

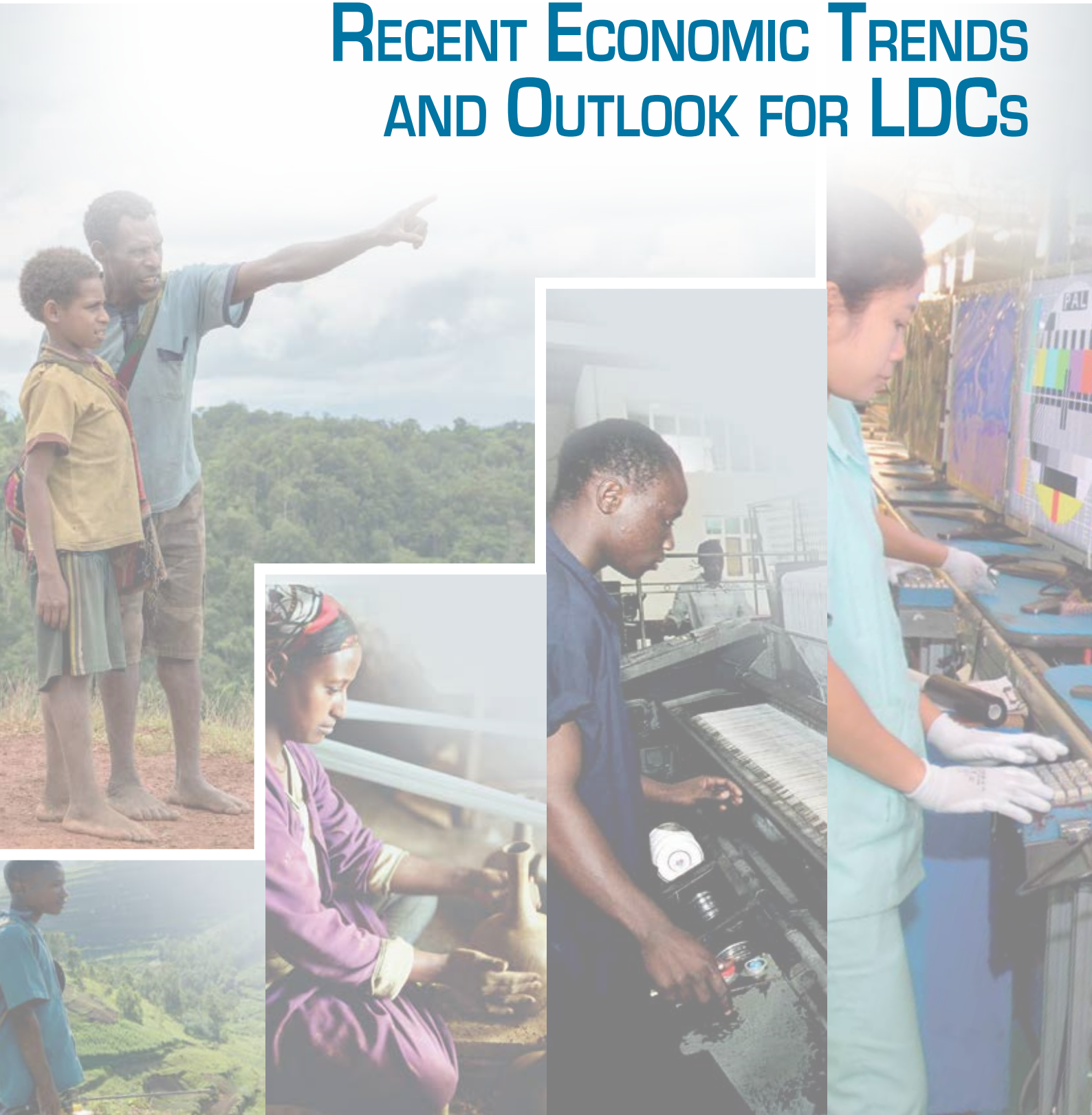


THE LEAST DEVELOPED COUNTRIES REPORT 2016

The path to graduation and beyond: Making the most of the process

INTRODUCTION

RECENT ECONOMIC TRENDS AND OUTLOOK FOR LDCs



A. Introduction

Since 2012, LDCs' growth has slowed dramatically to the lowest rate this century.

After having apparently shown resilience for some years to the international economic and financial crisis, economic growth in the least developed countries (LDCs) has declined steeply since 2012, reaching a low of 3.6 per cent in 2015. This is by far the slowest pace of expansion this century and it is far below the targeted rate of at least 7 per cent per annum recommended in the 2011 Programme of Action for the Least Developed Countries for the Decade 2011–2020 (the Istanbul Programme of Action (IPoA)). Such a low economic growth rate renders it difficult to generate and mobilize domestic resources to sustain efforts at structural transformation and the building of productive capacities through investment. By the same token, it also slows down the progression of countries towards graduation out of the LDC category, which is analysed in detail in this Report. The growth slowdown is likely to be reinforced by the current world economic climate, which continues to be characterized by a sluggish recovery.

The merchandise trade deficit among LDCs as a group almost doubled from \$36 billion in 2014 to \$65 billion in 2015. The negative trade balance increased among all LDC subgroups except for island LDCs. The services trade deficit fell somewhat for the LDCs as a whole, from \$46 billion in 2014 to \$39 billion in 2015. This is the result of the shrinking deficit of African LDCs, which more than compensated the widening experienced by Asian and island LDCs.

This chapter provides an overview of LDCs' recent performance in terms of economic growth (section B), foreign trade and current account balance (section C), and domestic and external financing (section D). Section E concludes with a brief review of the outlook for LDCs, especially for 2016 and 2017.

B. The real sector

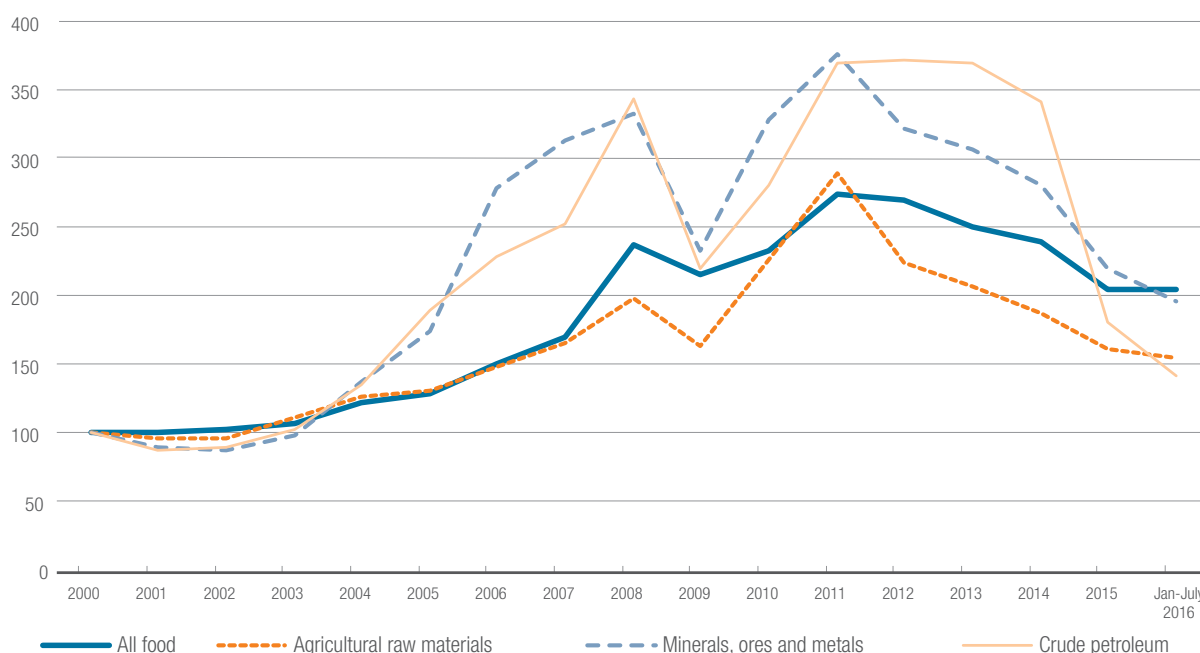
Commodity prices fell significantly in 2015, oil plunged 47.2 per cent.

Economic growth (measured as growth in real gross domestic product (GDP) at constant 2005 prices) slowed down to 3.6 per cent in 2015 in LDCs as a group, which is a sharp drop from the growth performances recorded in the years before the 2009 crisis and the lowest growth rate since 1994.¹ Between 2008 and 2015 the economic growth rate of the group surpassed the 7 per cent per annum benchmark, as recommended in the IPoA, only once, in 2012.² Much of this weak performance can be attributed to the preponderance in the group of African LDCs, which are primarily commodity dependent, and thus vulnerable to falling commodity prices. Figure Intro.1 depicts the evolution of commodity prices by type of commodity for the period 2000–2016.

Crude oil prices plunged by 47.2 per cent in 2015, having previously fallen by 7.5 per cent in 2014. This was accompanied across the board by significant drops in prices of other commodities such as minerals, ores and metals, and agricultural raw materials and food, confirming a downward trend in prices that started in 2012. The fall in demand for primary commodities is partly explained by China's strategic reorientation towards consumption-led growth, while the general economic slowdown worldwide further compounded the downward trend in primary commodity prices. Global growth continues to be stifled by weak demand in developed economies, reflecting a falling wage share and insufficient household demand, which have not been offset by higher investment spending (UNCTAD, 2016b).

Table Intro.1 also shows the economic growth rate of LDCs based on their export specialization. Fuel exporters were the only group to have contracted

Figure Intro.1. Evolution of commodity prices by type, 2000–2016
(Indices, 2000 = 100)



Source: UNCTADstat database (accessed July 2016).

in 2015, by a hefty 4.5 per cent, reflecting the strong exposure of primary-commodity-dependent economies to the boom–bust price cycles that afflict primary commodity markets (which is discussed in chapter 2 of this Report). In fact, the other main commodity-specialized LDC groups (food and agricultural exporters and mineral exporters) also experienced a sharp decline in their growth rates, expanding by less than 4 per cent in 2015. By contrast, LDCs that are mainly exporters of manufactures achieved the highest economic growth rate in 2015 at 6.2 per cent, higher than the rates recorded by other developing countries (ODCs; that is, non-LDC developing countries) and by developing countries as a whole.

Growth performance in 2015 varied widely among export groups.

Table Intro.1. Real GDP growth rates in LDCs, other developing countries and developed countries, 2002–2017
(Per cent)

	2002–2008	2012	2013	2014	2015	2016	2017
Total LDCs	7.4	7.1	6.1	5.6	3.6	4.5	5.7
African LDCs and Haiti	7.9	7.4	6.1	5.6	4.1	3.7	4.8
Asian LDCs	6.7	6.5	6.1	5.7	2.9	5.9	7.0
Island LDCs	3.9	5.2	2.9	4.3	3.3	4.4	4.8
LDCs by export specialization:							
Agricultural and food exporters	5.6	1.7	4.5	5.1	3.2	3.2	4.0
Fuel exporters	11.6	5.0	4.9	3.5	-4.5	1.1	3.6
Mineral exporters	6.0	5.9	6.6	6.7	3.8	4.4	4.7
Manufactures exporters	6.3	6.2	6.0	6.2	6.2	6.4	6.8
Services exporters	5.8	6.4	2.8	4.2	3.9	3.6	4.9
Mixed exporters	7.1	4.5	6.6	6.5	6.2	5.7	6.2
Other developing countries	6.9	4.9	4.8	4.4	3.9	3.8	4.3
All developing countries	6.9	5.0	4.8	4.5	3.9	3.8	4.4
Developed countries	2.4	1.1	1.0	1.7	1.9	1.8	1.9

Source: UNCTAD secretariat calculations, based on data from IMF, World Economic Outlook database (accessed May 2016).

Notes: Data for 2015 are preliminary; those for 2016 and 2017 are forecasts.

For the classification of LDCs according to their export specialization, see p.xiii.

"All developing countries" consists of LDCs and other developing countries.

The fall in primary commodity prices particularly affected African LDCs.

African LDCs suffered more from the shock in primary commodity prices than Asian LDCs due to their greater dependence on primary commodity exports. Their economic performance was also influenced by other exogenous shocks, such as exposure to disease outbreaks, which aggravated the situation for some African LDCs. Four of them (Burundi, Equatorial Guinea, Sierra Leone and South Sudan) experienced a contraction in their real GDP, while it stagnated in two others (Guinea and Liberia). In Asia, Yemen experienced a deep slump in GDP (-28.1 per cent), due to the situation of armed conflict, while among islands Vanuatu experienced a fall in GDP of 0.8 per cent, having been adversely impacted by a series of natural disasters since 2014. By contrast, the highest economic growth rate among all LDCs in 2015 was in Ethiopia (10.2 per cent), followed by the Democratic Republic of the Congo, Bhutan, Myanmar, the Lao People's Democratic Republic and the United Republic of Tanzania, all of which grew by at least 7 per cent in 2015.

LDCs' per capita growth slowed to 1.5 per cent in 2015.

The weak economic performance of many LDCs means that their average per-capita GDP growth tumbled to 1.5 per cent in 2015, from 3.3 per cent in the previous year. Thirteen of the 47 LDCs for which data are available experienced a contraction in per-capita income, which exceeded 10 per cent in three cases (Equatorial Guinea, Sierra Leone and Yemen).

GDP per capita was below \$500 in nine LDCs in 2015, and above \$2,900 in three.

Given this weak economic performance, it is likely that progress towards poverty reduction and other Sustainable Development Goals has slowed down in many LDCs. In 2015 nominal GDP per capita ranged from \$221 in South Sudan to \$11,768 in Equatorial Guinea. Seventeen LDCs out of 47 for which data were available had a GDP per capita above \$1,200 in 2015. Nine LDCs, all African, had a GDP per capita below \$500 (Burundi, the Central African Republic, the Democratic Republic of the Congo, the Gambia, Liberia, Madagascar, Malawi, the Niger and South Sudan); 19 LDCs had a GDP per capita in the range of \$500 to \$1,000; 16 LDCs in the range of \$1,000 to \$2,900 and three LDCs stood above \$2,900 (Angola, Equatorial Guinea and Vanuatu). Unsurprisingly, all of the countries in the last group, but none of the lowest-income group, are expected to graduate out of the LDC category before 2025 (as discussed in chapter 2 of this Report).

C. Current account and international trade

1. CURRENT ACCOUNT BALANCE³

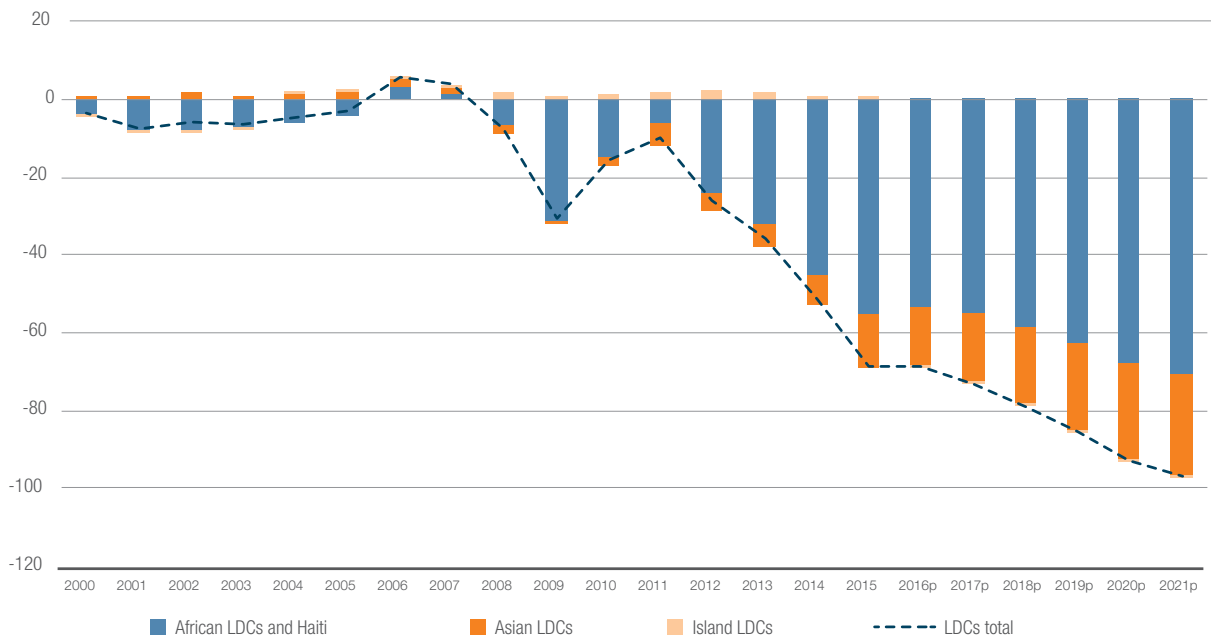
In 2015 the LDCs as a group registered a record current account deficit of \$68.6 billion, a strong increase of one third over 2014 (figure Intro.2). This stands in contrast with ODCs, all developing countries and developed countries, which as groups registered current account surpluses.

LDCs' total current account deficit rose by one third in 2015, to a record level of \$68.6 billion ...

Island LDCs were the only LDC subgroup that experienced a current account surplus in 2015, albeit representing a decrease of 68 per cent compared to their 2014 surplus. The current account deficit of the African LDCs and Haiti amounted to \$55.3 billion, an increase of 22.1 per cent compared with 2014. The Asian LDCs registered a current account deficit of \$13.8 billion, representing a near doubling vis-à-vis the deficit of 2014.

These aggregate figures must be interpreted with caution, however. All African LDCs recorded current account deficits in 2015, but among island LDCs Kiribati and Timor-Leste alone accounted for the current account surplus of the island LDC grouping. In Kiribati, there was an increase in revenues from fishing licences on the services export side,⁴ which also contributed to economic growth

Figure Intro.2. Current account balance of LDCs, 2000–2021
(Billions of current dollars)



Source: UNCTAD secretariat calculations, based on data from IMF, World Economic Outlook database (accessed July 2016).

Note: p=projected.

and rising public revenues, while in Timor-Leste a modest growth in exports of oil and gas was accompanied by a slight fall in services exports. Among Asian LDCs, Afghanistan and Nepal had current account surpluses in 2015, partly as a result of a weakening of import demand in both countries.

Falling commodity prices adversely affected the export earnings mainly of primary-commodity-dependent African LDCs. Mozambique had the highest current account deficit as a share of GDP in 2015 at 41.3 per cent (figure Intro.3), while Kiribati at the other end of the scale had the largest current account surplus as a share of GDP at 45.7 per cent. Depressed external demand in 2015, reflecting weak economic growth among both developed and developing economies, contributed to the persistent current account deficits of many LDCs, as export demand in LDCs was stymied by worldwide conditions, while imports remained buoyant in the face of persistent production constraints and narrow trade bases. The current account deficits of LDCs were also fuelled by the appreciation of the dollar on world markets.

...and all African LDCs had current account deficits...

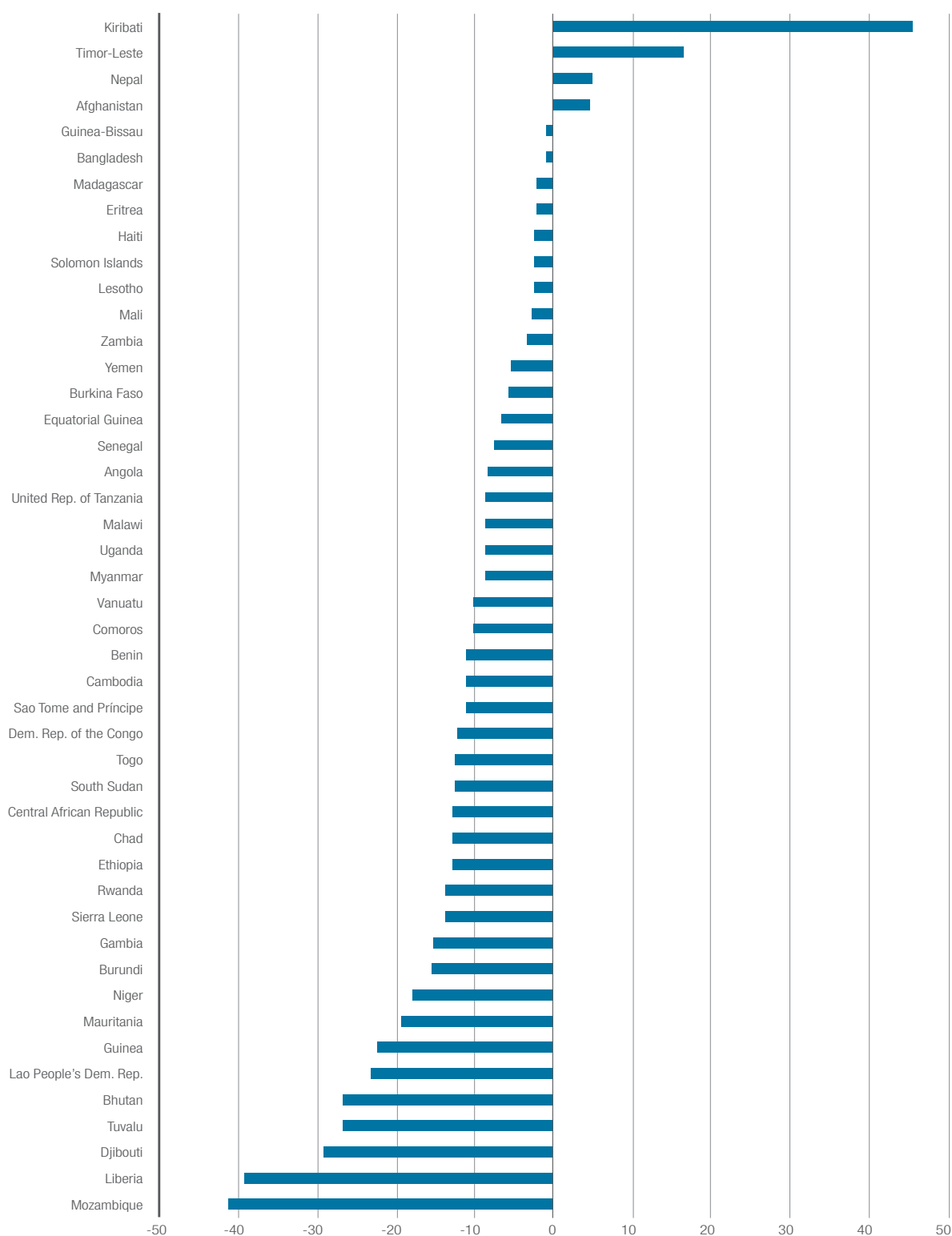
2. TRADE IN GOODS AND SERVICES⁵

Global trade growth slowed down to a five-year low in 2015 according to estimates by UNCTAD and the World Trade Organization (UNCTAD and WTO, 2016). They show that, measured in current dollars, global merchandise exports plummeted by 13 per cent in 2015. Services exports declined by 6 per cent. Developed and developing economies appeared similarly affected by the decline of merchandise exports in 2015, with falls of 12 per cent and 13 per cent, respectively. The sharpest reductions were experienced by the principal petroleum exporters (-37 per cent), while major exporters of manufactured goods and of non-fuel commodities were less affected (-5 per cent).

...reflecting depressed external demand, weak commodity prices, dollar appreciation and production constraints.

The estimated fall in exports for the LDC group during 2015 was quite severe and not at all compensated by the developments in their imports. Total exports

Figure Intro.3. Current account balance as a percentage of GDP, 2015



Source: UNCTAD secretariat calculations, based on data from IMF, World Economic Outlook database (accessed July 2016).

LDC exports of goods and services fell by 20.2 per cent to \$201 billion in 2015.

of goods and services of this group of countries amounted to \$201 billion in 2015 at current prices, a decrease of 20.2 per cent from \$252 billion in 2014, itself a small decline from the post-2000 peak of \$256 billion, achieved in 2013. All LDC groupings experienced a fall in total exports of goods and services. The decline was most pronounced among the primarily commodity-export-dependent group of African LDCs and Haiti and least pronounced among the services-export-oriented group of island LDCs (table Intro.2).

Table Intro.2. LDC exports and imports of goods and services, 2005–2015, selected years
(Millions of current dollars)

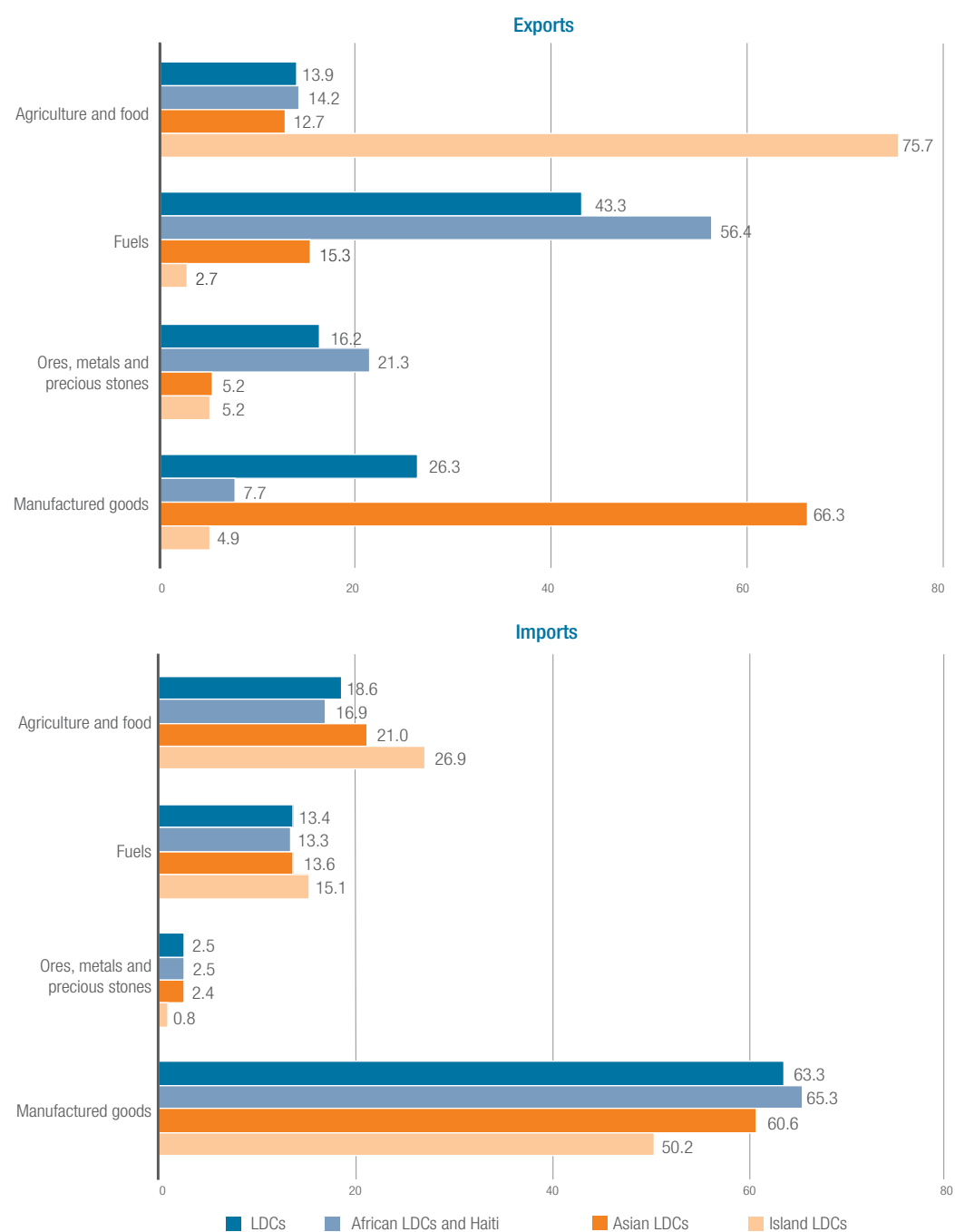
		2005	2006	2010	2013	2014	2015	% change (2014–2015)
Total trade in goods and services								
Exports	LDCs	95 892	117 795	190 934	255 864	251 842	200 905	-20.2
	African LDCs and Haiti	66 919	83 769	138 522	183 813	175 296	131 951	-24.7
	Asian LDCs	28 549	33 545	51 530	70 806	75 254	67 755	-10.0
	Island LDCs	424	481	882	1 244	1 292	1 199	-7.2
Imports	LDCs	108 319	125 101	220 519	312 908	333 518	305 083	-8.5
	African LDCs and Haiti	73 094	83 765	151 278	210 631	221 764	190 199	-14.2
	Asian LDCs	34 334	40 168	66 416	99 218	108 666	111 888	3.0
	Island LDCs	892	1 168	2 826	3 058	3 087	2 996	-3.0
Trade balance	LDCs	-12 427	-7 306	-29 585	-57 044	-81 675	-104 178	27.6
	African LDCs and Haiti	-6 175	4	-12 755	-26 818	-46 468	-58 249	25.4
	Asian LDCs	-5 784	-6 623	-14 886	-28 411	-33 412	-44 133	32.1
	Island LDCs	-468	-687	-1 944	-1 814	-1 795	-1 796	0.1
Total trade in services								
Exports	LDCs	12 030	14 070	24 390	36 880	39 820	40 330	1.3
	African LDCs and Haiti	7 840	9 150	14 020	22 140	22 730	22 740	0.0
	Asian LDCs	3 940	4 620	9 840	14 060	16 390	16 940	3.4
	Island LDCs	250	300	530	680	690	640	-7.2
Imports	LDCs	28 330	33 160	61 450	81 020	85 900	79 550	-7.4
	African LDCs and Haiti	22 720	26 200	48 940	63 330	66 540	58 460	-12.1
	Asian LDCs	5 370	6 470	10 960	16 540	18 270	19 940	9.1
	Island LDCs	240	490	1 550	1 150	1 090	1 140	4.6
Trade balance	LDCs	-16 300	-19 090	-37 060	-44 140	-46 080	-39 220	-14.9
	African LDCs and Haiti	-14 880	-17 050	-34 920	-41 190	-43 810	-35 720	-18.5
	Asian LDCs	-1 430	-1 850	-1 120	-2 480	-1 880	-3 000	59.6
	Island LDCs	10	-190	-1 020	-470	-400	-500	25.0
Total trade in goods								
Exports	LDCs	83 862	103 725	166 544	218 984	212 022	160 575	-24.3
	African LDCs and Haiti	59 079	74 619	124 502	161 673	152 566	109 211	-28.4
	Asian LDCs	24 609	28 925	41 690	56 746	58 864	50 815	-13.7
	Island LDCs	174	181	352	564	602	559	-7.1
Imports	LDCs	79 989	91 941	159 069	231 888	247 618	225 533	-8.9
	African LDCs and Haiti	50 374	57 565	102 338	147 301	155 224	131 739	-15.1
	Asian LDCs	28 964	33 698	55 456	82 678	90 396	91 948	1.7
	Island LDCs	652	678	1 276	1 908	1 997	1 856	-7.1
Trade balance	LDCs	3 873	11 784	7 475	-12 904	-35 595	-64 958	82.5
	African LDCs and Haiti	8 705	17 054	22 165	14 372	-2 658	-22 529	747.6
	Asian LDCs	-4 354	-4 773	-13 766	-25 931	-31 532	-41 133	30.4
	Island LDCs	-478	-497	-924	-1 344	-1 395	-1 296	-7.1

Source: UNCTAD secretariat calculations, based on data from the UNCTADstat database (accessed July 2016).

Imports of goods and services also contracted for the LDC group, falling from \$334 billion in 2014 to \$305 billion in 2015. However, the decline in imports was not enough to outweigh the decrease in export earnings, so that the trade balance deficit in goods and services rose in nominal terms from \$82 billion in 2014 to \$104 billion in 2015. The trade balance deficit in goods and services rose fastest among Asian LDCs from 2014 to 2015 (32.1 per cent), while it was virtually stagnant in island LDCs.

Differences in trade structures and composition matter. Countries that are primarily commodity export dependent, mostly in the African LDCs and Haiti group, experienced a severe deterioration in their merchandise trade deficit in 2015, which grew by a factor of more than eight in nominal terms. In this group of countries, fuels, ores, metals, precious stones and gold accounted in 2015 for 77.7 per cent of merchandise exports, whereas they accounted for 59.5 per cent among LDCs as a group, only 20.5 per cent among Asian LDCs and only 7.9 per cent among island LDCs (figure Intro.4). By contrast, the primarily services-export-oriented island LDCs group experienced a slight improvement in its merchandise trade deficit (a nominal decrease of 7.1 per cent), matched by a manageable increase in its services trade deficit (a nominal increase of 25 per cent).

Figure Intro.4. Composition of LDCs' merchandise exports and imports, 2015
(Per cent)



The merchandise trade deficit among LDCs as a group almost doubled from \$36 billion in 2014 to \$65 billion in 2015. It widened among all LDC subgroups except for island LDCs. The services trade deficit fell among LDCs as a group from \$46 billion in 2014 to \$39 billion in 2015. It narrowed among African LDCs but widened in Asian and island LDCs from 2014 to 2015 (table Intro.2).

In relation to trade, the IPoA sets a major target for LDCs of doubling the share of LDCs in global exports by 2020. Data from the UNCTADstat database reveal that the LDC share of global exports of goods and services rose from 0.75 per cent in 2005 to 0.96 per cent in 2015. These low figures highlight the serious challenges to competitiveness faced by LDCs, and their important deficits in productive and institutional capacities, as discussed in the remainder of this Report. Between 2011 and 2015, LDCs' share in global exports of goods and services actually fell from 1.05 per cent to 0.96 per cent, which implies that, since the adoption of the IPoA, LDCs have been unable even to prevent their share of global exports from declining.

LDC merchandise trade deficit almost doubled from \$36 billion to \$65 billion.

D. Resource mobilization

1. DOMESTIC RESOURCE MOBILIZATION

Domestic resource mobilization was also identified as a priority area for action in the IPoA, and has since been recognized by the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and the 2030 Agenda for Sustainable Development (2030 Agenda) (both adopted in 2015) as an important process for LDCs to finance their development.

However, this objective remains elusive for most LDCs due to their external resource gaps, the complexity of their development challenges, their narrow tax bases, deficiencies in tax collection and administration, resources forgone due to illicit financial flows, and the underdevelopment of their domestic financial sectors.

The external resource gap of LDCs as a group (that is, the difference between the gross fixed capital formation rate and the gross domestic savings rate) averaged 3.2 per cent of GDP in 2014.⁶ There are, however, variations among LDC subgroups (table Intro.3). From 2013 to 2014, gross fixed capital formation rate fell slightly in African LDCs and Haiti from 25.7 per cent to 25.5 per cent of GDP, while their gross domestic savings rate rose marginally from 24.0 per cent to 24.2 per cent of GDP, thereby narrowing the external resource gap for this group slightly to 1.3 per cent of GDP. Among Asian LDCs, on the other hand, the external resource gap rose to 7.2 per cent of GDP. This was mainly the result of the increase in their gross fixed capital formation rate (from 26.5 per cent to 27.8 per cent of GDP) outweighing the rise in their gross domestic savings rate from 20.3 per cent to 20.6 per cent of GDP.

LDCs' share in global exports fell from 1.05 per cent in 2011 to 0.96 per cent in 2015.

LDCs' external resource gap averaged 3.2 per cent of GDP in 2014, narrowing in Asian LDCs but widening in the Africa and Haiti group.

Table Intro.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	2012	2013	2014	2002–2008	2012	2013	2014	2002–2008	2012	2013	2014
LDCs (total)	22.2	26.6	25.9	26.2	20.0	23.3	22.9	23.0	-2.2	-3.3	-3.0	-3.2
<i>African LDCs and Haiti</i>	22.5	27.2	25.7	25.5	21.7	24.2	24.0	24.2	-0.8	-3.0	-1.7	-1.3
<i>Asian LDCs</i>	22.0	26.1	26.5	27.8	16.4	20.9	20.3	20.6	-5.6	-5.2	-6.2	-7.2
<i>Islands LDCs</i>	12.1	13.7	13.1	14.1	33.7	50.5	41.8	40.9	21.5	36.8	28.7	26.8

Source: UNCTAD secretariat calculations, based on data from the UNCTADstat database (accessed July 2016).

As a group, island LDCs face an external resource surplus (rather than a gap) of 26.8 per cent of GDP. However, this aggregate number can be misleading as it reflects exclusively the savings–investment surplus of Timor-Leste. The other six island LDCs (the Comoros, Kiribati, Sao Tome and Principe, Solomon Islands, Tuvalu and Vanuatu) all have gross fixed capital formation rates that exceed their gross domestic savings rates by margins ranging from 2.6 per cent of GDP in Vanuatu to 82.9 per cent in Kiribati.

Reducing illicit financial flows and mobilizing diaspora savings can generate additional resources for development.

If LDCs maintain their efforts to boost domestic investment rates, in order to accelerate structural transformation and the achievement of the Sustainable Development Goals, their investment–savings gaps are likely to grow further. How investment–savings gaps are financed will have important implications for the indebtedness of LDCs, especially in Africa (UNCTAD, 2016a). LDCs will need to diversify the sources of their development finance away from debt and official development assistance (ODA) towards alternative and innovative sources of finance, potentially including the mobilization of diaspora savings (UNCTAD, 2011) and the tackling of illicit financial flows. For instance, according to the United Nations High-level Panel on Illicit Financial Flows, illicit financial flows out of Africa could potentially amount to \$50 billion a year, approximately double the continent's ODA receipts (UNECA, 2015). Another study indicates that illicit financial flows from LDCs accounted for around 4.8 per cent of GDP in 2008 (Kar, 2011). Policies to mobilize domestic resources in LDCs need to integrate concrete measures to tackle illicit financial flows, which is the other side of the coin of mobilizing development finance in LDCs.

2. OFFICIAL CAPITAL FLOWS

LDCs continue to finance their external resource gap through a mixture of official development financing⁷ — including ODA — and private resource flows such as foreign direct investment (FDI) and remittances.

Net ODA fell by 12.2 per cent in real terms in 2014.

Total net ODA disbursed to developing countries amounted to \$95 billion in 2014. Total net ODA to LDCs in 2014 amounted to \$26 billion,⁸ representing an estimated 27.1 per cent of total ODA to developing countries, down from 31.2 per cent in 2013 (figure Intro.5). Despite the commitments made by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC) donors that they would not reduce ODA to LDCs and that they would allocate 0.15–0.20 per cent of their gross national income to these countries, it is to be noted that net ODA to LDCs fell in real terms by 12.2 per cent from 2013 to 2014. Preliminary estimates indicate that bilateral aid to LDCs was \$25 billion in 2015 (OECD, 2016).

The eight largest recipients of ODA in 2014 were Afghanistan (\$3.9 billion), Ethiopia (\$1.9 billion), South Sudan (\$1.6 billion), the United Republic of Tanzania (\$1.5 billion), Mozambique (\$1.4 billion), Bangladesh (\$1.4 million), the Democratic Republic of the Congo (\$1.2 billion) and Myanmar (\$1.2 billion).

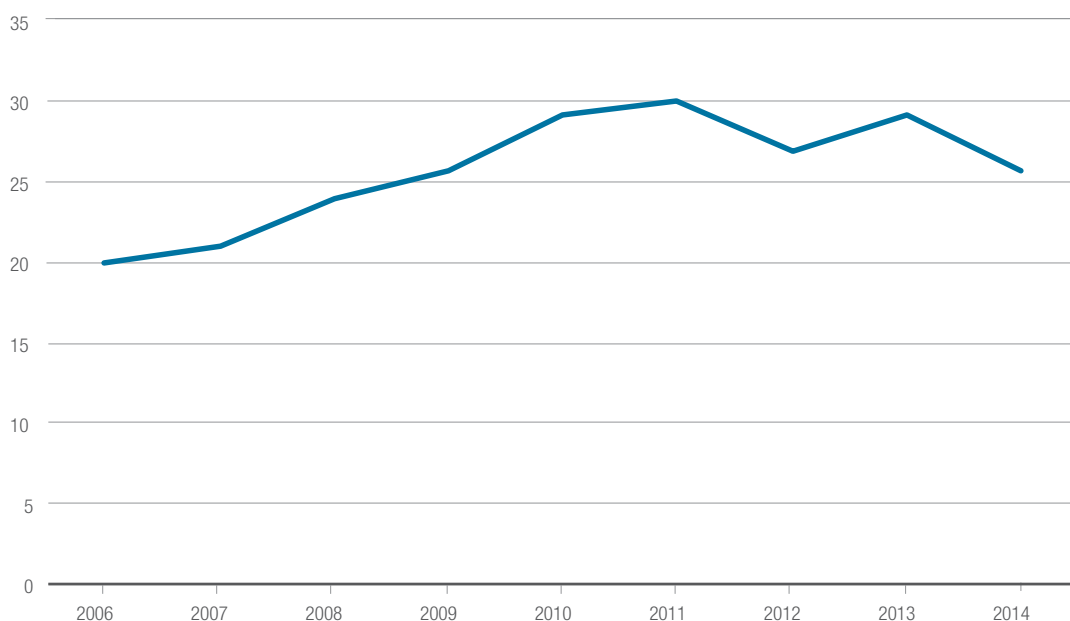
Inflows of FDI increased by one third in 2015, to \$35 billion...

The four largest increases in ODA disbursed (in real terms) from 2013 to 2014 occurred in the Central African Republic (+151.5 per cent), followed by Sierra Leone (+146.7 per cent), Liberia (+132.9 per cent) and South Sudan (+42.7 per cent), representing for the most part emergency and humanitarian aid in the face of a crisis. The four largest declines in ODA disbursed in real terms from 2013 to 2014 took place in Lesotho (-74.0 per cent), Myanmar (-66.4 per cent), the Sudan (-50.8 per cent) and Angola (-35.8 per cent).

3. FOREIGN DIRECT INVESTMENT

Inflows of FDI to LDCs as a group amounted to \$35 billion in 2015, a one-third increase over the previous year (table Intro.4). The growth of FDI inflows

Figure Intro.5. Net ODA disbursed for LDCs, 2006–2014
(Billions of constant 2014 dollars)



Source: OECD International Development Statistics (IDS) database (accessed July 2016).

Note: The latest year for which data are available is 2014. Excludes amounts allocated to unspecified developing countries.

Table Intro.4. FDI inflows into LDCs, 2002–2015
(Millions of dollars)

Category	2002–2008 (annual average)	2010	2013	2014	2015
LDCs (total)	10 939.3	23 762.9	21 366.4	26 311.2	35 107.1
<i>African LDCs and Haiti</i>	8 402.2	13 690.0	16 767.7	22 952.7	28 067.3
<i>Asian LDCs</i>	2 430.3	9 765.7	4 503.2	3 266.2	6 910.7
<i>Islands LDCs</i>	106.9	307.1	95.4	92.3	129.1

Source: UNCTAD secretariat calculations, based on data from the UNCTAD FDI/MNE database (www.unctad.org/fdistatistics) (accessed July 2016).

to LDCs far outpaced that of inflows to all developing countries (+9.5 per cent), where they increased from \$698 billion in 2014 to \$765 billion in 2015. The share of LDCs in FDI flows to developing economies as a whole has been relatively stable since 2010, and reached 4.6 per cent in 2015. It is imperative for LDCs to pursue strategic policies to tap into the development potential of global FDI as a complementary source of development finance as part of their national development strategies, for the implementation both of the IPoA and of the Sustainable Development Goals.

The Africa and Haiti group received the lion's share of FDI flows to LDCs (79.9 per cent of the total). Asian LDCs received 19.7 per cent of the total and the remaining 0.4 per cent went to the island LDCs.

...80 per cent of which went to the Africa and Haiti group.

At a country level, there was a remarkable growth in FDI inflows between 2014 and 2015 in Angola (+351.7 per cent), Myanmar (+198.4 per cent), Liberia (+85.1 per cent), Nepal (+73.8 per cent) and the Lao People's Democratic Republic (+69.2 per cent). This is in marked contrast to the situation between 2013 and 2014 when Angola, Liberia and Nepal experienced a contraction in FDI inflows. Other countries that experienced positive growth of FDI inflows between 2014 and 2015 after a significant contraction in the preceding year

include Bangladesh, Guinea, Guinea Bissau, Madagascar, Solomon Islands, Somalia and the Sudan. FDI inflows switched from being negative to positive in Chad and Vanuatu, and fell considerably in Burundi (-84.4 per cent), Kiribati (-78.9 per cent), the Gambia (-62.7 per cent), Bhutan (-61.8 per cent) and Burkina Faso (-53.1 per cent).

4. PERSONAL REMITTANCES

Remittances to LDCs rose to \$41.3 billion in 2015, 7.1 per cent of the world total...

Personal remittances⁹ worldwide fell to \$582 billion in 2015 from a historic high of \$592 billion in 2014. Remittances to LDCs as a group moved in the opposite direction, rising from \$38.5 billion in 2014 to \$41.3 billion in 2015 (table Intro.5). While this amounts to just 7.1 per cent of the world total, remittances are a significant contributor of external finance in a number of LDCs (UNCTAD, 2012). In 2014, the share of remittances in GDP was 29.2 per cent in Nepal, 24.6 per cent in Liberia, 22.7 per cent in Haiti, 21.2 per cent in the Gambia and 20.2 per cent in the Comoros, and it exceeded 10 per cent in Lesotho, Senegal and Tuvalu. In 2015, the largest recipients of remittances as a share of GDP (among countries for which data were available) were Liberia (33.8 per cent), Nepal (33.4 per cent), Haiti (24.7 per cent), Senegal (11.7 per cent) and Kiribati (11.0 per cent). Of the 23 largest recipients of remittances as a share of GDP in the world (more than 10 per cent of GDP), five were LDCs. In terms of volume, the largest recipients of remittances among LDCs are Bangladesh (\$15.4 billion in 2015), Nepal (\$7 billion), Myanmar (\$3.5 billion), Yemen (\$3.5 billion), Haiti (\$2.2 billion), Senegal (\$1.6 billion) and Uganda (\$1.1 billion). These seven countries accounted for 82.5 per cent of remittances flowing to LDCs in 2015, confirming the historical pattern of concentration of remittance inflows in a few LDCs. The ability of LDCs to muster increasing flows of remittances from their diasporas is likely to depend on a range of factors that include migration possibilities for their citizens abroad, maintenance of close affective ties between diasporas and their countries of origin, costs and facilities to transfer funds from host countries to countries of origin, and domestic conditions in countries of origin.

...and five of the 23 largest recipients relative to GDP are LDCs.

E. The economic outlook for least developed countries

The economic and social prospects of LDCs remain fragile and uncertain.

The economic outlook for LDCs as a group for the next two years remains uncertain and will be driven by unfolding conditions at the global level. The current international economic scenario remains lacklustre due to a combination of weak demand in developed countries as a result of stagnant real wages, the continuing slowdown of international trade, a sharp decline in growth or even recession in many developing countries, high or rising debt in both developed and developing countries, and depressed commodity prices (UNCTAD, 2016b). This international environment will continue to weigh down on the outlook for economic growth in LDCs and, hence, on their prospects for graduation and sustainable development. Nevertheless, the collective GDP growth of the LDCs

Table Intro.5. Remittances inflows to LDCs, 2002–2015, selected years
(Millions of current dollars)

Category	2002–2008	2010	2013	2014	2015
LDCs (total)	13 446.6	25 330.8	35 374.4	38 523.0	41 323.8
<i>African LDCs and Haiti</i>	5 412.5	8 555.5	10 129.3	10 337.5	11 004.5
<i>Asian LDCs</i>	7 964.4	16 499.8	25 003.4	27 924.5	30 036.2
<i>Islands LDCs</i>	69.7	275.6	241.8	261.0	283.1

Source: UNCTAD secretariat calculations, based on data from the World Bank Migration and Remittances database (accessed July 2016).

is forecast to strengthen somewhat to 4.5 per cent in 2016 and 5.7 per cent in 2017. However, even if this stronger growth materializes, it will be lower than the IPoA target. African LDCs will be significantly more impacted, especially if the downward trend in commodity prices and slump in demand for commodities continue unabated, as developed and developing markets struggle to cope with challenges of their own in revitalizing their economies.

A number of LDCs are likely to face increasing current account deficits as a result of a general fall in export earnings, reflecting slower global demand growth. This may be compounded by a further appreciation of the dollar or depreciation of their local currencies, inflating their import expenditures. Such increases in current account deficits will intensify pressure on the external financing requirements of the countries concerned.

Combined with volatile and unpredictable aid flows, and lower remittances due to deteriorating economic conditions in host countries, the depressed level of export earnings may also trigger adverse fiscal shocks, particularly in those LDCs dependent on aid and primary commodities. LDCs could be confronted with a situation of “twin deficits” (that is, a combination of external and fiscal deficits), which would require sound macroeconomic policy management. Outbreaks of civil unrest in politically unstable LDCs and adverse environmental shocks, especially in small island LDCs, will only increase their economic vulnerabilities further. Such adverse external and internal shocks can be expected to impede national development strategies and planned infrastructure improvements in many LDCs.

Overall, the economic and social prospects of LDCs remain fragile. The accelerated implementation of development-oriented policies — to reduce economic vulnerabilities through the development of productive capacities, to promote social inclusion and cohesion, and to mitigate disaster-related risks — remains a paramount priority for all LDCs. This applies equally to those expected to graduate before 2025, and those for which graduation remains more distant, as analysed in the remainder of this Report.

While LDC growth may strengthen in 2016-2017, this depends on global economic conditions...

...and macroeconomic management needs to address the risk of twin (external and fiscal) deficits.

Notes

- 1 A comprehensive set of statistics on the LDCs is available in *Statistical Tables on the Least Developed Countries – 2016* (available at unctad.org/LDCs/Statistics), a sister publication to the present Report.
- 2 The real GDP growth rate (per cent) for the LDC group as a whole was 6.6 per cent in 2008, 4.6 per cent in 2009, 5.6 per cent in 2010, 4.4 per cent in 2011, 7.1 per cent in 2012, 6.1 per cent in 2013, 5.6 per cent in 2014 and 3.6 per cent in 2015.
- 3 This analysis of the current account is based on data from the International Monetary Fund's (IMF) World Economic Outlook database of April 2016, which includes data for 2015 and projections for subsequent years. These data may differ from data contained in the UNCTADstat database. Data from UNCTADstat on 2015 current account balances were not yet available at the time of writing.
- 4 Whereas export sales of fish are classified as merchandise exports, revenues from royalties and licence fees for fishing by foreign fleets are recorded in the balance of payments as a services receipt.
- 5 This discussion is based on data from UNCTADstat database (accessed July 2016). Data for trade in services follow the methodology of the sixth edition of the IMF's balance of payments manual (IMF, 2009).
- 6 Data for 2015 were not available at the time of writing.
- 7 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)).
- 8 Excluding allocations that are not attributed to a specified recipient country.
- 9 The World Bank data on remittances used here include balance of payments data and estimates.

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