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The Least Developed Countries Report 2014

Growth with structural transformation: A post-2015 development agenda

Chapter 1

Recent Trends and Outlook for the LDCs

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CHAPTER 1

Recent Trends and Outlook for the LDCs

A. Introduction

From 2002 to 2008, the least developed countries (LDCs) as a group experienced impressive economic growth, with their real gross domestic product (GDP) growing at an average annual rate of more than 7 per cent. This represented the strongest and longest period of growth acceleration achieved by this group of countries since 1970 (UNCTAD, 2010: chap.1). It was largely due to their robust export performance in the context of rising commodity prices and expanding global output, along with buoyant capital inflows stemming from higher remittances, foreign direct investment (FDI) and official development assistance (ODA). However, their performance in terms of achieving the Millennium Development Goals (MDGs) was disappointing (as discussed in chapter 2 of this Report).

From 2002 to 2008, LDCs as a group experienced impressive economic growth benefitting from favourable global economic conditions.

The conditions that had enabled strong growth in the LDCs as a group changed drastically from 2008 to 2012. Global output growth slumped with the deepening of the world economic and financial crisis. The contagion effects of the global crisis on LDCs were transmitted mainly through trade-related channels: their export performance and revenues suffered heavily from the sharp fall of commodity prices, combined with a decline in global demand. FDI flows to LDCs also declined sharply in the wake of the global crisis. Still, despite the slowdown, the LDCs as a group achieved an average growth rate of 5.7 per cent during the period 2008–2012, thus displaying apparent economic resilience.[1]

The conditions that had enabled strong growth in the LDCs as a group changed drastically from 2008 to 2012.

In 2013, LDCs maintained high economic growth, though they began to show signs of an economic slowdown. Sluggish global economic growth, which translated into lower international demand for commodities and a consequent decline in their prices, adversely affected the economic growth and export performance of several LDCs, most notably the fuel exporters. This resulted in a substantial deterioration of their current account and their merchandise trade. Although FDI reached a record high and inflows of remittances continued unabated, ODA started to show signs of stagnation and savings rates fell, leading to a greater need of external finance. Indeed, this has been a long-standing requirement of LDCs and it continues to play a vital role in financing investment.

This chapter analyses the recent performance of LDCs in terms of their economic growth (Section B), current account and participation in international trade (section C), as well as their sources of domestic and external finance (Section D). Section D concludes analysing the economic outlook for these countries. The analysis is conducted mainly for the LDCs as a group as well as for LDCs grouped by region and export specialization.[2] Due to the heterogeneity of these countries, more detailed country-level data is presented in a statistical annex at the end of this Report.

In 2013, LDCs maintained high economic growth, though they began to show signs of an economic slowdown.

B. The real sector

LDCs as a group continued to grow at a high rate in 2013, with their average real GDP increasing by 5.6 per cent (table 1). Although this was higher than the growth rates of developed countries (1.3 per cent) and all developing countries (4.6 per cent), it was below the upward revised rate of 2012 (7.5 per cent), and lower than the average rate of more than 7 per cent attained during the boom period of 2002–2008. Most notably, LDCs did not reach the 7 per cent annual growth target established by the Istanbul Programme of Action (IPoA, para.28a) (United Nations, 2011).

Given their dependence on external economic conditions, LDCs could not escape the slowdown in the overall global economy since 2010, a slowdown experienced by both developed and developing economies. Sluggish global output growth of 2.3 per cent in 2013 continued to affect them (UNCTAD, 2014a). Although there were some signs of improvement during the second half of the 2013 (mostly due to a revival of economic activity in developed economies), global recovery remains uneven.

Despite a less favourable external environment than in previous years, LDCs grew by 5.6 per cent in 2013.

Despite a less favourable external environment than in previous years, the economic performance of all LDC groups remained strong in 2013. LDCs in all regions attained growth rates hovering at around 6 per cent, with African LDCs and Haiti lagging only slightly behind their Asian and island counterparts. The difference was more pronounced when considering African LDCs' real GDP per capita. Their much faster demographic expansion offset comparatively faster GDP growth, causing their per capita GDP growth rates to be lower than that of other LDC groups and other developing countries (ODCs). Real GDP per capita in LDCs as a group increased by 2.8 per cent in 2013, which means that in many LDCs economic growth will have only a limited impact on living standards, given widespread poverty and an average population growth rate of 2.3 per cent (see chapter 2 of this Report).

While LDCs in all regions attained similar growth rates ...

Fuel-exporting LDCs exerted a drag on the overall economic performance of LDCs as a group in 2013. They registered a growth rate of 4.7 per cent – substantially lower than the 10.3 per cent achieved in 2012. Their slower growth was caused by a notable decline in fuel revenues in Angola, Chad and Equatorial Guinea, as the fuel sector not only suffered from lower fuel production but also lower international prices for crude oil (box 1). More generally, fuel exporters tended to register more volatile GDP growth rates. Given their overreliance on fuel exports for economic growth, any significant disruption in fuel production or international crude oil prices jeopardizes their entire economy.

... their economic performance according to export specialization showed mixed results.

Fuel production stagnated in Angola and declined in several others fuel-exporting LDCs in 2013. In Angola, the largest fuel producer among LDCs, the fuel industry maintained an average output of 1.8 million barrels per day (mb/d) in 2013, similar to 2012, but below the 2 mb/d production peak achieved in 2010. Fuel production in Chad also fell, from 105,000 barrels per day in 2012 to 97,000 barrels per day in 2013. In Equatorial Guinea, reduced fuel output plunged the country into recession; fuel production slowed down from 310,000 barrels per day in 2012 to 290,000 barrels per day in 2013, as major oilfields passed their peak production levels and no significant new fields have been found. South Sudan is the sole exception to the decline in fuel production: its

Table 1. Real GDP growth rates in LDCs, developing and developed economies, 2009–2014
(Per cent)

	2008	2009	2010	2011	2012	2013	2014
LDCs (total)	***6.8***	***4.5***	***5.7***	***4.2***	***7.5***	***5.6***	***6.0***
African LDCs and Haiti	6.4	4.9	5.9	4.1	7.2	5.6	6.0
Asian LDCs	5.3	5.9	6.5	3.8	6.4	5.7	6.0
Island LDCs	10.4	7.4	7.1	9.2	7.1	6.5	7.2
Food and agricultural exporters	7.5	6.6	6.3	5.1	1.8	4.1	5.5
Fuel exporters	8.1	2.6	4.3	-0.5	10.3	4.7	4.7
Manufactures exporters	5.8	5.2	5.8	6.5	6.1	5.8	6.0
Mineral exporters	5.4	4.0	6.4	6.1	6.0	6.2	7.6
Services exporters	8.6	7.5	7.0	7.1	7.0	6.2	5.9
Mixed exporters	5.4	4.2	5.9	5.1	7.1	5.9	6.9
Other developing countries	5.1	2.7	7.8	5.7	4.8	4.5	4.7
All developing economies	5.4	2.6	7.8	6.0	4.7	4.6	4.7
Developed economies	0.0	-3.7	2.6	1.4	1.1	1.3	1.8

Source: UNCTAD secretariat calculations, based on data from UN/DESA, *National Accounts Main Aggregates* database (accessed June 2014); and IMF, *World Economic Outlook* database (accessed July 2014).
Notes: For the composition of country groups, see page xiv. Data for 2014 are a forecast.

strong economic growth performance (estimated at 25 per cent) was largely due to a sharp increase in fuel output, from 115,000 barrels per day in 2012 to 250,000 barrels per day in 2013 (EIA, 2014).

The economic performance of LDCs that are fuel exporters, mixed exporters, services exporters and manufactures exporters also slowed down in 2013.

The economic performance of LDCs that are mixed exporters, services exporters and manufactures exporters also slowed down in 2013, albeit at different rates. Overall growth in the group of mixed exporters slowed down last year as higher growth in the Lao People's Democratic Republic and Myanmar did not compensate for declining growth rates in other LDCs of this group, in general, and a slump in the Central African Republic (which recorded a 37 per cent contraction of output) in particular.[3] Services exporters also grew at a slower pace, as strong expansion in Uganda and Ethiopia did not compensate for poorer performance elsewhere. Exporters of manufactures, on the other hand, continued to achieve GDP growth rates of around 6 per cent, though they registered a minor slowdown of growth in 2013 (down by 0.3 percentage points to 5.8 per cent) largely due to sluggish economic growth in both Bangladesh and Cambodia.

Food and agricultural exporters and mineral exporters improved their economic performance in 2013.

Food and agricultural exporters and mineral exporters improved their economic performance in 2013. Food and agriculture exporters saw a GDP growth rate of 4.1 per cent — substantially higher than their 1.8 per cent growth in 2012 — mainly as a result of moderate but widespread improvements of exports in several countries. Even more impressive is the fact that their general improvement in export performance was achieved in the context of an overall declining trend in global commodity prices. Mineral exporters, by contrast, registered a moderate increase in growth rates of only 0.2 percentage points, to reach 6.2 per cent in 2013. Contributing to this growth performance was Sierra Leone's continued double-digit growth (16.3 per cent), supported by the ongoing expansion of its mining sector (particularly iron ore production). Most notably, exploitation of the Tonkolili and Marampa iron ore mines led to a rise in iron ore production by nearly 150 per cent to 16.5 million tonnes in 2013 (EIU, 2014).

To sum up, in 2013 LDCs maintained strong economic growth, though they were beginning to show signs of economic slowdown. Improvements in the economic performance of food and agriculture exporters and mineral exporters compensated for the lower GDP growth rates of the fuel-exporting LDCs. In 2013, 11 out of the 48 LDCs achieved growth rates at 7 per cent or above, while six LDCs registered growth rates below 2 per cent (see annex). Due to their high population growth rates, LDCs with real GDP growth rates of around 2 per cent experienced lower or negative per capita growth rates. This seriously affects their ability to achieve poverty reduction and other MDGs.

The group of LDCs continued to see a rise in the current account deficit in 2013, reaching a historic peak of $40 billion.

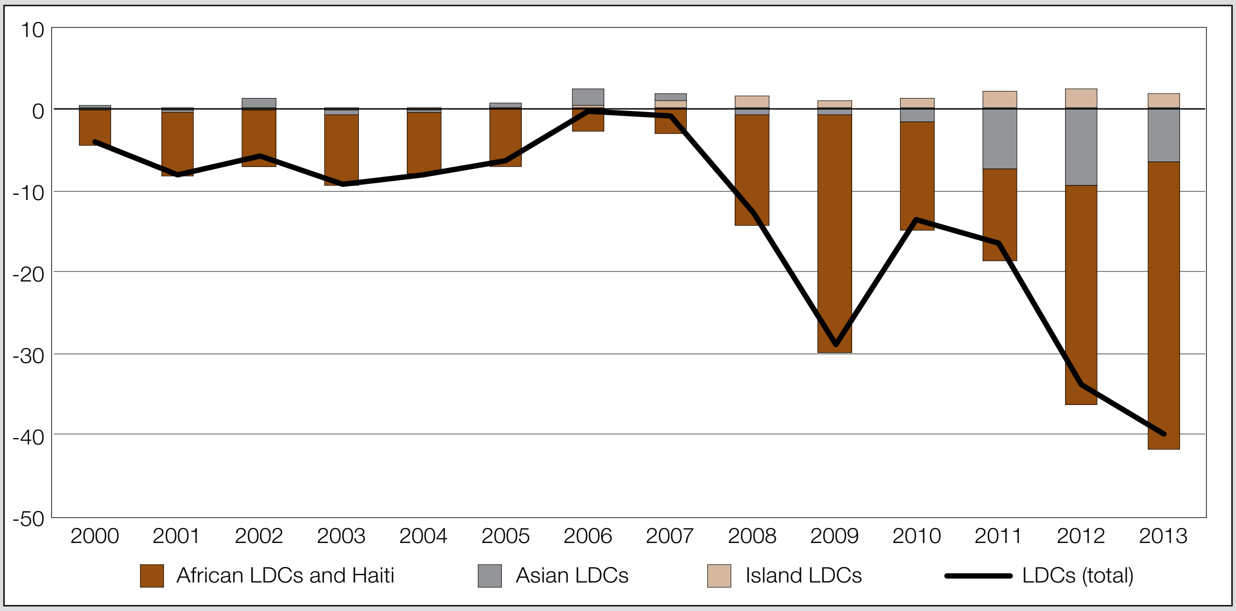
C. Current account and international trade

1. Current account balance

The group of LDCs continued to see a rise in the current account deficit in 2013, reaching a historic peak of $40 billion. This represented an increase of 17 per cent from the previous record of $33 billion attained in 2012. Indeed, since the onset of the global economic crisis, the current account deficit of the LDCs as a group has increased substantially (chart 1).

The increase of the current account deficit was primarily due to a widening of the current account deficit of African LDCs and Haiti, which reached $35 billion

Chart 1. Current account balance of LDCs, 2000–2013
(Billions of current dollars)



Source: UNCTAD secretariat calculations, based on data from IMF, *Balance of Payments* database (accessed August 2014).

in 2013 — a rise of 31.3 per cent — due to the sharp worsening of the current accounts of several African fuel exporters, particularly Angola (whose surplus dropped by half) and Chad (whose deficit more than doubled). By contrast, the deficit of Asian LDCs shrunk from $9.5 to $6.5 billion, notwithstanding a widening deficit of fuel exporting Yemen, from $0.9 to $2.9 billion. Island LDCs' current account, which has maintained surpluses since 2006, witnessed an overall decrease of 24.6 per cent to register a surplus of only $1.9 billion in 2013, notwithstanding slight improvements in the surplus of some countries, such as Tuvalu. Despite the decline, the group of island LDCs remains the only LDC group with a consistent positive current account balance.

The deterioration of LDCs' current account, which started in 2009, results from different trade performances of LDC regional groups.

The deterioration of LDCs' current account, which started in 2009, results from different trade performances of LDC regional groups. The worsening of the trade balance of African LDCs and Haiti played a key role in exacerbating LDCs' current account deficit. Asian LDCs' current account deficit also deteriorated over the same period, albeit to a lesser extent. This outcome is partially due to an improved export performance where the "pull" effect of their regional trading partners and a more diversified export basket helped them to weather the global crisis better than LDCs in other regions (UNCTAD, 2011: chap.1). Island LDCs, on the other hand, had accumulated current account surpluses since 2006 largely thanks to the improved dynamics of trade in services.

In 2013, the merchandise trade deficit of LDCs as a group widened in 2013 though at a rate significantly smaller.

2. Trade balance in goods and services

In 2013, the merchandise trade deficit of LDCs as a group widened (table 2), escalating by 29 per cent to reach $21.1 billion, though this was significantly smaller than the 338 per cent growth of the deficit in 2012, when exports declined in line with the worldwide deceleration of trade in goods (UNCTAD, 2013: chap.1). There were notable differences in the merchandise trade balance of the various LDC groups. The surplus in the merchandise trade of African LDCs and Haiti plummeted from $9.1 billion to $3.9 billion in 2013, a decline of 57 per cent. While the surplus has generally been concentrated in a handful of fuel-exporting countries, most notably Angola, Chad and Equatorial

Table 2. LDCs' export and imports of goods and services 2008–2013
(Millions of current dollars and per cent)

		2008	2009	2010	2011	2012	2013	% change 2013
Merchandise exports	LDCs (total)	168 175	129 448	163 936	202 137	204 561	214 875	5.0
	African LDCs and Haiti	129 565	93 299	117 361	145 989	148 464	150 232	1.2
	Asian LDCs	38 294	35 890	46 259	55 609	55 485	64 105	15.5
	Island LDCs	316	260	317	539	611	537	-12.1
Merchandise imports	LDCs (total)	161 177	152 475	167 295	205 869	220 908	235 984	6.8
	African LDCs and Haiti	107 427	101 491	105 580	125 870	139 284	146 288	5.0
	Asian LDCs	52 510	49 768	60 355	78 428	79 686	87 537	9.9
	Island LDCs	1 240	1 215	1 359	1 571	1 939	2 159	11.4
Merchandise trade balance	LDCs (total)	6 998	-23 027	-3 359	-3 732	-16 347	-21 109	-29.1
	African LDCs and Haiti	22 138	-8 193	11 780	20 118	9 181	3 944	-57.0
	Asian LDCs	-14 216	-13 879	-14 096	-22 818	-24 200	-23 431	3.2
	Island LDCs	-924	-956	-1 043	-1 032	-1 327	-1 622	-22.2
		2008	2009	2010	2011	2012	2013	% change 2013
Service Exports	LDCs (total)	20 706.6	21 550.0	25 009.2	29 676.3	30 807.3	34 518.7	12.0
	African LDCs and Haiti	13 719.4	12 852.9	13 860.0	17 434.0	18 315.0	20 161.5	10.1
	Asian LDCs	6 435.5	8 103.0	10 447.0	11 465.7	11 669.8	13 440.4	15.2
	Island LDCs	418.3	446.2	544.8	605.5	629.4	709.9	12.8
Service Imports	LDCs (total)	58 895.7	54 483.1	60 493.0	72 427.3	75 218.2	75 779.4	0.7
	African LDCs and Haiti	49 099.4	44 252.5	47 902.3	57 814.3	59 140.5	58 221.5	-1.6
	Asian LDCs	8 804.6	8 938.5	10 970.8	12 474.4	14 402.0	15 791.6	9.6
	Island LDCs	918.6	1 213.0	1 546.6	2 060.8	1 575.5	1 663.3	5.6
Service trade balance	LDCs (total)	-38 189.2	-32 933.1	-35 483.8	-42 751.0	-44 411.0	-41 260.7	7.1
	African LDCs and Haiti	-35 380.1	-31 399.5	-34 042.2	-40 380.2	-40 825.5	-38 060.0	6.8
	Asian LDCs	-2 369.1	-835.5	-523.8	-1 008.8	-2 732.2	-2 351.2	13.9
	Island LDCs	-500.2	-766.8	-1 001.8	-1 455.3	-946.1	-953.4	-0.8

Source: UNCTAD secretariat calculations, based on data from *UNCTADstat* database (accessed July 2014).

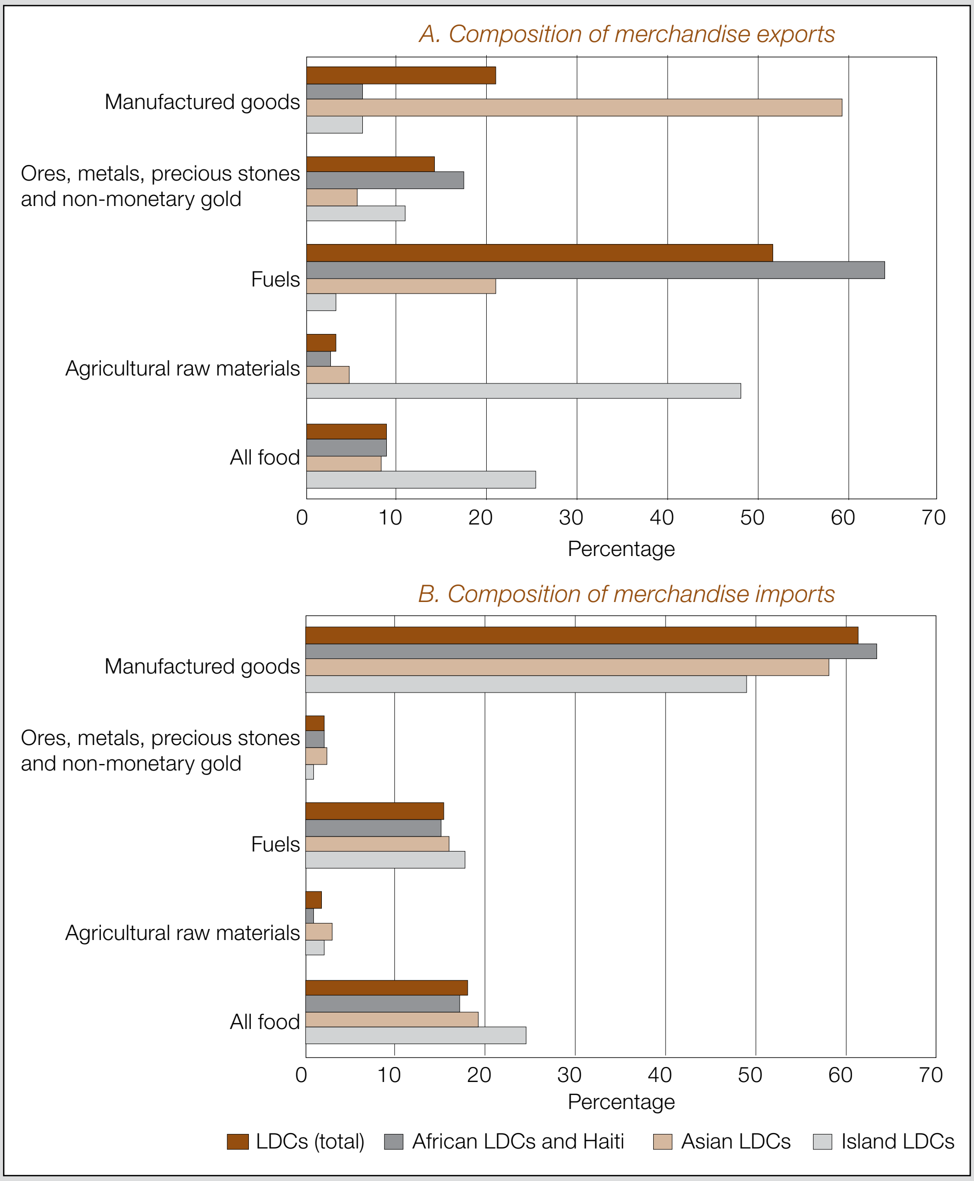
Guinea, the decline of fuel prices and exports contributed to a reduction of their surpluses by 6.5 per cent, 12.5 per cent and 6.5 per cent respectively. Asian LDCs, by contrast, reduced their merchandise trade deficit by 3.2 per cent, to reach $23.4 billion in 2013, largely thanks to increases in merchandise exports (particularly from Bangladesh and Cambodia). Island LDCs' merchandise trade deficit increased by 22 per cent, to reach a historic $1.6 billion in 2013. The deterioration of the deficit was widespread within the group, with the exception of Tuvalu.

The LDCs saw growth in both merchandise exports and imports in 2013, but imports continued to outpace their exports.

The LDCs saw growth in both merchandise exports and imports in 2013, but imports continued to outpace their exports. The merchandise exports of LDCs as a group rose by 5 per cent in 2013. While this growth rate is an improvement from the 0.6 per cent achieved in 2012, it is far lower than the approximately 25 per cent increase in 2011. Nonetheless, their total exports amounted to $214.9 billion in 2013, which was well above the 2008 pre-crisis peak of $168.2 billion. Merchandise imports of LDCs as a group also increased in 2013, at a rate of 6.8 per cent, to reach $236 billion.

The composition of merchandise exports differs substantially among the various LDC groups, unlike the composition of their imports. The difference in the composition of their merchandise exports reflects the heterogeneity of their economies. While fuel exports account for 51 per cent of the total exports of

Chart 2. Composition of merchandise trade of LDCs
(Per cent, average for 2011–2013)



Source: UNCTAD secretariat calculations, based on data from *UNCTADstat* database (accessed July 2014).

LDCs as a group, fuels are the main export item only of African LDCs, while manufactured goods are the bulk of Asian LDCs' exports, and agricultural goods, raw materials and food dominate the exports of the island LDCs (chart 2.a). On the other hand, as noted, the import composition of LDCs does not differ significantly (chart 2.b): manufactured goods account for the largest share of imports of all the LDC groups (61 per cent). However, there are some minor differences with regard to sub-groups of manufactured goods: machinery and transport equipment account for most of the manufactured goods imported by African LDCs and the island LDCs. In contrast, other manufactured products constitute a substantial share of the imports of the Asian LDCs.

Most of the increase in the merchandise exports of LDCs in 2013 was due to the 15 per cent increases in exports of Asian LDCs.

Most of the increase in the merchandise exports of LDCs in 2013 was due to the 15 per cent increases in exports of Asian LDCs. In particular, Bangladesh and Cambodia registered export growth of 16 per cent, driven by their exports of labour-intensive manufactured goods. Island LDCs' exports, by contrast, declined by 12 per cent, as the slight increase of their key export

Box 1. Recent trends in international commodity prices

The merchandise trade performance of many LDCs is closely related to the dynamics of international commodity prices owing to the predominance of commodities in these countries' total exports. Hence, fluctuations in commodity prices remain a central issue for LDCs.

International commodity prices declined moderately in 2013, mainly due to generally weak global demand associated with continuing sluggish global economic growth (box table 1). Most commodity prices continued their declining trend of the previous year, contrasting with the "roller-coaster" dynamics that have characterized international commodity markets over the past few years: a sharp increase in 2007 and 2008, followed by a downward correction in 2009, and a rapid rebound in 2011.

Food prices (except for fishmeal and cocoa beans), as well as prices of agricultural raw materials, fell by 7 per cent in 2013, despite a strong increase in tobacco prices. Prices of minerals, ores and metals were also on a downward trend in 2013, falling by 5 per cent. This decline resulted from weaker global economic growth, particularly the deceleration of growth in the more dynamic developing economies.

The price of crude oil, on the other hand, has been relatively stable since 2011. The oil market was well supplied in 2013, despite significant production disruptions. International crude oil prices were relatively stable because greater United States production and seasonally higher Saudi Arabian production (with peak summer production levels maintained into the third quarter) offset outages elsewhere (EIA, 2014).

An exception to the declining trend was the price of iron ore, which outperformed other commodity prices in 2013. Its surprising surge has been largely attributed to China's continued heavy spending on subways, bridges and other infrastructure, which kept demand for iron ore high. Although iron ore prices are still about a third lower than their all-time peak three years ago, they remain well above 2012 levels.

Although showing minor signs of weakening, commodity prices remained, on average, substantially higher than their levels registered in 2008 (except for the price of minerals, ores and metals as a group). The price decline in 2013 was at a slower pace than in 2012, which suggests that commodity prices may remain high in historical terms, even after some short-term corrections (UNCTAD, 2014a).

Box table 1. Price indices of selected primary commodities of importance to LDCs , 2008–2014 Q2
(Indices, 2000=100 and per cent)

	2008	2009	2010	2011	2012	2013	2014		Percentage change 2012–2013
							Q1	Q2	
All food	***236***	***216***	***232***	***273***	***269***	***249***	***243***	***245***	***-7.4***
Wheat	288	197	204	276	275	270	259	277	-1.9
Rice	344	289	256	271	285	255	216	201	-10.6
Sugar	156	222	260	318	263	216	204	220	-17.9
Fish meal	274	298	409	372	377	423	383	410	12.1
Coffee, Arabicas	163	166	228	321	220	166	207	251	-24.8
Coffee, Robustas	252	183	200	275	263	239	242	256	-9.2
Cocoa beans	291	325	353	336	269	275	333	348	2.0
Tea	109	127	125	140	141	107	100	90	-23.9
Agricultural raw materials	***198***	***163***	***226***	***289***	***223***	***206***	***198***	***191***	***-7.4***
Tobacco	120	142	144	150	144	153	168	170	6.3
Cotton	121	106	175	258	150	153	159	156	1.5
Non-coniferous woods[1]	154	154	161	158	153	157	..	..	2.3
Non-coniferous woods [2]	..	..	..	..	100	103	106	108	3.1
Minerals, ores and metals	***332***	***232***	***327***	***375***	***322***	***306***	***289***	***281***	***-5.1***
Iron ore [3]	83	100	184	210	161	169	151	129	5.3
Aluminium	166	107	140	155	130	119	110	116	-8.6
Copper	384	283	416	487	438	404	388	374	-7.8
Gold	312	349	440	562	598	506	464	462	-15.4
Crude petroleum	***344***	***219***	***280***	***368***	***372***	***369***	***367***	***377***	***-0.9***

Source: *UNCTADstat, Commodity Price Bulletin* (accessed 24 August 2014).
Notes: [1] Non-coniferous woods: series discontinued end September 2013, United Kingdom import price index 2005=100, dollar equivalent
[2] Non-coniferous woods: new series starting January 2012, United Kingdom import price index 2010=100, dollar equivalent
[3] Iron ore: New series starting November 2008, Iron ore, China import, fines 62 per cent Fe spot (CFR Tianjin port) ($/dry ton)

sectors (agricultural goods, raw materials and food) did not compensate for the widespread decline of their other export sectors. The merchandise exports of African LDCs registered a slight increase (1.2 per cent), despite the stagnation of the fuel exporters' external sales.

The broad increase in imports of goods of all LDC groups in 2013 was due to the double-digit growth of imports of manufactured goods. Imports to Asian LDCs were again highly concentrated in textiles, which rose by 21 per cent.[4] Imports of other manufactured goods rose consistently in the African LDCs. Machinery and transport equipment constituted the bulk of African and island LDCs' imports. LDCs' food imports increased sharply in 2013, by as much as 24 per cent.

The broad increase in imports of goods of all LDC groups in 2013 was due to the double-digit growth of imports of manufactured goods.

The trade deficit in services of LDCs as a group declined in 2013, driven by the strong export performance of all LDC groups. LDCs' trade balance in services recorded a deficit of \$41.3 billion in 2013 — an improvement of 7 per cent from the \$44.4 billion deficit of 2012 (table 2). This reversal of a growing deficit since 2009 was the result of the widespread and strong performance of total LDC exports (12 per cent) combined with stagnating imports (0.7 per cent), the latter being largely driven by a 1.6 per cent reduction of imports by African LDCs and Haiti. All regional LDC groups registered positive double-digit growth rates in exports of services.

The trade deficit in services of LDCs as a group declined in 2013, driven by the strong export performance of all LDC groups.

Trade has an important role in ensuring LDCs' sustainable economic development. Fuel-exporting African LDCs strongly influenced the weaker performance of this LDC group in terms of both the current account and merchandise trade balance. Asian LDCs, on the other hand, continued to improve their external performance by increasing their exports and reducing their trade deficit. Overall, there were noticeable differences among LDCs: only seven countries posted a merchandise trade surplus in 2013. These included fuel exporters (Angola, Chad and Equatorial Guinea) and non-fuel mineral exporters (the Democratic Republic of the Congo and Zambia). Sierra Leone's trade deficit saw the largest reversal, from deficit to surplus in 2013, largely thanks to an increase in iron prices and iron exports (which represent 70 per cent of its total exports). Angola led all the LDCs with a surplus of \$44.3 billion.

D. Resource mobilization[5]

1. Domestic resource mobilization: Gross fixed capital formation and savings

Variations in the real GDP growth rates of the different LDCs are also a consequence of disparities in several macroeconomic indicators, including gross fixed capital formation (GFCF). While fixed investment is relevant for economic growth of all economies, regardless of their level of development, the case of LDCs deserves particular attention. Owing to their structural underdevelopment, LDCs are especially in need of fixed investment for achieving sustainable growth. Acknowledging this, the Brussels Programme of Action for the Least Developed Countries for the Decade 2001–2010 had adopted as a target a GFCF rate of 25 per cent of GDP as a prerequisite for supporting GDP growth rates of 7 per cent (United Nations, 2001: para.6) and this level remains a benchmark.

In 2012, LDCs as a group reached a gross fixed investment rate of 24.5 per cent of GDP, close to the Brussels Programme of Action target of 25 per cent of GDP.

In 2012, LDCs as a group reached a gross fixed investment rate of 24.5 per cent of GDP, close to that target (table 3). However, only Asian LDCs achieved a fixed investment rate above this threshold (27.2 per cent of GDP), while African

Table 3. Gross fixed capital formation, gross domestic savings and external resource gap in LDCs, and other developing countries, selected years
(Per cent of GDP)

	Gross fixed capital formation					Gross domestic savings					External resource gap				
	2000-2008	*2009*	*2010*	*2011*	*2012*	*2000-2008*	*2009*	*2010*	*2011*	*2012*	*2000-2008*	*2009*	*2010*	*2011*	*2012*
LDCs	20.5	22.3	22.6	22.9	24.5	17.6	15.5	20.1	21.6	20.0	-2.9	-6.8	-2.5	-1.4	-4.5
African LDCs and Haiti	19.3	21.6	21.8	21.6	23.0	18.2	14.9	21.5	23.0	21.1	-1.1	-6.7	-0.2	1.3	-1.9
Asian LDCs	22.6	23.6	24.0	25.2	27.2	16.4	16.0	17.2	18.4	17.6	-6.2	-7.6	-6.7	-6.8	-9.6
Island LDCs	11.8	17.5	18.2	18.2	17.2	31.8	34.0	40.8	50.6	43.3	20.0	16.6	22.6	32.4	26.1
Other developing economies	26.1	30.2	30.2	30.4	31.1	32.0	33.8	35.1	35.6	35.4	5.9	3.6	4.9	5.3	4.4

Source: UNCTAD, *UNCTADstat* database (accessed August 2014).

LDCs' fixed investment rate, albeit increasing, was slightly lower than that threshold, at 23 per cent of GDP in 2012.

Savings rates in LDCs declined in 2012.

Savings rates in LDCs declined in 2012, from 21.6 per cent of GDP in 2011 to 20 per cent. Heterogeneity in real GDP growth rates among LDCs is a consequence of disparities not only in GFCF but also in savings rates – a key indicator of the potential for investment. The deterioration took place in all LDC group, with island LDCs experiencing the largest drop of 7.3 percentage points of GDP.

As a result of these investment and savings tendencies, the external resource gap of LDCs widened markedly.

As a result of these investment and savings tendencies, the external resource gap of LDCs widened markedly, from -1.4 per cent of GDP in 2011 to -4.5 per cent of GDP in 2012, indicating a higher reliance on external resources for financing. By contrast, fuel exporters (i.e. Angola, Chad and Equatorial Guinea) and island LDCs maintained a positive resource gap throughout 2012. Sierra Leone was the only LDC that attained a zero balance, thanks to a combination of both lower fixed capital formation and higher savings rates.

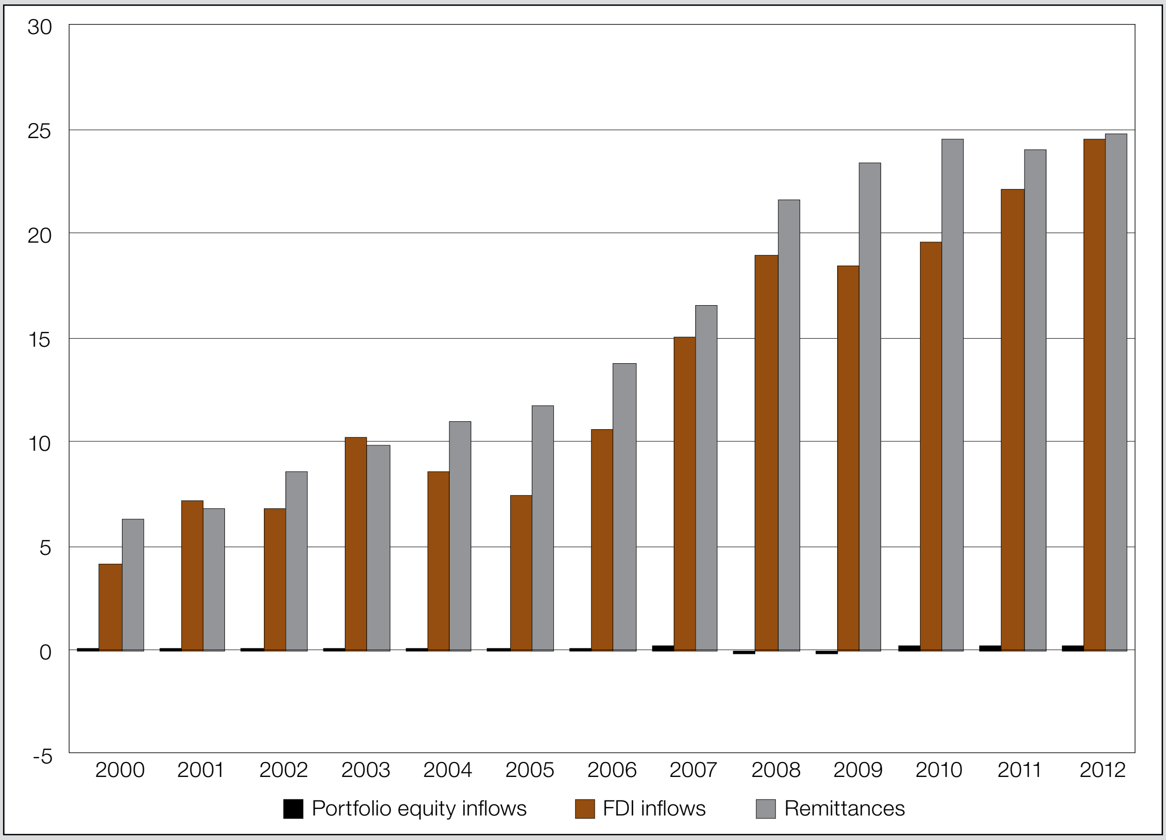
2. External resource mobilization: Private and official capital flows

LDC savings and investment dynamics reveal a continuing overreliance on external financing for investment. With investment in fixed capital at 24.5 per cent of GDP and a domestic savings rate of 20 per cent of GDP, LDCs needed external resources equivalent to 4.5 per cent of GDP to finance their current level of fixed investment in 2012. While specific rates vary among them, external finance is of crucial importance for all of these countries.

LDCs needed external resources equivalent to 4.5 per cent of GDP to finance their current level of fixed investment in 2012.

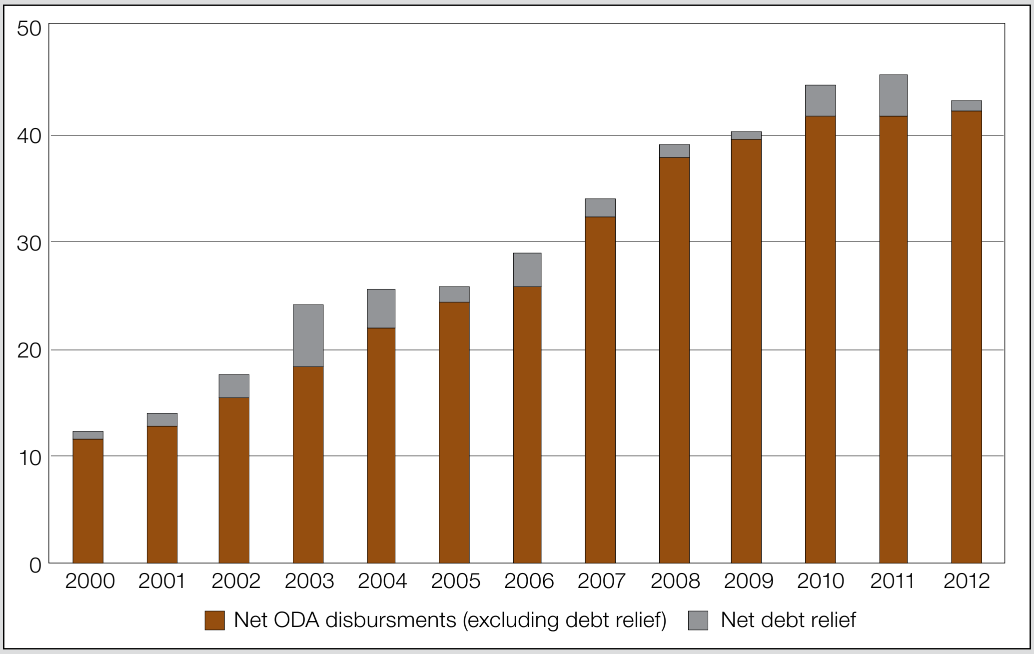
The composition of external financial flows to LDCs differs from that to developed countries and ODCs. In developed countries and ODCs, private flows such as FDI and portfolio investments are the principal sources of external finance, whereas in LDCs, the major source of private flows is remittances, which are larger and more stable than FDI flows (UNCTAD, 2012: chap.1)[6]. Portfolio flows to LDCs, on the other hand, are negligible (chart 3). For several LDCs, remittances are also a major component of their balance of payments (BoP), and constitute a vital source of foreign exchange that can be used to partially finance other BoP components (e.g. their trade deficit). Within official capital flows, net ODA disbursements account for the bulk of external finance (chart 4). Hence, remittances and concessional official financing remain extremely important for LDCs, accounting for almost three fourths (30 per cent and 45 per cent respectively) of total capital flows to these countries.

Chart 3. Private capital flows to LDCs, 2000–2012
(Billions of current dollars)



Source: UNCTAD secretariat calculations, based on data from World Bank, *World Development Indicators* database (accessed August 2014) and UNCTAD, *UNCTADstat* database (accessed August 2014).

Chart 4. Official capital flows to LDCs, 2000–2012
(Billions of current dollars)



Source: UNCTAD secretariat calculations, based on data from OECD *DAC database* (accessed August 2014).

Total capital flows to LDCs as a group increased in 2012, driven by higher private flows, which rose by 16 per cent to $56 billion in 2012, thanks to an increase in remittances along with historically high FDI inflows. Official capital flows, on the other hand, showed a mixed trend: ODA, excluding debt relief, increased slightly by 1.3 per cent, to $42.3 billion, while debt relief fell by 79 per cent to $0.8 billion.

Total capital flows to LDCs as a group increased in 2012, driven by higher private flows.

Remittances increased significantly by 11 per cent in 2012 to reach $29.5 billion, largely as a result of increasing flows to Asian LDCs. Indeed, Asian LDCs accounted for by far the largest proportion of remittances to LDCs with a 70 per cent share in total remittances. Bangladesh alone accounts for 45 per cent of total remittances to LDCs. In 2012, remittances to Asian LDCs surged by $2.8 billion to reach $21.2 billion, mostly due to a rise of $2 billion in Bangladesh, resulting in a total of $14 billion of flows to that country. Other Asian LDCs also registered increases, albeit weaker, most notably Nepal and Myanmar, where remittances rose by $0.7 billion and $0.4 billion respectively. In African LDCs and Haiti, the results varied: while growing by $0.2 billion to $8.2 billion in aggregate, only a few countries, including Haiti and Uganda, registered higher remittance flows. In contrast, flows to most other LDCs declined in 2012. For example, they fell sharply in Senegal and Lesotho, where remittances are of crucial importance to their economies, accounting for a large share of gross national income (higher than 10 per cent) (UNCTAD, 2012: chap.3). In island LDCs, the decline was broad-based, with remittance flows declining to $162 million in 2012 from $164 million in 2011.

Remittances increased significantly, largely as a result of increasing flows to Asian LDCs.

FDI inflows to LDCs rose by 10 per cent to a record high of $24.4 billion in 2012, the largest recipients being the mineral-exporting African LDCs. This increase in FDI inflows to LDCs occurred despite a sizeable decline in global FDI outflows and inflows. For example, outflows from developed countries to the rest of the world dropped to a level close to the trough of 2009, and their inflows reached a low level last observed 10 years ago. Notwithstanding this adverse environment, inflows to African LDCs grew by $2.5 billion to reach $21.8 billion, accounting for more than 70 per cent of total flows to LDCs. These flows, however, remained highly concentrated in a few resource-rich African LDCs, with non-resource sectors receiving a limited share of overall FDI flows to LDCs. In 2012, FDI inflows were mostly directed to mineral exporters, especially the Democratic Republic of the Congo, Mauritania and Mozambique. Asian LDCs also registered higher FDI inflows in 2012, up by $1 billion to total almost $6 billion. Cambodia accounted for a large proportion of these FDI inflows, which increased by 79 per cent in 2012. Inflows into island LDCs, on the other hand, registered a sharp slowdown, amounting to only $212 million — the lowest since 2005.

FDI inflows to LDCs rose to a record high, the largest recipients being the mineral-exporting African LDCs.

Regarding official capital inflows, ODA (excluding debt relief) was virtually stagnant. The average annual growth rate of ODA to LDCs was only about 1 per cent for each of the two consecutive years of 2011 and 2012.[7] If debt relief is included in ODA, total flows showed a negative trend: after achieving a record high of $45.5 billion in 2011, those flows to LDCs slowed down to $43 billion in 2012. The decline of ODA (including debt relief) in 2012 was due to lower debt relief to African LDCs. The Democratic Republic of Congo, the second largest receipt of ODA in the LDC group after Afghanistan, registered the sharpest decline, from $5.5 billion in 2011 to $2.9 billion in 2012. Aid flows to Asian LDCs, on the other hand, increased by $0.8 billion to $12 billion in 2012, largely owing to increased flows to Bangladesh ($0.7 billion), whereas flows to island LDCs remained stable.

ODA (excluding debt relief) was virtually stagnant.

In sum, while LDCs have made considerable efforts to mobilize domestic resources for their development, lower savings rates have led to a widening of the external resource gap. While private capital flows (both remittances and FDI flows) to LDCs increased in 2012, ODA, the largest source of external financing for LDCs, tended to stagnate. According to the Organisation for Economic Co-operation and Development (OECD), lower or stagnant ODA is partly due to a broad set of austerity measures adopted by donor countries in recent years (UNCTAD, 2013: chap.1). Ensuring greater financial resources remains a key challenge for financing LDCs' development. With a widening external resource gap and with no increase in ODA, LDCs face significant challenges in their future growth efforts.

FDI flows to LDCs rose to a record high of nearly $28 billion.

3. FDI inflows into LDCs in 2013

In 2013, FDI flows to LDCs rose by $3.5 billion (14 per cent) to a record high of nearly $28 billion (table 4), representing almost 2 per cent of global inflows. While this is a low share, it has been increasing since 2010. Global FDI inflows rose by 9 per cent in 2013, to reach $1.45 trillion (UNCTAD, 2014b) amidst a return of cautious optimism in support of FDI.

African LDCs accounted for a large proportion of the increase in FDI flows to LDCs.

African LDCs accounted for a large proportion of the increase in FDI flows to LDCs: with their FDI inflows increasing by $2.5 billion, the total inflows to this group of LDCs escalated to $21.8 billion, despite significant disinvestment taking place in Angola (negative inflows of $4.3 billion). Asian LDCs also recorded higher FDI inflows, up by $0.9 billion resulting in a total of $6 billion. However, there were contrasting trends among larger recipients, with substantial increases in Bangladesh ($0.3 billion), virtual stagnation of inflows in Cambodia (increasing by only $0.05 billion), and a continuing disinvestment trend in Yemen (negative FDI inflows). Island LDCs recovered from the sharp slowdown of 2012, as flows rose by $55 million resulting in total inflows of $213 million thanks to higher inflows into Comoros and Timor-Leste. However, FDI inflows to this group are still close to the low levels registered in 2007.

In analysing LDC groups according to export specialization, FDI dynamics showed mixed results.

In analysing LDC groups according to export specialization, FDI dynamics showed mixed results in 2013. Inflows into mineral exporters declined, while they increased in exporters of services and manufactures, and there were minor increases in mixed exporters. Fuel-exporting LDCs showed both investment and disinvestment trends.

LDC mineral exporters, the largest recipients of FDI inflows among LDCs, received $11 billion of FDI inflows in 2013 (table 5). Following a rising trend in previous years, FDI flows to this group declined by 12 per cent in 2013, as increases in several mineral producers (most notably Mozambique and Zambia)

Table 4. FDI inflows to LDCs, 2009–2013
(Millions of dollars)

	2009	2010	2011	2012	2013
LDCs (total)	18 481	19 558	22 111	24 429	27 956
African LDCs and Haiti	15 531	15 415	17 666	19 317	21 801
Asian LDCs	2 716	3 777	4 138	4 953	5 943
Islands LDCs	234	366	307	158	213

Source: UNCTAD secretariat calculations, based on *UNCTADstat* database (accessed August 2014).

Table 5. FDI inflows into LDCs by export specialization, 2008–2013
(Millions of dollars)

	2008	2009	2010	2011	2012	2013
Food and agricultural exporters	383	294	480	402	312	345
Fuel exporters	5 506	6 919	2 903	1 406	-2 584	1 128
Mineral exporters	4 201	3 228	6 415	7 598	13 102	11 477
Manufactures exporters	2 145	1 544	1 956	2 149	2 967	3 251
Services exporters	3 008	2 840	2 625	3 416	3 875	4 696
Mixed exporters	3 689	3 665	5 180	7 154	6 780	7 087

Source: UNCTAD Secretariat calculations, based on *UNCTADstat* database (accessed August 2014).

could not compensate for the sharp decline of flows to the Democratic Republic of the Congo and Guinea.

FDI inflows into mixed exporters and exporters of services and manufactured good increased in 2013.

FDI flows to fuel exporters are highly influenced by the dynamic of flows to Angola, which is the largest fuel exporter and recipient of FDI flows among LDCs. In 2013, Angola continued to register negative FDI inflows, though this disinvestment trend declined from approximately $7 billion in 2012 to approximately $4 billion in 2013. Yemen also experienced disinvestment in 2013. If both countries are excluded, FDI flows to LDC fuel exporters amounted to $5.5 billion that year, resulting in a positive growth rate of 14 per cent.

FDI inflows into LDC mixed exporters grew by 4.5 per cent in 2013, to reach $7 billion. Higher FDI flows to Myanmar, the largest recipient among mixed exporters, partially compensated for decreases elsewhere. Most notably, there were sharp declines in flows to Niger and the fall in FDI flows to the Central African Republic.

The rise in FDI flows to LDC exporters of manufactured goods, however, should be kept in perspective: they accounted for only 10 per cent of the total FDI flows to LDCs, and they remain highly concentrated in two economies: Bangladesh and Cambodia

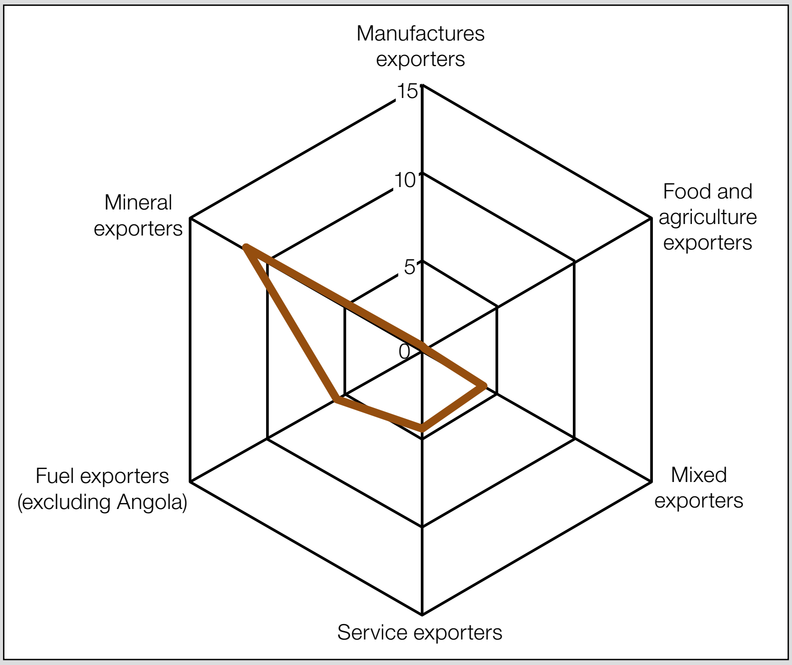
FDI inflows into LDC exporters of services and manufactured goods, on the other hand, increased in 2013, with flows to exporters of services rising by 21 per cent (almost $ 0.9 billion) and to exporters of manufactured goods expanding by approximately 10 per cent (close to $ 0.3 billion). While 10 out of 13 LDC exporters of services saw an increase in investment flows, the increase in flows to LDC exporters of manufactured goods was driven mainly by higher flows to Bangladesh (up from $1.3 billion in 2012 to 1.6 billion in 2013), which accounted for 50 per cent of total flows to this category of LDCs.

For this reason, the rise in FDI flows to LDC exporters of manufactured goods should be kept in perspective. These LDCs accounted for only 10 per cent of the total FDI flows to LDCs, and they remain highly concentrated in two economies: Bangladesh and Cambodia, which together received 84 per cent of the flows to this category of LDCs. Excluding these two economies, investment flows to other exporters of manufactured goods (Bhutan, Haiti and Lesotho) received a total of only $250 million in 2013, which represents only 0.9 per cent of the total FDI flows to LDCs. By contrast, LDCs specialized in extractive industries accounted for more than 70 per cent of the total FDI flows to LDCs.

FDI flows to LDCs in general, and to African LDCs in particular, go predominantly to countries specialized in extractive industries.

In conclusion, FDI flows to LDCs in general, and to African LDCs in particular, go predominantly to countries specialized in extractive industries (chart 5). Hence, the stylized fact that FDI flows to mineral-exporting LDCs declined in 2013 while those to exporters of manufactured goods increased is not an indication that the poorest countries are becoming less dependent on FDI in extractive industries.

Chart 5. FDI inflows into African LDCs by export specialization, 2013
(Billions of dollars)



Source: UNCTAD secretariat calculations, based on *UNCTADstat* database (accessed August 2014).

4. Remittance flows in 2013

In 2013, remittance flows into LDCs are estimated to have risen by 2.5 per cent, amounting to $30.7 billion, with African LDCs experiencing particularly robust growth in flows (up by 6.7 per cent to almost $9.2 billion). Several countries saw double-digit growth in flows, most notably Rwanda and Uganda, where such flows rose by 30 per cent and 14.5 per cent respectively. Growth in remittances to Asian LDCs has slowed, rising by a modest 0.8 per cent to reach $21 billion in 2013. This contrasted with the double-digit average annual increase of previous years: 11.2 per cent in 2011 and 15.3 per cent in 2012. The slowdown was driven by a decline of 2.4 per cent in the Asian LDCs' largest recipient, Bangladesh. Remittances to island LDCs grew by 4.5 per cent in 2013, as a result of higher flows into Timor-Leste (with total flows to this LDC amounting to $120 million and corresponding to almost 9 per cent of Timor-Leste's GDP).

In 2013, remittance flows into LDCs are estimated to have risen with African LDCs experiencing particularly robust growth in flows.

With regard to remittances as a share of GDP, the top recipients were Nepal (25 per cent of GDP), Haiti (21 per cent of GDP) and Liberia (20 per cent of GDP).

6. Remittance inflows in LDCs, 2008–2013
(Millions of dollars)

	2008	2009	2010	2011	2012	2013
LDCs (total)	21 461	22 542	24 376	26 953	29 922	30 673
African LDCs and Haiti	7 983	7 446	7 731	8 444	8 601	9 179
Asian LDCs	13 446	15 057	16 493	18 347	21 161	21 328
Island LDCs	31	39	152	161	159	166
World (total)	446 328	417 158	453 499	506 565	521 489	541 938

Source: UNCTAD secretariat calculations, based on World Bank, *Migration and Remittances* database, http://www.worldbank.org/migration, updated April 2014.
Note: Data for 2013 are estimates.

All these economies received higher inflows in 2013, with their growth rates being 9 per cent, 5 per cent and 6 per cent respectively. In contrast, Lesotho, where remittances accounted for 23 per cent of GDP, registered a decline in remittance inflows of 6 per cent. In absolute terms, Bangladesh continued to be the largest recipient of remittances, receiving almost $14 billion in 2013.

E. The economic outlook for the LDCs

Despite slightly improved prospects, global economic recovery remains fragile and uncertain.

World economic growth is expected to recover only moderately in the medium term. In the first and second quarter of 2014, the global economy saw a modest improvement, and current projections point to an average annual growth rate of 2.5–3 per cent in 2014 (UNCTAD, 2014a: chap.1).[8] The developed economies are expected to provide much of the impetus for growth. Growth in developing economies, on the other hand, is expected to slow down. Nevertheless, they are likely to continue to account for more than two thirds of global growth (IMF, 2014: chap.1).

For LDCs, the unfavourable external environment is likely to jeopardize their economic growth.

Despite slightly improved prospects, global economic recovery remains fragile and uncertain. Significant downside risks remain for developed and developing countries, including LDCs. Developed countries face major concerns such as low inflation and the possibility of protracted slow growth, especially in the euro area and Japan (IMF, 2014: chap.1). In developing countries, the persistent instability of the international financial system could lead to possible reversals of capital flows, which would make it difficult for them to meet their sizeable external funding needs (UNCTAD, 2014a: chap.1).

As for LDCs, the unfavourable external environment, exacerbated by the stagnation of ODA flows and a widening external resource gap, are likely to jeopardize their economic growth. Already in 2013, trade-related revenues had increased only moderately or even decreased due to falling commodity prices, and the continuing uncertain outlook for international commodity prices will constrain the growth of LDCs in the medium term. On the supply side, geopolitical tensions in different commodity-producing regions could lead to a temporary rebound of prices, while on the demand side much depends on the performance of the more dynamic developing economies — particularly China — where demand for commodities has remained buoyant so far (UNCTAD, 2014: chap.1). Adjusting to a changing external environment has always been a major challenge for the LDCs, a challenge now compounded by the subdued state of the world economy and the prevailing uncertainties.

A less favourable external environment coupled with LDCs' weaker growth performance suggests that achieving the Sustainable Development Goals (SDGs) is likely to become more difficult.

A less favourable external environment coupled with LDCs' weaker growth performance suggests that achieving the MDGs, and the Sustainable Development Goals (SDGs) planned to succeed them, is likely to become even more difficult. In this uncertain environment, a more strategic approach will be necessary to bring about the much-needed structural transformation in LDCs that is necessary for their sustained and inclusive economic growth. Such growth is crucial to enable LDCs to meet both long-standing and emerging challenges. These issues are discussed in subsequent chapters of this Report.

Notes

1 *The Least Developed Countries Report 2010* (UNCTAD, 2010: chap.1) attributed LDCs' economic performance during the crisis largely to a number of external factors, particularly a substantial increase in assistance from the International Monetary Fund, the World Bank and regional development banks in 2009, which partly offset the decline in private capital flows. In addition, growing demand from large emerging economies contributed to a recovery in international commodity prices during that year. Finally, the LDCs benefited from continued inflows of remittances.

2 For the composition of country groups, see p.xv of this Report.

3 Military upheaval starting in March 2013 led to the country's most serious crisis in its history (AfDB, OECD and UNDP, 2014), resulting in its economy grinding to a standstill in 2014.

4 The "textiles" category includes textile fibres, yarn, fabrics and clothing (SITC 26 + 65 + 84).

5 Due to the use of different sources with their related time coverage of data, some series covered up to 2012, while some others covered up to 2013. At the time of writing this Report, only data for remittances and FDI inflows had been released for 2013.

6 Migrants' remittances are the sum of workers' remittances, employee compensation and migrants' transfers. Migrants' transfers cover for flows of goods and changes in financial items that arise from migration (change of residence for at least one year).

7 At the time of writing this Report, data were available only until 2012 (inclusive). Preliminary data could not be used for this analysis as only a few donors of the OECD Development Assistance Committee (DAC) adhered to early reporting.

8 The IMF forecasts an average annual global output growth of 3.4 per cent in 2014. The global growth rate has been marked down by 0.3 per cent from the 3.7 per cent projected in January 2014, reflecting both the legacy of the weak first quarter, particularly in the United States, and a less optimistic outlook for several emerging markets (IMF, 2014).

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