentuating its decline after 2013.
- 11 In so far as LDCs are concerned, the SDG target 17.11 essentially reaffirms an objective adopted in the 2011 IPoA.
- 12 Primary commodities in 2016 accounted for roughly two thirds of LDCs' total merchandise exports, notwithstanding declining international prices.
- 13 This subsection is based on data from the International Monetary Fund's (IMF) World Economic Outlook database of October 2017, which includes preliminary data for 2016 and projections for subsequent years. These data may differ from data contained in the UNCTADstat database, which however stop in 2016.
- 14 Data for 2016 were not available at the time of writing.
- 15 Interestingly, this implies that LDCs are still meeting the quantitative target of Brussels Programme of Action for LDCs, which envisaged an investment ratio (i.e. gross fixed capital formation over GDP) of at least 25 per cent.
- 16 In 2015, gross domestic savings exceeded gross fixed capital formation only in Angola and Timor Leste, while in 2014 also Chad, Myanmar and Zambia were in the same situation.

- 17 Notice that only 44 LDCs were assessed, since data were unavailable for Eritrea and Somalia, while Angola is not covered by the Debt Sustainability Framework analysis (<https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf>).
- 18 Official development financing consists of (a) bilateral ODA, (b) grants and concessional and non-concessional development lending by multilateral financial institutions, and (c) other official flows for development purposes (including refinancing loans) that have too low a grant element to qualify as ODA (source: Organization for Economic Cooperation and Development (OECD), OECD Statistics Database (<http://stats.oecd.org/>) (accessed September 2016)).
- 19 The data reported in this paragraph, as well as in Figure 14, encompass both bilateral net ODA disbursements, and net disbursements through imputed multilateral channels. Though the low figure for 2016 might partly reflect lags in reporting ODA flows to the OECD, this is unlikely to be the main explanation of the above trends.
- 20 <http://www.oecd.org/dac/development-aid-rises-again-in-2016-but-flows-to-poorest-countries-dip.htm>
- 21 Preliminary data for 2017 at regional level suggest that, if FDI flows to developing countries remained stable overall, the African region appears to have registered a marginal decline, unlike Asia and Latin America, which witnessed modest increase (UNCTAD, 2018).

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