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The Least Developed Countries Report 2015

Transforming Rural Economies

Introduction

Recent Economic Trends and Outlook for the LDCs

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INTRODUCTION

Recent Economic Trends and Outlook for the LDCs

A. Introduction

The average growth rate of LDCs in 2014 was significantly stronger than that of other developing countries (ODCs)...

Economic growth in the least developed countries (LDCs) has slowed since 2012, when impressive performance by fuel-exporting countries took the growth rate of their real gross domestic product (GDP) to a post-financial crisis peak of 7.2 per cent. In 2014, less favourable external conditions (compounded by the impact of the Ebola outbreak in Guinea, Liberia and Sierra Leone) contributed to a further deterioration in their economic performance.

The merchandise trade deficit of LDCs as a whole nearly tripled to $33.6 billion in 2014, bringing their current account deficit to a historical high of $49.4 billion, which reflected continued import growth as exports stagnated. LDCs also remained heavily dependent on foreign resources, the largest source of which was official development assistance (ODA), followed by migrants' remittances.

This chapter summarizes LDCs' recent performance in terms of economic growth (section B), foreign trade and current account balances (section C), and domestic and external financing (section D). Section E concludes with a brief review of the outlook for LDCs. Country-level data are presented in an accompanying online statistical publication.[1]

B. The real sector

... but only Asian LDCs achieved faster growth than ODCs in per capita terms.

The average growth rate of LDCs as a group was 5.5 per cent in 2014. This represented a decline from 6.1 per cent in 2013 and was well below the 2002–2008 average of 7.4 per cent (table I.1), but significantly stronger than the 4.4-per-cent growth recorded by other developing countries (ODCs).

Economic growth in 2014 was very similar across LDC geographical and structural groupings,[2] and in all cases above the ODC average: 5.5 per cent in African LDCs and Haiti, 5.4 per cent in Asian LDCs and 5.2 per cent in island LDCs. However, only Asian LDCs achieved faster growth than ODCs in per capita terms, suggesting a more moderate improvement in living standards in African LDCs and Haiti and in island LDCs.

GDP growth was strongest in mineral exporters and mixed exporters, while the slowest growth rates were the 3.3 per cent recorded by fuel exporters.

LDCs' relatively steady growth performance in 2014 is indicative of stronger GDP growth in mineral exporters (6.8 per cent) and mixed exporters (6.5 per cent),[3] while the slowest growth rates were the 3.3 per cent recorded by fuel exporters — previously the main drivers of LDC growth — and the 4.8 per cent for exporters of food and agricultural products. The favourable performance of mineral exporters reflects a remarkable 9.1-per-cent growth in the Democratic Republic of the Congo (as a result of strong growth in copper output) and 7.4 per cent in Mozambique (due to a robust expansion of natural gas and coal production). Conversely, fuel exporters (Angola, Chad, Equatorial Guinea, Sudan and Yemen) were adversely affected by a sharp fall in oil prices in the second half of 2014. Worst affected were Equatorial Guinea and Yemen, where production also fell, leading to contractions of 3.1 per cent and 0.2 per cent, respectively.

C. Current account and international trade

1. Current account balance

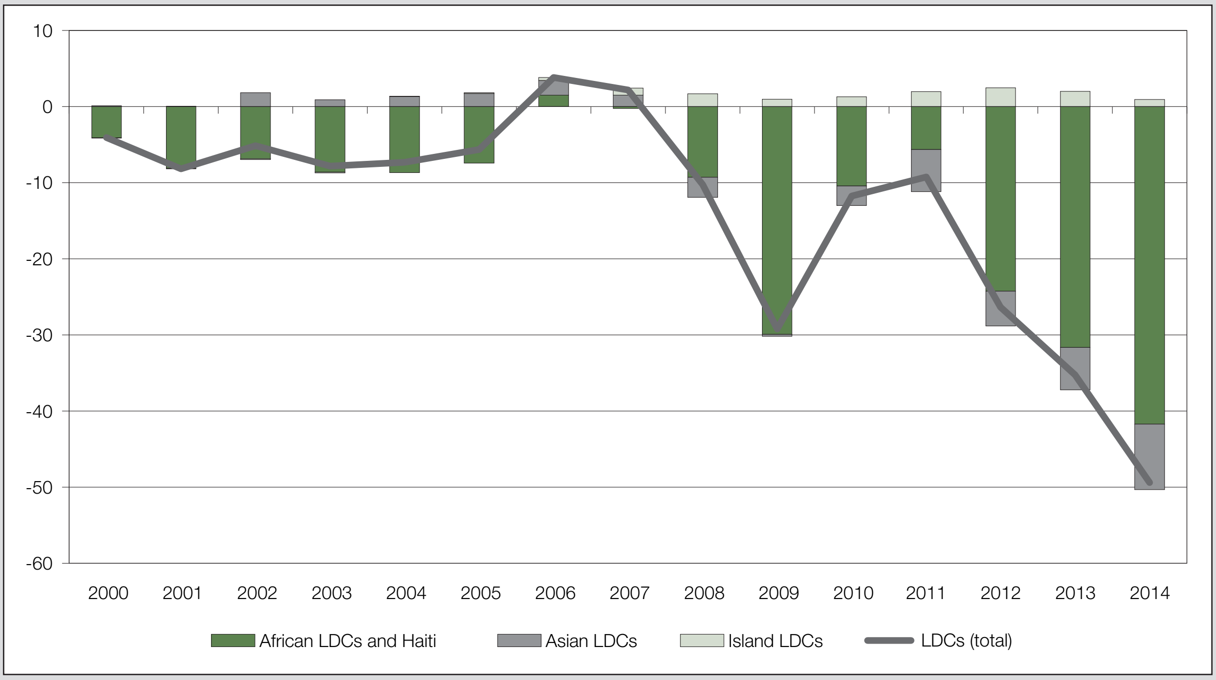
The LDCs' collective current account deficit increased to a record level of $49.4 billion in 2014 (chart I.1), 40 per cent higher than in 2013 and 87 per

Table I.1. Real GDP growth rates in LDCs, other developing countries and developed countries, 2002–2015
(Per cent)

	2002–2008	2010	2011	2012	2013	2014	2015
LDCs (total)	**7.4**	**5.7**	**4.5**	**7.2**	**6.1**	**5.5**	**5.2**
African LDCs and Haiti	8.0	5.4	4.7	7.7	6.1	5.5	5.0
Asian LDCs	6.7	6.3	4.0	6.5	6.0	5.4	5.6
Island LDCs	3.9	6.9	11	6.1	4.5	5.2	5.0
Food and agricultural exporters	5.0	6.3	5.9	1.6	4.3	4.8	5.1
Fuel exporters	9.8	4.3	-0.5	10.0	6.1	3.3	2.4
Mineral exporters	6.2	7.1	6.0	5.9	6.4	6.8	6.8
Manufactures exporters	6.3	5.6	6.5	6.2	6.1	6.0	6.2
Services exporters	7.1	7.3	7.2	6.9	5.7	6.1	6.1
Mixed exporters	6.9	5.8	5.6	6.4	6.3	6.5	6.1
Other developing countries	**7.0**	**7.8**	**5.8**	**4.8**	**4.8**	**4.4**	**4.4**
All developing countries	**7.7**	**7.8**	**5.7**	**4.9**	**4.8**	**4.5**	**4.4**
Developed countries	**2.4**	**2.6**	**1.5**	**1.1**	**1.3**	**1.7**	**2.3**

Source: UNCTAD secretariat calculations, based on data from IMF, World Economic Outlook database (accessed July 2015).
Notes: Data missing for Somalia. Data for 2015 are estimates.
For the classification of LDCs according to export specialization, see page xiii.

Chart I.1. Current account balance of LDCs, 2000–2014
(Billions of current dollars)



Source: UNCTAD secretariat calculations, based on data from IMF, World Economic Outlook database (accessed July 2015).

cent higher than in 2012. This increase originated primarily in the African LDCs and Haiti, whose deficit rose by $10 billion to $41.7 billion. Particularly large deteriorations in current account balances occurred in Angola, where a 2013 surplus of $8.3 billion gave way to a deficit of $1.1 billion, due to lower oil-related export earnings and growing imports, and in Ethiopia, where the deficit expanded from $2.8 billion in 2013 to $4.7 billion, as greater net inflows for

The LDCs' collective current account deficit increased to a record level of $49.4 billion in 2014...

services and transfers were insufficient to offset declining prices and volumes of coffee and gold exports.

The current account deficit of Asian LDCs climbed from $5.6 billion in 2013 to $8.6 billion in 2014, largely reflecting an increase in Myanmar's deficit from $2.9 billion to $4.5 billion, and the return of Bangladesh's current account to deficit ($0.1 billion, after a $1.8 billion surplus in 2013). Island LDCs' current account surplus declined from $2 billion in 2013 to $0.9 billion, almost entirely due to a reduction of nearly $1 billion in Timor-Leste's surplus as a result of falling energy revenues.

... as their merchandise trade deficit nearly tripled.

2. Trade in goods and services

The merchandise trade deficit of LDCs as a group nearly tripled in 2014, increasing by 187 per cent to $33.6 billion, as imports rose by $20 billion and exports fell by $1.9 billion. The surplus of African LDCs and Haiti plummeted, from $17.5 billion to $2.5 billion, while the Asian LDCs' deficit widened from $27.8 billion to $34.7 billion. Island LDCs' deficit grew only marginally, from $1.32 billion to $1.35 billion (table I.2).

Merchandise imports increased in all three geographical and structural LDC subgroups, by $7.2 billion in African LDCs and Haiti, $12.8 billion in Asian LDCs

Table I.2. LDC exports and imports of goods and services, 2005–2014, selected years
(Millions of current dollars and per cent)

		2005	2010	2011	2012	2013	2014	% change 2014
				Goods				
Exports	**LDCs (total)**	**83 848**	**168 809**	**207 402**	**210 794**	**218 917**	**217 511**	**-0.6**
	African LDCs and Haiti	59 063	124 831	155 403	158 529	161 901	158 101	-2.3
	Asian LDCs	24 608	43 625	51 424	51 611	56 444	58 794	4.2
	Island LDCs	178	353	575	653	572	616	7.7
Imports	**LDCs (total)**	**79 908**	**163 427**	**197 009**	**216 418**	**232 252**	**246 132**	**6.0**
	African LDCs and Haiti	50 293	103 086	122 608	136 180	145 999	149 318	2.3
	Asian LDCs	28 966	59 068	72 893	78 421	84 358	94 858	12.4
	Island LDCs	649	1 274	1 508	1 817	1 895	1 956	3.2
Trade balance	**LDCs (total)**	**3 940**	**5 382**	**10 393**	**-5 624**	**-13 335**	**-28 620**	**-114.6**
	African LDCs and Haiti	8 770	21 745	32 795	22 349	15 902	8 784	-44.8
	Asian LDCs	-4 358	-15 443	-21 469	-26 809	-27 914	-36 064	-29.2
	Island LDCs	-471	-921	-933	-1 164	-1 323	-1 340	-1.3
				Services				
Exports	**LDCs (total)**	**11 756**	**25 619**	**31 177**	**33 477**	**38 177**	**40 913**	**7.2**
	African LDCs and Haiti	7 568	14 123	18 207	19 526	22 044	23 690	7.5
	Asian LDCs	3 942	10 964	12 382	13 336	15 477	16 504	6.6
	Island LDCs	246	532	587	615	656	719	9.5
Imports	**LDCs (total)**	**28 387**	**61 601**	**73 018**	**76 022**	**78 895**	**85 168**	**8.0**
	African LDCs and Haiti	22 777	48 871	58 273	59 815	62 020	66 172	6.7
	Asian LDCs	5 368	11 175	12 697	14 631	15 712	17 939	14.2
	Island LDCs	243	1 554	2 048	1 576	1 163	1 056	-9.2
Trade balance	**LDCs (total)**	**-16 631**	**-35 982**	**-41 842**	**-42 545**	**-40 718**	**-44 255**	**8.7**
	African LDCs and Haiti	-15 208	-34 748	-40 065	-40 289	-39 976	-42 482	6.3
	Asian LDCs	-1 427	-211	-316	-1 295	-235	-1 435	510.0
	Island LDCs	3	-1 023	-1 461	-961	-507	-338	-33.4

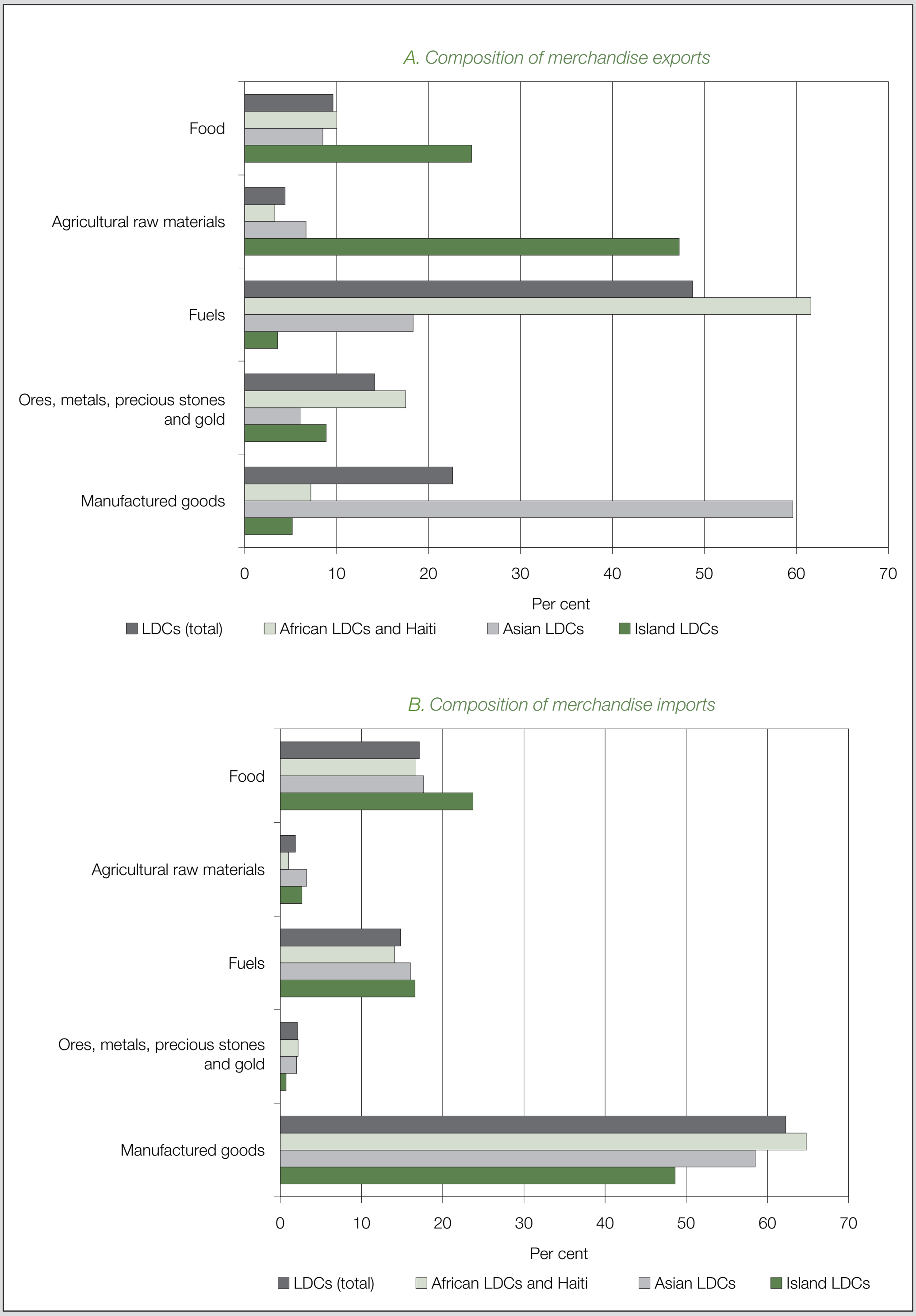
Source: UNCTAD, UNCTADstat database (http://unctadstat.unctad.org/EN/) (accessed July 2015).
Notes: Figures on services in 2014 are estimates. Data based on the Balance of Payments Manual, sixth edition (BPM6).

and $68 million in island LDCs. Merchandise exports were up in Asian and island LDCs (by $6 billion and $38 million, respectively) but down in African LDCs and Haiti (by $7.9 billion), mainly as a result of lower commodity export earnings.

There remains a sharp contrast between the composition of LDCs' imports and that of their exports.

There remains a sharp contrast between the composition of LDCs' imports and that of their exports (chart I.2). Merchandise imports are mostly (62 per cent) of manufactured goods, while fuels account for 49 per cent of exports, and manufactured goods only 23 per cent. There is also a strong regional

Chart I.2. Composition of merchandise trade of LDCs
(Per cent, average for 2012–2014)



Source: UNCTAD secretariat calculations, based on data from the UNCTADstat database (http://unctadstat.unctad.org/EN/) (accessed August 2015).

The heavy dependence of most LDCs on primary commodity exports renders them very vulnerable to fluctuations in commodity prices.

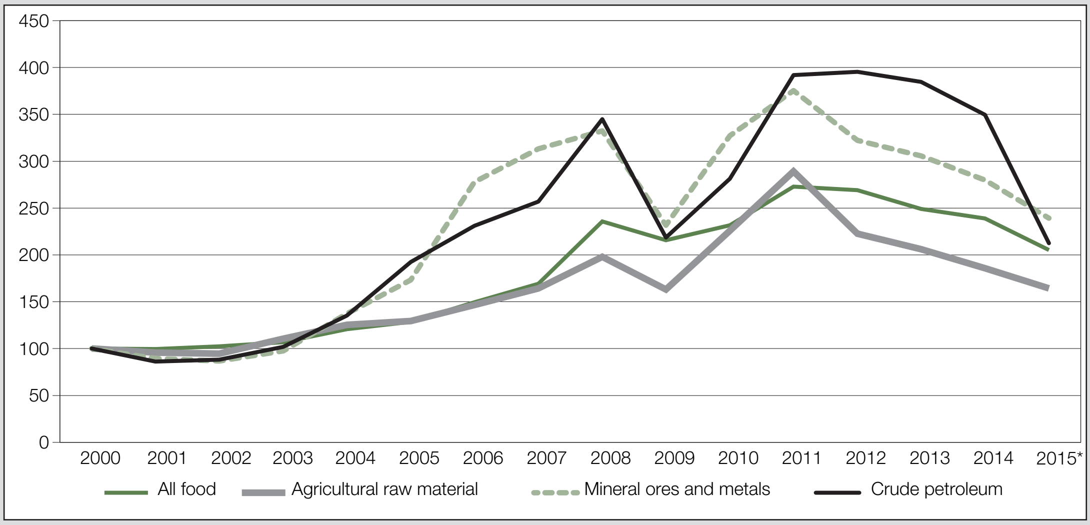
pattern. In African LDCs and Haiti, fuels represent 62 per cent of merchandise exports; in Asian LDCs a similar share (60 per cent) is of manufactured goods. Among island LDCs, the largest category of merchandise exports is agricultural raw materials, which make up 48 per cent of the total. The heavy dependence of most LDCs on primary commodity exports renders them very vulnerable to fluctuations in commodity prices (box I.1).

Box I.1. Recent trends in international commodity prices

LDCs' dependence on commodity exports is a central factor in their slower economic growth in 2014, and weighs heavily on their economic outlook: The recent dynamics of international commodity prices have had a major impact on their export earnings. All commodity price indices declined from January 2012 to May 2015, to levels similar to those of the 2009 crisis year (box chart I.1), as a result of weakening demand, increasing supplies (following overinvestment during the period of high prices), a stronger dollar and unusually large harvests (World Bank, 2015). Downward pressure on oil prices was accentuated by a decrease in imports by the United States, coupled with increasing supply and major producers' decision not to curb their production.

Between January 2012 and May 2015, crude petroleum prices fell by 46 per cent, agricultural raw materials and mineral ores and metals by 26 per cent, and food products by 24 per cent. Among major LDC commodity exports, cotton prices dropped by 19 per cent, iron ore by 56 per cent, and gold, copper and aluminium by 28 per cent, 22 per cent and 10 per cent, respectively. Prices of food products such as sugar, rice and wheat declined by between a quarter and a third.

Box chart I.1. Commodity prices, 2000–2015
(Indices, 2000 = 100)



Source: UNCTAD, *Commodity Price Bulletin*. Crude petroleum: average of United Kingdom Brent (light) / Dubai (medium) / Texas (heavy), equally weighted (dollar/barrel).
Note: *January–August.

D. Resource mobilization

1. Domestic resource mobilization

Across LDCs as a whole, gross fixed capital formation (GFCF) increased to a level higher than the level deemed necessary to sustain long-term growth.

Across LDCs as a whole, gross fixed capital formation (GFCF) increased to 26.3 per cent of GDP in 2013 (table I.3). This is not only higher than both the 2012 level and the 2002–2008 average, but also, more importantly, above the 25-per-cent level deemed necessary to sustain long-term growth. This threshold was exceeded by both African LDCs and Haiti (25.5 per cent) and Asian LDCs

Table I.3. Gross fixed capital formation, gross domestic savings and external resource gap in LDCs
(Per cent of GDP)

	Gross fixed capital formation					Gross domestic savings					External resource gap				
	2002–2008	2010	2011	2012	2013	2002–2008	2010	2011	2012	2013	2002–2008	2010	2011	2012	2013
LDCs (total)	**20.6**	**23.7**	**24.6**	**26**	**26.3**	**18.9**	**18.5**	**19.2**	**19.0**	**19.0**	**-1.7**	**-5.1**	**-5.4**	**-7.1**	**-7.2**
African LDCs and Haiti	19.5	23.0	24.1	25.4	25.5	19.3	17.8	18.4	17.8	17.2	-0.2	-5.1	-5.8	-7.6	-8.4
Asian LDCs	22.9	25.1	25.5	27.2	27.7	17.9	19.3	20.2	20.6	21.8	-5.0	-5.8	-5.3	-6.6	-5.9
Island LDCs	12.2	18.8	20.7	20.1	20.3	30.8	35.7	39.8	32.8	35.7	18.6	16.9	19.1	12.7	15.4

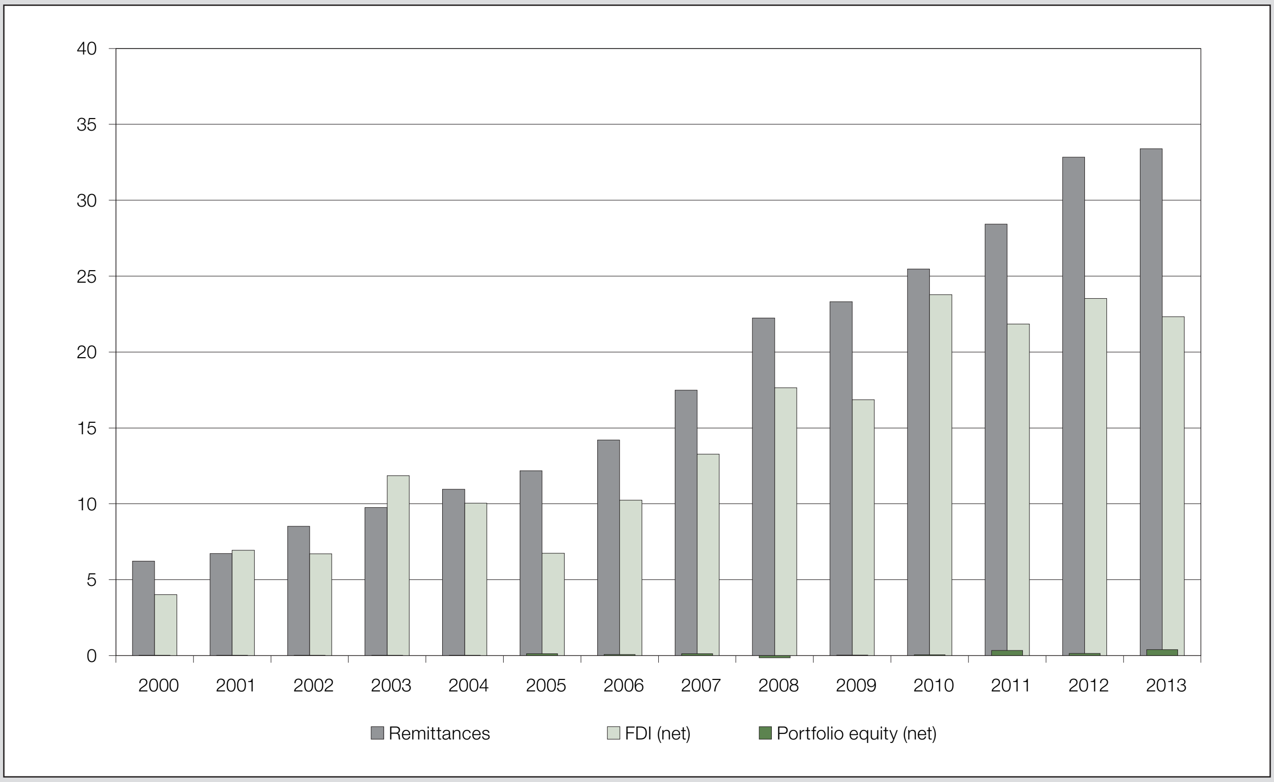
Source: UNCTAD, UNCTADstat database (http://unctadstat.unctad.org/EN/) (accessed July 2015).

(27.7 per cent). In island LDCs, however, GFCF recovered only partly from its slight decline in 2012, and stayed well below the threshold level (though also well above the 2002–2008 average), at 20.3 per cent.

Savings rates remained stable overall at 19 per cent of GDP, a decline in the African LDCs and Haiti being offset by increases in the Asian and island LDCs. The shortfall relative to the investment rate resulted in a resource gap of 7.2 per cent of GDP, signifying a continuing dependence on external resources. While the resource gap of the African LDCs and Haiti widened by 0.9 per cent, to 8.4 per cent of GDP, that of Asian LDCs narrowed by 0.7 per cent, to 5.9 per cent. In island LDCs, by contrast, high savings rates and lower investment rates resulted in a continued surplus, amounting to 15.4 per cent of GDP.

The shortfall in saving relative to investment resulted in a resource gap of 7.2 per cent of GDP, signifying a continuing dependence on external resources.

Chart I.3 Private capital inflows to LDCs, 2000–2013
(Billions of current dollars)



Sources: UNCTAD secretariat calculations based on data from World Bank, World Development Indicators database for portfolio equity (accessed July 2015); UNCTAD (2015) for FDI; and World Bank, Migration and Remittances database (accessed July 2015) for remittances.
Note: Remittances do not include Central African Republic, Chad, Equatorial Guinea, Eritrea, Mauritania, Somalia or South Sudan.

2. Official capital flows

The external resource gap was financed from a combination of official sources (mostly ODA) and private sources (mostly migrants' remittances and foreign direct investment (FDI)).

ODA inflows rose by 2 per cent in 2013 to $44.2 billion, accounting for 93 per cent of total official capital flows; but real bilateral ODA is estimated to have fallen by 16 per cent in 2014.

ODA inflows rose by 2 per cent in 2013 to $44.2 billion, accounting for 93 per cent of total official capital flows. The greatest increases were in Myanmar ($815 million), Ethiopia ($562 million), United Republic of Tanzania ($528 million), Bangladesh ($476 million) and Mali ($383 million). The greatest decrease was in Afghanistan ($1.5 billion), with smaller reductions in South Sudan ($130 million) and Mauritania ($121 million). Preliminary data indicate that net bilateral ODA from members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) to LDCs fell by 16 per cent in real terms (8 per cent excluding debt relief) in 2014, to $25 billion (OECD, 2015).

3. Foreign direct investment

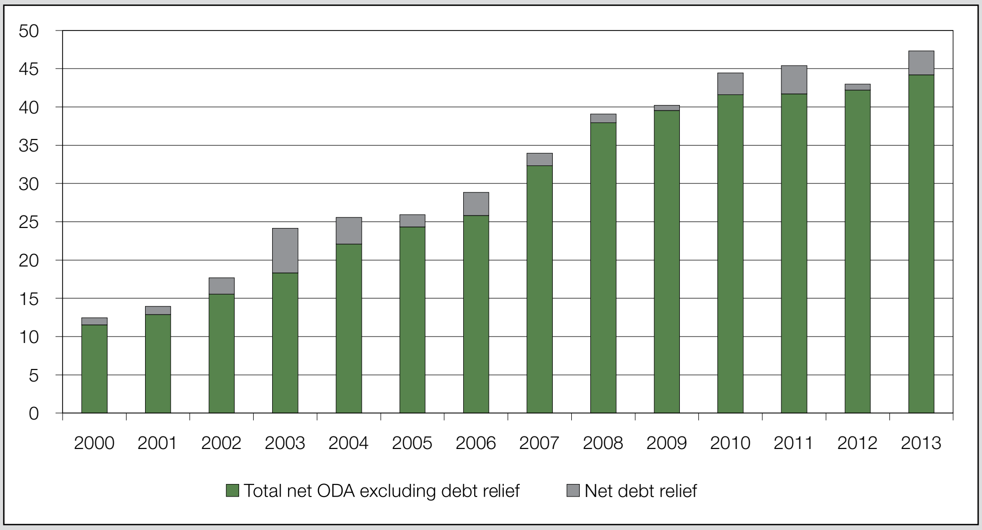
FDI flows to LDCs increased by 4.1 per cent in 2014 to $23.2 billion, but have remained broadly constant over the past five years and are concentrated in a few countries.

FDI flows to LDCs increased by 4.1 per cent in 2014 to $23.2 billion (table I.4). While flows to the African LDCs and Haiti rose by $1 billion, regaining half the reduction experienced in 2013, those to Asian LDCs fell marginally, and those to island LDCs fell by a further 31 per cent to less than one fifth of their 2010 level. Following very strong growth between 2005 and 2010, overall FDI flows to LDCs have remained broadly constant over the past five years.

FDI inflows are concentrated in a few countries, with five countries in the Africa plus Haiti group accounting for 58 per cent of the total in 2014: Mozambique ($4.9 billion, down 21 per cent), Zambia ($2.5 billion, up 37 per cent), United Republic of Tanzania ($2.1 billion, up 1 per cent), Democratic Republic of the Congo ($2.1 billion, down 2 per cent) and Equatorial Guinea ($1.9 billion, up 1 per cent) (UNCTAD, 2015).

Among the African LDCs and Haiti, two countries recorded robust increases in FDI inflows: Ethiopia (up 26 per cent to $1.2 billion), and Zambia (up 37 per cent to $2.5 billion). Three Asian LDCs recorded a decline: Bangladesh (down 5 per

Chart I.4 Official capital inflows to LDCs, 2000–2013
(Millions of current dollars)



Source: UNCTAD secretariat calculations based on data from the OECD DAC database (accessed July 2015).

Table I.4. FDI inflows to LDCs, 2004–2014, selected years
(Millions of current dollars)

	2004	2005	2010	2011	2012	2013	2014
LDCs (total)	**10 048.3**	**6 739.6**	**23 774.2**	**21 851.9**	**23 524.4**	**22 326.8**	**23 239.3**
African LDCs and Haiti	8 333.5	5 331.5	13 669.4	17 918.7	19 669.1	17 727.4	18 733.3
Asian LDCs	1 677.7	1 342.1	9 721.0	3 613.7	3 624.5	4 497.6	4 435.5
Island LDCs	37.2	65.9	383.8	319.5	230.8	101.8	70.5

Source: UNCTAD (2015).

Table I.5. Remittance inflows to LDCs, 2004–2014, selected years
(Millions of current dollars)

	2004	2005	2010	2011	2012	2013	2014
LDCs (total)	**10 951.3**	**12 184.2**	**25 473.4**	**28 421.8**	**32 831.6**	**33 391.4**	**35 754.2**
African LDCs and Haiti	4 957.2	4 680.6	8 260.0	8 880.1	9 250.0	9 392.7	9 956.9
Asian LDCs	5 979.4	7 430.8	16 924.8	19 236.5	23 289.4	23 765.5	25 544.8
Island LDCs	14.7	18.7	183.5	196.9	182	117.2	131.8

Source: UNCTAD secretariat calculations based on data from World Bank, Migration and Remittances database (accessed July 2015).
Note: Data missing for Central African Republic, Chad, Equatorial Guinea, Eritrea, Mauritania, Somalia and South Sudan.

cent to $1.5 billion), Cambodia (down 8 per cent to $1.7 billion) and Yemen (with $1 billion of net divestment). Lao People's Democratic Republic and Myanmar, however, saw strong FDI growth of 69 per cent and 62 per cent, respectively. Among island LDCs, Vanuatu continued to experience net disinvestment.

Remittance flows to LDCs are estimated to have risen by 7.1 per cent to $35.8 billion in 2014 ...

4. Migrants' remittances

Remittance flows to LDCs are estimated to have risen by 7.1 per cent to $35.8 billion in 2014 (table I.5), with increases in all three geographical and structural groups: 12 per cent in island LDCs, 7.5 per cent in Asian LDCs and 6 per cent in African LDCs and Haiti. While major increases were experienced by Bangladesh ($1.1 billion), Nepal ($322 million), Liberia ($144 million), Cambodia ($129 million) and Yemen ($112 million), flows declined sharply in Cambodia (by 73 per cent), Sierra Leone (by 54 per cent) and Liberia (by 38 per cent).

... but declined sharply in Cambodia, Sierra Leone and Liberia.

E. The economic outlook for LDCs

The slowdown in developing economies is expected to continue in 2015, while economic performance in developed economies is expected to improve. The continued slowdown in growth in developing countries reflects, inter alia, declining commodity prices, tighter external financial conditions, structural bottlenecks and continued rebalancing in China (International Monetary Fund, 2015). China's continued rebalancing (from a production- and export-oriented economy with a strong appetite for investment towards a stronger focus on household consumption) is expected to have a significant impact on demand for raw materials, further depressing prices. The recent downward trend in prices is expected to continue for all commodities, particularly energy, with a projected 45-per-cent fall in oil prices (World Bank, 2015).

The recent downward trend in prices is expected to continue for all commodities, particularly energy.

Against this background, growth in LDCs as a group is projected at 5.2 per cent in 2015, continuing the gradual slowdown experienced since 2012, but

Extractive industries in LDCs are expected to continue to attract foreign investment.

remaining above the projected rate for developing countries as a whole (4.4 per cent). Despite lower commodity prices, however, extractive industries in LDCs are expected to continue to attract foreign investment, with continued investment also in manufacturing and services. The expected 15-year extension of the African Growth and Opportunity Act (AGOA) may contribute to a diversification of the FDI flows in Africa, though not in the short term. Among Asian LDCs, announced greenfield investments in various sectors led by a Myanmar-Japanese joint venture are expected to contribute to a further increase in FDI flows to Myanmar (UNCTAD, 2015).

Notes

1 Available at: unctad.org/LDCs/statistics.
2 The classification according to geographical/structural criteria is presented on p. xiii.
3 The classification of LDCs according to export specialization is presented on p. xiii.

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