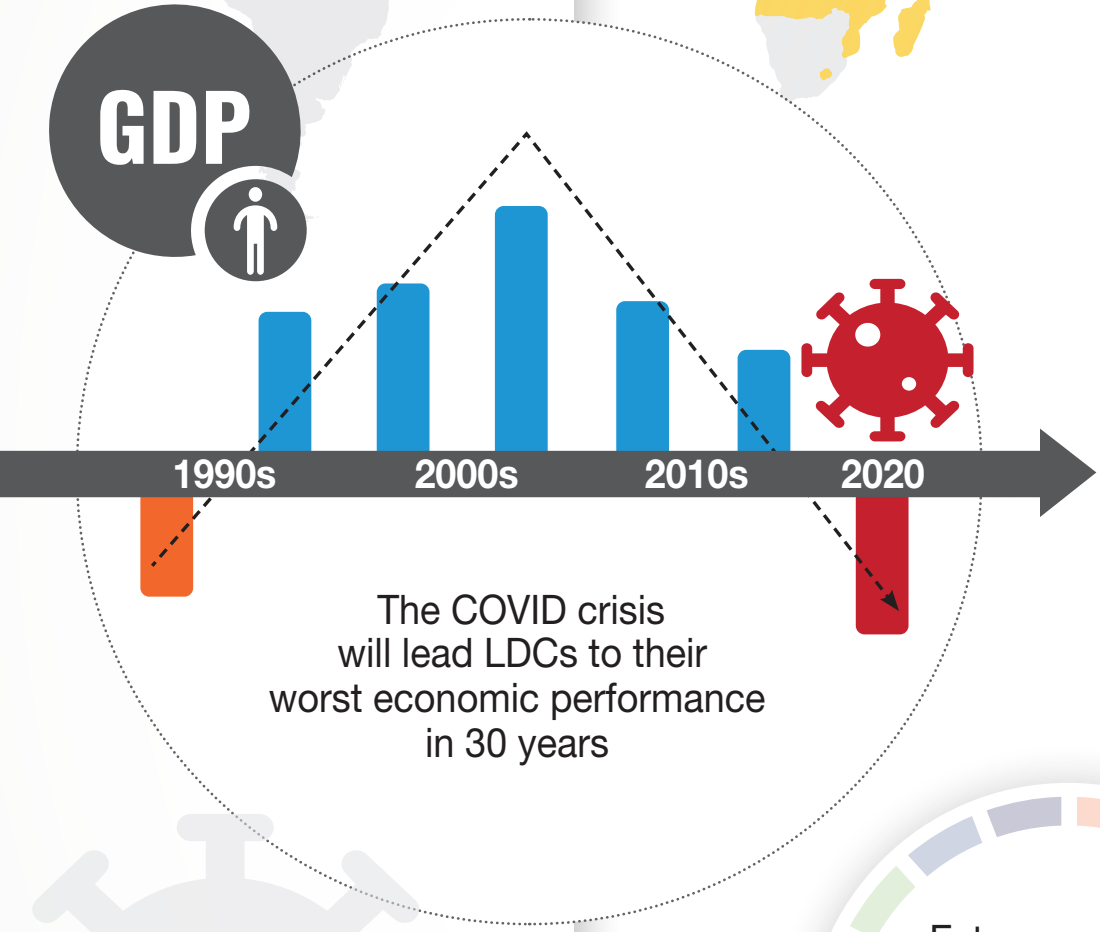
CHAPTER

1

The COVID-19 crisis in LDCs

LDCs are suffering more from the
negative economic impact of COVID-19 than from its health effects



The COVID crisis
will lead LDCs to their
worst economic performance
in 30 years

Extreme poverty
in LDCs will rise to

35%

as a result of the COVID crisis

CHAPTER 1

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A. Introduction

The world continues to confront the effects of the COVID-19 pandemic, including both its lingering health effects and, crucially, the deep economic recession caused by the so-called "Great Lockdown".

As the pandemic began to spread globally in the first quarter of 2020, concerns were expressed that it would have catastrophic *health* consequences on those countries with the least performant health system and/or the poorest countries. Most least developed countries (LDCs) typically fall in either category or both. Moreover, it was feared that the *economic* consequences of the pandemic would impact the world's most vulnerable and least resilient economies the hardest. Again, many LDC economies fit this depiction. In other words, it was feared that the LDCs would be the worst affected group of countries by the pandemic, across both the health and economic/social dimensions.

In order to assess the extent to which these dire predictions have so far been borne out by actual developments on the ground, the present chapter undertakes an initial and still partial assessment of the impact of the COVID-19 pandemic on LDCs by first analysing its *health* impact and second, its *economic and social* effects. It shows that while the *health* effects of the pandemic have not been as serious as initially feared, its *economic and social* impacts have been grave. The research was undertaken with data and information available as of mid-September 2020. Still, while COVID-related statistics are updated on a daily basis, many of the related health, economic and social challenges faced by LDCs are structural, and have a lasting impact on the capacity of these countries to face external shocks originating in the health or economic spheres, or elsewhere.

B. Impacts of COVID-19 on LDCs

1. The health impact

The first LDC to declare a case of COVID-19 infection was Nepal, already in January 2020. By March 2020, the disease had spread widely throughout the LDC group, leading to a rapid increase – from three to 37 – in the number of LDCs reporting cases of COVID-19 infection between the beginning and the end of the month. By mid-May 2020 43 LDCs reported cases of infection.[1]

[1] The only LDCs that reported not having a single COVID-19 case by late August 2020 were Kiribati, Solomon Islands, Tuvalu and Vanuatu. Their geographic isolation together with international travel bans helped many small island developing States (SIDS) escape COVID-19 infection (at least initially). However, their location and economic structure make them more vulnerable to fluctuations in international tourism, the sector in which most of them are internationally specialized (see section B.2.b).

The LDC density of medical doctors corresponds to one tenth of that of developed countries

The rapid spread of the disease gave rise to catastrophic forecasts about the likely effects and consequences of the pandemic in LDCs, especially those in Africa (Okereke and Nielsen, 2020). These dire scenarios were based on the low level of development of most health system in LDCs, and their consequent incapacity to respond adequately to a possible sudden surge in infections if there had been a rapid spread among the population of these countries.

This weakness of most health systems in LDCs stems from the insufficient quantity and quality of personnel, infrastructure, equipment and medical supplies. Despite recent improvements, decades of under-investment have left many health care systems in LDCs severely under-resourced and constrained, including for surveillance, testing, contact tracing, and case management (treatment).[2] In terms of health personnel, the average density of medical doctors in LDCs corresponds to just one tenth of the level in developed countries and one fifth of the figure in other developing countries (ODCs – i.e. developing countries excluding LDCs) (Table 1.1). In 31 out of 46 LDCs where data are readily available, the density is two medical doctors per 10,000 inhabitants or lower, as opposed to an average of 14 in ODCs. The density of medical doctors is particularly low in African LDCs. Similarly, the average density of nurses in LDCs is less than one third the level to be found in ODCs; in only four LDCs (Tuvalu, Kiribati, Lesotho and Nepal – mostly countries with small populations) is it higher than the ODC average.

LDCs not only face a dearth of health professionals relative to the size of their populations but also inadequate health systems infrastructure. Their average density of hospital beds before the outbreak of the pandemic was one-fourth the level of ODCs, with only one LDC (Sao Tome and Principe) having a higher density than the ODC average. At the same time, the average density of hospital beds in LDCs corresponded to about 10 per cent of the level of developed countries. In terms of equipment,

[2] Domestic government health expenditure per capita in LDCs was $29 in 2017 in purchasing-power parity (PPP), one tenth of the level of ODCs ($315) and less than 1 per cent of the level of developed countries ($3,692) (Development Initiatives, 2020).

Table 1.1

Health system indicators, per country group

(Per 10 000 population, 2010–2019, most recent data available)

Country group	Density of medical doctors	Density of nursing and midwifery personnel	Hospital beds
Developed countries	31	113	52
Other developing countries (ODCs)	14	26	22
LDCs	3	7	6
African LDCs and Haiti	1	7	4
Asian LDCs	5	8	8
Island LDCs	4	16	11
LDCs / ODCs ratio (%)	**20**	**28**	**25**

Source: UNCTAD Secretariat calculation, based on data from WHO, *World Health Statistics 2020* and The Global Health Observatory database, and UNCTAD, UNCTADStat database [both databases accessed July 2020].

at the outbreak of the pandemic many LDCs were unprepared to provide intensive care to patients critically affected by COVID-19, due to the dearth of intensive care units (ICUs) and ventilators.[3] Overall, the Global Health Security Index classified (before the outbreak of COVID-19) two thirds of LDCs' health systems among the world's "least prepared" to effectively govern and coordinate a successful response to an epidemic, pandemic or other health risk.[4] This means that their health systems are very vulnerable to any health crisis or emergency.

In spite of the initial catastrophic forecasts, the *health* impact of the COVID-19 pandemic on LDCs during the first eight months of 2020 was considerably less severe than what had been initially feared.[5] Seventy-one ODCs and 42 developed countries had higher infection rates than the LDC average on 31 August 2020. Infection rates in the LDCs corresponded to one fifth of those prevalent in ODCs, and less than 10 per cent of those of developed countries. Among LDC of subgroups, the most affected were the Asian LDCs (Figure 1.1), especially Bangladesh and Nepal, which had more than 1,000 cases per million inhabitants as of 31 August 2020. On average, African LDCs and Haiti as a group had the lowest infection rate. Countries with small populations, e.g. Djibouti, Sao Tome and Principe, Mauritania, Gambia and Guinea-Bissau, also had more than 1,000 infection cases per million inhabitants, but infection rates in other countries in the subgroup were significantly lower. The infection rate of the island LDCs stood somewhere in-between that of the other two subgroups (Figure 1.1).

Considering the deaths caused by COVID-19, the contrast is even sharper (Figure 1.1). Two LDCs, Sao Tome and Principe and Djibouti, reported slightly more than 50 deaths per million inhabitants. These high figures, however, are partly due to a basis effect because, as countries with small populations (less than 1 million), even a reduced number of deaths appears large in relative terms. The next four most affected were larger countries, which experienced between 20 and 40 deaths per million inhabitants: Gambia, Afghanistan, Mauritania and Bangladesh (in descending order of deaths relative to population). The other 37 LDCs reporting COVID data had experienced less than 20 COVID-related deaths per million inhabitants.

The health outcome of the pandemic in LDCs during the first eight months of 2020 contrasts with that of ODCs, 64 of whom had a higher COVID-19 mortality rate than the LDC average, as well as developed countries, 50 of whom had more deaths relative to the population than the LDC average. As of late August 2020 the COVID-19 mortality rate of LDCs corresponded to 13 per cent of that of ODCs and 3 per cent of that of developed countries (Figure 1.1).[6]

The fact that the health impact of the pandemic on LDCs was less severe than initially feared (at least during the first eight months of 2020) has to be

[3] In early 2020 South Sudan had only 24 ICUs to serve the whole population (International Rescue Committee, 2020). By mid-April 2020 ten African countries did not have ventilators and several LDCs (Central African Republic, Democratic Republic of the Congo, Liberia, Madagascar, Mali and South Sudan) had less than ten ventilators to serve the entire country (Maclean and Marks, 2020).

[4] One third of the world's countries fall into the "least prepared" category (Nuclear Threat Initiative et al., 2019).

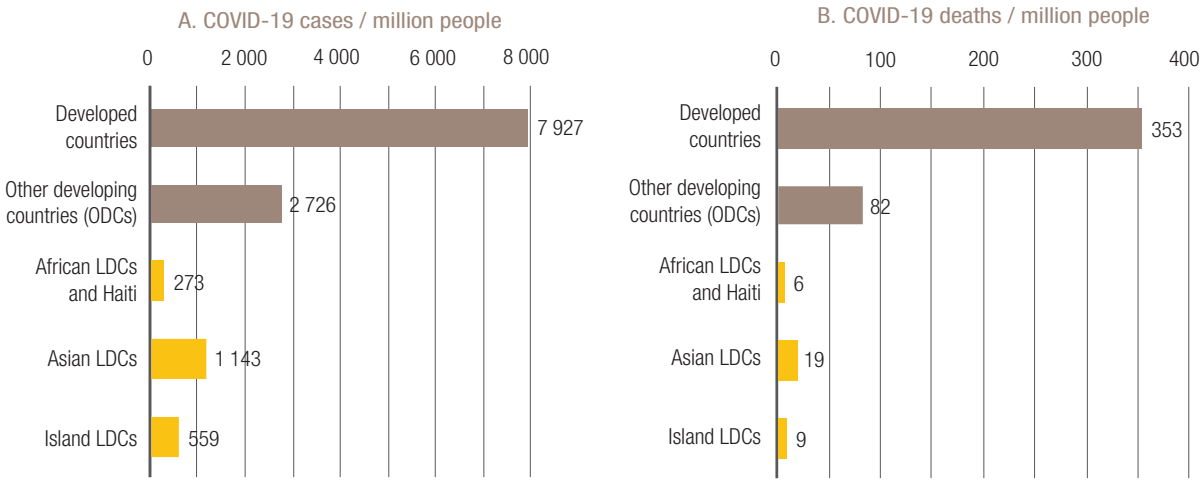
[5] The cut-off date for pandemic statistics for this report is 2 September 2020.

[6] All of these figures were calculated by the UNCTAD secretariat based on data from the WHO Coronavirus Disease (COVID-19) Dashboard and the UNCTADStat database [both accessed in September 2020].

Figure 1.1

Impact of COVID-19, by country group

(As of 31 August 2020)



Source: UNCTAD secretariat calculations, based on data from the WHO Coronavirus Disease (COVID-19) Dashboard and UNCTAD, UNCTADStat database [accessed September 2020].

regarded with caution. It is possible that the picture of the less serious health impact of COVID-19 in LDCs than in other country groups is influenced by spurious factors. First, it is likely that under-reporting of COVID-19 cases has occurred in some LDCs due to their lower COVID-19 testing capacities, as well as less efficient casualty counting and reporting systems, as compared to other country groups. Second, there may be a timing issue: typically, LDCs were affected by the pandemic later than other countries, and it cannot be excluded that they will experience a broader spread of the pandemic in the final months of 2020 or later. This could be the consequence of different developments, such as: (i) a possible acceleration of domestic spread; (ii) further infection brought about by higher international traffic of people, goods and services as lockdown measures and travel bans are eased or lifted; or (iii) worsening infection rates in other countries having an indirect effect on LDCs. Such an acceleration of the spread of the pandemic in LDCs would further lay bare the high vulnerability of these countries and the limited preparedness of their health system to deal with a major surge in infections.

Nevertheless, the fact that LDCs were (at least initially) less impacted than other countries by the pandemic has been attributed to different reasons, including policy action and demographic factors. As most LDCs were affected by the pandemic later than countries in East Asia and Western Europe, they had the time to adopt containment and mitigation measures, such as confinement, quarantine, social distancing and travel bans, which prevented the pandemic from spreading further. As of mid-May 2020 the average stringency of measures adopted by LDCs – as measured by the Stringency Index – stood at 79, similar to the other developing countries (80), but higher than developed countries (74).[7] The most stringent measures were adopted by the Asian LDCs (with a Stringency Index of 85), which were the subgroup of LDCs most affected by the pandemic (Figure 1.1). Moreover, LDCs with experience of previous epidemics (e.g. Ebola, Lassa fever, polio and human immunodeficiency virus and acquired immune deficiency syndrome – HIV/AIDS) had already developed some institutional and health policy capacity to respond to new epidemic outbreaks, which facilitated their reaction to COVID-19 (Massinga Loembé et al., 2020).

The outbreak of the pandemic spurred health sector innovations – in both the institutional and technological spheres – by domestic agents and institutions. These innovations helped address the consequences of the pandemic and/or limit its spread. Innovative mechanisms adapted to local conditions were adopted by different LDC governments,

[7] The Stringency Index calculated by Oxford University's Blavatnik School of Government records the strictness of 'lockdown style' policies which restrict people's behaviour [https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker#data, accessed July 2020]. The Index ranges from 1 to 100. The data mentioned in the text are population-weighted and were calculated by the UNCTAD secretariat. The date quoted was selected because it marked the moment when the stringency measures were at their peak around the world.

LDCs with more developed productive capacities have been better equipped to withstand COVID-19

e.g. by having traditional chieftains transmit health information and advice on COVID-19 to the local population, as in the case of Sierra Leone; using locally assembled drones to increase awareness through in-flight public broadcasts, as Rwanda did; or making available public mobile handwashing facilities in city centres and transportation nodes like bus stations (e.g. Rwanda). In terms of medical technologies, researchers in Senegal developed an immune-based diagnostic test for COVID-19 available for only $1. Rwanda adopted innovative measures, such as deploying robots to screen and monitor COVID-19 patients, mathematical modelling to forecast the spread of the pandemic, and using drones to rapidly deliver medicines throughout the country. In terms of manufacturing medical equipment and supplies, some LDCs with manufacturing capacity (e.g. Senegal, Bangladesh) repurposed industrial facilities to produce low-tech medical goods such as face masks, hand sanitizers and personal protective equipment (PPE). In some cases, more sophisticated equipment such as innovative and less-technology-intensive ventilators were produced, as happened in Uganda thanks to the collaboration between Makarere University and a local car manufacturer (Nebe and Jalloh, 2020). In Senegal, engineering students built a multifunctional medical robot to lessen the load on healthcare workers (Travaly et al., 2020).

LDCs with a pre-existing manufacturing capacity have been the most capable of formulating innovative local manufacturing solutions in response to the pandemic. Therefore, those LDCs which had a relatively broader industrial base (such as those mentioned above) were better prepared to confront the medical emergency and implement innovative solutions based on local conditions. This indicates that a link exists between the preparedness of countries to face an epidemic and the level of development of their productive capacities. The same reasoning applies to other shocks (medical, natural or economic): the countries which have a broader and more sophisticated base of productive capacities are better prepared to weather different types of shocks, i.e. they are more resilient (see section B). This is one of the leitmotivs of the present report.

The demographic factors explaining why COVID-19 had a lesser impact on LDCs is that the proportion of young population – known to be more resilient in case of infection – in these countries is much larger than in the most affected countries. Another demographic factor favouring a weaker impact in LDCs is lower population density, which reduces the likelihood of contagion. This is particularly true in rural areas, where two thirds of the population of LDCs currently live (the highest share of rural population among major country groups).[8] This effect was likely strengthened to some extent by the fact that a large number of people originating from rural areas but living in cities reacted to government containment measures by returning to their areas of origin, thus somewhat and temporarily reducing the urban population. Asian LDCs typically have higher population density than African LDCs, which translated into the pandemic spreading more extensively in the former than in the latter countries (Figure 1.1). Small island LDCs, by contrast, were also favoured by their natural isolation, which was further accentuated by the implementation of travel bans.[9]

Moreover, the COVID-19 indicators analysed above do not take into account the indirect health effects of the pandemic, which comprise among others: (i) the impact of the economic slowdown/recession on social outcomes, including poverty, nutrition and health outcomes not directly stemming from the pandemic; and (ii) the impact of falling government revenues and household incomes on health spending. Apart from its properly economic aspects in terms of employment, personal income and macroeconomic performance, it also has an indirect negative effect on the health of LDC citizens. These indirect effects may be as serious, or even more acute, than the direct effects of the pandemic. The next section analyses some of these major indirect effects.

[8] Data from the UNCTADStat database [accessed July 2020].

[9] The only LDCs that had not declared COVID-19 infection cases by late June 2020 were all small island developing states (SIDS).

2. The economic impact

Even if the pandemic does not spread in the LDCs to the same extent as other countries (both ODCs and developed countries), they are nonetheless being severely hit by its economic, social and environmental consequences. In 2020 LDC economies suffered the strongest economic shock in several decades due to the consequences of the COVID-19 pandemic. This, in turn, has led to a sharp economic downturn due to the combined effects of a deep world economic recession and the consequences of the domestic containment measures taken by LDC governments. Worse still, these consequences are likely to linger in the medium term.

The severe economic impact on LDCs is explained by their structural economic shortcomings and by their not having fully recovered from the shock of the 2008–2009 global financial crisis (UNCTAD, 2019a). Since then the economic performance of LDCs has been adversely affected by the "new normal" of sluggish growth in the global economy, persistently low international commodity prices, growing trade and current account deficits leading to rising external debt, and an exhaustion of the fiscal space available before the outbreak of the global financial crisis (UNCTAD, 2019b). Therefore, LDC economies started the current economic slump from a situation of heightened economic vulnerability.

The economic situation of LDCs was clearly different when the global financial crisis of 2008–2009 broke out as they had weathered the international turbulence relatively better than initially expected. They were able to do so thanks to a combination of some degree of isolation from major international financial flows and the availability of policy space accumulated during the years of strong economic growth of the early 2000s.

The adverse economic impacts of the present COVID-19 crisis has severely affected the process of growth and development of LDCs, including a setback or reversal in their progress towards reaching their development goals, starting with poverty (see subsection 3 below). It is also likely to delay or extend the graduation process of several LDCs that had been scheduled to graduate as of December 2020 (page xi).

a. Output and employment

The measures adopted by most LDCs, e.g. lockdown, movement restriction and travel ban measures, caused a sharp downturn in economic activity, and created a shock in both demand and supply, similarly to what also occurred in other economies. Between October 2019 and October 2020, the economic growth forecast for LDCs was revised sharply downwards from 5 to -0.4 per cent. This revision is expected to lead to a 2.6 per cent reduction in per capita income in LDCs in 2020,[10] with 43 out of 47 LDCs experiencing a fall in their average income levels. This represents the worst economic outcome in 30 years for this group of countries. It has not only led to a reversal in the economic and social progress achieved over recent years, including in terms of poverty and social outcomes (see section 3), but also makes reaching the Sustainable Developed Goals a more distant prospect.

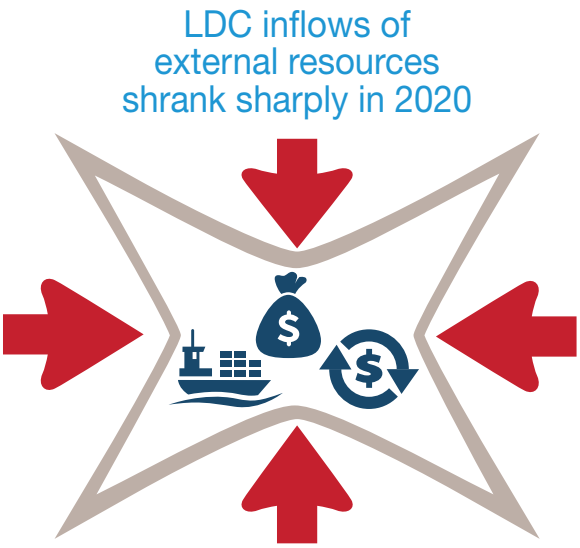
43 out of 47 LDCs are forecast to experience a fall in their average income levels in 2020

The International Labour Organization (ILO) stated that working-hours losses in the first half of 2020 could be equivalent to over 400 million full-time jobs worldwide, while 1.6 billion workers in the informal economy were at immediate risk of seeing their livelihoods reduced (ILO, 2020a). Other studies have raised profound concerns about the challenges faced by enterprises and small businesses simultaneously facing the dire consequences of the recession, and the disruptions caused by lockdowns and related measures to respond to the health emergency (UNECA, 2020; Le Nestour and Moscoviz, 2020; Aung, et al., 2020; Bosio et al., 2020).

A protracted recession could cause permanent job destruction, threaten enterprise survival – with related losses in terms of tacit knowledge and productive capabilities – and potentially have a long-term effect on potential output. Avoiding this dramatic outcome will be particularly crucial in LDCs, because of the structural characteristics of their forms of entrepreneurship (UNCTAD, 2018a). With a plethora of mainly informal "me-too businesses",[11] a predominance of small firms, and limited access to credit for the private sector, a prolonged crisis would further damage the already weak entrepreneurial landscape of LDCs. According to early surveys carried out by the United Nations Economic Commission for Africa (UNECA), African firms were operating at 43 per cent of their capacities by mid-2020, with labour-intensive

[10] UNCTAD secretariat calculations based on data from IMF, World Economic Outlook database [accessed October 2020].

[11] "Me-too business" are firms producing mostly well-established goods and services using well established technologies, and which tend innovate very little, if at all.



sectors, e.g. manufacturing, transport, trade, tourism and restoration services, as the hardest hit sectors (UNECA, 2020). Similar difficulties were reported in relation to the garment industry in Asia, as supply chain disruptions were compounded with a deep recession in key export markets (Aung, et al., 2020). In this context, the deeper or longer the crisis the higher the risk of exacerbating the LDCs' "missing middle", as the downturn threatens hard-gained entrepreneurial capabilities and ultimately jeopardizes a broad-based recovery.

The restrictive measures adopted by LDCs caused a shrinking of economic activity especially in wholesale and retail trade (including in the informal sector), transport and manufacturing.[12] The information and communication technologies (ICTs) sector expanded its activities (as happened worldwide) and e-commerce grew as new firms and services were established or existing ones expanded their activities (as occured in Senegal and Rwanda). Still, given the small weight of these activities and sectors in LDC economies, their expansion was more than compensated by the contraction taking place elsewhere. Agriculture was considered an essential sector in LDCs and therefore exempted from most restrictive measures. However, it could face challenges if continued restrictive measures were to jeopardize the mobility of labour, the availability of inputs (seeds, fertilizers, agro-chemicals, agricultural equipment), or access to finance (see below). This could negatively affect the new planting season.

Moreover, agricultural production in East African countries and the southern Arabian Peninsula was affected by huge swarms of desert locusts during the first half of 2020, which destroyed crops in Djibouti, Eritrea, Ethiopia, Somalia, South Sudan, United Republic of Tanzania and Yemen.

The delay of fixed investment (including infrastructure) projects not only compounds the fall in domestic demand, but also has a negative impact on medium-term economic growth (see chapter 2). Micro-finance institutions in many LDCs have ground to a halt following a sharp drop in their revenues due to plummeting savings and loan repayments, thereby impairing their capacity to give out loans. Fiscal accounts were directly impacted by the slump in economic activities, which led to shrinking revenues at a time when expenditure had to expand due to rising health spending, personal and firms' income support schemes and other forms of expenditures deriving from the existing limited social protection schemes. The latest deterioration of the fiscal situation comes on top of a trend of rising fiscal deficits in LDCs during the 2010s (UNCTAD, 2019b). The fiscal situation prevailing prior to the outbreak of the pandemic prevented LDCs from taking more decisive fiscal measures to prop up their economies in response to the COVID-19 shock. The median additional spending/foregone revenues implemented by LDCs amounted to just $17.8 per capita, less than one fourth of the corresponding figure for ODCs ($76), and just 1 per cent of the amount mobilized by developed countries ($1,365).[13]

b. Foreign trade

Likely stronger than the domestic demand shock was the impact of the world economic recession on the LDC economies. This is the deepest downturn the world is undergoing since the Great Depression of the 1930s, with per capita output contracting in the largest fraction of countries since 1870 (World Bank, 2020c). The downturn also brought about a sharp shrinking in the external demand for LDC goods and services, depressed the prices of their main exports, and caused a slump in inflows of external resources (remittances, capital).

The most deeply affected export commodities of LDCs during the first half of 2020 were fuels, which accounted for over one fourth of the group's merchandise exports before the outbreak of the pandemic. Fuel prices slumped by 36 per cent in

[12] The manufacturing activity of LDCs was further depressed by disruption in global supply chains, which caused the suspension or delay of imports of critical industrial inputs (e.g. intermediate goods).

[13] UNCTAD secretariat calculations, based on data from IMF (2020b) and UNCTAD, UNCTADStat database [accessed June 2020].

January-July 2020, as compared to the corresponding period in 2019.[14] Quantities exported also declined sharply following a worldwide shrinking of transport, travel and manufacturing-related activities. The LDCs expected to be the most affected were those for which these products accounted for the highest share of their merchandise exports prior to the pandemic; this particularly affected Angola, Chad, Timor-Leste, Mozambique and Yemen, where fuels contributed more than 40 per cent of their merchandise exports (Figure 1.2 A).

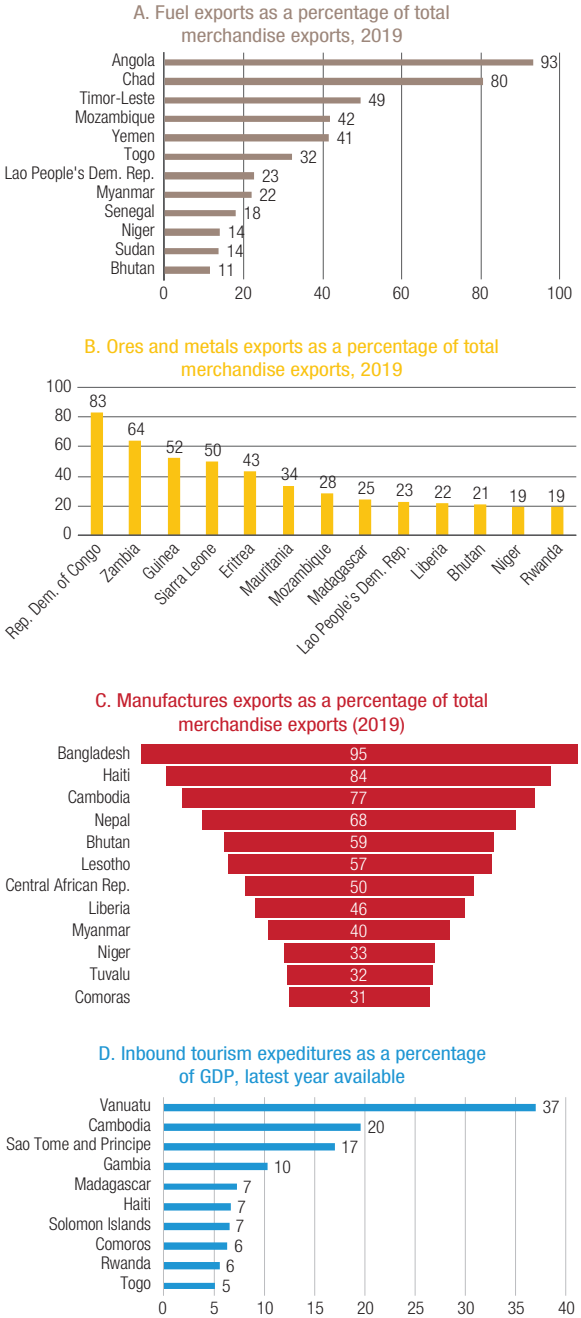
World demand for minerals and metals also shrank during the first half of 2020 due to plummeting manufacturing and building activity across the world. This depressed worldwide demand for these products and strongly contributed to a 7-per-cent decline in prices during the first seven months of the year. The LDCs which suffered the most from these developments were likely to be countries, such as the Democratic Republic of the Congo, Zambia, Guinea, Sierra Leone and Eritrea, where minerals and metals accounted for over 40 per cent of merchandise exports before the outbreak of the COVID-19 crisis (Figure 1.2 B).

Manufactured goods exports accounted for 37 per cent of total LDC merchandise exports (before the pandemic). The bulk of their merchandise exports consist of garments (and, to a lesser extent, textiles). The effects of the lockdown on retail trade and the massive global job losses that occurred as a consequence of the pandemic, together with the fact that spending on these items can typically be delayed by consumers, has led to an especially acute slump in worldwide demand for garments. Orders from developed countries to LDC producers were therefore cut back sharply and LDC exports of garments are forecast to shrink by 20 per cent in 2020 (UN DESA, 2020). This caused a deep fall in exports of LDCs, such as Bangladesh, Cambodia, Haiti, Nepal and Lesotho, for which manufactures account for over 50 per cent of merchandise exports (Figure 1.2 C).[15]

Tourism and travel were among the industries most sharply affected by the restrictive measures adopted to contain the spread of the pandemic, including both the direct effects (travel bans and movement restrictions) and indirect effects (the worldwide slump in business activities, household earnings and employment). The worldwide tourism sector is forecast to shrink by between 30 and 62 per cent in 2020 (WTTC, 2020). LDC tourism and travel exports were initially strongly hit by COVID-19 lockdowns and multiple travel bans. Thereafter, even with the relaxation of these restrictive measures, LDC tourism receipts continued to be jeopardized by the

Figure 1.2

LDC export vulnerabilities



Source: UNCTAD secretariat calculations based on data from UNCTAD, UNCTADStat database and UNWTO, Compendium of Tourism Statistics dataset [Electronic] [both accessed September 2020].

[14] According to the UNCTAD Free-Market Commodity Price Index. This index is also used for price variations mentioned further down in the text.

[15] Figure 1.2 C also indicates that more than half of Bhutan's merchandise exports are made up of manufactures, but this figure must be interpreted with caution and may be due to misclassification of exported goods.

LDCs will not meet the goal of doubling their share of world trade by 2020

fact that they depend strongly on personal and leisure demand, which can easily be delayed and cut back in view of shrinking household income in the main countries of origin of tourists, as well as lingering concerns relating to the spread of the pandemic in the different origin and destination countries of tourists. The adverse development in tourism will likely hit Vanuatu, Cambodia, Sao Tome and Principe and the Gambia particularly hard, as inbound tourism expenditures in these countries accounted for more than 10 per cent of gross domestic product (GDP) (Figure 1.2 D).

In the context of this shrinking of world trade and plummeting LDC exports, it unlikely that LDCs will meet their long-standing goal on trade, i.e. that of doubling their share of world exports of goods and services in 2020. This goal was expressed initially in the Programme of Action for the Least Developed Countries for the Decade 2011–2020 (commonly referred to as the Istanbul Programme of Action – IPoA) (United Nations, 2011), and later reaffirmed in the 2030 Agenda for Sustainable Development (2015) (United Nations, 2015c). There had been no progress towards that goal before the present crisis, as the group's share of world exports had hovered around 1 per cent since the objective of doubling the share was adopted (UNCTAD, 2019a). Moreover, it is unlikely that demand for LDC main export products (e.g. garments, fuels, tourism) will pick up faster than other types of goods and services when world trade recovers from the COVID-19 slump. Rather, economic stimulus packages adopted in the major economies are expected to focus on products and sectors, such high-tech services, green energy and construction. Long-distance tourism is also not expected to recover quickly (IMF, 2020c).

LDC imports are likely to have contracted less than their exports, in spite of the fall in domestic demand. The reason for the likely asymmetric developments in exports and imports is their composition and their respective elasticity to foreign and domestic demand. Typically, LDC merchandise exports are very sensitive of cyclical developments in the world economy (including both developed countries and ODCs), especially trends relating to industrial production, construction and household income. By contrast, LDC imports of goods are dominated by essential products, such as food, fuel, capital equipment and intermediate goods, several of which are more difficult to cut back on even during a cyclical downturn. Thirty-nine of the 46 LDCs for which data are available[16] are net food importing countries. Contrary to the fall in prices of energy, and minerals and metals exported by LDCs, world food prices in January-July 2020 were actually 3.5 per cent higher than in the corresponding period in 2019, thereby generating a higher food import bill. By contrast, the fuel import bill of the 39 net fuel-importing LDCs will benefit from lower import prices and the contraction of domestic activity level.

The benign effect for fuel-importing countries is expected to be overwhelmed by the adverse export developments mentioned above. Therefore, the merchandise trade deficit of LDCs in 2020 is forecast to exceed the record level reached in 2019: $86 billion. This means that LDCs will extend the trend towards widening merchandise trade deficits which started with the global financial crisis of 2008–2009 (UNCTAD, 2019b).

Concerning services trade, a similar asymmetry exists between the composition of exports and imports, leading to similarly divergent paths in the context of both a worldwide and domestic recession. While most of their services exports stem from activities that can easily be delayed and cut back during a world recession (especially leisure tourism), LDC imports consist more of business and professional services which continue to be required by domestic economies even during an economic downturn. Although services import demand shrank, it occurred at a slower pace than exports. Overall, it is likely that the combined deficit in trade in goods and services of LDCs will expand further in 2020, thus extending the trend that began with the global financial crisis of 2008–2009 (UNCTAD, 2019b), similar to that of merchandise trade. Moreover, widening trade deficits are expected to be compounded by adverse developments in other current account components, as analysed hereafter.

c. Migration and remittances

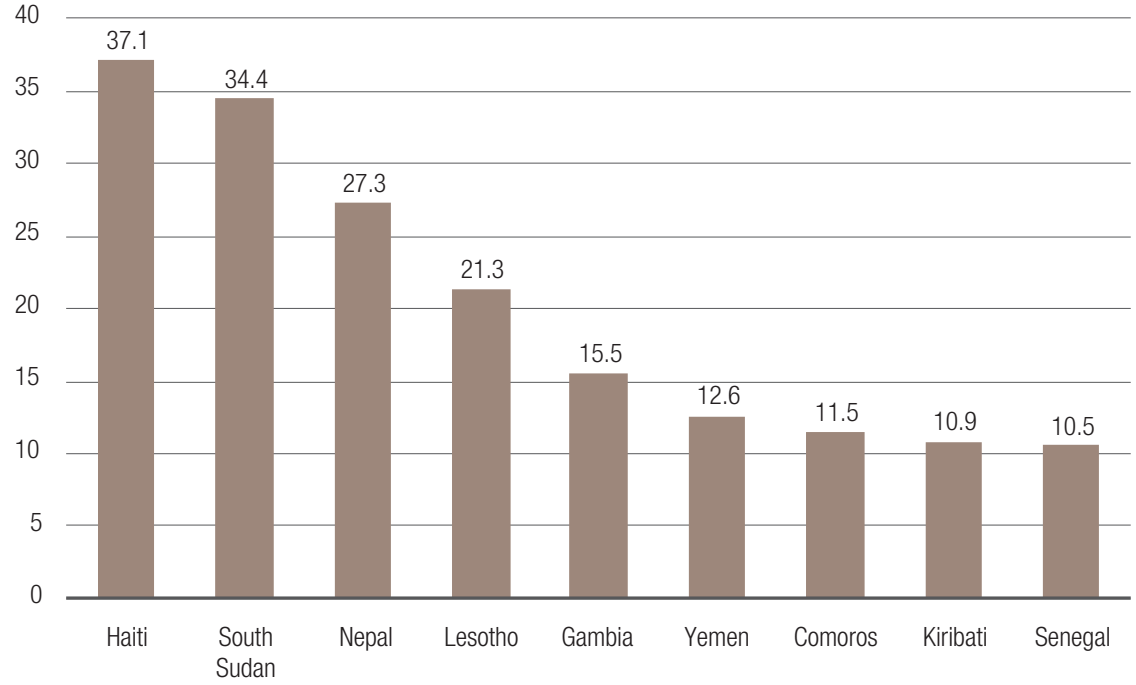
International migration and the remittances flows it generates were severely affected by the "Great Lockdown" and the ensuing worldwide recession. Thousands of immigrants originating in LDCs lost their jobs, had their working hours reduced and/or suffered wages cuts or even non-payment of wages in their host countries (ILO, 2020b). Many of these foreign workers were expelled by host countries and had to return to their country of origin. Total remittances to

[16] Trade data for South Sudan are not available.

Figure 1.3

Remittances as a share of GDP, selected LDCs

(2019, %)



Source: UNCTAD elaboration based on data from World Bank, Remittances Inflows dataset [www.knomad.org, accessed June 2020].

low and middle-income countries are forecast to fall by one fifth in 2020 (World Bank, 2020b).

The major destination countries of LDC emigration before the pandemic were hardly hit by the COVID-19 crisis, including both its health and economic aspects. India, Saudi Arabia, Thailand, United States, Islamic Republic of Iran and Côte d'Ivoire (in descending order) each hosted more than 20 million immigrants from LDCs before the outbreak of the pandemic. An estimated 3 million foreign workers were expected to leave Saudi Arabia between 2019 and 2020 as a result of the local economic downturn exacerbated by the pandemic (Kerr and England, 2020). With 30 per cent of the country's immigrants originating from LDCs, Saudi Arabia is the world's second largest host country for LDC immigrants.[17] In 2020, 1 million Bangladeshis, 200,000 Ethiopians and 100,000 nationals from Afghanistan and Myanmar returned home (Kerr and England, 2020; Aung, 2020).

In 2020 remittances to the regions of origin of most LDC emigrants are expected to decrease by more than the world average. Those to South Asia are projected to decline sharply by 22 per cent and those to sub-Saharan Africa by 23.1 per cent (World Bank, 2020b). The impact of these developments on remittances' levels is strongly contingent on labour market developments and immigration policy changes adopted by host country authorities in reaction to the COVID-19 pandemic. The repercussion will therefore be very country-specific. Before the outbreak of the pandemic, remittances' receipts corresponded to more than one third of the GDP of Haiti and South Sudan GDP, and one fifth to one fourth of the GDP of Nepal and Lesotho. For the following countries they amounted more than 10 per cent of GDP: Gambia, Yemen, Comoros, Kiribati and Senegal (Figure 1.3). This means that these foreign inflows are important for a wide range of LDCs, including countries from all regions, size of economy and type of export specialization.[18] Therefore, the forecast shrinking of worldwide remittances flows in 2020 is expected to have a negative impact on a large number of LDCs.

[17] UNCTAD secretariat calculations, based on data from World Bank, Migration and Remittances Data [https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data, accessed July 2020].

[18] Apart from the countries shown in Figure 1.3, remittances accounted for over 5 per cent of GDP in another seven LDCs, including the largest LDC economy, Bangladesh.

The LDC current account deficit will deepen from 3.8% of GDP in 2019 to 5.6% of GDP in 2020

Falling remittances receipts will further depress domestic consumption in LDCs, since remittances are an important source of income, especially for rural (and often poor) households. Rural households that are dependent on remittance inflows rely on this source of income to finance consumption of goods and services such as food, health and education. Therefore, reduced remittances inflows (both from abroad and from inside the country) will negatively impact their living conditions and cause a deterioration of LDC's social outcomes. Moreover, some rural households rely on foreign remittances to finance hiring agricultural workers. Therefore, a fall in these inflows will further depress labour demand and employment levels, in a context of rising unemployment. Taken together, these developments will strongly contribute to a worsening of poverty in LDCs (section 3 below).

Returnees need to be reabsorbed in the domestic and local economic and social tissue. This may prove challenging, especially in rural areas, where the majority of returned emigrants are likely to originate. They will be looking for jobs and/or other sources of earning and will raise the demand for social services (e.g. health) at a time when the national public sector is already stretched to its limits due to the surge in demand for public health services brought about by the pandemic. The population in certain villages could suddenly grow disproportionally and could actually increase the pressure on local natural resources. This could result in more disorderly small-scale land clearing and shifting cultivation for food production, and an increase of fuelwood harvest from forests (Aung, 2020).

d. Current account and capital flows

The widening trade deficit and contraction in remittances receipts in 2020 are expected to lead to a further expansion of the total current account deficit of LDCs as a group. It is forecast to deepen sharply from 3.8 per cent of GDP in 2019 to 5.6 per cent of GDP in 2020.[19] This will be the highest collective current account deficit of the LDCs, and it will exacerbate the trend towards widening current account deficits since the global financial crisis of 2009–2009 (UNCTAD, 2019b).

Widening current account deficits need to be financed by higher capital inflows and this will represent a major challenge for LDCs. This heightened financing need comes at a time when the major forms of capital inflows of LDCs are also shrinking.

The foremost type of capital inflow into LDCs as a group is official development assistance (ODA), as LDCs are the most aid-dependent economies in the world (UNCTAD, 2019b). It could therefore be expected that ODA inflows rise in order to cover the rising external financing needs of LDCs. However, this heightened need for ODA arises in a context in which the volume of the flows disbursed to LDCs has been roughly stagnating since 2013. Donor countries are far from respecting their long-standing commitment to deliver ODA to LDCs at the height of 0.15–0.20 per cent of donor country gross national income (GNI). Moreover, this heightened need for additional ODA comes at a time when the national budgets of donor countries are themselves under pressure due to sharply higher fiscal deficits. If donor countries were to maintain their ODA as a share of their own GNI constant, total ODA to developing countries (including LDCs) could decline by as much as 10 per cent in 2020, as compared with 2019 (Development Initiatives, 2020). On the other side, the resources required for donor countries to honour their aid commitments are but a fraction of the value of stimulus packages they adopted in response to the COVID-19 crisis.

A statement by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) acknowledges the pressure on the official finances of its members and calls on them to "protect ODA budgets" and pledges "to support Least Developed Countries […] via a coherent and coordinated humanitarian-development-peace response" (OECD-DAC, 2020). At the time of writing, there were no signs of a coordinated response by donor countries to the economic crisis in LDCs, but there have been several indications of rising levels of ODA to the health sector in these countries, as well increasing levels of multilateral aid, especially for the health sector. However, it is unlikely that the effort being made will meet the acutely heightened needs of LDCs (Djankov and Kiechel, 2020).

After ODA and remittances, the next most important source of external development finance for LDCs is

[19] Similarly, the median current account deficit of LDCs is forecast to expand from 4.9 per cent of GDP to 6.5 per cent of GDP between 2019 and 2020. These figures and those in the text are estimated by the UNCTAD secretariat based on data from IMF, World Economic Outlook database [accessed October 2020].

foreign direct investment (FDI). However, this form of capital is among the most directly hit by the global recession, both on a worldwide scale and in terms of FDI flows to LDCs. Shrinking new investments, a slowdown of FDI from existing investors and possible divestments has slowed FDI inflows into these countries; these inflows had already shrunk by 5.7 per cent in 2019 and are forecast to fall further in 2020. Several investment projects in LDCs were cancelled in 2020, leading to a 20 per cent fall in FDI inflow value during the first quarter of the year. The natural resources and tourism sectors were among the most affected sectors (UNCTAD, 2020a).

The above developments are making it even harder than usual for LDCs to close their external financing gap. This difficulty has been further aggravated by reduced access to private financing, which has become even more difficult in a context of diminished worldwide private capital flows. Yields on LDCs bonds rose sharply in 2020 and bond issuance plans had to be postponed (as in the case of Burkina Faso). The cost of servicing their external debt increased during the great recession, due to rising yields and, in many cases, the depreciation of national currencies. Additionally, there are indications that other capital outflows have accelerated at a faster pace than after the global financial crisis of 2008–2009 (UNCTAD, 2020b).

3. Poverty and social impact

The global downturn is expected to have a dramatic negative impact on global poverty and food insecurity, as indicated by a host of studies (Gerszon Mahler et al., 2020a; Sumner, Hoy, et al., 2020; Sumner, Ortiz-Juarez, et al., 2020; Valensisi, 2020; UN, 2020; Laborde et al., 2020; Vos et al., 2020). This may give rise to path-dependency and turn transient forms of poverty into chronic forms of poverty.

Historically, the incidence of extreme poverty in the LDCs had remained stubbornly high even prior to the coronavirus pandemic, and the pace of poverty reduction, which was moderately encouraging in the early and mid-2000s, has slowed down markedly in the aftermath of the global financial and economic crisis. As a result, the share of people living in extreme poverty has virtually stalled at about 35 per cent of the population for most of the past decade. Due to the combined effect of persistently widespread poverty and rapid demographic growth, this implies that the number of LDC inhabitants living in extreme poverty had been rising prior to the pandemic, and the LDCs were already accounting for a rising proportion of the world's extreme poor (UNCTAD, 2010, 2014).

The crisis will drive an additional 32 million people into absolute poverty in LDCs

There are growing concerns that the crisis may be deeper or linger on beyond the end of 2020, especially if a balance of payments and/or debt crisis occurs in the developing world. Moreover, the negative impact of the pandemic on households' welfare may be felt through other transmission channels than the pure income dimension, and some of the non-monetary channels may trigger adverse long-term effects, creating path-dependency from "transient" into "chronic poverty" (Valensisi, 2020).

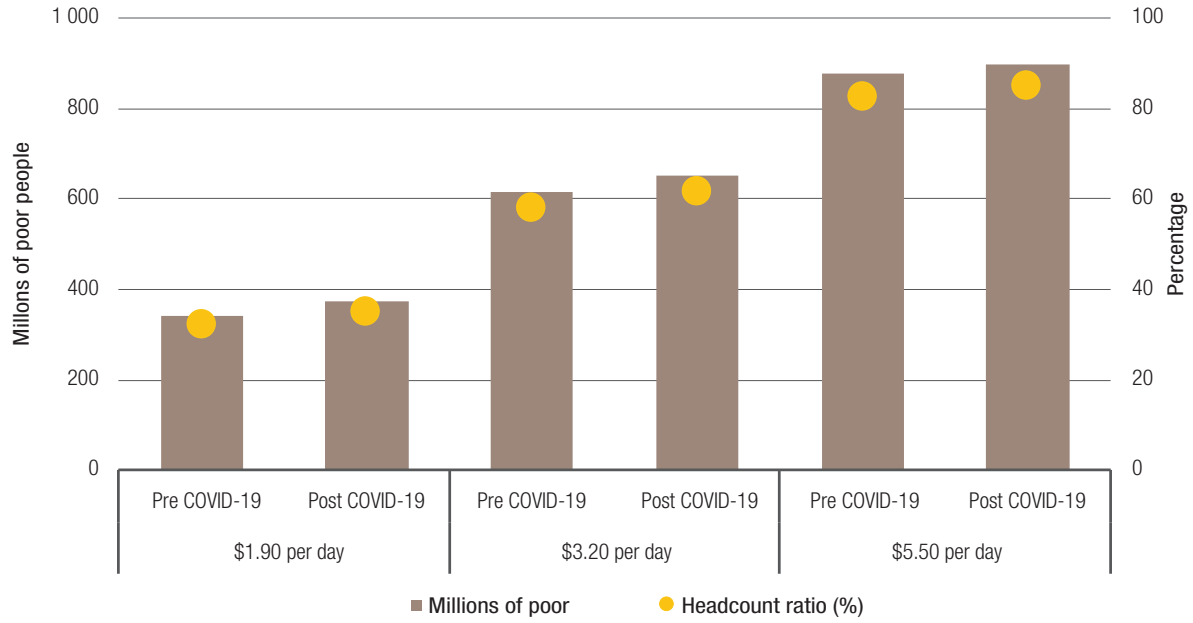
The immediate impact of the COVID-19 pandemic on poverty rates in LDCs is assessed according to different poverty lines and is depicted in Figure 1.4, displaying pre- and post-COVID 19 poverty estimates for the year 2020.[20] The estimates reveal that the downward growth revision in the wake of coronavirus outbreak will lead to a three percentage points' increase – from 32.2 to 35.2 per cent – in the headcount ratio against the $1.90 per day poverty line. This is equivalent to a rise of over 32 million people living in extreme poverty in the LDCs. When measured against the $3.20 per day poverty line, the incidence of poverty will rise by 3.6 percentage points (corresponding to 38 million additional poor), while the impact is smaller when assessed against the $5.50 per day poverty line, as the overwhelming majority of the population in LDCs fell below this threshold even before the pandemic.

A few considerations are warranted on the above figures. First, should the crisis turn out to be deeper than expected – as many indeed fear – the impact on poverty measures would be even higher. It is estimated that if growth in 2020 were two percentage points lower than what the IMF initially forecast (IMF, 2020a), poverty headcounts could rise further by more than one percentage point (Valensisi, 2020). Second, taking IMF forecasts at face value, it is important to highlight the broad difference between the situation faced by about ten LDCs (especially in South East Asia and

[20] This methodology assumes that the shock leaves the distribution of income unchanged; however, it is reasonable to expect that some of the poorer segments of the population will be the hardest hit, at least within urban areas.

Figure 1.4

LDC poverty estimates in 2020, pre- and post- COVID-19, by poverty line



Source: UNCTAD Secretariat calculation based on Valensisi (2020).

East Africa) – where the shock is expected to entail a sharp slowdown of growth but not an outright decline in per capita income – from the situation of many more of them, which are expected to experience a full-fledged reduction in per capita GDP. In the former case, the likely (net) impact of the pandemic will be a sharp deceleration in poverty reduction, whereas in the latter case it will cause a net increase in the incidence of poverty. Third, the COVID-19 outbreak will reinforce the geographic polarization of extreme poverty in Africa and South Asia.

Beyond Sustainable Development Goal 1, this situation represents a significant setback for a number of other Goals, notably those related to health and education, as adverse coping strategies might entail reducing food intake or taking children out of school. Moreover, at a macroeconomic level, the crisis may lead to a reallocation of scarce public resources away from education or general health support. In the same vein, the downturn is likely to further undermine gender equality, as the gender dimension intersects with other axes of structural marginalization, including economic status, membership to minority groups, disability, HIV/AIDS status and the like. In LDCs and in the rest of the world alike, women indeed tend to be over-represented in vulnerable occupational categories (from health personnel to informal own-account workers), as well as in some of the value chains hardest-hit by the crisis, such as tourism or textile and apparel. Moreover, women tend to disproportionately shoulder the burden of care-related tasks and are exposed to heightened risks of gender-based violence in the context of strict lockdowns (UN Women, 2020). The conjunction of these factors is likely to further widen gender gaps and inequalities.

C. LDC vulnerabilities

LDCs have so far been spared from the most severe health impacts of the COVID-19 pandemic, they have nonetheless been among the worst hit by the economic and social consequences of this multidimensional crisis. This apparent contradiction stems from the acute vulnerability of LDC economies and societies to shocks that are out of their control. The pandemic outbreak has exacerbated pre-existing LDC vulnerabilities. The limited capacity of LDC policymakers to react to the shocks originating abroad, regardless of whether they are related to health, the economy or the environment, dramatically highlights the low level of resilience of LDC economies. Since vulnerability and resilience have been brought to the fore by the current crisis and will be central to the post-crisis recovery and (re)construction, they are analysed hereafter in more detail.

1. What are vulnerabilities?

Vulnerability is understood as the exposure of a national economy to exogenous events (shocks and

instabilities) that are largely beyond domestic control and that negatively affect its capacity to grow and develop (Guillaumont, 2009). It is considered as structural when it is independent of current or recent domestic policies, but is the result of persistent factors (Guillaumont, 2011). Therefore, it cannot be changed in the short term.[21] Traditionally, the major types of exogenous shocks to which national economies may be exposed to are two-fold.

The first type is made up of economic shocks, such as adverse terms of trade shocks (e.g. due to strong commodity price volatility), or international economic and/or financial crises causing sharp slumps in global demand (or supply). Exposure to these shocks is likely to be higher in countries with one or more of the following characteristics: (i) small countries with very open economies; (ii) countries where national production and/or exports are highly concentrated in a few sectors/products (e.g. in commodities or tourism services); (iii) economies dependent on critical imports (e.g. food, fuel, medical supplies and capital goods), thereby incurring chronic current account deficits; and (iv) countries remote from major world markets. These are typically structural features of economies at low levels of development. Still, they can be changed over the medium to long term as a result of the interaction of effective growth and development processes and under the aegis of appropriate development policies.

The second type of shocks are natural shocks, including natural disasters, e.g. earthquakes or tsunamis, and climatic shocks, e.g. droughts, floods, or typhoons (Feindouno and Goujon, 2016). Risk of exposure to these shocks is mainly determined by geographic features.

Facing obstacles to development has traditionally been recognized as a common feature of LDC economies, and as part of the definition of the LDC category since its establishment in 1971. In 1999 the category's concept was changed to "low-income countries suffering from low levels of human resources and a high degree of economic vulnerability". The Economic Vulnerability Index (EVI) was adopted as one of the LDC criteria used for both inclusion in, and exclusion from, the group. Initially, the EVI measured just economic vulnerability but has gradually come to incorporate natural shocks variables as well (UNCTAD, 2016a: 29). The comprehensive review of the LDC criteria adopted by the Committee for Development Policy in 2020 strengthened the recognition of the importance of environmental shocks, and renamed the EVI as the Economic and Environmental Vulnerability Index, which now comprises an economic and environmental subindex, each carrying equal weight (CDP, 2020).

The present crisis dramatically highlights the vulnerability of LDCs to shocks beyond their control

The COVID-19 pandemic has starkly demonstrated that national economies are not just vulnerable to the economic and environmental shocks which are traditionally considered in development analysis and policymaking but also to shocks originating in the health sphere. As mentioned above (section B.1), the poor state of development of health systems in LDCs renders them especially vulnerable to a health-related exogenous shock, so that in spite of the relatively moderate *health* impact of the first eight months of 2020, these countries remained vulnerable to a possible pickup of COVID-19 infections.

In sum, the combination of the health, human, economic and social aspects of the present crisis dramatically highlight the vulnerability of LDC economies to shocks beyond their control. They will result in a sharp setback in the process of growth and development of LDCs, including an impediment or reversal in their progress towards their development goals, starting with poverty (section B.3 above).

2. LDCs: the most vulnerable group of countries

Consistent with the definition of the category, the LDCs are among the world's most vulnerable economies as they are the most exposed to shocks and events outside their control. In 2020 their average EVI – 39.3 – is 27 per cent higher than that of ODCs and currently stands at 30.9.[22] The mean vulnerability of the LDCs has declined only marginally since the early 2000s, from 41.3 in 2000 to 39.3 in 2020. The gap between the level of vulnerability of the LDCs and that of the ODCs has remained approximately constant over that period (Figure 1.5).

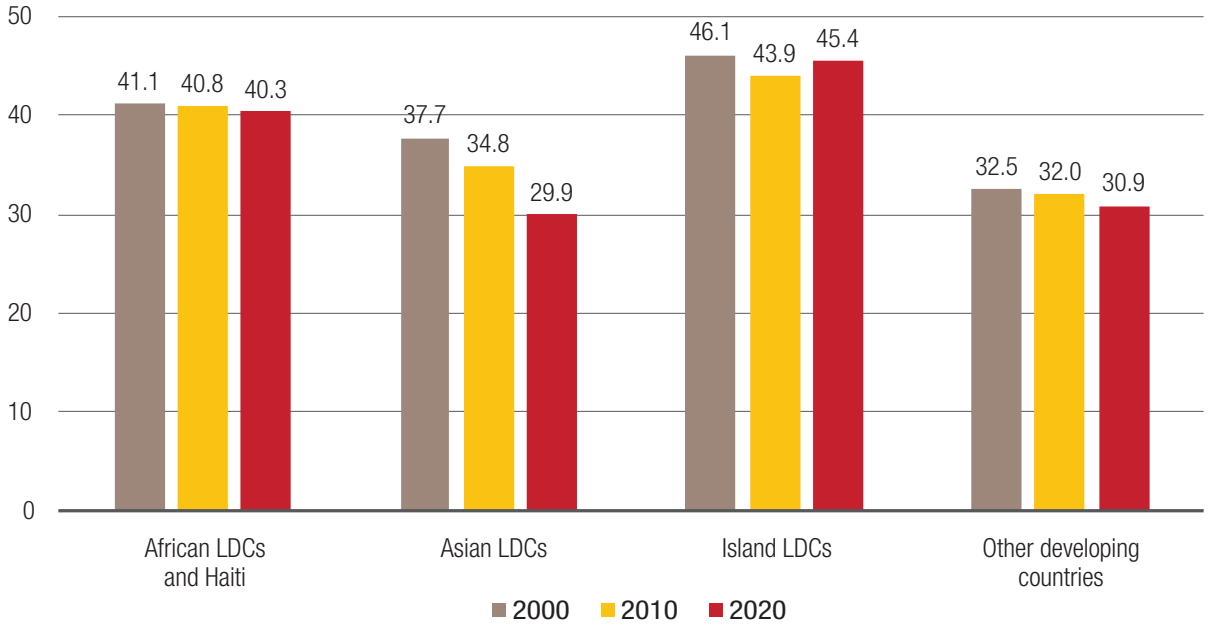
Among LDC subgroups, the most vulnerable are the island LDCs, which is to be expected given the

[21] Domestic shocks, such as civil wars and political and social instability, are not considered as either structural or exogenous, although they also are likely to adversely affect national growth and development.

[22] The higher the EVI, the more vulnerable the country's economy. Therefore, economic progress is reflected in a *reduction* of the EVI.

Figure 1.5

Economic Vulnerability Index, by country group, 2000–2020, selected years



Source: UNCTAD secretariat calculations, based on data from the United Nations Committee for Development Policy Secretariat, time series estimates of the LDC criteria [accessed April 2020].

Notes: 1. Unweighted average of country indices. 2. Data reflect the composition of the EVI as decided during the last revision of the index, adopted in 2020.

geographical situation of these countries, which entails large distance from major economic centres, difficulties in diversifying the economy and high exposure to natural disasters. The second most vulnerable LDC subgroup is that of African LDCs and Haiti. The level of vulnerability of these two subgroups of LDCs has remained virtually unchanged since 2000.

The situation of Asian LDCs is markedly different from that of other LDC subgroups. First, their level of vulnerability is considerably lower than that of other subgroups. Second, they achieved a 21-per-cent reduction in their level of vulnerability since 2000, ultimately bringing it to a lower level than that of ODCs (Figure 1.5). The attenuation in their vulnerability was achieved thanks to the structural changes undergone by those economies (further analysed in chapter 2), which brought down the share of the primary sector in total economic activity, and reduced the exposure of these economies to export and agricultural instability. All Asian LDCs experienced a fall in their level of vulnerability since the early 2000s, with the strongest falls occurring in Cambodia, Lao People's Democratic Republic, Nepal and Bhutan. By contrast, other LDC subgroups include countries which experienced increased or decreased levels of vulnerability.

3. Implications in the short and medium term

The adverse health, economic and social impacts of the COVID-19 crises currently faced by LDCs and their long-standing development deficits call for urgent policy action by policymakers of these countries and their development partners. The major economic priorities of LDCs fall into two time horizons. First, in the short term, these countries need to do "whatever it takes" to counter the present recession, support the incomes of their citizens, firms and farms, and buttress the activity level of their economy. These short-term priorities are shared among LDCs, ODCs and developed countries (UNCTAD, 2020c; Baldwin and Weder di Mauro, 2020a).

Any short-term measures to be taken should have the medium-to-long term economic outlook for LDC economies in its sight and be coherent with the development policies implemented for longer time horizons.[23] This entails addressing the enduring structural challenges of LDC economies, including their vulnerabilities, which can be overcome or compensated by building resilience.

Resilience is understood as the ability of an economy to withstand exogenous shocks or to recover from

[23] This point is analysed in further detail in chapter 5.

them or, alternatively, as "the capacity of a system to anticipate, adapt, and reorganize itself under conditions of adversity in ways that promote and sustain its successful functioning" (Ungar, 2018: 1). In developed or mature economies, it is the result of prudent macroeconomic policies (Briguglio et al., 2008). In the case of developing countries, resilience can only be built over the medium-to-long term, and is the result of a successful development process which enables economies to overcome the major structural features of underdevelopment, such as concentration of output and exports, over-dependence on imports of critical goods and services, chronic current account deficits, etc. While some forms of vulnerability (e.g. openness and small size) may remain in some countries, even after a sustained period of economic growth, the development process results in an economy being much better able to withstand exogenous shocks and recover from them. This is illustrated by the so-called Singapore paradox (Briguglio et al., 2008), which refers to the fact that this country was able to grow, develop and build resilience, in spite of its geographical features (smallness, (originally) distance from major economic centres), which should have represented an obstacle to its growth and development but was eventually overcome.

Building resilience in LDCs therefore entails tackling the underlying structural causes of their vulnerability, underdevelopment and ingrained poverty. These long-standing development challenges of LDCs predate the COVID-19 crisis. While the economic, social and political context which gives rise to extreme forms of vulnerability and poverty are complex, these phenomena have a common underlying factor: the low level of development of their productive capacities (the concept is extensively developed in chapter 2). The expansion, upgrading and utilization of productive capacities results in overcoming the structural features leading to vulnerabilities. In fact, the reduction in the level of vulnerability achieved by some LDC economies since the beginning of the century (Figure 1.5) is largely explained by the progress these countries have achieved in developing their productive capacities and thereby achieving structural transformation (these processes are analysed in chapters 2 and 3).

Nevertheless, there is a serious risk of a widening gap between LDCs and other developing and developed countries. Such a divergence might be further accentuated in the future, considering that, broadly speaking, the best performing LDCs are those in the process of graduation, or close to that milestone. Once this process is achieved, the LDC category will be composed of the most vulnerable countries. However, it is worth stressing that an analysis of the EVI suggests that even graduating LDCs or recent graduates remain exceedingly vulnerable to exogenous shocks. Lacking a sustained process of structural transformation of these economies, vulnerability factors, e.g. export concentration, limited domestic value addition, dependence on sensitive imports and foreign financial resources will likely linger on, making them more liable to fall prey of the so-called middle-income trap (UNCTAD, 2016a).

D. The continued relevance of the LDC category

As the world scrambles to cope with the fallout from COVID-19 and the ensuing global recession, there is an understandable temptation to prioritize in the policy discourse either domestic concerns or issues that are relevant to the global economic, social and political system as a whole. This entails a concrete risk that LDC-specific issues will be largely treated by the international community as a second-order priority.

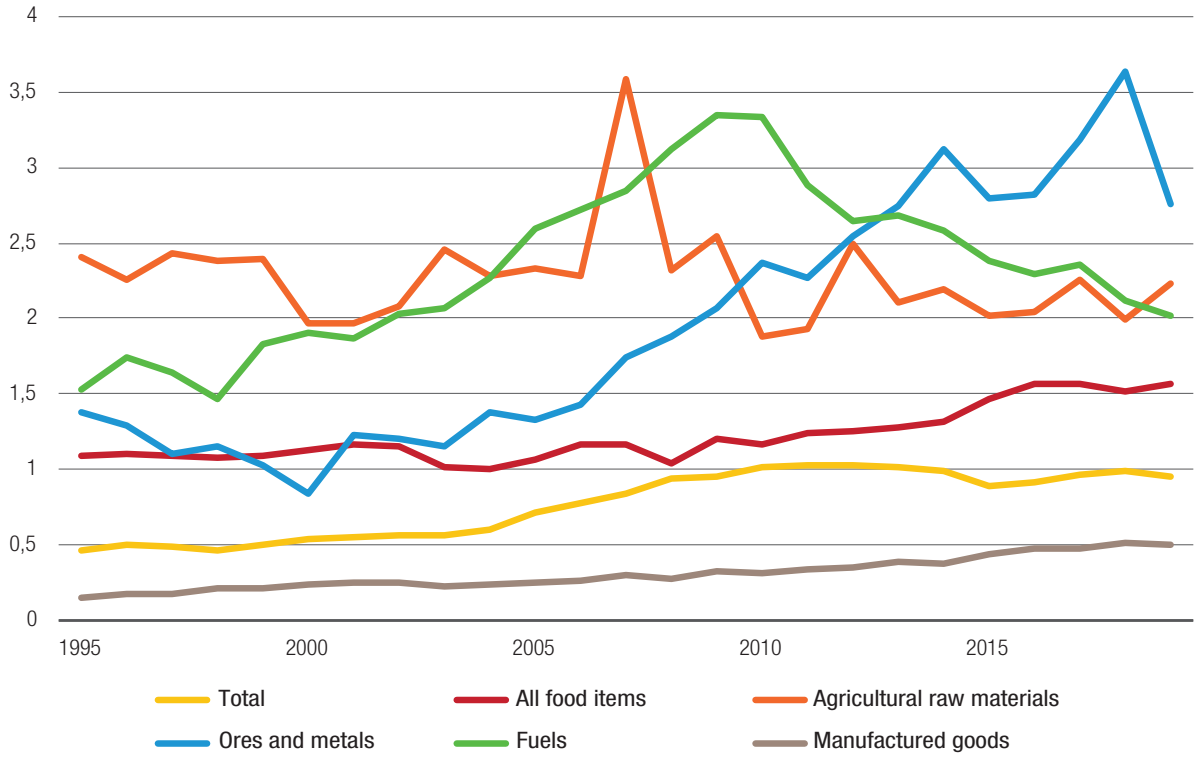
However, rather than face such an outcome, LDCs need to receive special attention from the international community when addressing both their short-term priorities and their medium-to-long term challenges, not only because of the severity of the current crises and their continuing vulnerability but also because these developments come at a time when LDCs and their development partners are discussing a plan of action to guide domestic and international policymaking for LDCs in the decade 2021–2030, to follow the Istanbul Programme of Action (IPoA) and expected to be adopted during the Fifth United Nations Conference on the Least Developed Countries (UNLDC-V).

Both the international community and LDCs themselves are advised to concentrate their future actions and policies for LDCs on the expansion, strengthening and utilization of productive capacities in these countries, particularly as their deficit is at the root of their vulnerability. This response will bring about the structural transformation of the LDC economies, which they will need to achieve if they are to reach their development goals. This refers to the Sustainable Development Goals (UNCTAD, 2014), as well as the goals to be adopted in the context of UNLDC-V.

Against this background, it is all the more vital to highlight the continued relevance of the LDC category, not only during the "Great Lockdown" and its

Figure 1.6

LDC share of world merchandise exports, total and by product group, 2000–2019



Source: UNCTAD secretariat calculations based on data from UNCTAD, UNCTADStat databased [accessed September 2020].
Note: For the sake of comparability over time, the figure refers to 46 current LDCs throughout the period (trade data for South Sudan are not available).

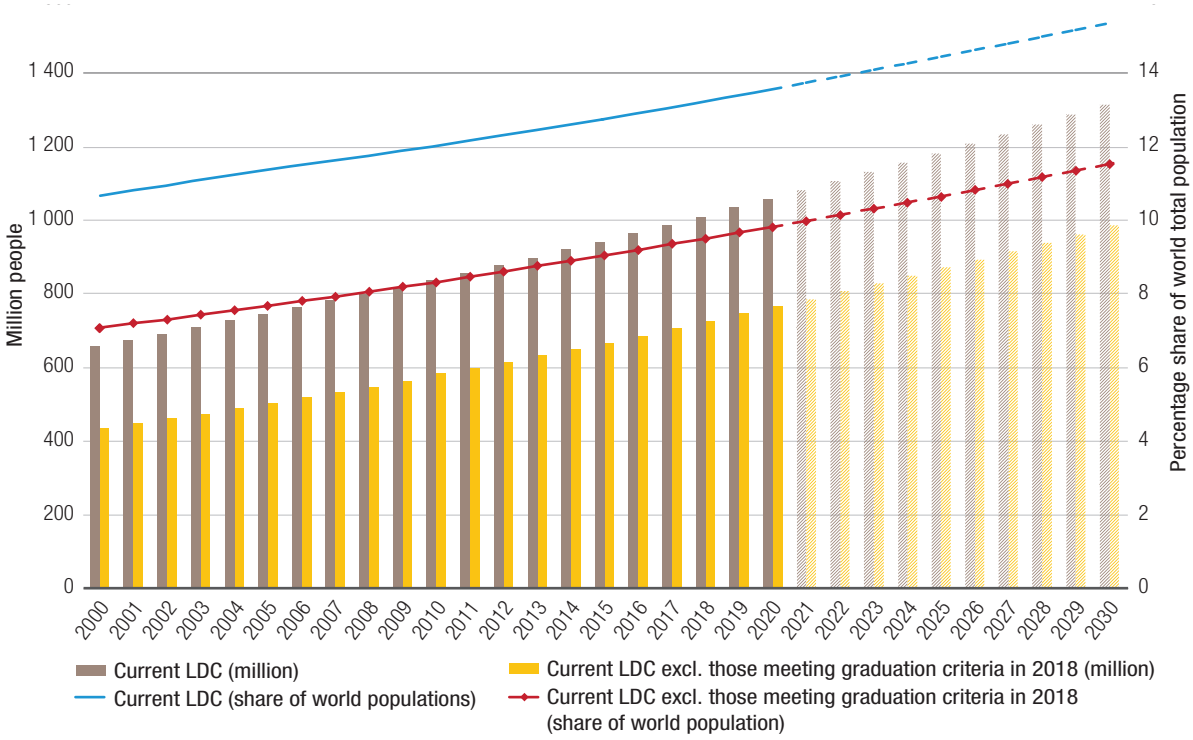
immediate aftermath but, equally importantly, over the course of the decade, which will witness the overlap between the remaining horizon of Agenda 2030 for Sustainable Development and the next Programme of Action for LDCs. In this respect, the reasons for reiterating that the LDCs are "the battleground on which the 2030 Agenda for Sustainable Development will be won or lost" (UNCTAD, 2015a: 14) go beyond the moral commitment to "leave no one behind", and reflect long-term considerations related to the notions of global public goods and the potential for positive and negative spillovers across nations in an increasingly interconnected world.

Even before the current crisis there were few indications that the LDCs were on track to meet the targets set in the IPoA. Over the last few years the number of LDCs able to meet the 7 per cent growth target has been steadily declining (UNCTAD, 2018b, 2019a). Meanwhile, the LDC share of global output has remained stubbornly low at below 1.5 per cent, thereby further highlighting their economic marginalization and the persistent gaps vis-à-vis other developing and developed countries. In the same vein, the LDC share of global exports has hovered around 1 per cent since 2008, notwithstanding the IPoA target (subsequently reiterated in the Sustainable Development Goals) of doubling that proportion. As a matter of fact, LDC export shares are relatively small (at below 3.5 per cent), even for those primary commodities that constitute the backbone of their export revenues, namely fuels and to a lesser extent ores and metals, as well as agricultural raw material (Figure 1.6). What is most striking, however, is the persistently low market share in global manufacturing exports, reaching barely 0.5 per cent of the world total and mainly accounted for by garments and textiles. This is mirrored in the relatively limited contribution (12 per cent) of the manufacturing sector to total value added, marginally higher than in 2011 but roughly at the same level as in the early 1980s. Against this background, it is evident that much of the IPoA will remain unfinished business by 2021; nor it is plausible to expect significant improvements in the short term, considering that COVID-19 is expected to trigger "the worst recession since the Great Depression" (IMF, 2020a: v).

Regardless of their small economic weight, part of the relevance of the LDC category stems from the fact that these 47 countries account for a significant and rising share of the world population. It is estimated that

Figure 1.7

LDC population and share of world total, 2000–2020



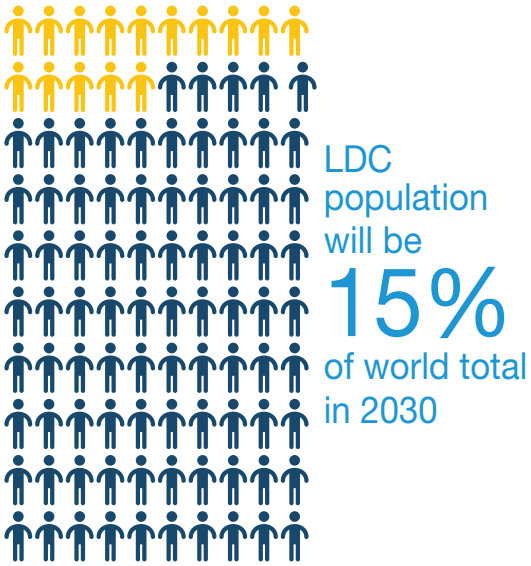
Source: UNCTAD Secretariat calculation, based on data from UN DESA (2019).

1.06 billion people currently live in LDCs, and that the population of these countries will expand to 1.31 billion by 2030, which will see them hosting 15 per cent of humanity (Figure 1.7). Nor are foreseeable cases of graduation from the LDC category likely to radically alter this picture. Even excluding the countries meeting the criteria for LDC graduation in 2018, i.e. Angola, Bangladesh, Bhutan, Kiribati, Lao People's Democratic Republic, Myanmar, Nepal, Sao Tome and Principe, Solomon Islands, Timor-Leste and Vanuatu, the remaining LDCs account for 766 million people (10 per cent of the world's total), and this is expected to increase to nearly 1 billion people in 2030.

Moreover, as demographic transition continues to progress at a sluggish pace, the population structure in the LDCs continues to be characterized by a high proportion of younger age cohorts – a trend which is expected to continue in the new decade (Figure 1.8). As of 2020, 39 per cent of the population of LDCs was less than 15 years old, while the dependency ratio is forecast to decline from the current 74 per cent to 67 per cent in 2030.[24] In a global perspective, this implies that LDCs currently account for 20 per cent of the world's youth, and their weight is set to increase by four percentage points by 2030. These long-term tendencies have wide-ranging implications in terms of potential market size and dynamism, and challenges in labour markets, education and health, but also with respect to prospects for urbanization, migration, and potential socioeconomic tensions. All of which adds further emphasis to the importance of fostering a sustainable and broad-based recovery in the LDCs – a recovery underpinned by the development of their productive capacities and the resulting structural transformation of their economy, as well as the generation of sufficient employment opportunities to accommodate the growing number of new entrants into labour markets.

With demographic growth reaching 2.3 per cent per year, and as much as 39 per cent of the population aged less than 15 years old, and rising female labour participation, the labour supply in LDCs is expected to continue expanding rapidly. In the period 2021–2030 the LDC labour force will increase by an average 13.2 million workers per year – or as much as 46 per cent of the global labour force expansion – up from 10.1 million under the IPoA period, according to ILO estimates (Figure 1.9). History suggests that harnessing such a rapid expansion of the labour

[24] The dependency ratio is a measure of the number of dependents aged zero to 14 and over the age of 65, compared with the total population aged 15 to 64. It is used to measure the pressure on the productive population.



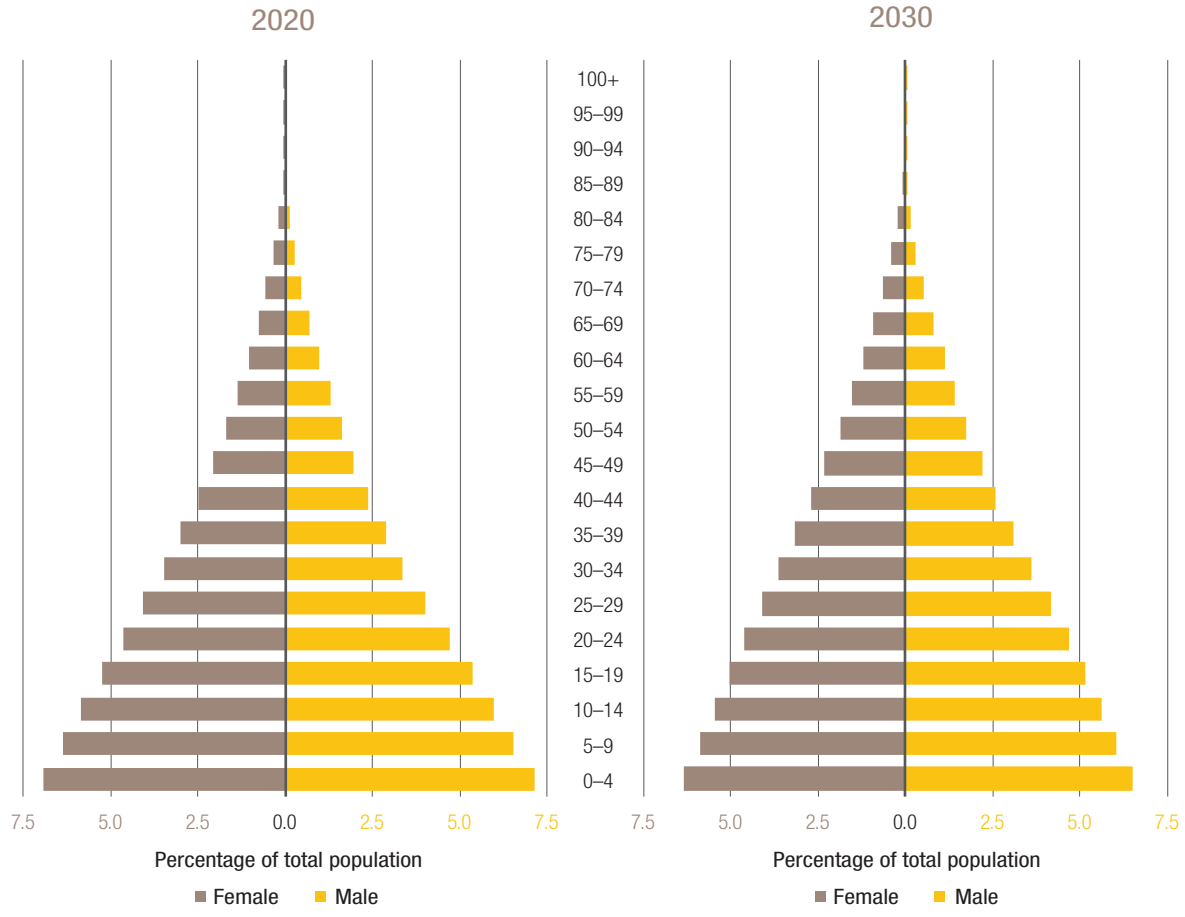
force will inevitably hinge on the capacity of LDC economies to generate sufficient opportunities for productive employment outside the agricultural sector, thus ultimately setting the direction and pace of their structural transformation process.

Consequently, as preparations for the UNLDC-V Conferences accelerate, LDCs have come to represent the main locus of extreme poverty worldwide (Valensisi, 2020). With barely 14 per cent of the world population, they are estimated to account for over 50 per cent of the people living with less than $1.90 per day at a global level, and about 34 per cent of those with less than $3.20 per day (Figure 1.10). Evidence of this nature points to the ongoing geographic polarization of poverty and speaks volumes to the sheer magnitude of global inequalities. It also vindicates the argument that LDCs represent the litmus test for the 2030 Agenda for Sustainable Development, especially in relation to the promises to "leave no one behind", reducing global inequalities and eradicating extreme poverty (UNCTAD, 2015a).

Figure 1.8

LDC population structure by age class

(2020 and 2030; 47 current LDCs)



Source: UNCTAD Secretariat calculation based on data from UN DESA (2019).

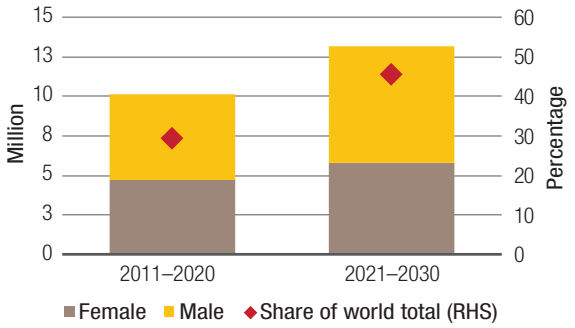
Perhaps more fundamentally, these trends underscore the challenges faced by many LDCs as they seek to escape potential poverty traps, which are situations where their limited purchasing power constrains their domestic market size, and potentially hampers the viability of much-needed investments (notably in "social overhead capital", where fixed costs and locally increasing returns are pervasive). Figure 1.10 also serves as a reminder of the concrete risk that many LDCs will lag further behind in poverty eradication efforts, as compared to other developing and developed countries; this will become more likely if the current downturn turns out to be deeper and/or longer than expected, or if it weighs down LDC debt sustainability and triggers balance of payment crises. This is a source of concern especially for African LDCs, many of which have displayed relatively sluggish progress in their efforts to reduce poverty.

From the point of view of the international community, the above evidence deserves particular attention, not least because low socioeconomic development is typically regarded as an influential driver of instability, conflict and migration, particularly when coupled with increasing pressure on natural resources, the intensifying adverse impacts of climate change, and limited institutional capabilities (Hendrix and Salehyan, 2012; Mach et al., 2019; United Nations, 2019; Peters et al., 2020). Although the literature is far from unanimous on the relationship between these elements, there is little doubt that poor socioeconomic outcomes in LDCs risk undermining the very enablers of sustainable development, potentially exerting negative spillovers on neighbouring countries and beyond. Equally, poverty inequalities and power asymmetries critically shape the political economy context in which concrete international cooperation projects take place, and therefore have a large bearing on their overall outcomes and effectiveness (UNCTAD, 2017a, 2019b; Sovacool et al., 2017).

The above considerations suggest that the relevance of sustainable development in the LDCs goes well beyond their marginal role in the world economy and deserve adequate attention and commensurate support from an international standpoint. This argument acquires further strength in the light of the COVID-19

Figure 1.9

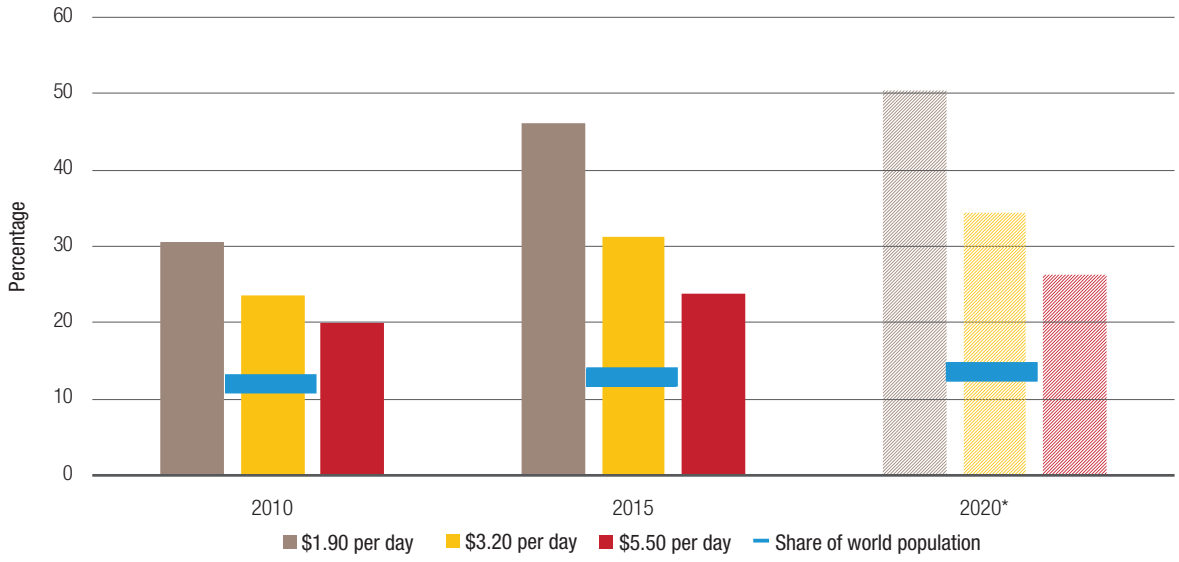
Average expansion in LDC labour force, 2011–2030



Source: UNCTAD secretariat calculation based on data from ILO, ILOStat database [accessed June 2020].

Figure 1.10

LDC share of world population and of world poor, by international poverty line



Source: UNCTAD secretariat calculations, based on Valensisi (2020).
Note: For the sake of comparability over time, the figure refers to the 47 current LDCs even for 2010 and 2015.

The relevance of development in the LDCs goes beyond their marginal role in the world economy

pandemic, which has brought to the fore the notion that was until then mainly used in the engineering and ecological/environmental sphere, namely that of system resilience. In this context, the rapid cascading of a health shock on many other dimensions, ranging from the socioeconomic sphere to mobility and the environment, has underscored critical elements of systemic interdependence that can no longer be disregarded. Potential tensions between the (over) emphasis on efficiency and specialization, as opposed to redundancy and connectivity have also surfaced (OECD, 2020b; Ungar, 2018). In the framework of complex patterns of global interdependence, the emerging debate on resilience puts renewed emphasis on inclusivity/universality and on the fundamental role of international cooperation, adding a new strategic dimension to the call for ensuring that LDCs do not fall behind in their quest for sustainable development.

One final reason for the continued relevance of the LDC category stems from the emerging international context. After years of eroding support for multilateralism and as the world struggles to cope with the most consequential global downturn since the Great Depression, there is a growing realization that the multilateral system needs to be revamped and updated to match the challenges of the 21st century, sustainable development being a particularly critical case in point. There are, however, also mounting concerns that the international order may become increasingly fragmented and politicized. At this time of heightened uncertainties and disenchantment, it is remarkable that the notion of LDCs remains a meaningful and universally agreed category to identify countries in need of special support.

E. Objectives and structure of this report

The previous sections have highlighted the seriousness and magnitude of the development challenges faced by the LDCs. The structural and long-standing nature of these challenges were present before the COVID-19 pandemic but have been aggravated by the subsequent outbreak of multiple crises. The present report aims to provide a contribution to the discussion and planning of the economic orientation of LDCs and their development partners' actions in support of LDC development in the new decade. It is focused on the productive capacities that LDCs will need for the 2020s to achieve the Sustainable Development Goals and other development goals that will likely be formulated at UNLDC-V.

The remainder of the report is structured as follows. The second chapter provides a framework which guides the subsequent presentation of UNCTAD's research and analysis on LDCs, as well as the ensuing policy discussions. It starts with a discussion of the concept of productive capacities, which includes UNCTAD's contribution to their conceptualization and measurement, and then adopts a dynamic approach to the development of the core elements of productive capacities. The chapter shows how their progression results in the structural transformation of economies and how the process has played out in LDCs so far, and discusses some of the main factors conditioning the development of LDCs' productive capacities in in the next decade, especially the technological revolution which the world is currently undergoing.

Chapter 3 undertakes an empirical analysis of the development of productive capacities in the LDCs, and draws comparisons between individual LDCs and other developing countries. It makes use of UNCTAD's Productive Capacities Index (PCI) and its subcomponents, and showcases their use for empirical research and policy analysis, including an evaluation of the performance of LDCs during the period of implementation of the IPoA. It shows that most LDCs have been left behind vis-à-vis other developing countries, and typically operate below efficiency frontiers.

Given the sobering analysis of the development of productive capacities during the IPoA period, it is important to look for alternatives and take pro-active measures to reverse the past trend of LDCs being left behind. Chapter 4 analyses the uptake of digital technologies in LDCs and enquires whether this technological uptake is limited to a few cases, or whether it is bound to have a transformative impact. The importance of policy approaches in influencing these alternative outcomes is highlighted.

Chapter 5 outlines options that LDCs and the international community have in order to strengthen the development process of these countries in the 2020s. The analysis is addressed to policymakers in the LDCs themselves and the international community. The COVID-19 crises have shed new light on the linkages between productive capacities and resilience, and on the deficits that LDCs have in both accounts. These shortcomings need to be

tackled by the combination of a strong investment push at the macro level and meso-level industrial and STI policies focused on accelerating the structural transformation of LDC economies. Public policies need to be pro-active and play a coordinating role. Externally, they should strategically harness foreign trade and regional integration initiatives at several levels, including infrastructure and research and development (R&D).

Internationally, there is a risk that LDC issues are marginalized in view of current global developments. This report reaffirms the importance of the LDC category and the need for the international community to renew its commitment to these countries through a new generation of international support mechanisms. Initiatives need to be strengthened or established, especially in the fields of trade support and technology transfer.