WILL THE LEAST DEVELOPED COUNTRIES BE LEFT BEHIND?

THE RISKS OF A UNIVERSAL DEVELOPMENT AGENDA

Presented by

Sarah Sabin Khan

@ Young Scholars Seminar Series (YSSs)

Centre For Policy Dialogue(CPD)

July 23, 2017

OUTLINE FOR TODAY'S PRESENTATION

- Marginalisation of LDCs
  1. Share of global poor in LDCs
  2. Africanisation of LDCs
  3. Lack of convergence
- Risks to LDCs
  1. Systemic shocks
  2. Conflict
  3. Climate change
- Policy Suggestions
  1. Continued international support
  2. Protection from systemic risks
  3. Domestic reforms

CONTEXT

- The 2030 Agenda for Sustainable Development, unanimously adopted by 193 heads of state and government at the UNGA in September 2015, expressly committed to “leave no one behind” in their efforts to achieve the Sustainable Development Goals (SDGs).
- This inclusive development will begin with the least developed countries (LDCs) – the poorest and most vulnerable among developing countries who will likely emerge as the “battleground” for implementation of the 2030 Agenda (UNCTAD, 2015)
- LDCs remain largely marginalised, even 45 years after the introduction of the LDC category in 1971
- Out of the 48 countries currently categorised as LDCs, almost half also fall under one or more other recognised vulnerability category
- LDCs include 17 landlocked developing countries (LLDC), nine small island developing states (SIDS) and 24 conflict-affected or post-conflict countries. As a group, the LDCs are also extremely vulnerable to climate change owing to their relatively limited capacity to mitigate its impacts.
- Going forward, the progress of the LDCs should be the metric for progress against the commitment to leave no one behind

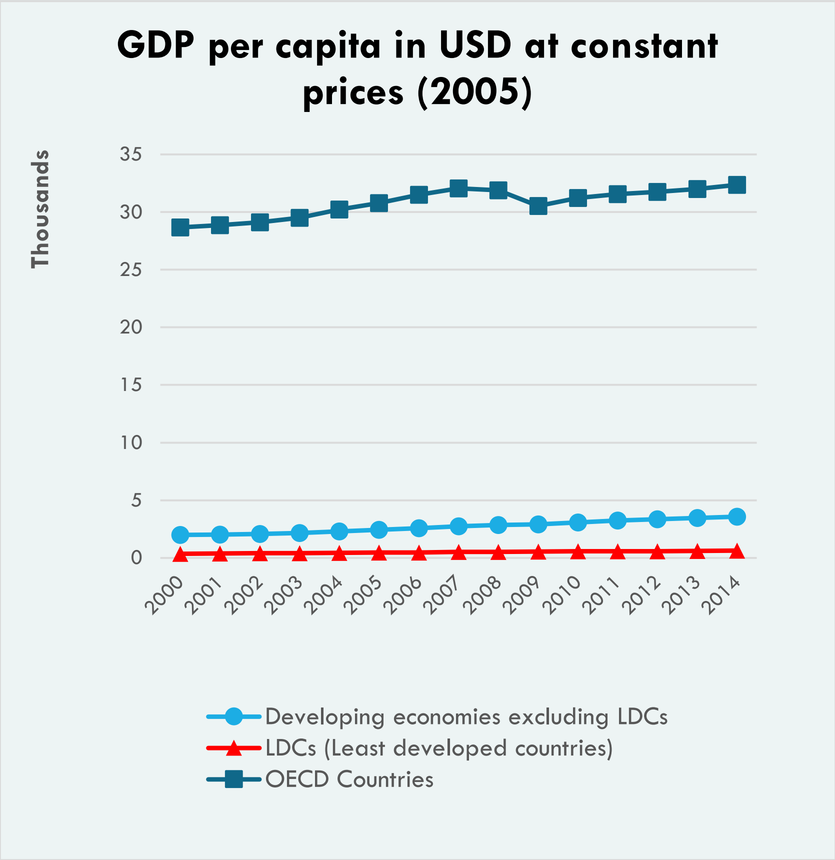
MARGINALISATION TRENDS: SHARE OF GLOBAL POOR IN LDCS

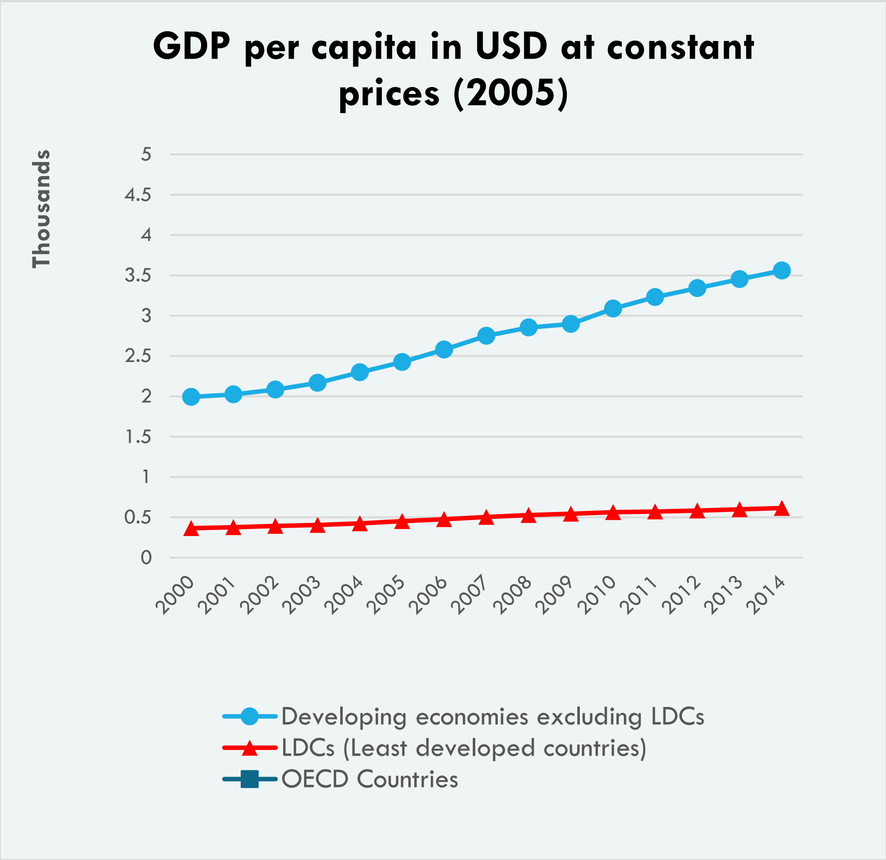
- Globally, number of people living below the extreme poverty line (below USD 1.9 per day at 2011 PPP) decreased in absolute terms from an estimated average of 1.9 billion in the 1980s to an estimated average of 1.1 billion in the 2000s.
- Share of the global population living in poverty decreased from **40%** to **16.7%** for the same period.
- The poor increased both in number and as a percentage of the global poor within the LDCs.
- Compared to the growing share of the LDC population in the global population from an average of **9%** to **12%,** the LDC share of the global poor increased at a **rather fast** pace from approximately 15.7% to 33.6% between the 1980s and 2000s.
- With 33% of the global poor residing among only 12% of the global population in LDCs, starting from SDG 1 on ending poverty in all its forms everywhere to the overarching pledge to leave no one behind cannot be achieved without considering the continued marginalisation of the LDCs

MARGINALISATION TRENDS: AFRICANISATION OF LDCS

- Profile of LDCs increasingly dominated by African countries
- LDC Profile (2015 triennial review):
  - 32 African, 1 Latin American, 8 Asian and 7 Pacific islands countries
- Out of the countries in line for graduation by 2021
  - only 2, Angola and Equatorial Guinea , are African
  - remaining 8 – Bhutan, Kiribati, Nepal, São Tomé and Príncipe, the Solomon Islands, Timor-Leste, Tuvalu and Vanuatu – are either Pacific island or Asian countries
- As of 2015,
  - 79% (26) of African LDCs were low-income countries (LIC)
  - 36% (12) of African LDCs are landlocked developing countries
  - 51.5% (17) of African LDCs were in conflict.
- Since 2006, only 4 LIC African LDCs have moved to the middle- or high-income categories compared to half of Asian LDCs and almost two-thirds of Pacific island LDCs

MARGINALISATION TRENDS: LACK OF CONVERGENCE



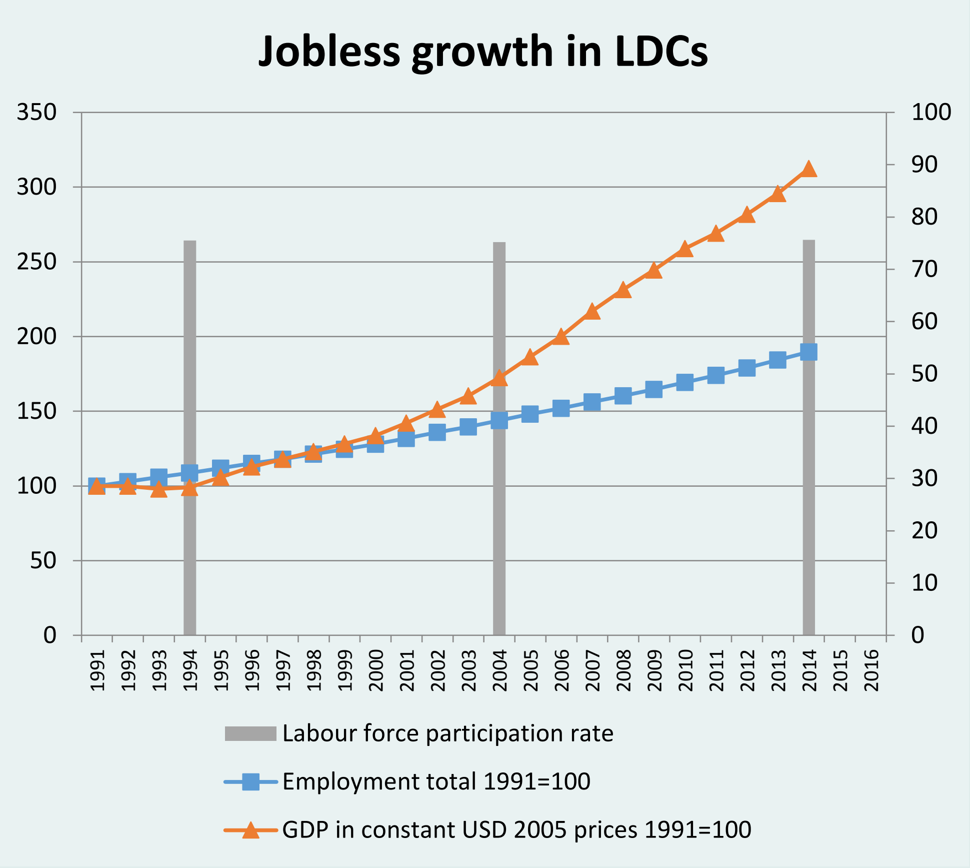


Source: Adapted from UNCTAD (2016), *UNCTADstat* (database), (accessed 5 November 2016)

- IPoA target of 7% GDP growth per year was met by 11 LDCs in 2013 and 8 in 2014 compared to an average of 15 between 2001-2010 (UNOHRLLS, 2016)
- GDP growth in African LDCs fell from an average of 6.1% over 2004-06 to an average of 3% over 2013-15 (World Bank, 2016)

MARGINALISATION TRENDS: INEQUALITY AND JOBLESS GROWTH

- Poverty and inequality remain high and economic growth has essentially been non-inclusive in LDCs
- Between 2001 and 2012, an average of 51% of the LDC population lived below the international poverty line of USD 1.9 per day (constant 2011 purchasing power parity USD) (UN, 2016)
- GDP per capita in LDCs grew by 41.1% during the decade of 1981-1991. For the same period, poverty head count ratio decreased by only 16.6%.
- Out of 32 LDCs with available data on Gini coefficients for at least two points in time between 2000 and 2014, 14 LDCs have experienced a worsening situation over time
- Economic growth has been jobless and by implication non-inclusive in LDCs in the last 25 years.



Sources: Adapted from World Bank (2016b), *World Development Indicators* (database) and UNCTAD (2016), *UNCTADstat* (database), (accessed 5 November 2016)

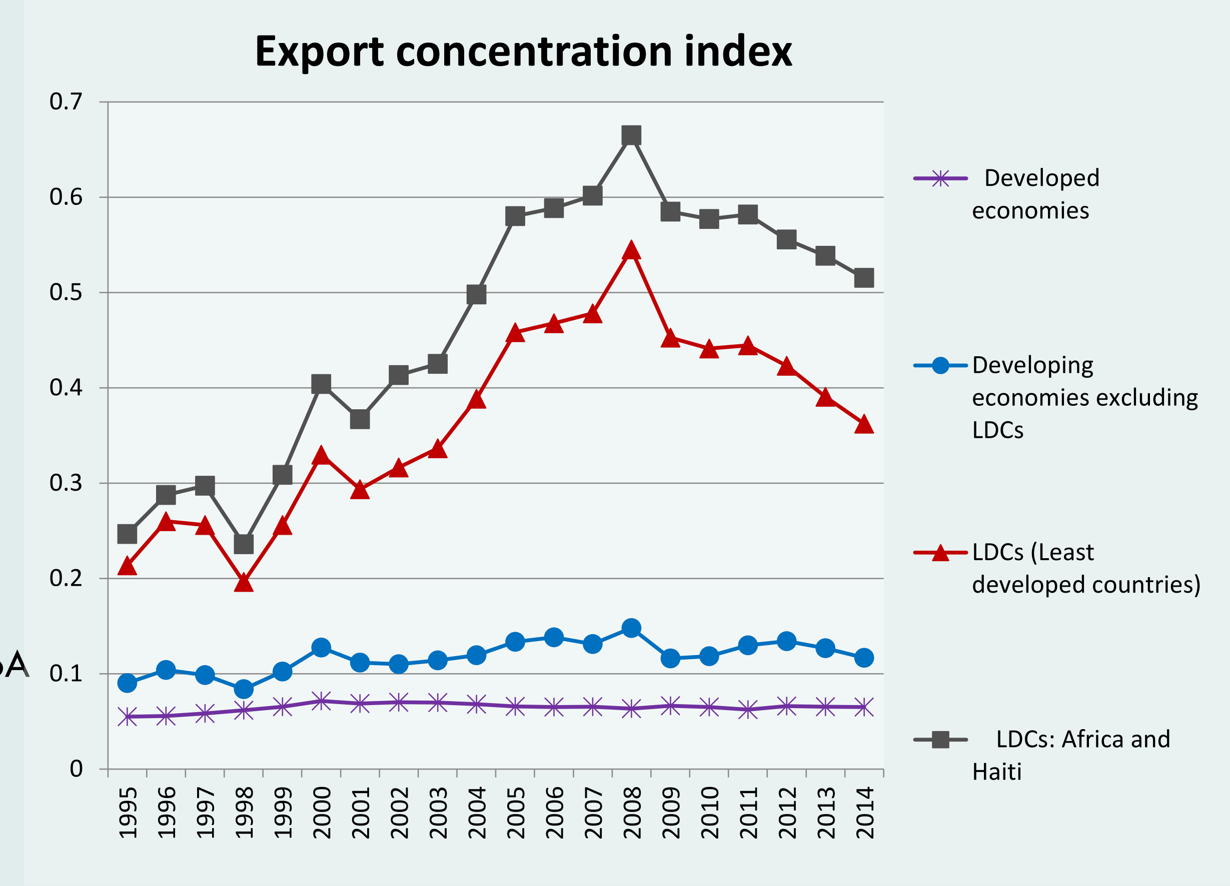
MARGINALISATION TRENDS: DECLINING SHARE IN WORLD TRADE AND LACK OF EXPORT DIVERSIFICATION

- Exports by LDCs as a share of global exports of goods and services almost doubled from 0.54% in 2000 to 1.02% in 2010, after which the growth rate stagnated and share of global exports reached 1.1% in 2014

- Imports increased from 0.94% in 2000 to 1.73% in 2014 implying growing pressure on Balance of Payments

- Compared to other developing countries, this progress is marginal and well below the 2% target advocated by the IPoA and SDGs

- In 2014, almost 70% of LDCs' merchandise exports remained concentrated on three major products



Source: Adapted from UNCTAD (2016), *UNCTADstat* (database), (accessed 5 November 2016).

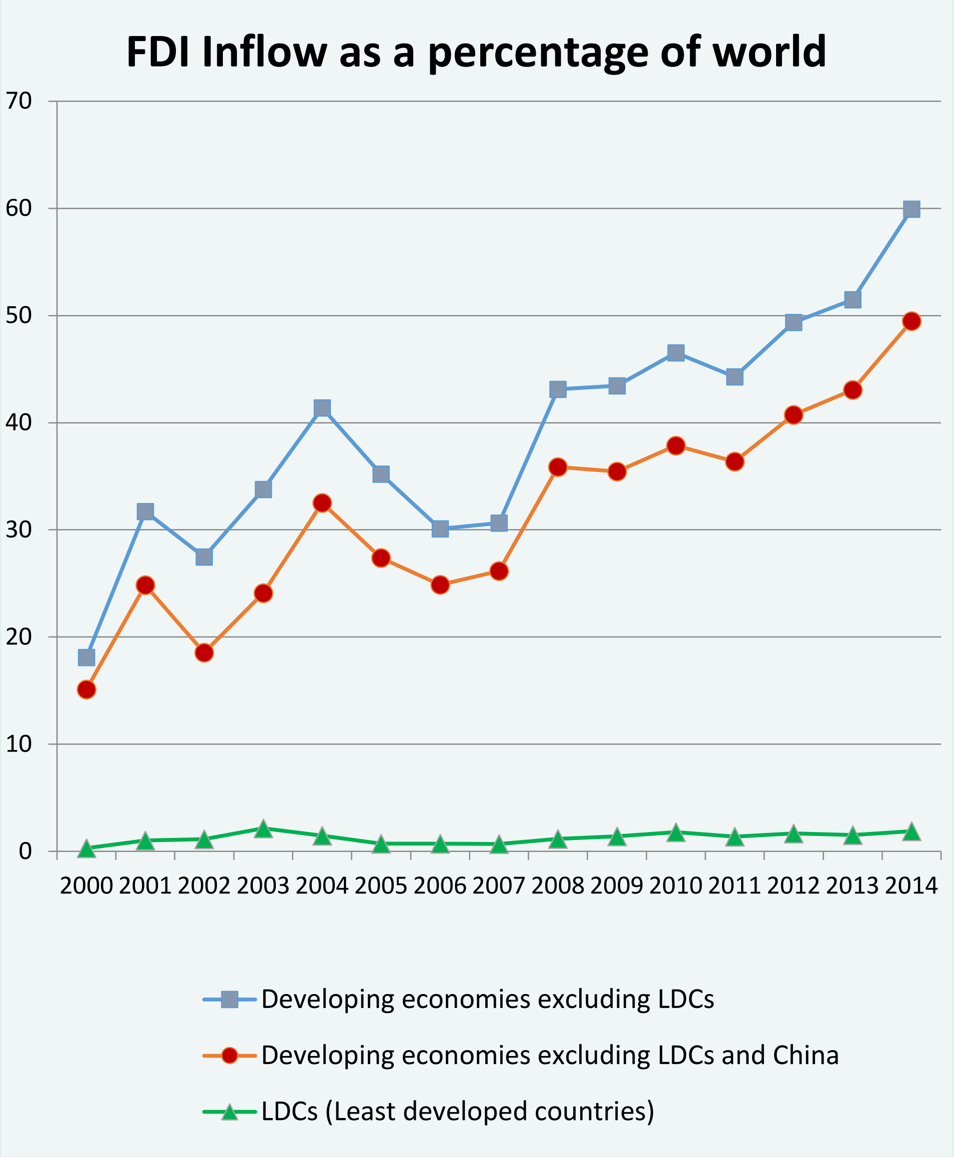
MARGINALISATION TRENDS: TRENDS IN RESOURCE FLOWS

- Foreign direct investment (FDI) can have a strong positive impact on upgrading export quality, while its effect on export diversification is higher in LDCs than non-LDCs (Gnangnon and Roberts, 2015)

- FDI inflows to LDCs rose rapidly from an estimated USD 7 billion in 2001 to USD 23.7 billion in 2010, but stagnated at USD 23.2 billion by 2014.

- The share of global FDI that LDCs received increased slightly from 1.01% in 2001 to 1.9% in 2014 which is in stark contrast when compared to other developing countries(both with and without China)

- FDI flows are uneven across LDCS and are concentrated to a few key resource-rich countries like Mozambique, Zambia, Tanzania, the Dem. Rep. of Congo, Equatorial Guinea and Haiti who accounted for 58% of total FDI to the LDCs in 2014



MARGINALISATION TRENDS: TRENDS IN RESOURCE FLOWS

- The LDCs depend on official development assistance (ODA) for an average of 6% of their gross national income (GNI). Pacific island LDCs are comparatively more dependent on ODA, followed by African and Asian LDCs.
- ODA to LDCs increased by 4% in 2015 following several years of declining flows. However, ODA as a percentage of donor countries' GNI remained well below the commitment level of 0.15%.
- Notably, the reallocation of ODA based on "geostrategic imperatives" (Dahlman and Mealy, 2016) towards conflict-afflicted areas characterised by war and refugee crises creates the potential to overlook under-aided LDCs and further marginalise them.
- According to the Global Financial Integrity report (Kar, 2011), LDCs lost on average 60 cents in illicit financial flows for every dollar received in ODA over the period of 1990-2008. This forgone finance for development amounted to approximately USD 197 billion. This amount is most probably understated owing to the obviously inadequate data on illicit flows.

EXTERNAL RISKS TO LDCS: SYSTEMIC SHOCKS

- There are several impending **global** and **regional** challenges to the economies, societies and environment of the LDCs that increase the likelihood of their marginalisation
- LDCs', especially Africans', heavy dependence on **commodities exports** and **natural resource rents** make them extremely vulnerable to the external shocks of **fluctuating commodity prices.**
- Commodity prices have been declining since 2011. There was a **46%** decline in agricultural raw materials and a **27.5%** decline in food prices between 2011 and 2015. In 2011-13, agricultural output constituted about 24.2% of GDP on average in LDCs and 25.2% of GDP in African LDCs.
- The agricultural labour force constituted **63%** of the total labour force in LDCs in 2015 and is projected to comprise **61%** by 2020 (ILO estimates). The proportion is greater for African LDCs, with **71%** of the total labour force engaged in or looking for engagement in the agricultural sector in 2015 and projected to decrease by only 2% in 2020 (UNCTAD, 2016).
- Oil prices dropped sharply by **51%** in 2015, which affected oil-producing LDCs. At least 11 LDCs are highly dependent on natural resource rents of which **9** are African.
- Notably, a few resource importing LDCs (e.g. Bangladesh) and net food importing developing countries benefitted from the price falls.

RISKS TO LDCS: SYSTEMIC SHOCKS

- The **faltering recovery of the world economy** after the 2008-09 global financial and economic crisis did not help LDCs either. The volume of global trade grew slower than expected in 2015 by 2.7% and was roughly in line with GDP growth of 2.4%. Although growing in volume, dollar value of merchandise exports fell by 14% in 2015. (WTO, 2016)
- The sluggish global economy, along with **China's dramatic economic slowdown**, which is expected to deepen in 2017 (OECD, 2016a) has been another cause of stress for resource exporting LDCs
- There has been a **global decline in import demand** since 2014, as evident by the reduction of imports by developed countries from USD 10.5 trillion in 2014 to USD 9.2 trillion in 2015 and by developing countries from USD 7.7 trillion in 2014 to USD 6.7 trillion in 2015. Besides China, other emerging economies have been a substantial market for LDC exports.

RISKS TO LDCS: CONFLICT SITUATION

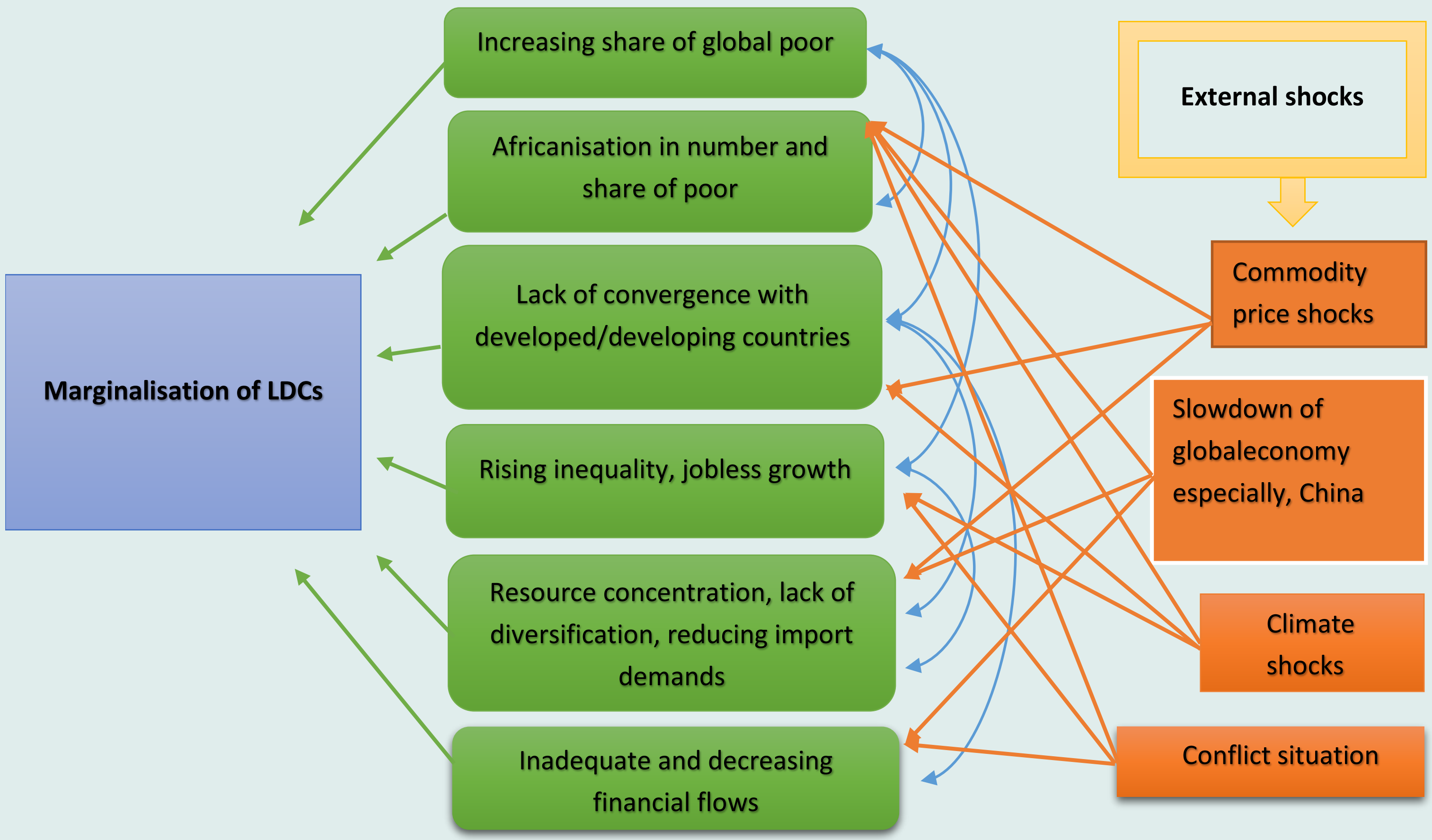
- The geopolitical risks of interstate conflict, terrorist attacks, involuntary migration and refugee crises are significant contemporary global risks (WEF, 2016).
- As of 2016, **24** LDCs – **17** in Africa – were in a conflict or post-conflict situation, while **30** out of 48 LDCs – 23 in Africa – had at least one neighbouring country in conflict.
- Around **86%** of refugees lived in developing countries and **12%** lived in LDCs (IMF, 2016). Moreover, majority of refugees are hosted by countries neighbouring their countries of origin
- In 2014, most victims of the unprecedented forced displacement of approximately **59.5 million** people moved to other **developing countries**, thereby burdening already weak social and governance systems.

RISKS TO LDCS: CLIMATE CHANGE

- The LDCs bear the impacts of climate change disproportionately, despite their less than 1% contribution to historical greenhouse gas emissions
- Between **2010** and **2013**, people living in LDCs were ***five times*** more likely to die from climate-related disasters than people living elsewhere (Craft, 2013).
- **All 48 LDCs** are considered **vulnerable** to climate change due to their incapacities to adapt. Moreover, the eight **SIDS** as well as Asian countries like **Myanmar, Bangladesh** and **Lao PDR** are especially geographically and environmentally disadvantaged
- The high incidence of poverty in LDCs compounds the already vulnerable situation of the LDC population.

POLICY OUTLOOK

Figure: Factors and risks contributing to the marginalisation of the LDCs



POLICY OUTLOOK

1. LDCs need support from the international development community in terms of financial resources, access to technology and capacity development.

In this regard,

- There need to be fuller and faithful implementation of **commitments** made in the **IPoA,** especially by delivering on the IPoA target for the OECD's DAC countries to disburse between **0.15%** and **0.2%** of their **gross national income** exclusively to the **LDCs.**
- ODA needs to be increasingly **leveraged** to finance **infrastructure, mobilising domestic resources** and **mitigating country-specific development impediments.**
- **Access** to **trade** for LDCs needs to be **liberalised** for them to engage in **globally competitive** export markets, foreign investment and global value chains. There is a need to boost **Aid for Trade,** fully implement **duty-free, quota-free market access** (including reasonable rules of origin provisions) and eliminate **non-tariff barriers**

POLICY OUTLOOK

2. LDCs require protection from the various systemic risks (e.g. lack of global economic and financial stability, commodities price shocks, climate change) they are exposed to.

- The SDG targets 17.13-17.15 on **policy and institutional coherence** in the global arena are especially pertinent in this regard. Development partners need to device more effective arrangements and instruments to **enhance global macroeconomic stability** through increased **coordination** in the **policy spectrum**

3. Third of all, enabling domestic reforms must complement international support measures.

- Addressing infrastructure deficit; mobilising domestic taxes, improving quality of public expenditure, promoting economic diversification in both exports and agriculture and strengthening right governance.

Thank you for your patience ☺